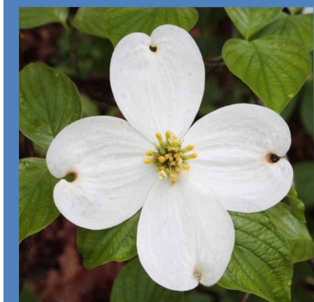


COLLEGE OF WILLIAM AND MARY IN VIRGINIA

VIRGINIA INSTITUTE OF MARINE SCIENCE

RICHARD BLAND COLLEGE

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2017

Auditor of Public Accounts
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AUDIT SUMMARY

We have audited the basic financial statements of the College of William and Mary in Virginia, including the Virginia Institute of Marine Science and Richard Bland College (the University), as of and for the year ended June 30, 2017, and issued our report thereon, dated April 17, 2018. Our report, included in the University's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the College of William and Mary's website at www.wm.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- internal control deficiencies that we consider to be material weaknesses in internal control over financial reporting at Richard Bland College;
- additional internal control findings at the University requiring management's attention; however, we do not consider them to be material weaknesses; and
- instances of noncompliance or other matters at Richard Bland College required to be reported under Government Auditing Standards.

Our audit also included testing at Richard Bland College over federal Student Financial Assistance performed in accordance with the U.S. Office of Management and Budget Compliance Supplement Part 5 Student Financial Assistance Programs; and found internal control findings requiring management's attention and instances of noncompliance in relation to this testing.

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AUDIT FINDINGS AND RECOMMENDATIONS – THE COLLEGE OF WILLIAM AND MARY

Properly Classify Net Position Restrictions
Type: Internal Control
Severity: Significant Deficiency
Repeat: No

The College of William and Mary (William and Mary) should improve its process for identifying and classifying invested funds as either restricted or unrestricted for financial reporting purposes. Based on a review of 30 funds representing various quasi-endowments, we found three funds improperly included in restricted net position rather than unrestricted net position. Of these funds, one totals approximately $8,494,000, resulting in a material misclassification of net position. The Board established a quasi-endowment to internally restrict the use of these funds; however, the funds do not carry external restrictions established by a donor or other external entity, and as such, the Governmental Accounting Standards Board (GASB) requires them to be reported as unrestricted.

According to GASB codification section 2200, net position should be reported as restricted when constraints are placed on net position externally by creditors, grantors, contributors, or laws/regulations of other governments and/or imposed by law through constitutional provisions or enabling legislation. Further, the GASB Implementation Guide No. 2015-1, Question 7.24.1, states restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions or through formal due process. William and Mary's financial reporting department currently performs a journal entry to move quasi-endowments from unrestricted net position to restricted net position at the end of the year for financial statement reporting purposes; however, this journal entry does not include an analysis of whether the funds are internally restricted or whether an external party restricted the use of the funds.

By incorrectly reclassifying these internally designated funds, William and Mary is understating unrestricted net position and overstating restricted net position. Incorrect presentation can affect the users of financial statements who rely on proper classification of financial statement line items for decision-making. William and Mary should review its process for identifying internal and external restrictions on invested funds for financial reporting purposes and properly classify these funds in accordance with GASB standards.

AUDIT FINDINGS AND RECOMMENDATIONS – RICHARD BLAND COLLEGE

Improve the Financial Reporting Process
Type: Internal Control
Severity: Material Weakness
Repeat: Yes

Richard Bland College (Richard Bland) does not have adequate internal controls over its financial reporting process. Similar to previous years, numerous adjustments and errors to the financial statements indicate that the current process for compiling the financial statements does not prevent, or detect and correct on a timely basis, material misstatements to the financial statements.

During our review of financial information submitted by Richard Bland to William and Mary for consolidation in the combined financial statements, we found:

- Richard Bland made an incorrect adjustment to fiscal year 2017 beginning net position to remove a valid fiscal year 2016 receivable amount of $481,500.

- Richard Bland does not use a fixed asset tracking system. All fixed assets are tracked using spreadsheets. As a result of poor tracking and a lack of internal controls, the capital asset footnote information reported to William and Mary was incomplete and contained incorrect balances. This included an estimated overstatement of equipment, net of accumulated depreciation, of $638,839.

- Richard Bland overstated its outstanding construction commitments disclosure, as reported in the footnotes, by $334,069.

- Richard Bland could not provide support or an explanation for $108,253 of reported year-end cash balances.

- Richard Bland overstated vendor accounts payable by $533,578 due to an improper understanding of certain financial reporting processes. Richard Bland should have reversed the accounts payable accrual entry for fiscal year 2016 during the preparation of the fiscal year 2017 financial statements; however, staff did not post the reversing entry, resulting in an overstatement of the year-end liability.

- Richard Bland did not report scholarship allowances in accordance with the National Association of College and University Business Officers' (NACUBO) guidance. Depending on the order of application of payments to student accounts, neglecting to properly calculate scholarship allowances may result in misclassifications of tuition and auxiliary revenue, and scholarship expenses.

- Richard Bland reported dorm deposits of $275,451 as other nonoperating revenue. These deposits are refundable to students when dorm rooms remain in proper condition at the time of student graduation or departure from the college. Therefore, Richard Bland should record the deposits as a deposit held in custody liability until the student leaves and the college returns the funds or recognizes revenue in the event of room damage.

- Richard Bland reported other receivables of $273,540 that represented a due from the State Non-Arbitrage Program (SNAP). SNAP is an investment portfolio and the funds held in it are an asset of Richard Bland. Richard Bland could not provide support for this amount as a receivable as the college already reports amounts held within SNAP as an asset.

- Richard Bland had no review or approval process for year-end journal entries. Many journal entries represented entries to correct the ending balances reported in the financial statements; however, college staff could not provide documentation to support these entries.

Management is responsible for designing and maintaining a system of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement in accordance with generally accepted accounting principles. A lack of formalized procedures, delayed or incomplete reconciliation of financial activity, significant personnel turnover in financial reporting and financial operations during the fiscal year, and limited knowledge of financial reporting processes led to the issues identified. These weaknesses have increased the risk of misstatement and resulted in inaccuracies in the current year financial statements. Inaccurate financial information can affect long-term planning and the decisions of those individuals or institutions that rely on such information.

For fiscal year 2017, Richard Bland worked to improve reliance on its accounting and financial reporting system for use in preparing the financial statements. Improvements to processes during fiscal year 2017 allowed Richard Bland to export a beginning trial balance from its accounting and financial reporting system rather than using multiple sources to compile financial balances and activity. The system's controls also helped to prevent some types of misstatements noted during the prior year. However, Richard Bland staff should review the Commonwealth Accounting Policies and Procedures (CAPP) Manual published by the Department of Accounts to gain an understanding of the requirements and implement additional controls as necessary. Richard Bland should continue to develop and implement policies and procedures over financial reporting, including proper review and approval, and should continue to utilize its financial reporting and accounting system as the primary basis for producing its financial statements going forward. Management should also evaluate the training needs of staff participating in the financial reporting process to increase expertise and knowledge of governmental accounting standards and best practices in financial reporting relevant to public colleges and universities.

<u>Strengthen Internal Controls over Capital Assets</u>
Type: Internal Control
Severity: Material Weakness
Repeat: Yes
Prior Title: Develop Policies and Procedures to Identify Potential Capital Assets

The Office of Finance and Administration (Finance) at Richard Bland does not have sufficient and accurate policies and procedures for tracking, recording, and reporting capital assets. While it is highly likely that the lack of internal controls surrounding capital assets is pervasive and impacts all asset types, the majority of the issues identified relate to construction in progress (CIP), buildings, and equipment. The deficiencies noted are primarily the result of outdated policies and procedures, which Richard Bland developed prior to abandoning the fixed asset module of its accounting and financial reporting system and replacing it with a spreadsheet tracking process.

CIP/Buildings

To obtain CIP expenses for the year, Finance runs a report detailing all current year expense activity for active projects; however, it does not reconcile the report with any other construction project information. As a result, there is a possibility that the total costs of the CIP projects will be inaccurate, resulting in the improper capitalization of assets. In addition, Finance lacks an overall understanding of how to report CIP in the financial statements. These issues led to the following misstatements in CIP and building additions (and subsequently accumulated depreciation) on the capital asset footnote and the financial statements:

- When tracking expenses made towards capital outlay projects, Finance did not record CIP expenses in the appropriate fiscal year, resulting in an understatement of the CIP beginning balance amount of $208,056 and an overstatement in the CIP additions amount of $151,423.

- Finance did not record the proper amount of expenses for the Consolidated Storage Building when transferring the project from CIP, which resulted in the understatement of buildings by approximately $85,000.

Equipment

Finance is not adequately tracking equipment. Per Finance personnel, due to significant staff turnover there are no personnel currently assigned to track equipment purchases and no process in place for identifying and tracking newly acquired capital assets. Finance does not consistently tag or track equipment purchases and incorrectly capitalizes equipment that does not meet the criteria for capitalization. Further, Finance did not adhere to the policies and procedures in place for handling disposals of capital assets during the fiscal year. Weaknesses in internal controls surrounding the tracking of equipment assets significantly increase the risk of misstatement of capital assets in Richard Bland's financial statements. During our review of the process for tracking and recording equipment, we observed the following:

- Finance incorrectly capitalized three of the five (60%) reviewed equipment purchases made during fiscal year 2017. Projected to the population, this results in an estimated overstatement of equipment additions of $319,819.

- Finance did not properly tag six assets of a random sample of fourteen (43%) equipment assets tested, and no assets obtained during the fiscal year received an asset number or tag. In addition, Richard Bland no longer possesses one of the fourteen equipment assets selected for review and one item Richard Bland possesses does not appear on the fixed asset equipment inventory listing. While the lack of a tag or asset number does not have a direct financial impact, improper tracking of assets can result in potential overstatement of equipment if Richard Bland disposes of an asset lacking a tag and does not properly remove the asset from the accounting records. Moreover, not including all assets owned by Richard Bland in the asset listing results in an understatement of equipment in the financial statements.

- Finance reported amounts in the capital asset footnote for the equipment beginning balance, equipment deletions, beginning balance for accumulated depreciation of equipment, and depreciation expense for equipment that do not agree to the fixed asset equipment inventory listing. This inventory listing is the only methodology used for tracking assets. As a result, the ending balance for equipment was overstated by $848,106 and the ending balance for equipment accumulated depreciation was overstated by $209,367.

CAPP Manual Topic 30000 discusses Fixed Asset and Lease Accounting. Finance should become familiar with this topic and all of the requirements therein. The CAPP Manual discusses numerous requirements relating to fixed assets to which Richard Bland does not currently adhere, including:

- Recording CIP until a project is reasonably complete and then transferring the total capitalizable cost to the appropriate capital asset account,

- Reviewing the internal records for potential CIP expenses and reconciling the records quarterly,

- Maintaining sufficient internal documentation to support changes made to CIP balances and entering them into a comprehensive spreadsheet; the appendix of CAPP Manual Topic 30310 includes a CIP tracking spreadsheet for agency use,

- Capitalizing only separate pieces of equipment having a recorded cost of over $5,000,

- Performing a physical inventory of capital assets at least biannually in order to safeguard assets and maintain fiscal accountability, though the CAPP manual recommends annual inventory for equipment inventories,

- Designating a unique identification number for all assets acquired and tagging the asset at the time of physical receipt, or as soon thereafter as possible,

- Maintaining internal controls and an internal control environment that ensures the proper control and safeguarding of all agency-owned or otherwise utilized capital assets, and

- Establishing and publishing agency internal policy and procedures regarding stewardship over capital assets.

As Richard Bland does not currently have a fixed asset system in place, it is integral that Finance accurately maintains fixed asset tracking spreadsheets. Not maintaining accurate spreadsheets results in the inability to properly prepare the financial statements at fiscal year end.

Finance should begin maintaining a CIP schedule that tracks CIP projects from start to finish and work with the Facilities Department to ensure proper tracking of projects. Further, Finance should assign personnel the responsibility of identifying and tracking assets that meet the criteria for capitalization and properly tag assets as soon as practicable. In addition, Finance should implement a schedule for properly completing an inventory of fixed assets to ensure that assets continue to have legible tags that allow for proper tracking and removal from the fixed assets inventory listing following disposal. Finally, Finance should develop policies and procedures surrounding the tracking and recording of capital assets such that when turnover occurs or responsible parties are unavailable, adequate tracking and recording of capital assets can continue. Finance should consider adopting a more robust system for tracking capital assets that will allow for additional control over asset information, such as control over logical access.

Improve Controls Surrounding the Reconciliation between the College's and the Commonwealth's Accounting and Financial Reporting Systems

Type: Internal Control
Severity: Significant Deficiency
Repeat: No

Richard Bland is not adequately reconciling its accounting and financial reporting system with the Commonwealth's accounting and financial reporting system, which could lead to a misstatement in the financial statements. Additionally, Finance staff certified to the Department of Accounts that it properly completed monthly reconciliations; however, the staff could only verbally substantiate the reconciliation of the systems, as there is no documentation showing completion of the reconciliation. Further, Richard Bland does not have written policies and procedures detailing the reconciliation process. Not having written policies and procedures increases the likelihood of insufficient, incomplete, or untimely reconciliation and resolution of reconciling items. Additionally, Finance personnel lack an understanding of the reconciliation requirements set forth by the CAPP Manual, as well as of how to document reconciliations adequately.

CAPP Manual Topic 20905 states that agencies must document the reconciliation between its independent accounting and financial reporting system and Commonwealth systems in an agency-standardized format and maintain the documentation (including source documentation) for inspection by outside parties. In addition, the CAPP Manual indicates all agencies must have detailed written procedures for meeting all reconciliation requirements, including the documentation of the reconciliation. While the CAPP Manual provides guidance to agencies, it does not eliminate the need and requirement of Richard Bland to publish its own policies and procedures, approved in writing by management. The lack of complete and up-to-date internal policies and procedures, customized to reflect the college's staffing, organization, and operating procedures, reflects inadequate internal control.

Finance staff should gain an understanding of the reconciliation requirements and establish written policies and procedures to properly complete reconciliations between the college's and the Commonwealth's accounting and financial reporting systems. At a minimum, the policies and procedures should contain information on who is responsible for performing the reconciliation, proper timing for performing and approving the reconciliation, and how to perform the reconciliation. Finally, Finance should retain sufficient documentation of the monthly reconciliation to support its certification that Richard Bland has completed the reconciliation process timely and accurately.

Require Documentation of Property Collection from Terminated Employees

Type: Internal Control
Severity: Significant Deficiency
Repeat: Yes
Prior Title: Improve the Employee Termination Process

The Human Resources (HR) Department at Richard Bland did not enforce newly developed HR policies and procedures regarding termination of employment during fiscal year 2017. As a result, the HR Department at Richard Bland could not confirm the collection of college property for four out of five (80%) terminated employees selected for testwork.

CAPP Manual Topic 50320, Terminations, states that agencies should "develop a termination check-off list to ensure that all information is complete and accurate before terminating the employee." The recommended checklist should provide confirmation of the collection of any access badges, keys, or other equipment assigned to the employee. Potential consequences of not using the separation checklist include an increased risk of misappropriation of assets or security concerns with non-employees having the ability to access Richard Bland facilities.

Following the hiring of a new HR Director halfway through fiscal year 2017, the HR Department developed a terminated employee policy and separation checklist. However, as the implementation of the checklist occurred later in the fiscal year, the current fiscal year audit could not determine its operating effectiveness. The fiscal year 2018 audit will include a review of the checklist process to ensure managers properly comply with the new separation procedures and controls.

<u>Continue to Address Findings Included in U.S. Department of Education's Program Review Report</u>
Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Richard Bland should continue to address the findings included within the U.S. Department of Education's (Education) program review report issued on December 18, 2017. From October 23, 2017, through October 26, 2017, Education conducted a review of Richard Bland's administration of Title IV programs. The program review report covered the 2015-2016 and 2016-2017 award years and included an examination of Richard Bland's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and consumer information requirements.

Education selected a sample of 30 files for review from the award years referenced above. During its review, Education identified the following deficiencies relating to Richard Bland's administration of Title IV programs:

- Richard Bland did not return four unclaimed Title IV credit balance checks totaling $4,361 within 240 days after it issued the check to the students. Not monitoring outstanding checks may create a financial burden for the student and Education.

- Richard Bland did not document return of Title IV funds calculations for five of 15 (33.3%) students tested for the 2015-2016 award years and two of 15 (13.3%) students tested for the 2016-2017 award years. Not timely and accurately calculating, documenting, and returning Title IV funds to appropriate programs, may result in additional financial burden for the institution or student and limits Education's ability to earn interest on returned funds.

- Richard Bland did not deliver Title IV credit balances timely for three of 15 (20%) students tested for the 2015-2016 award year and two of 15 (13.3%) students tested for the 2016-2017 award year. Additionally, Richard Bland paid Title IV credit balances late to six students (20%). Not delivering Title IV credit balances within the 14-day timeframe can result in financial harm and burden to students. Students are entitled to receive credit balance funds to pay for living expenses they incur while attending school.

- Richard Bland did not report the student enrollment status accurately and timely for thirteen of 15 (86.7%) students tested for the 2015-2016 award year and twelve of 16 (75%) students tested for the 2016-2017 award year to Education's National Student Loan Data System. Enrollment status reporting is critical for administration of the Federal Direct Loan Program. Education uses this information to establish a student's eligibility for student loan deferments and triggers the repayment period. Further, Education uses the information to determine if the student is in school or should move into repayment status, or is eligible for deferment. Accurate enrollment reporting assists Education in determining the amount of aid to which a student is entitled and when the student should receive the financial aid. Finally, inaccurate reporting may delay or prevent a borrower's eligibility for deferments, grace periods, repayments, and payment of interest subsidies.

- Richard Bland did not confirm that it completed and documented exit counseling for seven of 15 (46.7%) students tested for the 2015-2016 award year and six of 16 (37.5%) students tested for the 2016-2017 award year. Not providing exit counseling to students in accordance with Federal requirements may result in increased student loan defaults and cause an increased expense to Education.

In accordance with 2 CFR 200.303, non-federal entities must establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, and terms and conditions of the federal award. Without maintaining adequate internal control over federal awards, Richard Bland is at risk of incurring fines and/or penalties and potentially losing Title IV funding. These findings resulted from a significant turnover within Richard Bland's financial aid office during the period under review and lack of documented policies and procedures. Richard Bland hired a new Director of Financial aid at the end of fiscal year 2017 and developed documented policies and procedures related to financial aid processes; however, the effectiveness of these were not in scope for the fiscal year 2017 audit. The fiscal year 2018 audit will include a follow up on financial aid recommendations to include reviewing the effectiveness of the newly developed procedures.

Because of the program review report, Education required Richard Bland to conduct a file review for all 2015-2016 and 2016-2017 Title IV recipients, in certain areas, to gauge the full extent of the findings noted in the program review report and make necessary corrections. Education requires Richard Bland to report the results of this review in order to receive a final program review report. Richard Bland should continue its efforts to conduct file reviews and report its results to Education. As it is conducting the file reviews, Richard Bland should continue to update its policies and procedures and make process enhancements where necessary.

Strengthen Internal Controls over Verifications

Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Richard Bland does not have adequate documentation to demonstrate proper completion of the verification process for students receiving federal financial assistance. Higher education institutions use the verification process to validate the information reported in the Institutional Student Information Record (ISIR), which the U.S. Department of Education generates from information entered on the student's Free Application for Federal Student Aid (FAFSA). The process helps to ensure students are eligible for federal financial assistance and do not receive an inappropriate award of federal assistance based on improperly submitted information.

Richard Bland disbursed approximately $2.8 million in financial assistance to 296 students that the U.S. Department of Education selected for verification during the period under review. During the audit, we selected 25 students subject to verification and identified five instances (20%) where Richard Bland could not demonstrate that it matched information on the FAFSA to the supporting documentation provided by the student. In three of these instances, Richard Bland did not retain proper documentation to support its verification reviews. These three students received $14,513 in collective financial assistance during the award year.

In accordance with 34 CFR §668.54 and 34 CFR §668.56, an institution must require an applicant whose FAFSA information has been selected for verification to verify the information selected by the Secretary. Without collecting the appropriate documentation or comparing the information on the FAFSA to the student's supporting documentation, Richard Bland cannot be certain that the information in the student's FAFSA is correct and it awarded the student the proper amount of assistance. In one instance, the auditor identified a correction that would have resulted in the student receiving $100 more in assistance than the amount originally awarded to the student. The U.S. Department of Educations' 2016-2017 Application and Verification Guide states that an institution must have an adequate internal system to identify conflicting information, regardless of the source and regardless of whether the student is selected for verification, that would affect a student's eligibility. Further, the institution must resolve all conflicting information before disbursing financial assistance.

During the period under review, Richard Bland used a third-party servicer to support its verification function. Under this arrangement, the third-party servicer was responsible for collecting the supporting documentation from students for verification. Richard Bland maintained responsibility for conducting the verification of the students' information and adjusting student records, where necessary. However, Richard Bland experienced turnover in its student aid office and did not conduct all of the required verifications. Without properly completing the verification reviews, Richard Bland cannot provide assurance that the information contained within the ISIR is correct. Improper validation of information during the verification process can result in potential over or under awards of financial assistance to students.

Richard Bland recently entered into a contract with a new third-party servicer to perform its verification function. Under the new agreement, the third-party servicer agreed to collect the documentation from the student and perform the verification process. To maintain oversight over the third-party servicer, Richard Bland is performing spot checks of the third-party servicer's work. These spot checks include confirming that the third-party servicer is collecting the appropriate information from the student and making corrections to the student's record where necessary. Richard Bland should consider adopting a process to document its review, such as implementing a checklist for confirming verifications. Documenting this process will provide evidence that Richard Bland performed its due diligence over its third-party servicer and provides Richard Bland with assurance that its third-party servicer is complying with federal regulations for performing verifications.

Implement Procedures for Monitoring Third-Party Servicers
Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Richard Bland does not have procedures for monitoring performance of third-party servicers administering portions of its Title IV programs. Third-party servicers are entities or individuals that administers any aspect of an institution's participation in Title IV programs, including, but not limited to, services and functions necessary for the institution to remain eligible to participate in Title IV programs. In October 2016, Richard Bland entered into a contractual agreement with a third-party servicer to manage its verification function for its student financial assistance programs. During the 2017-2018 award year, Richard Bland's third party servicer conducted verification reviews for nearly 40 percent of students receiving federal financial assistance.

During our review, Richard Bland could not demonstrate that it obtained a Certification by Lower Tier Contractor and compliance audit and/or audit letter from its third-party servicer. Both of these documents are critical for performing due diligence and monitoring the performance of the third-party servicer. According to 34 CFR §668.82, when the institution contracts with a third-party servicer it acts in the nature of a fiduciary in the administration of Title IV programs and is responsible for ensuring that the policies, procedures, products, and systems that the servicer utilizes are compliant with applicable laws and regulations. Without performing appropriate due diligence, Richard Bland cannot assure its third-party servicer is complying with the applicable laws and regulations and increases the risk of being found financially liable for any wrongdoings of the third-party servicer. Richard Bland did not implement procedures for monitoring the performance of its third-party servicer because it experienced turnover during the period under review and did not have an opportunity to update its policies and procedures after entering into the agreement with the third-party servicer.

Richard Bland is currently in the process of revising its policies and procedures relating to the administration of student financial assistance programs. During its evaluation, Richard Bland should consider incorporating guidelines pertaining to third-party servicers into its policies and procedures. Richard Bland should consider using the regulations outlined in 34 CFR §668.23 and the U.S. Department of Education's Dear Colleague Letter dated August 18, 2016, as a starting point for updating its policies and procedures. By incorporating these regulations into its policies and procedures, Richard Bland will be able to determine whether the third-party servicer is complying with the applicable laws and regulations and mitigate the risk of incurring financial penalties.

Strengthen Internal Controls over Federal Cash Management
Type: Internal Control and Compliance
Severity: Significant Deficiency
Repeat: No

Richard Bland does not have adequate internal controls to ensure timely disbursement of federal funds in accordance with federal regulations. As a condition of accepting federal funds, an institution agrees to promote sound cash management to minimize the costs to the government and students, who receive federal financial assistance, by not maintaining excessive cash balances. Between July 2016 and June 2017, Richard Bland received approximately $7.2 million from the U.S. Department of Education (Education) for federal financial assistance from the Pell Grant and Direct Loan programs.

During the audit, we identified three instances where Richard Bland did not disburse federal funds within three days after receipt. 34 CFR §668.162(b)(3) requires the institution to disburse the funds requested as soon as administratively feasible but no later than three business days following the date the institution received those funds. The drawdowns in question amount to approximately $1.9 million.

For one of the drawdowns, Richard Bland did not fully exhaust the federal funds until nearly four and a half months after receipt of the funds from Education. Richard Bland did not fully exhaust the remaining two drawdowns until nearly two weeks after receiving the funds from Education. Richard Bland did not disburse these funds in a timely manner because the individuals responsible for processing and/or recording the drawdown in its financial system were out of the office and Richard Bland did not assign backups to maintain these responsibilities. By not disbursing federal funds in a timely manner, Richard Bland may become liable to Education for reimbursing costs incurred in providing excess cash to the institution.

Richard Bland should update its policies and procedures to include all provisions covered by 34 CFR §668.162 and Volume 4 of Education's Student Aid Handbook. Additionally, Richard Bland should assign backup individuals to its federal cash management function. Finally, Richard Bland should consider periodically monitoring its federal cash balances to confirm it exhausts the funds within three business days of receipt. By doing such, Richard Bland will be able to assure itself that it has sound cash management practices and prevent itself from incurring a liability to Education.

Improve Reconciliation Process of the Commonwealth's Retirement Benefits System
Type: Internal Control
Severity: Significant Deficiency
Repeat: Yes

Richard Bland did not adequately perform and document reconciliations between the Commonwealth's retirement benefits system and the Commonwealth's human resource system during fiscal year 2017. In three out of the four months selected (75%), Richard Bland did not maintain documentation to demonstrate that it performed the required reconciliation prior to certifying information to the Virginia Retirement System (confirming the contribution snapshot). CAPP Manual Topic 50410, Virginia Retirement System and Optional Retirement Plans, states that employers are responsible for ensuring valid interface values are in the Commonwealth's retirement benefits system prior to the confirmation of the contribution snapshot.

Following the hiring of a new HR Director halfway through fiscal year 2017, the HR Department developed a reconciliation process for confirming the contribution snapshot; however, the HR Department did not fully document evidence showing the reconciliation occurred prior to confirmation. Not properly reconciling the Commonwealth's retirement benefits system data with the Commonwealth's human resource system data prior to certifying the snapshot increases the risk that Richard Bland's retirement contributions will be inaccurate. As a result, the net pension liability on the financial statements may be misstated because the Commonwealth's actuary relies on the data reported in the Commonwealth's retirement benefits system in determining the net pension liability for each of the Commonwealth's agencies and institutions. Documentation for the June 2017 reconciliation did support proper reconciliation prior to confirming the snapshot.

Richard Bland should continue to follow the process developed at the end of fiscal year 2017 to review employee changes and maintain appropriate documentation of the reconciliation, including resolution of any data discrepancies. The newly developed process includes a checklist for reviewing required reports identifying discrepancies between systems and, if completed properly, will provide evidence of proper performance of the reconciliation prior to confirmation of the contribution snapshot.

Develop Procedures for Proper Accrual of Accounts Payable

Type: Internal Control
Severity: Significant Deficiency
Repeat: No

Richard Bland did not properly evaluate vouchers paid after year-end to determine the correct accounts payable accrual amount. It did not appropriately accrue five out of sixteen (31%) selected expense vouchers, resulting in the recording of the vouchers in the incorrect fiscal year. Additionally, Richard Bland did not consider employee expense reimbursements when calculating the year-end accounts payable amount. Both incomplete policies and procedures over accounts payable and improper documentation supporting the determination of the goods or services receipt date resulted in the improper recording of accounts payable.

Per the Department of Accounts' 2017 Fiscal Year-end Closing Procedures, to properly identify amounts owed at June 30 that are paid on or after July 1, 2017, the correct goods or services receipt date must be tracked. For amounts that are not payable transactions at year-end, the date recorded should be from the following fiscal year. The Accounts Payable Department at Richard Bland did not utilize the Commonwealth's accounting and financial reporting system's goods or services receipt date for its intended purpose and; therefore, the year-end report used to accrue accounts payable did not include all expenses from fiscal year 2017. Improper recording of expenses in the appropriate fiscal year may cause an overstatement or an understatement of liabilities on the financial statements, which could lead to a misrepresentation of Richard Bland's financial position.

Richard Bland should develop year-end procedures to support the compilation of the financial statements, including the accrual of the accounts payable liability. Additionally, Richard Bland should revise its accounts payable policies and procedures to include information on properly determining the goods or services receipt date and its purpose and use with regard to determining accounts payable at fiscal year-end.

Develop Policies and Procedures for the Write-off of Accounts Receivable

Type: Internal Control
Severity: Significant Deficiency
Repeat: No

The Finance Department (Finance) at Richard Bland does not have policies and procedures in place for evaluating and writing off accounts receivable. As a result, Finance made the decision to write off all student accounts at least 180 days past due during fiscal year 2017 without reference to any internal policies or the CAPP Manual. Further, Richard Bland did not perform all procedures necessary prior to writing off past-due student accounts, as it is not consistently forwarding delinquent accounts to the Office of the Attorney General (Attorney General) or a private collection agency. Finally, the application of the write-off to the students' accounts in Richard Bland's accounting and financial reporting system did not match the amount identified in the original write-off.

According to CAPP Manual Topic 20505, each agency is responsible for establishing account collection policies and procedures that meet the requirements set by the Code of Virginia, the Appropriation Act, the Department of Accounts (Accounts), and the Attorney General. It further states that all write-offs should be properly authorized, documented, and made in accordance with these policies/procedures and legal requirements. In addition, CAPP Manual Topic 20505 indicates that accounts should not be written off of an agency's financial accounting records until all collection procedures have been conducted without results, including sending all accounts receivables more than 59 days past due to outside collectors (accounts under $3,000) or the Attorney General (accounts $3,000 and over). Finally, it states that agencies should ensure that their accounting and financial management systems properly account for, record, and manage their receivables.

Finance should gain an understanding of the requirements set by the Code of Virginia, the Appropriation Act, Accounts, and the Attorney General and ensure written policies and procedures for handling past due student accounts receivable are in accordance with these requirements. These policies and procedures should contain information on past-due collection guidelines; when accounts should be determined to be uncollectible; proper authorization and documentation needed for account write-offs; and how to properly account for write-offs and recoveries on accounts written off in their accounting and financial reporting system.

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P.O. Box 1295
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April 17, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
The College of William and Mary in Virginia

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the **College of William and Mary in Virginia,** including the **Virginia Institute of Marine Science** and **Richard Bland College** (the University), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated April 17, 2018. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the sections entitled "Audit Findings and Recommendations – The College of William and Mary," and "Audit Findings and Recommendations – Richard Bland College," we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies entitled "Improve the Financial Reporting Process" and "Strengthen Internal Controls over Capital Assets," which are described in the section titled "Audit Findings and Recommendations – Richard Bland College," to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency entitled "Properly Classify Net Position Restrictions," which is described in the section titled "Audit Findings and Recommendations – The College of William and Mary," and the deficiencies entitled "Improve Controls Surrounding the Reconciliation Between the College's and the Commonwealth's Accounting and Financial Reporting Systems," "Require Documentation of Property Collection from Terminated Employees," "Continue to Address Findings Included in U.S. Department of Education's Program Review Report," "Strengthen Internal Controls over Verifications," "Implement Procedures for Monitoring Third-Party Servicers," "Strengthen Internal Controls over Federal Cash Management," "Improve Reconciliation Process of the Commonwealth's Retirement Benefits System," "Develop Procedures for Proper Accrual of Accounts Payable," and "Develop Policies and Procedures for the Write-off of Accounts Receivable," which are described in the section titled "Audit Findings and Recommendations – Richard Bland College," to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Audit Findings and Recommendations – Richard Bland College" in the findings entitled "Continue to Address Findings Included in U.S. Department of Education's Program Review Report," "Strengthen Internal Controls over Verifications," "Implement Procedures for Monitoring Third-Party Servicers," and "Strengthen Internal Controls over Federal Cash Management."

The University's Response to Findings

We discussed this report with management at an exit conference held on April 16, 2018. The University's response to the findings identified in our audit is described in the accompanying sections titled "The College of William and Mary Response" and "Richard Bland College Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Findings

The College of William and Mary has taken adequate corrective action with respect to audit findings reported in the prior year. Richard Bland College has not taken adequate corrective action with respect to the previously reported findings "Improve the "Employee Termination Process," "Improve Reconciliation Process of the Commonwealth's Retirement Benefits System," "Develop Policies and Procedures to Identify Potential Capital Assets," and "Improve the Financial Reporting Process." Accordingly, we included these findings in the section entitled "Audit Findings and Recommendations – Richard Bland College." Richard Bland College has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

WILLIAM & MARY
CHARTERED 1693

OFFICE OF FINANCE AND ADMINISTRATION

April 16, 2018

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

After reviewing the College of William and Mary's fiscal year 2017 (FY17) audit finding and recommendation, I hereby provide the following response for inclusion in the audit report:

Properly Classify Net Position Restrictions
Management agrees with the auditor's finding and has made the adjustment to the financial statements. Financial Reporting will review its process for identifying internal and external restrictions on newly invested funds for financial reporting purposes and ensure that these funds are properly classified in accordance with GASB standards.

Please contact me should you have any questions.

Sincerely,

Samuel E. Jones
Senior Vice President for Finance and Administration

Cc: Amy S. Sebring
Kent B. Erdahl
Melanie T. O'Dell

P. O. Box 8795 • Williamsburg, VA 23187-8795 • (757) 221-2740

Richard Bland College
of WILLIAM & MARY

Office of Finance

April 16, 2018

Ms. Martha Mavredes,
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218-1295

Dear Ms. Mavredes:

Richard Bland College of William and Mary has reviewed the Internal Control Findings and Recommendations provided by the Auditor of Public Accounts for fiscal year ending June 30, 2017 and is in agreement, in principles, with all of the findings submitted.

Attached for your consideration is an update as to where the campus is with respect to progress on these findings. The formal Corrective Action Workplan will be submitted within 30 days as required by CAPP Manual Section 10205. Please contact me if you have any additional questions or require additional information.

On behalf of Richard Bland College of William and Mary, please thank all of your staff for their professional work and recommendations to ensure RBC's continued success.

Sincerely,

Richard Pearce
Interim Chief Financial Officer

11301 Johnson Rd, South Prince George, Virginia 23805
804-862-6100 | RBC.edu

THE COLLEGE OF WILLIAM AND MARY IN VIRGINIA
RICHARD BLAND COLLEGE

As of June 30, 2017

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