



VIRGINIA COMMONWEALTH UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2024

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of Virginia Commonwealth University (University) as of and for the year ended June 30, 2024, and issued our report thereon, dated December 11, 2024. 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 University's website at www.vcu.edu. Our audit found:

- the financial statements are presented fairly, in all material respects;
- one internal control finding requiring management's attention; however, we do not consider it to be a material weakness;
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- adequate corrective action with respect to prior audit findings and recommendations identified as complete in the Findings Summary included in the Appendix.

Our audit also included testing over the major federal program of the Student Financial Assistance Programs Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Compliance Supplement; and found no internal control findings requiring management's attention or instances of noncompliance in relation to this testing.

In the section titled "Internal Control Finding and Recommendation" we have included our assessment of the conditions and causes resulting in the internal control finding identified through our audit as well as the recommendation for addressing that finding. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the finding and develop and appropriately implement adequate corrective actions to resolve the finding as required by the Department of Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendation.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Internal Controls over Financial Reporting for Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Virginia Commonwealth University (University) lacks adequate policies, procedures, and resources necessary for accurate reporting of capital assets in the financial statements. The University needs to strengthen its policies and procedures for properly capitalizing assets; managing disposals; identifying and valuing leases and subscription-based information technology arrangements; conducting physical inventory; and handling other capital asset related matters which are necessary to ensure that financial reporting adheres to Governmental Accounting Standards Board (GASB) standards. Additionally, due to their decentralized structure, the University depends on multiple departments to identify, record, track, and report capital asset activities throughout the year. Therefore, the University relies on the coding within the University's procurement and financial systems to ascertain capital assets, which the various University departments are not using consistently. The absence of sufficient policies, procedures, and resources for the departments responsible for capital assets has led to the following deficiencies:

- Purchasers within University departments are inconsistently coding purchases related to capital assets due to a lack of training and guidance. Proper coding of purchases is essential for accurate evaluation and capitalization by the University Controller's Office. As a result, the Controller's Office capitalized 30 percent of individual equipment additions tested and 63 percent of group purchase asset additions tested at incorrect amounts. The group purchase asset additions capitalized at incorrect amounts were all purchases from fiscal years prior to 2024 that required a retroactive adjustment as a result of the recently issued GASB Implementation Guide 2021-1, question 5.1, related to capitalizing group assets.
- Four custodians at the University did not perform a physical inventory, and 25 out of 157 custodians (16%) at the University failed to complete the physical inventory certification by the deadline established by the University Controller's Office. While the missed deadline established by the Controller's Office for inventory certification did not impact the financial statements, the completion of certifications did not align with established policies. Additionally, we determined that custodians are not consistently or timely updating the capital asset financial system, which is essential for maintaining accurate capital asset information for financial reporting purposes.
- The Controller's Office needs to strengthen its process for identifying, tracking, and promptly reporting construction projects in progress related to capital outlay construction, information technology software, subscription-based information technology arrangements, and constructed equipment assets crossing fiscal years. Additionally, the University lacks a sufficient mechanism for assessing and disclosing in the financial statements the required

commitments or subsequent events associated with construction, architectural, engineering, and other service agreements.

- The Controller's Office needs to strengthen its process for identifying, assessing, and reporting leases and subscription-based information technology arrangements. We found various leases and subscription-based information technology arrangements components that the Controller's Office did not accurately evaluate for capitalization or expensing.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. The University should develop, execute, and maintain policies and procedures concerning all capital asset areas to ensure compliance with GASB standards and to align with the University's practices. Moreover, the Controller's Office should provide University departments the necessary resources and training on coding capital asset related purchases which will enable the Controller's Office to accurately identify, evaluate, and report pertinent activities. In addition, the University should effectively enforce internal controls, including but not limited to physical inventory. Finally, the University should perform an evaluation over all purchases, agreements, and contracts to ensure it properly captures and reports leases, subscription-based information technology arrangements, construction in progress, capitalizable assets, commitments, and subsequent events.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 11, 2024

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Commonwealth University

Michael Rao
President, Virginia Commonwealth University

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 **Virginia Commonwealth University** as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 11, 2024. Our report includes a reference to other auditors who audited the financial statements of the component units of the University, as described in our report on the University's financial statements. The other auditors did not audit the financial statements of the component units of the University in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component units of the University.

Report on 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 (internal control) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control titled "Improve Internal Controls over Financial Reporting for Capital Assets," which is described in the section titled "Internal Control Finding and Recommendation," that we consider to be a significant deficiency.

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 financial statements. 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University's Response to Findings

We discussed this report with management at an exit conference held on January 31, 2025. Government Auditing Standards require the auditor to perform limited procedures on the University's response to the findings identified in our audit, which is included in the accompanying section titled "University Response." The University's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Status of Prior Findings

The University has taken adequate corrective action with respect to prior audit findings identified as complete in the Findings Summary included in the Appendix.

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 Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

ACS/vks

FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	First Reported for Fiscal Year
Improve IT Service Provider Oversight	Complete	2023
Improve Security Awareness Training	Complete	2023
Improve Internal Controls over Financial Reporting for Capital Assets	Ongoing	2024

* A status of **Complete** indicates adequate corrective action taken by management. **Ongoing** indicates new and/or existing findings that require management’s corrective action as of fiscal year end.

January 14, 2025

Staci A. Henshaw
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Henshaw:

We have reviewed the audit finding and recommendations resulting from the fiscal year 2024 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference.

Virginia Commonwealth University acknowledges and concurs with the audit findings. The following contains the APA finding and management's response to the concerns and issues raised.

Findings of the Auditor:

Improve Internal Controls over Financial Reporting for Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Virginia Commonwealth University (University) lacks adequate policies, procedures, and resources necessary for accurate reporting of capital assets in the financial statements. The University needs to strengthen its policies and procedures for properly capitalizing assets; managing disposals; identifying and valuing leases and subscription-based information technology arrangements; conducting physical inventory; and handling other capital asset related matters which are necessary to ensure that financial reporting adheres to Governmental Accounting Standards Board (GASB) standards. Additionally, due to the decentralized structure, the University depends on multiple departments to identify, record, track, and report capital asset activities throughout the year. Therefore, the University relies on the coding within the University's procurement and financial systems to ascertain capital assets, which the various University departments are not using consistently. The absence of sufficient policies, procedures, and resources for the departments responsible for capital assets has led to the following deficiencies:

- Purchasers within University departments are inconsistently coding purchases related to capital assets due to a lack of training and guidance. Proper coding of purchases is essential for accurate evaluation and capitalization by the University Controller's Office. As a result, the Controller's Office capitalized at incorrect amounts 30 percent of individual equipment additions tested and 63 percent of group purchase asset additions tested. The group purchase asset additions capitalized at incorrect amounts were all purchases from fiscal years prior to 2024 that required a retroactive adjustment as a result of the recently issued GASB Implementation Guide 2021-1, question 5.1, related to capitalizing group assets.
- Four custodians at the University that did not perform a physical inventory, and 25 out of 157 custodians (16%) at the University failed to complete the physical inventory certification by the deadline established by the University Controller's Office. While the missed deadline established by the Controller's Office for inventory certification did not impact the financial statements, the completion of certifications did not align with established policies. Additionally, we determined that

custodians are not consistently or timely updating the capital asset financial system, which is essential for maintaining accurate capital asset information for financial reporting purposes.

- The Controller's Office needs to strengthen its process for identifying, tracking, and promptly reporting construction projects in progress related to capital outlay construction, information technology software, subscription-based information technology arrangements, and constructed equipment assets crossing fiscal years. Additionally, the University lacks a sufficient mechanism for assessing and disclosing in the financial statements the required commitments or subsequent events associated with construction, architectural, engineering, and other service agreements.
- The Controller's Office needs to strengthen its process for identifying, assessing, and reporting leases and subscription-based information technology arrangements. We found various leases and subscription-based information technology arrangements components that the Controller's Office did not accurately evaluate for capitalization or expensing.

Management is responsible for designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial information that is free from material misstatement, whether due to fraud or error. The University should develop, execute, and maintain policies and procedures concerning all capital assets areas to ensure compliance with GASB standards and to align with the University's practice. Moreover, the Controller's Office should provide University departments the necessary resources and training on coding capital asset related purchases which will enable the Controller's Office to accurately identify, evaluate, and report pertinent activities. In addition, the University should effectively enforce internal controls, including but not limited to physical inventory. Finally, the University should perform an evaluation over all purchases, agreements, and contracts to ensure it properly captures and reports leases, subscription-based information technology arrangements, construction in progress, capitalizable assets, commitments, and subsequent events.

VCU Response:

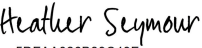
The Controller's Office will expand its written procedures to cover the items not currently documented or not well documented. Additional training will be developed for staff who are responsible for purchases of fixed assets as well as custodians within the departments who are responsible for counting and tracking equipment. The chart of accounts will be modified for easier use. Additionally, a new position, Director of Fixed Assets, will be added to the team to provide training, additional oversight and execution of expanded procedures.

Responsible persons: Brian Fowlkes, Associate Controller, Operations, and Heather Seymour, Interim Controller

Completion Date: September 30, 2025

Sincerely,

DocuSigned by:


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Heather Seymour
Interim Controller, Virginia Commonwealth University