



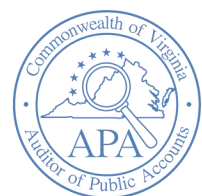
NORFOLK STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We have audited the basic financial statements of Norfolk State University as of and for the year ended June 30, 2014, and issued our report thereon, dated January 20, 2015. Our report, included in the University's basic financial statements, is available on the Auditor of Public Accounts' website at www.apa.virginia.gov and on the University's website at www.nsu.edu. Our audit of the University found:

- the financial statements are presented fairly, in all material respects;
- deficiencies which we consider to be material weaknesses in internal control over financial reporting;
- additional items which we consider significant deficiencies in internal control;
- three instances of noncompliance required to be reported under Government Auditing Standards; and
- certain items previously reported, for which the University has not completely implemented appropriate corrective action.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS

Correct Deficiencies in Fixed Asset Management Program

As noted for the last four fiscal years, the University had several deficiencies in internal control related to proper stewardship of fixed assets. These deficiencies included improper disposal of fixed assets; untimely completion of fixed asset physical inventories; and improper recording, tagging, or otherwise controlling fixed assets, including equipment. As expected, due to timing, we noted similar deficiencies during our fiscal year 2014 audit.

During our procedures, we noted the following:

- University staff did not properly identify equipment expenses as fixed assets and; therefore, did not appropriately tag or accurately reflect cost or useful life of these items in the fixed asset system. This deficiency resulted in improper depreciation of assets and adjustments to the financial statements.
- University staff did not properly identify and track construction in progress expenses using the construction in progress schedule. University personnel recorded expenses for several projects directly to the appropriate finished capital asset category rather than capturing the activity in construction in progress. Construction in progress should reflect all current year activity, including additions and deletions, for capital projects. University personnel also improperly recorded expenses for one maintenance project as construction in progress, rather than properly expensing the project. Recording this project as construction in progress, rather than maintenance, resulted in improper capitalization of the project as other improvements and improper recording of depreciation expense. Additionally, University staff duplicated an accrual entry for one project reflected as construction in progress resulting in an overstatement of current year expenses for the project. Lastly, for one project, staff did not reverse the accrual of the prior fiscal year's accounts payable. Each of these instances resulted in material adjustments to the financial statements.
- The University did not perform a physical inventory of capital assets until fiscal year 2014, which is four years after the performance of the last complete physical inventory. The delay in performing the inventory resulted in noncompliance with the Commonwealth Accounting Policies and Procedures Manual. The University contracted with a vendor to perform a complete physical inventory of the University's capital assets as a result of previous audit findings. However, the inventory performed in fiscal year 2014 improperly excluded certain assets located off-campus, therefore, the University remains in noncompliance.

- As a result of the physical inventory performed in fiscal year 2014, University personnel made adjustments to the fixed assets module of the financial system. Some of these adjustments resulted in recording of duplicate assets within the fixed asset module and financial statements. As a result of the audit, University staff made material adjustments to the capital assets reported on the financial statements to remove these duplications, and the corresponding depreciation, from the appropriate capital asset category in the financial statements.
- Four assets associated with Master Equipment Lease purchases during fiscal year 2013 and 2014 were added to the fixed asset module as leased assets, which are not depreciated by the Colleague system. This resulted in audit adjustments to the depreciation expense associated with these assets.

Status of Corrective Action Plan

As noted in previous audits, deficiencies in fixed asset internal controls present a significant risk of misappropriation of assets from the University. The University has been working to correct deficiencies in this area, with the intent to correct the problems for fiscal year 2014 and fiscal year 2015. In addition to the items previously communicated, the University should develop and implement a process for ensuring that it properly tracks and records all construction expenses using the construction in progress schedule, rather than adding expenses directly to the appropriate capital asset category within the capital asset footnote. The University should also complete inventory counts over the remaining assets improperly excluded during the fiscal year 2014 inventory. Subsequently, University personnel should perform full inventory counts every two years to help ensure proper tagging, and addition or disposal of assets from the fixed asset module. The University should also ensure proper entry of assets associated with Master Equipment Lease purchases into the fixed asset module to ensure proper calculation of depreciation by the Colleague accounting system.

Properly Maintain Documentation for Audit

Throughout the audit of the University's financial statements, we continued to note missing or incomplete documentation to support certain audit requests. In some cases, there was insufficient documentation to support the specific item selected for testing. Specific examples of missing documentation included original voucher support, approvals for certain expense transactions, and employee files and employment action documentation. Proper maintenance of voucher and employee file documentation is an important control that provides support for transactions in the University's accounting system and appropriate audit evidence to support those transactions. Inadequate supporting documentation increases the risk of improper payments to vendors/employees and reduces audit efficiency.

Status of Corrective Action Plan

The University initially responded to this finding during the fiscal year 2011 audit by implementing a central location and shared drive for storing audit information; however, utilizing

the shared drive for storing audit information does not eliminate the requirement for maintenance of original supporting documentation such as vouchers and human resource and payroll documentation. Continuing to utilize this process to ensure all information, including electronic documentation, is available and promptly provided for audit requests will significantly decrease the burden on the auditors and University personnel and will decrease the amount of time required to complete the audit. However, the University should review their processes for retaining documentation and ensure proper design and effectiveness of this internal control in compliance with state record retention requirements.

Improve Accounts Payable Processes

The University's Accounts Payable Department (Accounts Payable) did not adequately perform their updated cut-off procedures for processing year-end expenses or comply with prompt payment provisions as specified by the Code of Virginia. Departments continued to send invoices to Accounts Payable for processing; however, Accounts Payable did not properly time/date stamp the invoices upon receipt to support prompt payment of the invoice. In addition, departments within the University do not always promptly send invoices to Accounts Payable in a timely fashion for processing payment.

In accordance with generally accepted accounting principles, expenses should be recognized in the periods for which the goods or services are received. Additionally, in accordance with the Commonwealth Accounting Policies and Procedures Manual, all payments to non-governmental and privately-owned businesses should be paid the later of 30 days after the receipt of the goods, services, or invoice. The procedures outlined in topic 20300 ensure compliance with prompt pay requirements detailed in the Code of Virginia, Sections 2.2-4347 through 2.2-4356 and 2.2-5004.

During our review, we found system queries did not adequately capture all accounts payable resulting in material adjustments to the financial statements. In addition, we identified sixteen instances where payment did not occur within the appropriate time limit. Four of these instances caused the payments to be recorded in the improper fiscal year.

Improper exclusion of vouchers in the accounts payable queries can result in misstatements to the financial statements and can improperly shift expenses between fiscal years. Additionally, insufficient controls over time and date stamping invoices upon receipt can lead to deficiencies in prompt payment of invoices as well as identification of year-end payables.

Recommendation

The Accounts Payable Department should ensure that all invoices are date stamped on the date received. The University should review the procedures for determining year-end accounts payable to ensure all amounts marked as payables are for services performed during the applicable fiscal year and are included in the system query for the accounts payable amount included on the financial statements. In addition, the University should stress the importance to departments of

providing Accounts Payable with invoices as soon as the items are received, so that they can ensure timely payment to vendors.

Continue to Develop and Implement Policies and Procedures

During fiscal year 2014, the University updated many University policies and procedures as part of its corrective action plan for the audits of fiscal years 2011 through 2013. As part of the audit process, we performed follow-up procedures to assess the implementation of the University's corrective action plan and identify any areas where corrective action remains incomplete. As a result of this review, we identified the following additional areas in which the University should develop and implement detailed policies procedures:

- Certification of Payroll
- Overtime Approval and Compensation
- Accounting and Reporting of Intangible Assets
- Accounting and Reporting of Library Materials
- GCPay Usage and Access
- Building Information Tracking System (BITS) Usage and Access

Well-documented policies and procedures help to ensure operating effectiveness of the University's system of internal control and reduce risk of impropriety, and error, which could have an impact on the University's financial statements. In addition, these policies help to ensure continued operation of internal controls in the event of a departure of a key employee.

Status of Corrective Action Plan

The University has made significant progress in updating policies and procedures to reflect the current internal control environment. These updates include comprehensive documentation related to financial reporting, cash collection, debt management, and investments. As part of its risk assessment process, and in addition to the specific areas listed above, University management should continue to identify areas lacking sufficient documentation of procedures and prioritize the update and preparation of this information.

Enhance System Access Controls

The University did not properly terminate system access upon separation of employees from the University.

Promptly Remove System Access

The University did not remove eVA and Lease Accounting System (LAS) access timely for three employees. The University terminated the employees' access approximately one month to nineteen months after the employees' separation from the University. The Commonwealth's Information

Security Standard, SEC 501-08, Section 5.2.2.23-24, requires the prompt removal of system access for terminated or transferred employees. The system administrator should remove access as close to an employee's date of separation as administratively possible. While we found no evidence of these employees accessing the system after their termination date, untimely removal of user access increases the risk of unauthorized transactions and could impact the integrity of the Commonwealth's financial systems as well as the University's financial statements.

Status of Corrective Action Plan

The University did not have sufficient time to address this finding due to issuance of the fiscal year 2013 audit report in November 2014. University management indicated key positions have been filled and procedures will be put into place to ensure appropriate oversight over system access with an expected completion date of February 2015.

Improve Controls over Virginia Retirement System Navigator Data Entry

The University's Human Resource Department (Human Resources) failed to enter employee information into Virginia Retirement System Navigator (VNAV) correctly.

During our review, we found three instances where an employee's date of birth included in the Human Resources files did not agree to the date of birth in the VNAV system. We also found one instance where the salary in the employee's file and the Personnel Management Information System (PMIS) did not agree to the VNAV system.

State employers, including Universities, are responsible for ensuring that all employee data in their payroll and human resource systems reconciles with the data in VNAV. Improper entry of information into the VNAV system can lead to incorrect assumptions in determining required contributions and retirement payments. Therefore, the University must design appropriate controls to ensure the information in the VNAV system agrees with the University's internal records.

Recommendation

Human Resources should improve the controls over the data entry into VNAV. In addition, the University should continue to perform reconciliations of VNAV information to University records, as this is a key control to detect differences that could result in improper contributions or retirement payments.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 20, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Norfolk State 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 **Norfolk State University** as of and for the year ended June 30, 2014, and related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated January 20, 2015. 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 opinion 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 section entitled “Internal Control and Compliance Findings,” 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 following deficiencies, which are described in the section titled “Internal Control and Compliance Findings,” to be material weaknesses.

- Properly Maintain Documentation for Audit
- Correct Deficiencies in Fixed Asset Management Program
- Improve Accounts Payable Processes

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 following deficiencies, which are described in the section titled “Internal Control and Compliance Findings,” to be significant deficiencies.

- Continue to Develop and Implement Policies and Procedures
- Enhance System Access Controls
- Improve Controls over Virginia Retirement System Navigator Data Entry

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 the following instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled “Internal Control and Compliance Findings.”

- Correct Deficiencies in Fixed Asset Management Program
- Improve Accounts Payable Processes
- Enhance System Access Controls

The University's Response to Findings

We discussed this report with management at an exit conference held on January 6, 2015. The University's response to the findings identified in our audit is described in the accompanying section titled "University 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 University has not completely implemented corrective action with respect to the previously reported findings "Continue to Develop and Implement Policies and Procedures," "Properly Maintain Documentation for Audit," "Correct Deficiencies in Fixed Asset Management Program," "Enhance System Access Controls," and "Improve Accounts Payable Processes." Accordingly, we included these findings in the section entitled "Internal Control and Compliance Findings" along with a status update regarding the University's corrective action plan. The University 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/alh

January 21, 2015

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

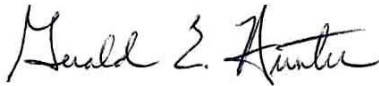
Dear Ms. Mavredes:

Norfolk State University has reviewed the Financial Internal Control and Compliance Findings and Recommendations provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2014 and is in agreement, in principle, with all of the findings submitted.

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

On behalf of Norfolk State University, please extend my appreciation to all of your staff for their professional audit work and recommendations.

Sincerely,



Mr. Gerald E. Hunter
Vice President for Finance and Administration

Cc: Mr. Eddie N. Moore Jr., President/CEO
Dr. Sandra J. DeLoatch, Provost and Vice President for Academic Affairs
Ms. Karla Amaya Gordon, AVP/University Controller
Mr. Ernest Ellis, University Internal Auditor

FY 2014 - Financial Internal Control & Compliance Findings

Correct Deficiencies in Fixed Asset Management Program

- NSU has been working diligently to correct the deficiencies in this area. The campus wide physical inventory conducted during fiscal year 2014 has provided an updated account of the University's assets. NSU plans to conduct an off-campus physical inventory prior to June 30, 2015. The University will continue to perform a full inventory count every two years for all University assets on and off campus to ensure proper tagging, and the addition or disposal of assets from the fixed asset module. The University has also begun implementing a process and will document procedures to ensure construction expenses are properly tracked and reported on the construction in progress schedule. The University is currently working on documenting procedures to ensure master equipment lease purchases are properly categorized in the fixed asset module to allow for depreciation to calculate in a timely manner.

Properly Maintain Documentation for Audit

- NSU has filled key positions within Finance and Administration Division including but not limited to the Controller's Office, Accounts Payable, Payroll, Procurement, and Human Resources. The University has begun evaluating current processes and has made changes towards addressing this area of concern. For example, Procurement Services now files all documentation for competitively awarded formal term contracts in a central location. In addition, the Associate Director reviews file documentation before term contracts are filed and documentation for informal contracts are now filed electronically with the eVA order or on NSU's centralized internal N drive by requisition number. Accounts Payable now requires all original vouchers and supporting documentation to remain within the Accounts Payable Department and requested documentation can be copied or reviewed within the Accounts Payable Department. The procedures will be documented and staff will be conducted. The University will continue to implement procedures to ensure compliance with state record retention requirements.

Improve Accounts Payable Processes

- The Accounts Payable Department is now appropriately staffed. Invoices are date-stamped when received within the Accounts Payable Department. Management will review current procedures and make necessary adjustments to ensure year-end accounts payables are properly reported. Management will continue to stress to the departments the importance of adhering to the University's policies and submitting invoices in a timely manner to Accounts Payable for processing. This topic will be addressed by Management as a part of one of our upcoming Financial and Administration Business Forums held monthly for budget managers and department heads from across campus.

Continue to Develop and Implement Policies and Procedures

- The current administration will continue to develop and document policies and procedures as we identify changes in processes and operations and when appropriate make the policies available in the policy library on NSU's website.

Enhance System Access Controls

- NSU will evaluate current procedures and make enhancements to ensure notification of employee terminations are being routed to all necessary areas for timely elimination of separated employee access.

Improve Controls over Virginia Retirement System Navigator Data Entry

- NSU will evaluate current reconciliation processes with VNAV and the University's HR and payroll systems and implement improvements to ensure that differences are properly identified and corrected timely. Procedures will be documented and staff will be trained.

NORFOLK STATE UNIVERSITY

Norfolk, Virginia

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