



# VIRGINIA COMMONWEALTH UNIVERSITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

We have audited the basic financial statements of Virginia Commonwealth University as of and for the year ended June 30, 2021, and issued our report thereon, dated December 9, 2021. Our report, included in the University's basic financial statements, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the University's website at [www.vcu.edu](http://www.vcu.edu). Our audit found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal programs of the Student Financial Assistance Program Cluster and Education Stabilization Fund 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.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Database Security**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Virginia Commonwealth University (University) has not fully implemented certain controls to secure the database that supports its accounting and financial reporting system in accordance with the University's adopted information security standard, the International Electrotechnical Commission Standard, ISO/IEC 27002 (ISO Standard), and industry best practices such as the Center for Internet Security Benchmarks (CIS Benchmarks).

We communicated the control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The ISO Standard and CIS Benchmarks require the implementation of certain controls to reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not fully enforcing the minimum requirements in the ISO Standard and CIS Benchmarks, the University is not reducing unnecessary risk that may impact the confidentiality, integrity, and availability of data within the database or the information it reports.

The University should implement the security controls discussed in the communication marked FOIAE in accordance with the ISO Standard and CIS Benchmarks. Implementing these controls will help maintain the confidentiality, integrity, and availability of mission critical data stored or processed in the database.

### **Improve Procedures over Recording of Equipment Additions**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** No

During fiscal year 2021, the University did not consistently capitalize ancillary costs, such as freight, transportation, or installation, as part of fixed asset additions. Of the 43 equipment purchase vouchers reviewed; the University did not capitalize assets at the correct value in the following instances:

- We sampled 20 equipment additions and identified five (25%) instances where the University did not properly capitalize shipping and installation costs.
- We sampled 23 expense vouchers for equipment purchases and identified three (13%) instances where the University did not properly capitalize shipping and installation costs.

Governmental Accounting Standards Board (GASB) Codification Section 1400 – Reporting Capital Assets (.102), indicates management should report capital assets at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. These ancillary charges could include costs attributable to asset acquisition, such as freight, shipping, site preparation, and professional fees. Incorrectly capitalizing items may result in the inaccurate reporting of fixed assets in the University’s financial statements.

The University relies on the accounting system to identify expenses for capitalization based on the University’s \$5,000 capitalization threshold. The University records the ancillary charges separately in the accounting system; thus, the accounting system excludes ancillary charges below the \$5,000 threshold from the capitalization process. The ancillary charges the University did not capitalize in fiscal year 2021 did not result in a material misstatement in the financial statements. The University’s fixed asset policy includes a section on the acquisition/addition of fixed assets; however, the policy does not include guidance on which costs to capitalize. The University should update its existing policy to include information related to which costs to include in the total capitalized value of an asset. Additionally, the University should implement controls to ensure it capitalizes all ancillary costs associated with fixed asset additions to fully comply with GASB reporting requirements.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 9, 2021

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Kenneth R. Plum  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Visitors  
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, 2021, 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 9, 2021. 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 Virginia Commonwealth 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 (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 certain deficiencies in internal control titled "Improve Database Security" and "Improve Procedures over Recording of Equipment Additions" which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider 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 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the section titled "Internal Control and Compliance Findings and Recommendations" in the finding titled "Improve Database Security."

### **The University's Response to Findings**

We discussed this report with management at an exit conference held on December 9, 2021. The University's response to the findings and recommendations 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 and Recommendations**

The University has taken adequate corrective action with respect to the audit finding reported in the prior year.

### **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

JMR/clj





January 12, 2022

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

**Patricia Perkins**  
AVP of Finance and University  
Controller  
912 West Franklin Street  
Box 842035  
Richmond, Virginia 23284-2512  
804 828-5474

Dear Ms. Henshaw:

We have reviewed the audit findings and recommendations resulting from the fiscal year 2021 audit by the Auditor of Public Accounts and discussed during the exit conference.

**Improve Database Security**

Virginia Commonwealth University (University) has not fully implemented certain controls to secure the database that supports its accounting and financial reporting system in accordance with the University's adopted information security standard, the International Electrotechnical Commission Standard, ISO/IEC 27002 (ISO Standard), and industry best practices such as the Center for Internet Security Benchmarks (CIS Benchmarks).

We communicated the control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The ISO Standard and CIS Benchmarks require the implementation of certain controls to reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not fully enforcing the minimum requirements in the ISO Standard and CIS Benchmarks, the University is not reducing unnecessary risk that may impact the confidentiality, integrity, and availability of data within the database or the information it reports.

The University should implement the security controls discussed in the communication marked FOIAE in accordance with the ISO Standard and CIS Benchmarks. Implementing these controls will help maintain the confidentiality, integrity, and availability of mission critical data stored or processed in the database.

VCU Response:

VCU will implement the security controls discussed during the audit.

Responsible Person: Dan Han, Chief Information Security Officer

Completion Date: June 30, 2022

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Ms. Staci Henshaw, CPA  
January 12, 2022

### **Improve Procedures over Recording of Equipment Additions**

During fiscal year 2021, Virginia Commonwealth University (University) did not capitalize ancillary costs, such as freight, transportation, or installation, as part of fixed asset additions. Of the forty-three equipment purchase vouchers reviewed, the University did not capitalize assets at the correct value in the following instances:

- We sampled 20 equipment additions and identified five (25%) instances where the University did not properly capitalize shipping and installation costs.
- We sampled 23 expense vouchers for equipment purchases and identified three (13%) instances where the University did not properly capitalize shipping and installation costs.

GASB Codification Section 1400 – Reporting Capital Assets (.102), indicates management should report capital assets at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition of use. These ancillary charges could include costs attributable to asset acquisition, such as freight, shipping, site preparation, and professional fees. Incorrectly capitalizing items may result in the inaccurate reporting of fixed assets in the University's financial statements.

The University relies on the accounting system to identify expenses for capitalization based on the \$5,000 threshold the University established. The University records ancillary charges separately in the accounting system; thus, the accounting system excludes ancillary charges below \$5,000 threshold from the capitalization process. The ancillary charges the University did not capitalize in fiscal year 2021 did not result in a material misstatement in the financial statements. The University's fixed asset policy includes a section on the acquisition/addition of fixed assets; however, the policy does not include guidance on which costs to capitalize. The University should update their existing policy to include information related to which costs to include in the total capitalized value of an asset. Additionally, the University should implement controls to ensure all ancillary costs associated with fixed asset additions are capitalized to fully comply with GASB reporting requirements.

VCU Response:

VCU will update the Fixed Asset Policy to specify that the capitalized value of an asset will include shipping, installation, training, and other costs necessary to put an asset into service.

VCU will implement procedures and train the departmental fiscal staff to ensure the proper amounts are capitalized when recording fixed asset acquisitions.

Responsible Person: Brian Fowlkes, Associate Controller

Completion Date: February 28, 2022

Sincerely,

DocuSigned by:  
*Patricia Perkins*  
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Patricia Perkins  
Associate VP of Finance and University Controller  
Virginia Commonwealth University

## **VIRGINIA COMMONWEALTH UNIVERSITY**

As of June 30, 2021

### **BOARD OF VISITORS**

H. Benson Dendy, III, Rector

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