



NORFOLK STATE UNIVERSITY

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2012

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, 2012, and issued our report thereon, dated August 11, 2014. 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 at 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;
- noncompliance required to be reported under Government Auditing Standards; and
- certain items previously reported, for which the University has not implemented appropriate corrective action.

Our audit report also includes the results of testing over the Higher Education Institutional Aid and TRIO Cluster major federal programs for the Commonwealth's fiscal year 2013 Single Audit as described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement; and includes internal control findings requiring management's attention and instances of noncompliance in relation to this testing.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
FINANICAL INTERNAL CONTROL AND COMPLIANCE FINDINGS	1-10
EFFICIENCY RECOMMENDATION	11
FEDERAL INTERNAL CONTROL AND COMPLIANCE FINDINGS	12-13
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	14-16
UNIVERSITY RESPONSE	17-21
UNIVERSITY OFFICIALS	22

FINANCIAL INTERNAL CONTROL AND COMPLIANCE FINDINGS

Continue to Develop and Implement Policies and Procedures

The University lacked policies and procedures related to key financial reporting and accounting functions, which resulted in inconsistent preparation and compilation of financial statement schedules and financial data during fiscal year 2012.

Consistency, with regard to preparation and presentation of financial data, is an essential principle of accounting. Without consistency in preparation of financial schedules, it is nearly impossible to compare financial information between periods. In addition, the lack of policies and procedures in this area greatly increases the risk of error and misstatement of financial information. Lack of policies and procedures also increases the risk, in the event of the departure of a key employee, that the University will be unable to perform required functions in an efficient, effective, and timely manner.

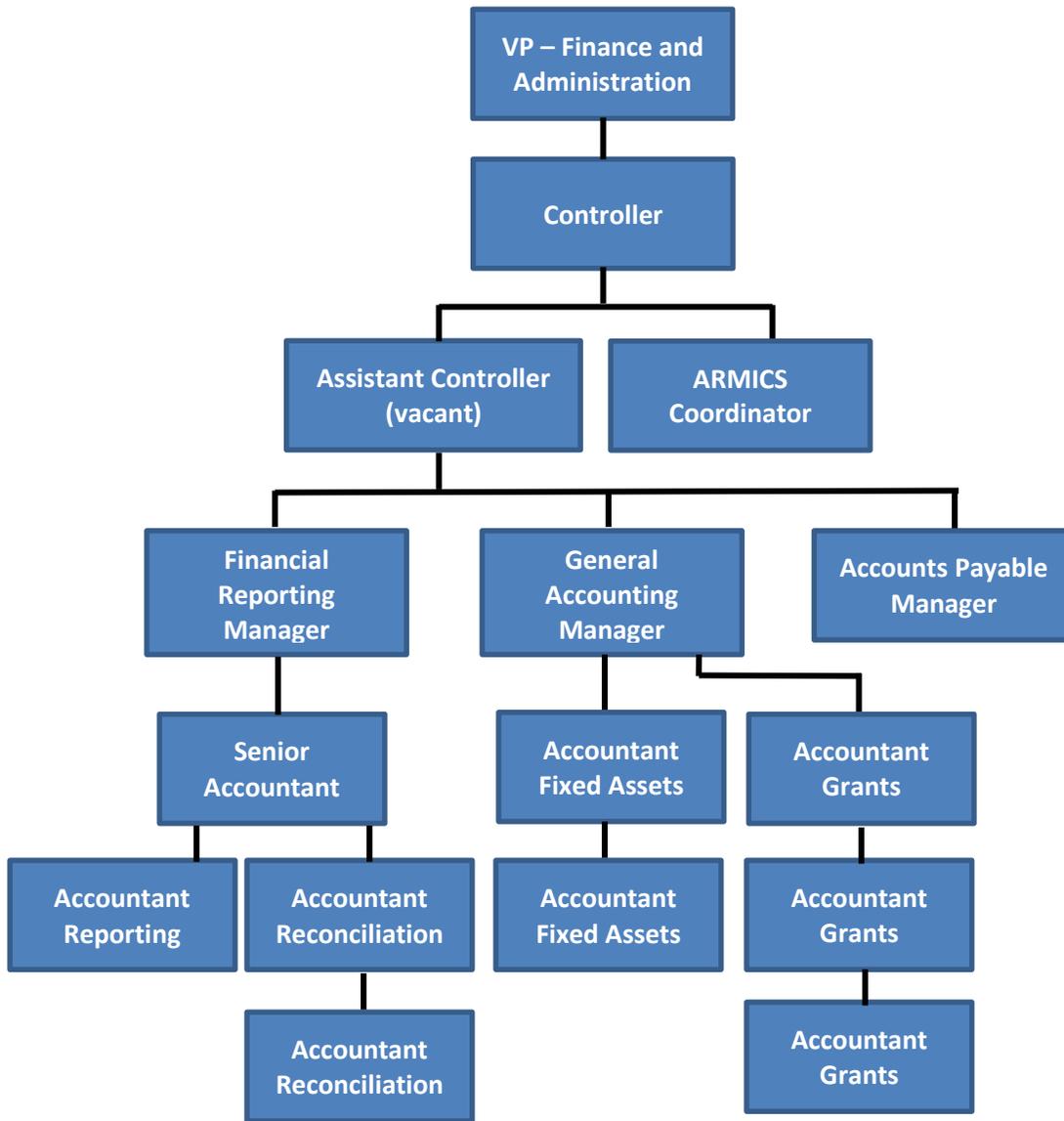
In response to our fiscal year 2011 internal control report, the University detailed the appointment of individuals to key positions, including Controller, ARMICS Coordinator, Fixed Asset Accountants, and Reconciliation Accountants. Figure 1 below depicts the new organizational structure at the University. While vacancies in key positions no longer appear to be a threat to the University's daily operations, it is always difficult to predict with absolute certainty the length of time in which an employee will remain in a given position. Therefore, it is important to have all policies and procedures documented to ensure continued functionality of the department and University.

Recommendation

Due to the completion of the fiscal year 2011 audit in September 2013, the University was unable to implement meaningful corrective action to resolve our finding during fiscal year 2012. The lack of clearly documented policies and procedures during the period under audit constitutes a material weakness in internal control and resolving this weakness will enable the University to avoid potentially catastrophic lapses in operational functionality. Based on management's self-reported corrective action plan, University personnel have received detailed training on the University's financial system and have updated and posted all finance and administrative policies. Updated desk procedures for financial reporting processes have been included on a shared drive accessible by all Financial Reporting staff. Policies and procedures regarding financial statement preparation will be updated while preparing the fiscal year 2014 financial statements.

Additionally, University management notified University personnel of the Policy Library, which can now be accessed through the University website. The Policy Library includes Board of Visitors policies, presidential policies, administrative policies, and any interim policies governing the University's operations. University management should continue to refine and update policies and procedures within the departmental shared drives and the Policy Library as they make changes in operations to prevent future significant lapses in internal control.

Figure 1. New University Organizational Structure:



Improve Year-end Financial Reporting Process

The review process used to prepare the fiscal year 2012 financial statements was ineffective, resulting in over forty material adjustments to financial information presented in the University's financial statements. To prepare the fiscal year 2012 financial statements, the University sought outside assistance and contracted with a public accounting firm. The firm developed a grouping spreadsheet, which summarized activity by financial statement line item, starting with balances from the financial accounting system and then adding any necessary adjusting entries. While this process was an improvement over the process used in 2011, there appeared to be insufficient review of the preparation process by University management. We noted instances of improper mapping of accounts within the grouping spreadsheet, which then required material adjustments to the financial statements. In addition to the errors related to the financial statements, we noted inconsistencies and inaccuracies in financial statement footnote disclosures. Many of the footnotes lacked required elements as prescribed by the Government Accounting Standards Board (GASB), and as such, required revision.

The errors in the initial preparation of the 2012 financial statements during Fall 2012 resulted in incorrect preparation of the year-end submissions provided to the Department of Accounts for consolidation in the Commonwealth's Comprehensive Annual Financial Report. Additionally, due to timing and staffing constraints, the University did not complete submissions to the Department of Accounts for 2013. As the Department of Accounts relies on the information submitted by the colleges and universities, it is essential that the University properly completes and submits all required information to ensure fair presentation of the Commonwealth's financial report.

Recommendation

As recommended during the fiscal year 2011 audit, the University should leverage report-writing software to develop an efficient and effective process for compiling financial statement information from the accounting system. During this process, the University should attempt to minimize the number of steps requiring manual adjustment of financial data, as these situations represent a higher risk of material misstatement to the financial statements. Due to timing, the University was unable to implement corrective action related to this finding during preparation of fiscal year 2012 and 2013 financial information; however, according to management's self-reported corrective action plan, University personnel received training using report writing software and utilized this software to prepare the fiscal year 2014 financial statements. During the completion of the 2014 financial statements, the University intends to clearly document the procedures used to generate the financial statements, footnotes, and year-end submissions, as these procedures will help ensure compliance with accounting standards and aid in consistency of presentation from year to year. Lastly, all documentation related to the compilation of the financial statements, adjusting entries, and footnotes, should be maintained in a centralized location, organized in an efficient manner, and available to auditors promptly upon request.

Properly Maintain Documentation for Audit

Throughout the audit of the University's 2012 financial statements, we noted missing or incomplete audit documentation. In some cases, there was insufficient documentation to support the specific item selected for testing. While we were ultimately able to obtain sufficient appropriate audit evidence to support the individually published financial statements, the lack of an audit trail represents an issue that could have significant impacts on the audit process. If auditors are unable to obtain sufficient appropriate audit evidence due to lack of documentation, it could result in the inability of the auditor to provide an opinion on the financial statements.

The inability to locate needed supporting documentation for audit requests resulted in significant delays during the audit. Although some documentation was located, the delays resulted in inefficiency on the part of both the auditors and University staff in attempting to support the financial statements. Additionally, in multiple instances, University staff provided "final" documents to the auditors, which were later discovered to be incomplete versions of the documentation requested. As a result, the auditors had to re-perform audit procedures on multiple occasions, resulting in lost time for both the auditors and University personnel.

Recommendation

The University responded to this finding from the fiscal year 2011 audit by implementing a central location and shared drive for storing audit information; however, due to timing of the implementation, this procedure was not in place until after fiscal year 2012. Continuing to utilize this process to ensure information 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.

Properly Perform Reconciliations of Bank Accounts and Accounting System

As noted in our previous audit report, the University lacked resources to promptly reconcile its primary bank account, as well as complete the reconciliation of the University's accounting system to the Commonwealth Accounting and Reporting System (CARS) during the fiscal year under audit. While the University has now completed past due reconciliations, the reconciliation control was not effective during the audit period.

During our review of the reconciliations and supporting documentation, we noted many reconciling items. Despite properly identifying reconciling items, University employees did not use them to reflect properly the appropriate activity in the accounting system. In addition, supporting documentation for reconciling items was unavailable or improperly maintained, and as such, was not available to the auditors. Often, University staff were unable to explain sufficiently the existence of the reconciling items and, as a result, these items continued to accumulate on each subsequent reconciliation. Many of these reconciling items may be attributed to the change in accounting

systems between fiscal year 2011 and 2012, and the untimely preparation of the reconciliations, which occurred subsequent to the completion of the fiscal year.

While the completion of the reconciliations is an important part of the process, it should be noted that an equally important part of the process is ensuring that reconciling items have resulted in adjustments to the system. Researching reconciling items and adjusting the system, when necessary, ensures financial information is up to date and accurately reflects the current financial position of the University. Additionally, appropriately accounting for reconciling items reduces the risk of inappropriate activity, which may go unnoticed if reconciling items are allowed to accumulate on reconciliations.

Recommendation

The University responded to this finding from the fiscal year 2011 audit report by implementing new reconciliation procedures; however, due the completion of the fiscal year 2011 audit in September 2013 these new reconciliation procedures were not implemented until fiscal year 2014. The University should continue to improve their reconciliation process by using their newly developed desk procedures. Following these procedures will ensure that the University performs timely and effective reconciliations between the accounting system and all bank accounts, as well as the Commonwealth Accounting and Reporting System (CARS). The University should ensure that the new reconciliation procedures include investigating all reconciling items and adjusting the system where appropriate. Reconciling items should not continue to accumulate from month to month, and the University should also ensure that the new procedures include a review process to ensure proper completion of reconciliations and posting of adjustments.

Correct Deficiencies in Fixed Asset Management Program

As noted in our internal control reports for the last two 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 2012 audit.

During our procedures, we noted the following:

- Several missing assets, including one with significant remaining book value;
- Many instances where expenses were not properly identified as fixed assets and; therefore, were not appropriately tagged and were not accurately reflected in the fixed asset system with respect to cost or useful life, resulting in improper depreciation of assets and requiring adjustments to the financial statements;

- Several instances where assets were ordered, but never placed into service. These assets remain unopened in the University's warehouse until fiscal year 2014, and represented an inefficient use of University resources;
- Physical inventory of assets was not been performed during the last two years resulting in noncompliance with the Commonwealth Accounting Policies and Procedures Manual; and,
- Use of inaccurate reports or schedules to generate financial statement information, resulting in multiple adjustments during the audit process. Manually prepared schedules contained formula errors and did not capture all information necessary for reporting purposes.

Recommendation

The lack of physical inventory, insufficient tagging of equipment, number of idle or unused assets, and errors in financial reporting present a significant risk of misappropriation of assets from the University. As noted previously, the University is currently updating policies and procedures for all financial and administrative functions. In addition, the University contracted with an outside consultant to perform a full physical inventory of assets during fiscal year 2014, and should utilize the report provided to adjust the University's fixed asset inventory. University management should maintain all supporting documentation for these adjustments for the 2014 audit. In addition, assets determined to be obsolete, or fully depreciated and no longer needed by the University, should be surplus or disposed using an approved methodology. The University should continue to utilize assets purchased and should not allow them to sit idle or unused in the warehouse. Finally, the University should ensure the information used to prepare the financial statements is reasonable and properly prepared.

Perform Internal Control Risk Assessment Procedures

As outlined in the Commonwealth's Accounting Policies and Procedures (CAPP) Manual topic 10305, each agency head is responsible for having agency management document the agency's assessment of internal controls to include:

- Strengths, weaknesses, and risks over the recording of financial transactions in the General Ledger;
- Compliance with the agency's financial reporting requirements;
- Compliance with laws and regulations; and,
- Stewardship over the Commonwealth's assets.

The initial implementation of Agency Risk Management and Internal Control Standards (ARMICS) included the documenting, evaluating, and testing of agency-level controls. The Department of Accounts provides that once the University successfully implements the process, the

institution should refresh and refine the evaluation each year. Ultimately, the agency head is required to certify that they have established, maintained, and evaluated the agency's internal control framework.

Our audit found incomplete documentation related to the completion of ARMICS reviews and the improper certification of the completion of those reviews to the Department of Accounts. Additionally, the ARMICS documentation for fiscal year 2012 should have resulted in a significant amount of documentation regarding changes in internal control following the implementation of the Colleague system. Our audit indicated that documentation of internal control, with respect to the implementation of the Colleague system, has not yet occurred.

Recommendation

Since the completion of the fiscal year 2011 audit, the University hired an ARMICS coordinator in May 2014 to perform and document the required ARMICS reviews. While this process is now in place, we have not yet performed audit procedures to determine if the process is working as intended. Following the initial complete review of internal control, the ARMICS coordinator should annually refine the evaluation to reflect any changes in internal control or areas of concern.

Strengthen Internal Controls over Grants Management

The University does not have proper internal controls for tracking, recording, and reporting federal grant activity.

During our review, we found inaccurately recorded grants on the University's Grant Roll Forward Schedule, which calculates year-end receivable amounts for individual grants. Beginning balances, revenues, and expenses recorded on the schedule did not agree to the University's financial system and the University was unable to provide additional supporting documentation to substantiate the amounts used. In addition, based on our review of revenue and expense data, it appears the University often performed drawdowns of funds prior to incurring the corresponding expense. In multiple instances, the University could not match reimbursement requests to corresponding expenses. Additionally, we noted instances where employees incorrectly posted expenses to the wrong grant and subsequently corrected the posting issue; however, these errors complicated the University's ability to manage the grant drawdown process effectively.

According to two CFR § 215.21(b), the University's financial management system should be sufficient to:

- ensure accurate, current and complete disclosure of financial results of each federally-sponsored project or program;
- provide effective control over and accountability for all funds; and,

- provide accounting records, including cost accounts records, which are supported by source documentation.

Additionally, 2 CFR § 215.53(b) prescribes that supporting documentation must be retained for a period of at least three years after the submission of final financial reports for the grant.

Proper reporting of grant activity is essential to the University's internal and external decision makers. Insufficient controls governing grants management can lead to improper drawdowns of funds, the misuse of funds, or misstatement of the amounts reported in the financial statements. Continuous and significant deficiencies in grants management can result in sanctions or loss of funds at the discretion of the federal awarding agency. Based on the internal control deficiencies noted, we performed detailed audit work over individual grants resulting in increases of \$631,405 in deferred revenue and \$667,201 in grants receivable in the University's final audited financial statements.

The deficiencies in grants management were likely a direct result of vacancies in key supervisory positions during fiscal year 2012. During this time, the University did not have adequate policies and procedures to ensure consistent processing of grant transactions and supporting documentation was not properly prepared and/or maintained. In addition, the processes that were in place at the time were not in accordance with 2 CFR § 215.

Recommendation

The University should strengthen internal controls over grants management and fill vacant supervisory positions. The University should develop and implement policies and procedures to ensure proper management of federal grants in compliance with applicable standards. As part of developing the policies and procedures, University management should examine the current setup and capabilities of the financial management system to ensure it can achieve effective and efficient management and reporting of federal grant awards. Improving grant management practices will improve recording and reporting of grant funds and prevent potentially negative impacts on funding.

Improve Overtime Internal Controls and Processes

The University does not have policies and procedures surrounding the reporting of overtime. During our review, we found that the process for submitting overtime is inadequate. Employees and supervisors continuously submit overtime for payment late and forms are improperly completed.

During our audit, we noted several employees with multiple overtime forms submitted during the fiscal year, which were processed up to seven weeks late. Some of the same employees submitted overtime forms weeks after completing the required overtime. In addition, the overtime forms lacked some of the necessary approval signatures, and in some instances, approval signatures took up to three weeks to obtain.

Effective overtime controls are essential to minimize the opportunity for abuse and increase the efficient use of University resources.

Recommendation

University management should develop and implement policies and procedures surrounding reporting of overtime. These policies should include timeframes for reporting overtime to supervisors, supervisor approvals, and finally submission to Payroll for processing. The University should ensure all employees are aware of the policies and procedures and hold employees accountable when policies are not followed.

Maintain Adequate Supporting Documentation and Improve Controls over Payroll Rate Changes

The University's Human Resource Department (Human Resources) does not adequately maintain supporting documentation for pay rate changes within their files. In addition, Human Resources did not provide the supporting documents to the Payroll Department (Payroll) in a timely manner.

During our review of employees with salary rate changes during the fiscal year, we found that Human Resources did not maintain original approved P-3 documentation for 18% of the employees reviewed. In order to substantiate the rate changes, Human Resources had to locate copies of Personnel Management Information System (PMIS) screen prints and P-3s from the Virginia Department of Human Resource Management. While these documents provide some assurance over the validity of the pay rates used, the lack of properly maintained supporting documentation increases the risk of improper payments to employees.

In addition, we found a number of employees received paychecks in excess of the standard number of pay periods, which was a direct result of Human Resources not providing Payroll with the information needed to process changes in the payments to those employees and prevent overpayments. Our audit work revealed the following unnecessary overpayments, resulting in repayment to the University by its employees

- One employee was overpaid \$9,677, which started in the second half of fiscal year 2011
- One employee was overpaid \$3,750
- One employee was overpaid \$953

Recommendation

Human Resources should review their process for maintaining personnel files and ensure proper design and effective operation of internal controls. Supporting documentation related to changes in employee compensation should be included in employee files including original approved P-3 forms. In addition, Human Resources should improve communications with Payroll staff

regarding salary rate changes and any other personnel related change that would affect payroll in order to prevent improper payments to employees.

Improve Internal Controls and Compliance Surrounding Timeliness of Deposits

The University Cashier's Office (Cashiering) did not comply with the Commonwealth's or the University's policy to deposit funds timely during fiscal year 2012 or 2013. Commonwealth Accounting Policies and Procedures topic 20205 require the deposit of state funds by the next banking day after receipt of the deposit. While the Commonwealth's policies provide for an exception to this policy, the University has not requested an exception from the Department of the Treasury. The Department of the Treasury generally justifies exceptions based on the small amount collected and the availability of adequate safekeeping facilities. The University's policy states that the University will deposit funds the day after collection.

In order to determine the proper deposit amount for each bank account, Cashiering runs an allocation process. Not completing the allocation process by the end of the business day can delay proper depositing of funds. Additionally, timely deposit of revenues is important to ensure adequate cash flow, maximize interest revenue, and reduce the risk of holding cash on-site. Holding deposits on-site for extended periods may result in an increase in errors or misappropriation of funds.

During the 2012 and 2013 audits, we found multiple instances where deposits reviewed were made two banking days after receipt because the allocation process was not performed in a timely manner. However, we reviewed an additional sample of deposits to support the fiscal year 2014 audit and determined the University deposited these items timely. The University's compliance with Commonwealth and University policy during fiscal year 2014 is indicative of the University's progress in implementing an effective corrective action plan to address previous audit deficiencies.

Recommendation

Cashiering and University management responded to this finding for the 2012 audit by evaluating and updating their existing policies and procedures for deposits. The University implemented the new policies and procedures during fiscal year 2014. Cashiering and University management should continue to ensure that all deposits are timely and processed according to documented policies and procedures.

EFFICIENCY RECOMMENDATION

Improve Management of Small Purchase Charge Card Program

As previously reported in fiscal year 2011, the University participates in the Commonwealth's Small Purchase Charge Card program, administered by Bank of America. Purchase cards (P-cards) enable individuals to make small purchases up to their transaction limit, without obtaining prior approval through the normal requisition and purchase order process. P-cards enable departmental users to obtain needed supplies or other items in a timely manner and eliminate some of the workload on central procurement department staff.

During our audit of fiscal year 2012, we continued to find the University did not manage the P-card program in an efficient manner. Prior to making a purchase with his P-card, the user was required to submit a requisition to the Procurement department for approval. Once approved, the P-card administrator activated the user's card, allowing them to complete the purchase. After the user completed the purchase, the card reverted to inactive status until submission of the next requisition.

While managing the program in this way reduced the risk of fraudulent activity by P-card users, it was not an efficient use of staff resources at the University. The University's management of this program was not the general methodology utilized by other decentralized agencies and universities. However, during fiscal year 2014 the University re-evaluated the Small Purchase Charge Card Program and returned purchasing authority to individual departments. The fiscal year 2014 audit will include a review of the University's new P-card process.

Recommendation

We recommend the University continue to monitor and evaluate their Small Purchase Charge Card Program. They should ensure they provide adequate training to P-card users and approvers to ensure they are aware of the requirements to receive and maintain a purchase card. The University should also develop a P-card monitoring or audit program that ensures proper management by cardholders and supervisors to reduce risk of unnoticed inappropriate activity.

FEDERAL INTERNAL CONTROL AND COMPLIANCE FINDINGS

Establish Formal Policies and Procedures for Preparing the SEFA

During fiscal year 2013, the University overstated expenditures reported in its Schedule of Expenditures of Federal Awards (SEFA) by \$14,448,746, and failed to report properly four out of 42 (10 percent) CFDA numbers as research and development expenditures.

In accordance with OMB Circular A-133, Subpart C, § ___. 300 (b) and (d); the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant, and prepare the appropriate Schedule of Expenditures of Federal Awards in accordance with § ___. 310. In compliance with the Department of Accounts' Comptroller's Directive No. 2-13, preparers and reviewers of the Federal Schedules, certify that they understand the instructions for preparing all tabs of the Federal Schedules, and that each tab is both complete and accurate. During our review of NSU's federal grant programs, we noted the following overstatements in the Schedule of Expenditures of Federal Awards:

- Student Aid Cluster: Federal Supplemental Educational Opportunity Grants (CFDA 84.007) overstated by \$9,038,541, Federal Pell Grant Program (CFDA 84.063) overstated by \$4,708,160, and Federal Direct Student Loans (CFDA 84.268) overstated by \$265,648;
- Federal TRIO Programs: Student Support Services (CFDA 84.042) overstated by \$225,517;
- Title III Program: Higher Education – Institutional Aid (CFDA 84.031) overstated by \$102,695; and,
- Five non-major programs overstated by \$108,185.

Staff preparing the SEFA included debit balances related to revenue accounts and failed to deduct certain credit balances related to expense accounts, which resulted in the inclusion of these amounts in the reported expenditure balances. Further, staff failed to use established back-up data to classify properly the type of expenditures reported.

Recommendation

We recommend the University establish formal policies and procedures to accurately gather and report data in its SEFA. We further recommend that University staff expand its knowledge and awareness of properly reporting and distinguishing the type of grant awards reported.

Develop and Implement Policies and Procedures for Adherence to the Davis-Bacon Act

The University is not adhering to, and does not have in place, policies and procedures to ensure contractors and subcontractors performing construction and renovation projects under its Title III (CFDA 84.031) grant award comply with the provisions of the Davis-Bacon Act. For fiscal year 2013, the University paid two construction contractors \$541,493 using Title III funding. Payments to each contractor exceeded the \$2,000 federal threshold.

In accordance with the Code of Federal Regulations, Title 29, Part 5, Section 5.5, for federally funded construction projects that exceed \$2,000, the Davis-Bacon Act (the Act) requires contractors and subcontractors to pay federally prescribed prevailing wages to laborers and mechanics. In addition, these contracts must contain language notifying the contractor and subcontractor that compliance with prevailing wages is required. The Act also requires recipients of federal funds to obtain weekly, certified payrolls from all contractors and subcontractors to ensure proper payment of prevailing wages.

Neither the Title III Coordinator nor the Construction Manager was aware of the Davis-Bacon Act requirements related to the Title III construction/renovation projects. Additionally, we were unable to determine whether actual amounts paid to laborers met federal requirements, as the University did not properly obtain certified weekly payrolls as required. If the University does not comply with federal grant requirements, it is at risk for repayment or loss of federal grant funding.

Recommendation

We recommend the University establish, implement, and follow policies and procedures to ensure contractors and subcontractors comply with the requirements of the Davis-Bacon Act. We also recommend the University obtain certified weekly payrolls for federally-funded construction/renovation projects that exceed \$2,000, and determine if federal prevailing wages have been, and continue to be, properly paid.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 11, 2014

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 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, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated August 11, 2014. Our report includes a reference to other auditors. We conducted our audit in accordance with 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. 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

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the sections entitled “Financial Internal Control and Compliance Findings” and “Federal Internal Control and Compliance Findings,” we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies in internal control over financial reporting.

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 sections titled “Financial Internal Control and Compliance Findings” and “Federal Internal Control and Compliance Findings,” to be material weaknesses:

- Continue to Develop and Implement Policies and Procedures
- Improve Year-end Financial Reporting Process
- Properly Maintain Documentation for Audit
- Properly Perform Reconciliations of Bank Accounts and Accounting System
- Correct Deficiencies in Fixed Asset Management Program
- Strengthen Internal Controls over Grants Management; and,
- Establish Formal Policies and Procedures for Preparing the SEFA

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 deficiencies entitled “Perform Internal Control Risk Assessment Procedures,” “Improve Overtime Internal Controls and Processes,” “Maintain Adequate Supporting Documentation and Improve Controls over Payroll Rate Changes,” “Improve Internal Controls and Compliance Surrounding Timeliness of Deposits,” and “Develop and Implement Policies and Procedures for Adherence to the Davis-Bacon Act” which are described in the sections titled “Financial Internal Control and Compliance Findings,” and “Federal Internal Control and Compliance Findings” 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 three instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. The instances of noncompliance and other matters, entitled “Strengthen Internal Controls over Grants Management,” “Establish Formal Policies and Procedures for Preparing the SEFA” and “Develop and Implement Policies and Procedures for Adherence to the Davis-Bacon Act” are described in the sections titled “Financial Internal Control and Compliance Findings” and “Federal Internal Control and Compliance Findings.”

The University’s response to the findings identified in our audit is included in the section titled “University Response.” We did not audit the University’s response 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,” “Improve Year-end Financial Reporting Process,” “Properly Maintain Documentation for Audit,” “Properly Perform Reconciliations of Bank Accounts and Accounting System,” “Correct Deficiencies in Fixed Asset Management Program,” “Perform Internal Control Risk Assessment Procedures,” and “Improve Management of Small Purchase Charge Card Program.” Accordingly, we included these findings in the sections entitled “Financial Internal Control and Compliance Findings” and “Efficiency Recommendation.” The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on September 2, 2014.

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

September 3, 2014

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, 2012 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. 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
Ms. Karla Amaya Gordon, AVP/University Controller
Mr. Ernest Ellis, University Internal Auditor

FY 2012 - Financial Internal Control & Compliance Findings

Continue to Develop and Implement Policies and Procedures

- The new University organizational structure has been created and all positions have been filled with the exception of the Assistant Controller which is in the search process.
- The current administration has addressed the lack of policies and procedures by updating and creating policies when appropriate and have made them available in the policy library on NSU's website.
- Key financial reporting and accounting procedures have been updated, including but not limited to procedures related to the preparation of the Schedule of Expenditure of Federal Awards (SEFA), wire transfers and financial statement preparation. Policies and procedures will continue to be updated as we identify changes in processes and operations.

Improve Year-end Financial Reporting Process

- The ineffectiveness of the review of the financial statements was due to key positions being vacant during the preparation of the fiscal year 2012 financial statements. In order to prepare the statements timely the contracted accounting firm, with help from the existing staff, pulled together the financial statements using a new trial balance method which grouped the detailed accounting strings into financial statement line item categories.
- Personnel have received training on the University report writing tool, Synoptix which was used to develop the Trial Balance Grouping Report, the Statement of Net Position, and the Statement of Revenues, Expenses and Changes in Net Position for fiscal year 2014.
- For preparation of the fiscal year 2014 financial statements management has taken steps to identify year-end entries needed and posted them to the system; therefore, reducing the need for manual entries to the financial data.
- All support and documentation related to the financial statements, footnotes, and adjusting entries are saved in a central location on the Financial Services shared drive.
- Management is in the process of finalizing FY 2014 financial statements in preparation of an anticipated October 2014 audit.

Properly Maintain Documentation for Audit

- Controller has implemented a central location to store audit information and has granted the APA access to information needed to complete the 2013 audit. This central location and information sharing methodology will continue to be utilized for all future audits.

Properly Perform Reconciliations of Bank Accounts and Accounting System

- Reconciliation procedures and processes have been updated. Reconciliations are reviewed monthly and reconciling items are being addressed timely for posting.

Correct Deficiencies in Fixed Asset Management Program

- Fixed Asset policies and procedures have been updated and posted on the NSU's policy library on the University's website (<https://www.nsu.edu/president/policy-library/administrative-policy>.)
- The University has filled two full-time fixed asset positions and have used the information received from the physical inventory conducted by an external firm to update the fixed asset module within the University's financial system.

- All documents related to fixed asset changes made will be provided to the auditors through the central audit location on the shared drive. All information will be reviewed by management during the preparation of the financial statements.

Perform Internal Control Risk Assessment Procedures

- The ARMICS Coordinator position has been filled and the evaluation of the University's internal controls are in process.
- The ARMICS Coordinator is working with departments to follow-up on corrective actions plans to ensure the University is on target with the plan. Staff continues to work on addressing changes in internal controls and areas of concern on an ongoing basis.

Strengthen Internal Controls over Grant Management

- The Financial Services Manager position was filled in November 2013. This position manages the Grants and Fixed Assets area within Financial Services.
- Management is currently engaged in reviewing and updating grant process flow and procedures. All grant budgets and expenditures are entered in the financial system and tracked using a unique grant project number.
- The Grants and Contracts Department internal controls have improved for tracking, recording, and reporting grants activities within the financial system. Management will continue to improve processes to ensure accurate and timely grant recording and reporting.

Improve Overtime Internal Controls and Processes

- Human Resources and Payroll are in the process of reviewing Overtime Policies and Procedures that are estimated to be completed no later than October 2014.

Maintain Adequate Supporting Documentation and Improve Controls over Payroll Rate Changes

- Human Resources is working with Payroll to improve information/workflow processes. A workgroup of representatives from the offices of Human Resources, Payroll, Planning and Budget as well as Grants and Contracts was recently established to assess the operational information dissemination with our internal stakeholders. The group reviewed forms and approval flow to improve processes. In an effort to improve information dissemination the workgroup's recommendations are being implemented.
- Human Resources has established internal processes which ensure that documentation is maintained properly within the employees' files as well as establish internal controls to ensure compliance. Employee pay transactions original documents will be filed in the personnel file upon completion of the human resource transaction.

Improve Internal Controls and Compliance Surrounding Timeliness of Deposits

- The current processing for daily cash deposits has improved significantly. Management conducted a three year analysis to show evidence of this improvement. The analysis includes three consecutive months randomly chosen in each fiscal year for FY12, FY13 and FY14. The University is currently in compliance with the Commonwealth's policies and procedures over deposits and therefore have addressed this management comment.
- After hiring and training the new Cashier Manager in April 2013, the deposits are now being completed each morning after the prior day's cashiering reports have been verified and

reconciled. The deposit slips are prepared and verified under dual control then placed with the funds in a secure bag and the funds are sent to the various bank accounts depending of the type of funds received. The deposits are picked up daily by the Dunbar Courier and delivered to the bank.

- The Bursar, Cashier Manager and Head Cashier are aware of the Commonwealth's requirement to deposit funds daily or by the next banking day after receipt.

Improve Management of Small Purchase Charge Card Program

- During fiscal year 2014, the University filled a newly created Small Purchase Charge Card (SPCC) Administrator position in Procurement Services. This position is responsible for managing charge card programs throughout the University. More specifically the position will assess cardholder needs, conduct training, and monitor and audit the charge card programs.
- Also during fiscal year 2014, a pilot group of approximately 20 SPCC holders were set-up as eVA (Commonwealth of Virginia Procurement System) users and trained to place orders directly into eVA system. Any eVA purchase orders (PO) created by the pilot group of SPCC holders will be approved in eVA by the SPCC or alternate before the PO is issued to the vendor. Contingent upon resources, this pilot program will be expanded throughout the University and will maximize efficiency and improve compliance.
- NSU has drafted a revised charge card policy and will implement continuous formal and hands on training for cardholders and their supervisors throughout fiscal year 2015.

Establish Formal Policies and Procedures for Preparing the SEFA

- The Financial Services Manager position has been filled within the Financial Services area.
- Procedures for the preparation of the Schedule of Expenditures of Federal Awards have been prepared and were used during the preparation of the fiscal year 2014 SEFA.
- Staff has attended training and, both management and staff will continue to expand their knowledge to ensure proper grant reporting.

Develop and Implement Policies and Procedures for Adherence to the Davis-Bacon Act

- Management Plan for Corrective Action for Norfolk State University includes the following:
 - Title III Program Administration - Upon receipt of the grant award notification from the U.S. Department of Education, the Title III Director will provide a list of all renovation/construction projects to the Associate Vice President for Facilities Management. The Title III Director will provide written notice detailing information on the project description, allocated funding amount, and timeline that the project is to be completed. Additionally, Facilities will receive notification when there are no approved Title III renovation projects within a respective grant year.
 - The Title III Policies and Procedures Manual for HBCU and HBGI programs has been updated to include the following: Renovation and Construction with Title III Funds "Activity Directors are responsible for ensuring that the facilities management representative are aware that the renovation project are supported with Title III funds. Specifically, written correspondence is required to be submitted to Facilities Management indicating the nature of the approved project and the amount of federal dollars allocated for the project within the given fiscal year. This information must be provided to Facilities Management before estimates are required and requisitions for any renovation or other associated costs are entered in Colleague."

- Facilities Management is in the process of drafting internal procedures and policies to adhere to the Act with an emphasis on contractor notification and monitoring.
- The Procurement and Contract Manager in Facilities Management will properly notify contractors that the Act will apply to all projects supported with federal funds. Notification of the most recent prevailing rate for Norfolk, VA will be provided to potential bidders via invitation for bid through the procurement website, www.eva.virginia.gov.
- To ensure that prevailing wages are properly paid and documented in accordance with the Act, Contractors and sub-contractors will be required to submit weekly certified payroll records to the Procurement and Contract Manager.

NORFOLK STATE UNIVERSITY

Norfolk, Virginia

BOARD OF VISITORS (As of August 1, 2014)

Thomas Chewning, Rector

Lloyd Banks, Jr., Vice Rector

Lamount Bagby
Elwood B. Boone, III
Dr. Byron L. Cherry, Sr.
Bryan D. Cuffee
Larry A. Griffith

Lula B. Holland
Peter J. Kao
Beth Murphy
Michael D. Rochelle
Dr. Melvin T. Stith

UNIVERSITY OFFICIALS

Eddie N. Moore, Jr., Interim President and Chief Executive Officer