



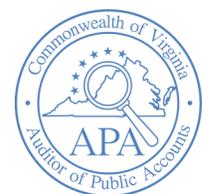
VIRGINIA MILITARY INSTITUTE

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

Our audit of the Virginia Military Institute (Institute) for the year ended June 30, 2015, found:

- the financial statements are presented fairly, in all material respects;
- no internal control findings over financial reporting requiring management's attention; and
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal program of the Student Financial Assistance Programs Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement; and we found noncompliance in relation to this testing, which requires management's attention.

We have audited the basic financial statements of the Institute as of and for the year ended June 30, 2015, and issued our report thereon, dated April 12, 2016. Our report, included in the Institute's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Institute's website at www.vmi.edu.

– TABLE OF CONTENTS –

	<u>Pages</u>
AUDIT SUMMARY	
COMPLIANCE FINDINGS AND RECOMMENDATIONS	1-4
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS	5-7
INSTITUTE’S RESPONSE	8-11
INSTITUTE OFFICIALS	12

COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Compliance Over Enrollment Reporting

The Institute, for six out of 28 (21 percent) students, did not properly report enrollment changes to the U.S. Department of Education using the National Student Loan Data System (NSLDS). The Institute did not report the students timely due to software bugs in extracting the data from the automated system.

In accordance with Code of Federal Regulations, Title 34 CFR §685.309(b)(2), 34 CFR §690.83(b)(2), and as detailed in Dear Colleague Letter (DCL) GEN 12-06, unless the institution expects to submit its next student status confirmation report within 60 days, the institution must notify the U.S. Department of Education within 30 days of an enrollment change. Additionally, the NSLDS Enrollment Reporting Guide, published by the U.S. Department of Education, identifies specific parameters, which institutions must meet to achieve compliance with these reporting regulations.

Not properly and accurately reporting a student's enrollment status may interfere with establishing a student's loan status, deferment privileges, and grace periods. In addition, the accuracy of the data the college reports plays a large part in keeping Direct Loan records and other federal student records accurate and up to date.

The Institute should evaluate their existing policies and procedures for scheduling and completing enrollment updates to NSLDS so it ensures future compliance with federal requirements.

Perform and Document Monthly Reconciliations of Direct Loans

The Institute was unable to provide sufficient documentation showing reconciliation of their internal records to the Direct Loan Servicing System (DLSS) upon receipt of the School Account Statements (SAS) from the Common Origination and Disbursement System (COD). Additionally, the Institute could not provide federal loan reconciliations between internal accounting records and the DLSS. The Institute personnel are reviewing the information between systems but are not retaining an audit trail to reflect that reconciliations are performed as required.

In accordance with 34 CFR §685.300(b) and 34 CFR §685.102(b), institutions must reconcile institutional records with Direct Loan funds received from the U.S. Secretary of Education (Secretary) and Direct Loan disbursement records submitted to and accepted by the Secretary. Each month, COD provides colleges with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records to aid in this reconciliation process. The Student Financial Aid Handbook further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

By not reconciling federal student aid programs monthly as required, the institution places itself at more risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and may impact participation by the institution in Title IV programs.

The Institute should perform and retain sufficient documentation of their monthly reconciliations and resolve reconciling items between their financial systems and DLSS records in a timely manner to ensure compliance with federal regulations. In addition, the Institute should implement a review process to ensure complete documentation of reconciliation efforts and appropriate resolution of reconciling items.

Properly Process Return of Title IV Calculations

The Financial Aid Office at the Institute did not properly identify, accurately perform the Title IV (R2T4) calculation, and/or return unclaimed federal aid for students who officially or unofficially withdrew from courses and no longer qualified for federal financial aid. The Institute's Financial Aid personnel did not perform R2T4 calculations correctly and return the appropriate amount of funds to the U.S. Department of Education stemming from employee turnover in the Financial Aid Office. For two out of 12 (17 percent) cadets tested, the Financial Aid Office entered the amount of earned aid into the field for the amount that should be returned to the U.S. Department of Education rather than the difference between total aid less earned aid. Additionally, the amount of aid to be returned did not match the amount returned for one (eight percent) cadet. Lastly, the Financial Aid Office did not complete all fields of the R2T4 worksheet for seven (58 percent) cadets. The calculation errors resulted in the requirement for the Institute to return an additional \$857.35 in unearned aid to the U.S. Department of Education. The R2T4 errors were a result of turnover in the Financial Aid Office.

Code of Federal Regulations, 34 CFR §668.22 states when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. Institutions not required to take attendance must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the - (i) Payment period or period of enrollment; (ii) Academic year in which the student withdrew; or (iii) Educational program from which the student withdrew. Institutions must return unearned financial aid funds to the U.S. Department of Education no later than 45 days from the date that the institution had determined that the student had withdrawn.

Improperly identifying, calculating, and not returning unearned Title IV funds timely to the U.S. Department of Education may result in adverse actions and impact the institution's participation in Title IV programs. The Institute should review current R2T4 policies and procedures, and implement corrective action to include a second level of review to ensure that students requiring calculations have been properly identified, calculations are accurate, and unearned funds have been returned to the U.S. Department of Education within the required timeframe.

Reconcile Federal Funds Accounts

The Institute could not provide sufficient documentation as audit evidence that an adequate reconciliation had been performed between federal systems and the Institute's internal accounting records. The Institute did not adequately document its reconciliation between the G5 Activity Reports and its internal accounting records for Direct Loans. The Institute reconciles its accounting records when it draws down federal funds. However, the Institute does not retain a written record of the reconciliation process.

In accordance with federal regulations for applicable programs, institutions are required to complete a minimum of a monthly reconciliation of federal aid programs and a year-end closeout final reconciliation of Direct Loan accounts. Reconciliation requirements are detailed in Chapters 5 (Reconciliation in the Pell Grant and Campus-Based Programs) and 6 (Reconciliation in the Direct Loan Program) of the Federal Student Financial Aid Handbook.

By not reconciling federal student aid programs monthly as required, the Institute places itself at more risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and impact participation by the Institute in Title IV programs.

The Institute should review policies and procedures for completing federal aid program reconciliations. In addition, the Institute should ensure that reconciliations are performed monthly and documentation is retained for audit purposes.

Ensure Verification is Complete Prior to Disbursing Federal Financial Aid

The Institute did not obtain and review required tax documents as part of the verification process for three out of 25 (12 percent) cadets tested prior to disbursing aid. This oversight in obtaining and reviewing the required documentation was a result of turnover in staff in the Financial Aid Office.

In accordance with 34 CFR §668.54 and 34 CFR §668.56, an institution must require an applicant whose Free Application for Federal Student Aid (FAFSA) information has been selected for verification to verify the information selected by the Secretary. Dear Colleague Letter GEN-13-16 outlines the 2014-15 Award Year FAFSA information required to be verified and the acceptable documentation by Verification Tracking Flag and Verification Tracking Group. By not performing the necessary verification, the Institute could be providing financial aid disbursements to cadets for which inaccurate information is provided resulting in potential over-awards of federal financial aid.

The Institute should examine existing policies and procedures for obtaining and reviewing mandatory documentation for students selected for verification. The Financial Aid Office should consider implementing a second level of review to ensure that acceptable documentation is obtained, reviewed and retained for audit purposes.

Improve Notification of Awards to Students

The Institute did not properly notify students of Title IV awards. It is required to provide written notification to students including important details on timing and method of disbursement and for loans, the rights, options, and requirements of the student loan. The Institute's Bursar Office is not notifying cadets of Federal Perkins Loan Awards. It did not provide cadet notifications because the Comptroller's staff was unaware of this requirement.

Code of Federal Regulations, Title 34 CFR §668.165(a), requires institutions, prior to disbursing Title IV, Higher Education Act Funds for any award year, to notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV, Higher Education Act program, and how and when those funds will be disbursed. If those funds include Direct Loans or Federal Family Education Loan (FFEL) Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans. Additionally, 34 CFR §668.165(3)(i – ii) indicates that for Direct Loans the institution must provide the notice in writing no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation and no later than seven days if the institution does not obtain an affirmative confirmation.

Not properly notifying students in accordance with the Code of Federal Regulations may result in adverse actions and impact the Institute's participation in Title IV programs. Additionally, improper notification could limit the amount of time a student or parent has to make an informed decision on whether to accept or reject a loan.

The Institute should review their current policies and procedures for providing notification to federal aid recipients. Corrective measures should be implemented to ensure that students are provided timely notifications which include required elements. Where applicable, the Institute should ensure that staff are informed of the federal requirements and/or identify training opportunities for staff involved in the federal aid process.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 12, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Vice-Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia Military Institute

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Military Institute** (Institute) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated April 12, 2016. 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 Institute, 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 Institute'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 Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's 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. 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Compliance Findings and Recommendations" in the findings entitled:

- *Improve Compliance Over Enrollment Reporting;*
- *Perform and Document Monthly Reconciliations of Direct Loans;*
- *Properly Process Return of Title IV Calculations;*
- *Reconcile Federal Funds Accounts;*
- *Ensure Verification is Complete Prior to Disbursing Federal Financial Aid; and*
- *Improve Notification of Awards to Students.*

The Institute's Response to Findings

We discussed this report with management at an exit conference held on April 11, 2016. The Institute's response to the findings identified in our audit is described in the accompanying section titled "Institute's Response." The Institute'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.

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

GDS/clj

VIRGINIA MILITARY INSTITUTE

LEXINGTON, VIRGINIA 24450-0304

DEPUTY SUPERINTENDENT
(FINANCE, ADMINISTRATION AND SUPPORT)
Office 540-464-7321
Fax 540-464-7169

12 April 2016

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

Dear Ms. Mavredes:

We have reviewed the audit findings and recommendations as published in the 30 June 2015 Commonwealth of Virginia Single Audit Report and discussed during the financial statement audit exit conference held on 11 April 2016.

The Virginia Military Institute acknowledges and concurs with the audit findings. We would like to note that, as of the date of this communication, remediation has occurred for three of the findings, with corrective action currently anticipated to take place for those remaining in May 2016. Attached for your reference is a summation of corrective actions taken (or to be taken) by the Institute, categorized per remediation status.

We appreciate the opportunity to provide a response and look forward to submitting final certification of complete remediation shortly.

Sincerely,



Robert L. Green
Brigadier General
Deputy Superintendent (Finance, Administration and
Support)



**Virginia Military Institute
Corrective Action Plan – 2015 Single Audit Findings**

REMEDIATED SINGLE AUDIT FINDINGS:

2015-098: Improve Compliance Over Enrollment Reporting

Summary of Audit Finding

The Registrar's Office did not properly report all enrollment changes to the U.S. Department of Education using the National Student Loan Data System (NSLDS). Status changes for six out of twenty-eight cadets were not reported due to software bugs in extracting the data from the automated system.

Summary of Corrective Actions

To prevent recurrence, VMI Information Technology has addressed the underlying data extraction software glitch. In addition, supplementary processing steps have been incorporated into the enrollment reporting processing procedures to assure status changes are appropriately updated and reported within the mandatory timeframe.

Certified Remediation Date – 31 January 2016

Individual Response for Implementation – COL Janet Battaglia, Registrar

2015-103: Reconcile Federal Funds Accounts

Summary of Audit Finding

Additional documentation was needed from the Student Accounting Office to provide sufficient audit evidence that a comprehensive reconciliation had been performed between federal systems and internal accounting records. Accounting records were reconciled when drawing down federal funds, however, a written record of the reconciliation process was not retained.

Summary of Corrective Actions

Student Accounting Office procedures have been updated with regards to the reconciliation process. A reconciliation template has been created, tested and instituted for utilization on a monthly basis as of 12 January 2016.

Certified Remediation Date – 1 February 2016

Individual Response for Implementation – LTC Sandra Manuel, Bursar

2015-105: Improve Notification of Awards to Students

Summary of Audit Finding

The Institute did not properly provide written notification of Federal Perkins Loan Awards.

Summary of Corrective Actions

The Student Accounting Office has enhanced its processes and procedures to provide required Perkins Loan Award notifications to applicable cadets through existing semi-annual loan communications, the details of which can be accessed electronically by cadets through the internet-based VMI student accounting portal, "PostView".

Certified Remediation Date – 15 February 2016

Individual Response for Implementation – LTC Sandra Manuel, Bursar

SINGLE AUDIT FINDINGS – REMEDIATION PENDING:**2015-099: Perform and Document Monthly Reconciliations of Direct Loans****Summary of Audit Finding**

Additional documentation was needed to demonstrate reconciliations were performed between internal records and the Direct Loan Servicing System (DLSS) upon receipt of the School Account Statements (SAS) from the Common Origination and Disbursement System (COD). Institute personnel are reviewing the information between systems however, an adequate audit trail reflecting reconciliation performance was not maintained.

Summary of Corrective Actions

The VMI Financial Aid Office will retain an adequate audit train evidencing and detailing the reconciliation for review. The Assistant Director of Financial Aid will be responsible for completing the reconciliation. The Director of Financial Aid will perform a second level of review. All information will be retained in a consolidated file.

Anticipated Completion Date – May 2016

Individual Response for Implementation – LTC Thomas Brashears, Director of Financial Aid

2015-100: Properly Process Return of Title IV Calculations**Summary of Audit Finding**

The Financial Aid Office did not properly perform all Title IV (R2T4) calculations, and/or return unclaimed federal aid for students who officially or unofficially withdrew from courses and no longer qualified for federal financial aid.

Summary of Corrective Actions

R2T4 calculations will be performed by the Associate Director of Financial Aid. Upon completion of the calculation, the Director of Financial Aid will perform a second level of review to ensure that calculations are accurate.

Anticipated Completion Date – May 2016

Individual Response for Implementation – LTC Thomas Brashears, Director of Financial Aid

2015-104: Ensure Verification is Complete Prior to Disbursing Federal Financial Aid

Summary of Audit Finding

The Financial Aid Office did not evidence review of all required tax documents as part of the verification process for three out of twenty-five cadets tested prior to disbursing aid.

Summary of Corrective Actions

The Financial Aid Office will implement a second level of review to ensure all supporting tax documentation is present. Verifications will be performed by both the Director and Assistant Director of Financial Aid. Once a file is complete, it will be passed to the Enrollment Services Representative to ensure all documentation is present. Each file will be initialed accordingly indicating that verification and subsequent review has been completed.

Anticipated Completion Date – May 2016

Individual Response for Implementation – LTC Thomas Brashears, Director of Financial Aid

INSTITUTE OFFICIALS

VIRGINIA MILITARY INSTITUTE
Lexington, Virginia

BOARD OF VISITORS

George P. Ramsey, III
President

Bruce C. Gottwald, Jr.
Vice President

John P. Jumper
Vice President

Kimber L. Latsha
Vice President

John C. Allen
John W. Boland
George J. Collins
P. Wesley Foster, Jr.
Paul Galanti
Conrad M. Hall

Richard K. Hines, V
Janice G. Igou
Joe R. Reeder
Ernesto V. Sampson
H. George White, Jr.
Timothy P. Williams

Frances C. Wilson

William H. Connerley, Cadet Representative

Jeffrey H. Curtis
Secretary of the Board of Visitors

OFFICERS

J.H. Binford Peay, III
Superintendent

Robert L. Green
Deputy Superintendent, Finance, Administration and Support

Robert W. Gilbert
Acting Comptroller

Kevin A. Ryan
Comptroller