VIRGINIA STATE UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2008

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia State University for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects, with generally accepted accounting principles,
- internal control matters that are necessary to bring to management's attention, and
- one instance of noncompliance required to be reported under Government Auditing Standards.

We have audited the basic financial statements of Virginia State University as of and for the year ended June 30, 2008 and issued our report thereon, dated April 24, 2009. Our report, included in the Virginia State University's Annual Financial Report 2007 - 2008, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the Virginia State University website at www.vsu.edu.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Information Security Program

The University's information security program is missing critical components that will aid in safeguarding mission critical and sensitive data. The University is working towards resuming management and operations of its outsourced Information Technology infrastructure. Without complete documentation of all important information security procedures, the University risks even current security practices not being continued as staff change. Therefore, it is critical that the University complete its information security program and ensure it has staff which are well trained in the security program's requirements.

The following are the specific components which we found to be incomplete in the University's information security program.

- Baseline Systems Configuration
- Systems Interoperability
- Malicious Code and Virus Protection
- Threat Management
- IT Asset Control

We recommend that the University continue its efforts to develop and implement these information security program components for their IT systems and data. Addressing these areas of important controls will help ensure the integrity and availability of the IT systems and data, and will also help ensure a smoother transition to an in-house managed and operated IT environment.

Strengthen Controls over Capital Asset Reporting

University Financial Reporting must improve their processes over capital asset reporting. During our audit, we found that the Capital Outlay Department incorrectly computed the construction-in-progress asset balance, overstating this account by $1.6 million. Also, the Fixed Asset Department incorrectly capitalized library books twice, overstating net depreciable capital assets by $881,000. Prompt resolution of differences in the capital asset reconciliation would have allowed Financial Reporting staff to correct the duplicate asset capitalization before completing the financial statements.

Management should perform a stringent review of the capital asset reporting process to identify potential weaknesses and strengthen controls. The review should address improving the process to resolve differences noted in the capital asset reconciliation process promptly, and show the necessary corrections in the final financial statements. Failure to strengthen processes and controls could result in material misstatements in future annual financial statements.

Improve Controls over Financial Statement Database Application

The University has an internally developed database application to assist staff in the creation of financial reports, including the annual financial statements. The database uses data extracted from the University's financial system to create reports, because the University's financial system currently does not have the capability to produce the financial statements in accordance with Governmental Accounting Standards Board requirements. Therefore, this database is critical to the University's ability to produce reliable, accurate, prompt financial reports.

While there are some informal controls relating to testing changes to the application and reconciling the output from the application to the financial system, there are no formal controls relating to access, backup, approval of changes, version control, and procedures to address other important risks associated with a critical application. Without these controls, the University cannot guarantee the integrity and availability of the data that this application produces that is then used to produce financial reports, including the annual financial statements.

We recommend that the University develop control documentation and plans for this critical application. The plan should address granting and controlling access, backup, change approval, version control, and other matters important for the integrity and availability of the data.

Improve Employment Eligibility Verification Process

The University has implemented improvements in the procedures it follows to ensure that University employees and supervisors properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. Even so, the University's I-9 processing has allowed several exceptions to University's procedures to occur. The University's procedures require the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

To allow the Human Resources Division the time necessary to implement corrective action in response to the prior year finding, we selected only I-9 Forms produced after February 15, 2008, the date of corrective action. In our population of 32 I-9 forms completed between February 16, 2008 and June 30, 2008, we found errors on 17 of the forms as follows:

- Seven forms failed to have information completed and signed as required on the employee's first day of work.
- Fourteen forms failed to enter necessary information, or entered information incorrectly.
- One form failed to display an acceptable document for verifying employment eligibility.

We recommend that the Human Resources Division continue to review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of the forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good process in place to correctly complete I-9 forms important.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 24, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia 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 discretely presented component units of **Virginia State University** as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements and have issued our report thereon dated April 24, 2009. Our report was modified to include 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

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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled "Improve Information Security Program," "Strengthen Controls Over Capital Asset Reporting," and "Improve Security over Financial Statement Database Application" which are described in the section titled "Internal

Control and Compliance Findings and Recommendations", to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Improve Employment Eligibility Verification Process," is described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section entitled "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 completed adequate corrective action with respect to the previously reported finding "Improve Employment Eligibility Verification Process." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." 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 June 5, 2009.

AUDITOR OF PUBLIC ACCOUNTS

JS/ah

VIRGINIA STATE UNIVERSITY

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David J. Meadows
Vice President for Administration & Finance

June 4, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218-1295

Dear Mr. Kucharski:

This correspondence replaces Virginia State University's (VSU) response, dated May 29, 2009, to the Auditor of Public Accounts. VSU has reviewed and appreciates the opportunity to respond to the Internal Control and Compliance Findings and Recommendations for the fiscal year ended June 30, 2008. In accordance with Government Auditing Standards, VSU is providing this response for inclusion in your published report. Each Auditor of Public Accounts (APA) finding is listed below, followed by the University's corrective action strategy.

1. Improve Information Security Program

The University's information security program is missing critical components that will aid in safeguarding mission critical and sensitive data. The University is working towards resuming management and operations of its outsourced Information Technology infrastructure. Without complete documentation of all important information security procedures, the University risks even current security practices not being continued as staff change. Therefore, it is critical that the University complete its information security program and ensure it has staff which are well trained in the security program's requirements.

The following are the specific components which we found to be incomplete in the University's information security program.

- Baseline Systems Configuration
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We recommend that the University continue its efforts to develop and implement these information security program components for their IT systems and data. Addressing these areas of important controls will help ensure the integrity and availability of the IT systems and data,

"VSU: Education, Research and Community Service in Central and Southside Virginia..."
An Equal Opportunity Employer/Equal Access Institution

and will also help ensure a smoother transition to an in-house managed and operated IT environment.

VSU Management Response:
The Office of University Technology (OUT) agrees that while the University is currently performing several of the components highlighted by the Auditor, some of the processes are not formally documented. The University has a steadfast commitment to protect and secure VSU IT systems and data and therefore will aggressively continue its implementation of an improved information security program. In addition, the University will continue its efforts to document current Office of Information Technology (OIT) IT Security practices into appropriate policies and procedures in the areas identified. The University has expended and continues to commit significant resources to its IT Security Program in accordance with the VITA IT Security Standard. The University recently augmented its current IT Security staff so that additional resources are available to assist in the development, documentation and implementation of needed information security program components. Finally, the University is in the process of establishing an Information Security Office with full-time University staff responsible for compliance with the continuously advancing and expanding IT Security standards and requirements.

2. Strengthen Controls over Capital Asset Reporting

University Financial Reporting must improve their processes over capital asset reporting. During our audit, we found that the Capital Outlay Department incorrectly computed the construction in progress asset balance, overstating this account by $1.6 million. Also, the Fixed Asset Department incorrectly capitalized library books twice, overstating net depreciable capital assets by $881,000. Prompt resolution of differences in the capital asset reconciliation would have allowed Financial Reporting staff to correct the duplicate asset capitalization before completing the financial statements.

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VSU Management Response:
University Management concurs with this finding. The University has taken steps to improve the process for assembling and reporting the data used for the Construction in Progress schedule and the related impact on the financial statements. Administration & Finance staff will work closely with the Capital Outlay Department to ensure there is an appropriate level of Banner Finance knowledge. A key improvement in the reconciliations will involve automating some of manual processes. In addition, staff is required to promptly resolve reconciling differences.

3. Improve Controls over Financial Statement Database Application

The University has an internally developed a database application to assist staff in the creation of financial reports, including the annual financial statements. The database uses data extracted from the University's financial system to create reports because the University's financial system currently does not have the capability to produce the financial statements in accordance with Government Accounting Standards Board requirements. Therefore, this database is critical to the University's ability to produce reliable, accurate, prompt financial reports.

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We recommend that the University develop control documentation and plans for this critical application. The plan should address granting and controlling access, backup, change approval, version control and other matters important for the integrity and availability of the data.

VSU Management Response:
University Management recognizes the criticality of the database application and its necessity in the creation of our financial reports, as well as, the APA's desire to recommend "best practices" under the auspices of internal controls. However, we have made significant progress with respect to the APA's statement that "there are no formal controls relating to access, backup, approval of changes, version control, and procedures to address other important risks associated with a critical application". From the initial implementation of Banner Finance in July 2006, it was clear that the Banner Finance system lacked the functionality needed to automatically produce the required GASB financial statements. Conversations with other Virginia public higher education institutions using Banner Finance confirmed that others experienced similar challenges. The University Controller's office dedicated a great deal of effort and resources to ensuring the University was capable of producing financial statements on time and in compliance with the Department of Accounts (DOA) Financial Statement Directive. However, at no time, when the Administration & Finance staff developed the database was the Access tool considered to be an application or system required to comply with Commonwealth of Virginia (COV) Security Standards. On the other hand, the University has ensured that these security standards are addressed, as part of the security performed for the Banner system, which is the source data used to produce the annual financial statements.

The University endeavored to address the Auditor's comments during and after the FY 2007 audit, when the Access database used to produce the financial statements was first reviewed with the APA. As a result of that initial discussion, the Access database was moved to a dedicated

University server which is identified on a server sensitivity list, which means that backup and recovery is provided. Also, internal controls relating to access were strengthened whereby only users that have an identified need have access to the database. In conclusion, the University has noted the APA's position related to this finding as a "best practice" and will continue to make further improvements in the areas noted.

4. Improve Employment Eligibility Verification Process

The University has implemented improvements in the procedures it follows to ensure that University employees and supervisors properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. Even so, the University's I-9 processing has allowed several exceptions to University's procedures to occur. The University's procedures require the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

To allow the Human Resources Division the time necessary to implement corrective action in response to the prior year finding, we selected only I-9 Forms produced after February 15, 2008, the date corrective action. In our population of 32 I-9 forms completed between February 16, 2008 and June 30, 2008, we found errors on 17 of the forms as follows:

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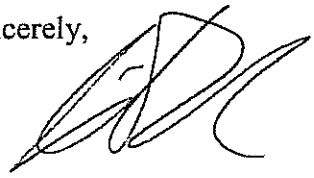
We recommend that the Human Resources Division continue to review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good process in place to correctly complete I-9 forms important.

VSU Management Response:
VSU Management concurs with this finding. The Office of Human Resources (HR) will continue to review processes for completing the I-9 and adjust as required. HR will continue to provide guidance and training to the University's hiring managers related to the I-9 processes and develop a procedure to continuously review all or a sample of forms for compliance with federal regulations. This procedure will be incorporated in the University's process by August 1, 2009. Also, additional training related to the completion of the I-9 will be provided to all HR staff responsible for completing I-9 forms.

Virginia State University remains committed to addressing these findings, as appropriate. We would like to thank you and your staff for your continued collaboration and support in improving the University. We look forward to next year's audit.

Sincerely,



David J. Meadows
Vice President for Administration and Finance

cc: Dr. Eddie N. Moore, Jr., President
Mr. David A Von Moll, State Comptroller
The Honorable Dr. Thomas R. Morris, Secretary of Education
Mr. Daniel Timberlake, Director of Planning and Budget

VIRGINIA STATE UNIVERSITY
Petersburg, Virginia

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