

**VIRGINIA STATE UNIVERSITY**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2012**

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***APA***

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the Virginia State University for the year ended June 30, 2012, found:

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

The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

In addition, we have audited the basic financial statements of Virginia State University as of and for the year ended June 30, 2012, and issued our report thereon, dated May 1, 2013. Our report, included in Virginia State University's Annual Financial Report, will be available on the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at Virginia State University's website at [www.vsu.edu](http://www.vsu.edu) on or around June 17, 2013.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### Ensure Compliance with Title III Endowment Investments Restrictions

The University Title III endowment investments are not managed in compliance with the endowment's terms, which specifically prohibit investments in real estate. The University invests its endowments with an external investment manager and does not contractually require the investment manager to invest in accordance with the endowment's terms. Rather the University has adopted the investment manager's investment policy as its own and that policy does not comply with the Title III endowment's restrictions regarding real estate.

Specifically, the investment manager's policy allows for investment in real estate, with a current asset allocation range between zero and ten percent. As of June 30, 2012, the University's Title III endowment funds totaled \$10,125,800, which represents almost half of all endowment funds held. Four percent of the Title III endowment funds, or \$406,000, were allocated to real estate investments. As an instance of potential federal non-compliance, the University risks the revocation of existing and future Title III endowments funds.

To protect their existing funds and continued receipt of future Title III endowments, the University should request an exemption to the real estate investment restriction from the administrators of the Title III program. If an exemption cannot be obtained, the University should evaluate the relationship with their existing external manager to determine whether the external manager can modify either their investment strategy or their management of University funds to meet the Title III investment requirements. If this is not feasible, the University should move their Title III investments to a manager who can.



# Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

May 1, 2013

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable John M. O'Bannon, III  
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 aggregate discretely presented component units of **Virginia 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 May 1, 2013. 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.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. The instance of noncompliance and other matters, entitled "Ensure Compliance with Title III Endowment Investment Restrictions," is described in the section titled "Audit Findings and Recommendations."

The University's response to the finding 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 taken adequate corrective action with respect to audit findings reported in the prior year.

#### 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 6, 2013.

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj



# VIRGINIA STATE UNIVERSITY

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David J. Meadows  
Vice President for Administration & Finance

June 12, 2013

Ms. Martha Mavredes  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218-11295

Dear Ms. Mavredes:

Virginia State University (VSU) has reviewed the Auditor of Public Accounts Report on Internal Control over Financial Reporting and on Compliance and other Matters for the fiscal year ended June 30, 2012. The university appreciates the opportunity to respond to the finding and recommendation contained in your report. In accordance with Government Auditing Standards, we provide the following response for inclusion in your report:

## Audit Finding and Recommendation

### Ensure Compliance with Title III Endowment Investments Restrictions

The University has received the formal APA Management Comment outlining compliance with the Title III Funds restrictions pertaining to investments either directly or indirectly in real estate. The University in collaboration with its Board of Visitors will thoroughly examine all options pertaining to this issue, including but not limited to requesting exemptions from the necessary governing entities.

We will keep you informed of the Board's decision on this issue and our progress towards bringing compliance in this matter.

Sincerely,

David J. Meadows  
Vice President for Administration and  
Chief Financial Officer

cc: Dr. Keith T. Miller, Jr., President  
Mr. David Von Moll, State Comptroller  
The Honorable Laura W. Fornash, Secretary of Education  
Mr. Daniel Timberlake, Director of Planning and Budgeting

VIRGINIA STATE UNIVERSITY  
Petersburg, Virginia

BOARD OF VISITORS  
As of June 30, 2012

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Rector

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Harry Black  
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James H. Starkey, III  
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Dr. Emmanuel Omojokun, Faculty Member Representative  
Mr. Brandon Randleman, Student Representative

ADMINISTRATIVE OFFICIALS  
As of May 1, 2013

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President

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Vice President for Academic Affairs

Michael Shackelford  
Vice President of Student Affairs

David J. Meadows  
Vice President for Administration and Finance