



VIRGINIA MILITARY INSTITUTE

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Military Institute (Institute) as of and for the year ended June 30, 2021, and issued our report thereon, dated June 17, 2022. 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. Our audit found:

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

The Institute has not taken adequate corrective action with respect to one previously reported finding. Accordingly, we designated this finding with a "repeat" label in the section titled "Internal Control and Compliance Findings and Recommendations." The Institute has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Our audit also included testing over federal Student Financial Assistance in accordance with the U.S. Office of Management and Budget Compliance Supplement Part 5 Student Financial Assistance Programs; and found no internal control findings requiring management's attention or instances of noncompliance required to be reported in relation to this testing.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Ensure Proper Documentation of Bank Reconciliations

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2021, the Institute did not adequately document the preparation and review of the monthly bank reconciliation process. For all three reconciliations tested during the audit, the Institute did not prepare reconciliations timely or could not provide evidence to support timely preparation. The Institute completed one of the reconciliations four months late and did not document the completion date for the remaining two reconciliations. In addition, the Institute did not document supervisor review for two out of three reconciliations (67%) tested.

The Institute's Accounting Policies and Procedures, Section 20100, state that the Comptroller's Office should reconcile accounting information, bank accounts, and transactions between modules monthly. The Institute did not adequately document the preparation and review of the monthly bank reconciliations due to staffing shortages and pandemic related disruptions. Without sufficient documentation to ensure the preparation and review of the bank reconciliations, there is an increased risk that errors will go undetected or will not be corrected timely. This could lead to a potential misstatement of the cash balance in the Institute's financial statements.

The Institute should allocate resources to ensure there are enough staff to timely perform and adequately document monthly reconciliations in accordance with the Institute's policies and procedures and best practices.

Improve Controls over Terminated Employees

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2020)

Prior Title: Improve Termination Procedures

During fiscal year 2021, Institute personnel did not consistently and timely perform required termination procedures for employees that terminated employment. In our review of 13 terminated employees, Institute personnel did not adhere to termination procedures in the following instances:

- For nine employees (69.23%), the employee supervisor did not ensure the timely collection of all Institute issued property, such as charge cards, travel cards, keys, and personal electronics after the employees' termination date. The supervisors collected the property between eight and 89 days after the employee date of termination. In three of these instances, the employees' supervisors did not provide the separation checklists to Human Resources certifying that employees returned applicable property.

- For three employees (23.08%), Human Resources did not timely remove access to significant systems and networks after the employees' termination date. Human Resources removed the access nine to 15 days after termination.
- For eight employees (61.54%), Human Resources did not timely remove building access after the employees' termination date. Human Resources removed the access nine to 15 days after termination. In three of these instances, the employees' supervisors did not provide separation checklists to Human Resources certifying that employees returned access cards and building keys to the Institute.

In accordance with Institute Policies and Procedures (General Order 35 – Personnel Clearance Procedures, Section 2. Notification of Separation from the Institute), “As soon as the immediate supervisor learns of the departure or planned departure of an employee or other individual covered by this policy, the supervisor must send (either electronically or by fax) the “Exit Alert” form to the Human Resources Office.” In accordance with Section 5, Responsibility of this policy, it is the responsibility of Human Resources to enter the individual's separation date and account lock date within 72 hours of receiving the notification. The Institute's accounting and financial reporting system will disable the individual's account as needed. The Commonwealth's Information Security Standard, SEC 501 section PS-4a, also states that an organization must disable information systems access within 24 hours of employment termination. In addition, as specified by the separation checklist included with the Personnel Clearance Procedures, the employee must return all Institute property and Institute identification card to the supervisor on the employee's final day of employment. Human Resources also will destroy any Institute identification card issued to the individual and ensure the individual no longer has access to Institute facilities.

The underlying cause of these exceptions is the lack of communication between the supervisor of the terminated employee and Human Resources, as there is often a timing delay in which the supervisor alerts Human Resources of an employee's departure from the Institute. Not completing procedures pertaining to terminated employees timely increases the Institutes' risk of incurring payroll errors, loss of equipment and other Institute property, and unauthorized access to Institute computer systems and facilities. Human Resources should continue to raise supervisor awareness of their responsibility to alert Human Resources of employee terminations and to provide applicable separation checklists to ensure that personnel can timely perform all required termination procedures.

Ensure Compliance with Conflict of Interests Act

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The Institute Conflict of Interests Act (COIA) Coordinator did not ensure that all employees in a position of trust completed the required COIA training every two years. For five out of five employees (100%) tested, the COIA Coordinator could not provide evidence that employees completed the required training within the last two years. Further, the Coordinator could not provide evidence that one of the employees has ever completed the training.

Pursuant to Sections § 2.2-3128 through 3131 of the Code of Virginia, Statement of Economic Interests, filers must complete orientation training about the COIA to help them recognize potential conflicts of interest. The filers must complete this orientation within two months of hire/appointment and at least once during each consecutive period of two calendar years. The Virginia Conflict of Interest and Ethics Advisory Council (Council) offers a training module on its website, which satisfies this requirement. Each agency must also maintain, for a minimum of five years, records of who completed the training courses.

Without ensuring completion of the required training, the Institute may be susceptible to conflicts of interest that could impair, or appear to impair, the objectivity of certain programmatic or fiscal decisions made by employees in positions designated as positions of trust. By not requiring employees to complete the training and monitoring training attendance records, the Institute may not be able to hold its employees accountable for recognizing and resolving potential conflicts of interest.

The Institute does not have its own policies and procedures for identifying and monitoring employees required to complete the annual filing and instead relies on the filing procedures provided by the Council. These procedures do not provide the necessary guidance to ensure that the Institute is properly identifying and monitoring employees in positions of trust to ensure the completion of the required training. In addition, there was turnover in the COIA Coordinator position during the year. The COIA Coordinator should ensure compliance with the Code of Virginia by establishing documented procedures to ensure that they identify all employees in positions of trust, complete mandatory training modules, and retain records of the completion.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 17, 2022

The Honorable Glenn Youngkin
Governor of Virginia

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** as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated June 17, 2022. 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's

internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Ensure Proper Documentation of Bank Reconciliations," "Improve Controls over Terminated Employees," and "Ensure Compliance with Conflict of Interests Act," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings and recommendations titled "Ensure Compliance with Conflict of Interests Act" and "Improve Controls over Terminated Employees."

The Institute's Response to Findings

We discussed this report with management at an exit conference held on April 27, 2022. The Institute's response to the findings identified in our audit is described in the accompanying section titled "Institute 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.

Status of Prior Findings

The Institute has not taken adequate corrective action with respect to the previously reported finding “Improve Controls over Terminated Employees.” Accordingly, we included this finding in the section titled “Internal Control and Compliance Findings and Recommendations.” The Institute has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

AVC/vks

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5 July 2022

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

Dear Ms. Henshaw:

The Virginia Military Institute has reviewed the findings and recommendations provided by the Auditor of Public Accounts for fiscal year ended June 30, 2021. We agree with the three items identified as significant deficiencies listed below.

- 1.) Ensure Proper Documentation of Bank Reconciliations
- 2.) Improve Controls over Terminated Employees
- 3.) Ensure Compliance with Conflict of Interests Act

We appreciate the opportunity to formally respond, as well as the APA engagement team's continuous professionalism as they perform the annual audit. We will work diligently to remediate these issues over the coming months.

If you have any questions or need additional information, please do not hesitate to contact me by phone at (540) 464-7216 or by email at brownps@vmi.edu.

Most Respectfully,



Pamela S. Brown, CPA
Assistant Director, Finance & Budget
Virginia Military Institute



VIRGINIA MILITARY INSTITUTE

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