

**VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY
BLACKSBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of Virginia Polytechnic Institute and State University for the year ended June 30, 2000, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however we do not consider any of these to be material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior audit findings.

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October 10, 2000

The Honorable James S. Gilmore III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Polytechnic Institute and
State University

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

We have audited the financial statements of **Virginia Polytechnic Institute and State University** as of and for the year ended June 30, 2000, and have issued our report thereon dated October 10, 2000. Our report on the financial statements is contained in the President's Report 1999-2000 issued by the University. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Management's Responsibility

The University's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. Internal control is a process designed to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles; and the University has complied with applicable laws and regulations.

Compliance

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 grants, 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled, "Internal Control and Compliance Findings and Recommendations."

We believe none of the reportable conditions described above are material weaknesses. A material weakness is a condition in which the design or operation of one of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Exit Conference and Report Distribution

We discussed this report with management at an exit conference held on October 25, 2000. This report is intended solely for the information and use of the Governor and General Assembly, Board of Visitors, audit committee, 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.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Ensure Departments Follow Financial Policies and Procedures

We raised significant concerns in our 1994 through 1996 audits that University departments frequently did not follow financial policies and procedures. As the University decentralized operations, it gave departments increased responsibility for fiscal transactions and internal controls. However, the responsibility to ensure that departments follow prescribed policies and procedures remains with University management. In response to our concerns, management implemented the following additional controls to address the issue. Personnel Services and Payroll perform reviews of department payroll and leave records, the University Controller provides training and sends out internal control and compliance questionnaires, and the Internal Auditor reviews compliance with policies and procedures during departmental audits. Other administrative departments also provide training and detailed documentation.

We continue to find a lack of compliance as we reviewed ten departments this year. We understand that the University plans to further decentralize additional payroll and finance functions to departments in the future. The success of the decentralization efforts relies on departments following established policies and procedures.

We tested ten departments and found several instances of departments not properly reconciling payroll and other expenses; not following prescribed policy for submission, approval, and maintenance of original timesheets; and not complying with small purchase charge card procedures. Some departments split low-value purchase orders to apparently circumvent the University's small purchase procedures. We also found one department circumvented policies by using an emergency hire to continue a graduate student assistantship. This department calculated the hours needed to equal the assistantship stipend and completed timesheets in advance without verification of actual hours worked. Another department entered 10 hours each pay period for an employee without receiving a timesheet or other verification of hours actually worked.

A significant portion of the above findings resulted from academic departments failing to either understand or adhere to policies and procedures. The University should re-examine and strengthen its training for newly appointed department administrators on financial policies and procedures and the importance of following these policies and procedures.

However, until the Academic Administration sufficiently enforces compliance with University policies and procedures, efforts to circumvent the system of internal control will continue. Unless employees both understand and see enforced the consequences of noncompliance, there is no incentive for them to follow financial policies and procedures. We believe it is essential for the University's executive management, led by the Executive Vice-President to work together to develop a stronger monitoring and enforcement program with appropriate consequences.

Strengthen Security over the VTAIX Server

We found weaknesses in password controls, account maintenance, and file ownership in our review of the UNIX operating system on the VTAIX server. This server contains critical and sensitive data for student records, financial aid, admissions, and general computing for faculty and staff including sponsored research data. These weaknesses could lead to unauthorized use or alteration of the University's critical data. Specifically we found:

1. Security does not require periodic password changes and the minimum length for passwords is one character. Lack of strong password controls makes it easier to compromise passwords and increases the risk of unauthorized use or disclosure.
2. The VTAIX password file contains over 1400 user ids, many of which appear either unused or inactive.
3. Many files do not have a valid VTAIX owner assigned. These unassigned files resulted from the implementation of third party packages in which the installer failed to assign ownership of the files. Assigning all files to an authorized owner is an essential control in a UNIX operating system environment.

Information Resource Management (IRM) should assess the risk of the password controls and take steps to strengthen the controls. Establishing a policy that requires alphanumeric passwords of at least six characters will significantly strengthen password controls. IRM should also periodically perform account maintenance to remove unused or inactive ids and assign an owner to any files not assigned an owner.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia

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