

VIRGINIA STATE UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia State University for the year ended June 30, 2011, 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;
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards;
- the University has made progress, but has not completed corrective action, with respect to the previously reported finding titled "Approve and Implement Updated Information Security Program", therefore, this finding is repeated in this year's report; and
- the University did take corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

We have audited the basic financial statements of Virginia State University as of and for the year ended June 30, 2011, and issued our report thereon, dated April 19, 2012. Our report, included in Virginia State University's Annual Financial Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at Virginia State University's website at www.vsu.edu.

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AUDIT FINDINGS AND RECOMMENDATIONS

Approve and Implement Information Security Program

Virginia State University (University) continues to improve and develop its information security program. While the University has made significant progress, the following two critical areas remain only partially complete and remain not implemented.

- **Contingency Planning.** The University has partially completed a draft of its Business Impact Analysis (BIA), Continuity of Operations Plan (COOP), and Disaster Recovery Plan (DRP). These essential documents contain procedures and guidance for use during disasters and other unexpected events or system failures.
- **Routine Backup and Restoration Procedures.** The University does not have controls to ensure the backup of sensitive data, periodically test the recovery of this information, and comply with its records retention policy. This lack of control increases the risk the University will not back up its data and may not have the information available in case it needs to restore data after a system failure. The University needs to document a routine backup and restoration procedure and retention policy, communicate the expectations, and train the appropriate staff.

The University should dedicate the necessary resources to complete and implement its updated information security program. Specifically, they need to concentrate on the two remaining critical areas mentioned above to ensure their business continuity.

Improve Review of Financial Statements

The University's fiscal year 2011 final unaudited financial statements contained material misstatements and footnote presentation errors. The financial reporting department's current review process did not prevent or detect these errors or omissions.

Specifically, a \$1.1 million misclassification between restricted and unrestricted cash resulted from improper coding or mapping of accounts in a database that generates the University's statements. Further, errors within a manual calculation process to support an adjusting entry resulted in a \$1.1 million understatement of capital assets, net of debt. Finally, the financial reporting department neglected to disclose a \$1.2 million treasury loan and the advanced refunding of \$1.6 million in Series 2002A bonds in the footnotes.

We recommend management implement new and strengthen controls over their financial reporting process. The design and operation of these controls should be sufficient to prevent or detect and correct mistakes such as those identified above. When there are new activities or material events occur, management's financial reporting process should include research and inquiry regarding proper presentation. Improved financial reporting controls will ensure the University's unaudited financial statements are materially correct and accurately represent its operations in order to meet the University and Commonwealth's financial reporting needs.

Improve Timely Deletion of Terminated Employees from CIPPS

The payroll department allowed three of 46 terminated employees to remain on the payroll system for three to 19 pay periods after receiving their final paycheck through CIPPS. In two of three instances, delays in receiving notice of termination from the respective supervisor and human resources negatively impacted

the payroll department's ability to remove these employees promptly. However, this did not completely explain the delays observed.

Best practice when terminating employees would have an entity remove employees from the payroll system upon receipt of their final paycheck. Failure to remove these employees could allow them to receive paychecks in error.

The University should evaluate its termination policies and procedures to ensure they support the timely deletion of terminated employees from CIPPS. Further, management should consider revising their employee separation procedures to provide for more timely completion and delivery of termination documentation to the appropriate departments.

Improve Process for Setting Small Purchase Charge Card Monthly Limits

During our review, we observed 126 of the 130 small purchases charge card holders have monthly purchasing limits which significantly exceeded their actual monthly purchasing activity. On average these cardholders used only two percent of the monthly credit limit available to them. Conversely, one cardholder exceeded their monthly purchasing limit for one month during the year and on average used 95 percent of the limit available to them.

The small purchases charge card administrator should review the purchasing activity of all cardholders and determine if the cardholder has the appropriate monthly purchasing limits, and if not make adjustment to these limits. Regular review of purchasing activity and consideration of such limits will help to minimize the University's exposure to the risk of improper card usage.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 19, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated April 19, 2012. 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 opinions 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. However, we identified certain deficiencies in internal control over financial reporting entitled “Approve and Implement Information Security Program,” “Improve Review of Financial Statements,” “Improve Timely Deletion of Terminated Employees from CIPPS,” and “Improve Process for Setting Small Purchase Charge Card Monthly Limits,” which are described in the section titled “Audit Findings and Recommendations,” that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. This instance of noncompliance and other matters, entitled “Approve and Implement Information Security Program,” is described in the section titled “Audit Findings and Recommendations.”

The University’s response to the findings 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 not taken adequate corrective action with respect to the previously reported finding “Approve and Implement Information Security Program.” Accordingly, we included this finding in the section entitled “Audit 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 May 21, 2012.

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj



VIRGINIA STATE UNIVERSITY

P.O. Box 9213
PETERSBURG, VIRGINIA 23806
(804) 524-5995
(804) 524-5347 FAX

TDD (804) 524-5487

David J. Meadows
Vice President for Administration & Finance

May 21, 2012

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

Dear Mr. Kucharski:

Virginia State University (VSU) has reviewed the Auditor of Public Accounts' (APA) Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the fiscal year ended June 30, 2011. The University appreciates the opportunity to respond to the findings and recommendations. In accordance with Government Auditing Standards, VSU provides the following responses for inclusion in the report:

AUDIT FINDING AND RECOMMENDATIONS

Approve and Implement Information Security Program

The University has successfully completed seventy-two (72) of 72 Business Impact Analysis (BIA) reports and the Continuity of Operations Plan (COOP) with senior executive management approval. Also, the University is currently developing its Disaster Recovery Plan (DRP) with disaster recovery training and awareness sessions, training exercises, and lessons-learned. These documents will assist the University in resuming business operations in the event of a disaster or other unexpected events or system failures.

In addition, the University is taking the necessary steps to document that controls are in place that ensures sensitive data is backed up, backup procedures are periodically tested, and records are kept in accordance with the records retention policy. The University is also revising its information security policies and procedures to ensure compliance with the Commonwealth's information security policies, standards, and guidelines.

Improve Review of Financial Statements

The University's FY2010 financial audit was completed later than it had been in prior years. As a result, the amount of time allocated to the University's financial close out and review processes for FY2011 was substantially impacted. Each year the University has worked to strengthen its controls over the financial reporting process. University management will perform a more stringent review of current processes and look for opportunities to further improve this important function.

Mr. Walter J. Kucharski
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May 21, 2012

Improve Timely Deletion of Terminated Employees from CIPPS

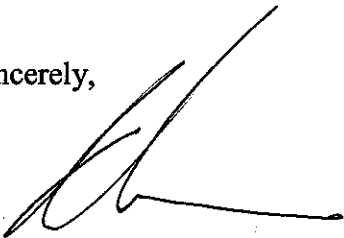
The University will evaluate its termination policies and procedures to ensure they support the timely deletion of terminated employees from CIPPS. In addition, University management will examine its employee separation procedures to ensure documentation for terminated employees is provided to the appropriate departments in a timely manner.

Improve Process for Setting Small Purchase Charge Card Monthly Limits

The University will work to strengthen its controls over the Small Purchase Charge Card (SPCC) program. The SPCC Program Administrator will provide recommended purchasing limits to cardholder's supervisors, who are responsible for performing an annual review of cardholder's usage and purchasing limits. In the case of the one cardholder that exceed the monthly purchase limit and on average used 95% of the limit available, the University will closely monitor this and similar cardholder's activity to ensure limits are set at the appropriate levels.

Virginia State University is committed to addressing these audit findings and recommendations. We would like to thank you and your staff for your continued collaboration and support and look forward to our FY2012 audit.

Sincerely,



David J. Meadows
Vice President for Administration and Finance

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

VIRGINIA STATE UNIVERSITY
Petersburg, Virginia

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As of June 30, 2011

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As of April 19, 2012

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