



VIRGINIA COMMUNITY COLLEGE SYSTEM

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
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AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Community College System (System) as of and for the year ended June 30, 2018, and issued our report thereon, dated July 25, 2019. Our report, included in the System's basic financial statements, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the System's website at www.vccs.edu. Our audit of the System 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
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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 at the following colleges:

- Central Virginia Community College - Accreditation and Single Audit Follow-up;
- Dabney S. Lancaster Community College - Accreditation;
- J. Sargeant Reynolds Community College - Accreditation;
- Mountain Empire Community College - Accreditation;
- Northern Virginia Community College - Single Audit Coverage;
- Paul D. Camp Community College – Single Audit Follow-up;
- Piedmont Virginia Community College - Accreditation;
- Tidewater Community College - Single Audit Coverage; and
- Virginia Western Community College - Accreditation.

In relation to this testing, we found internal control findings requiring management's attention and instances of noncompliance in relation to this testing. These internal control and compliance findings all have the topic of "Student Financial Assistance" with "- Single Audit" and/or "- Accreditation" to designate if we performed the on-site testing in support of the Commonwealth's Single Audit of federal funds or the college's reaffirmation of accreditation.

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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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July 25, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

TRANSMITTAL LETTER

For fiscal year 2018, we audited the financial statements of the **Virginia Community College System** (System). We also audited Federal Student Financial Assistance in support of the Commonwealth's Single Audit and those community colleges (colleges) going through the process of providing reaffirmation of their accreditation. To meet these objectives, we performed testing on-site at seventeen colleges, the Virginia Community College System Office (System Office) and the Shared Services Center (Shared Services). While the findings in this report cannot be extrapolated to the other colleges in the System, we believe that the groupings of issues within the topical areas indicate where the System Office, Internal Audit, Shared Services, and the colleges can collaborate to make improvements and reduce the risk to the System in the future.

We have detailed 80 management recommendations in the report below and grouped the recommendations into seven topical areas. Our analysis of these recommendations shows there are four specific issues that indicate that there could be a benefit in the System Office taking a system-wide approach to correct and ameliorate the issues. The four specific issues are: access control and student financial assistance, both their own topic areas; and revenue contracts and prepaid expenses, within the topic areas of General Accounting and Procurement/Contract Management, respectively. We issued access control findings to seven out of the eight (88%) colleges subject to on-site testing; and to the System Office and Shared Services. We found that providing adequate segregation of duties and applying the principle of least privileges to systems for operations are challenges for the System. We issued student financial assistance findings, covering several functional areas, to eight out of the nine (89%) colleges subject to on-site compliance testing for Single Audit or accreditation. We report on issues including: Title IV calculations, reconciliations, loan reporting, and the return of student financial assistance. We report findings from three of the eight (38%) colleges where we audited the monitoring and management of revenue contracts. In addition, two of the revenue contract findings include internal control issues related to Shared Services. Finally, we report findings for five of the eight (63%) colleges we audited for proper reporting and state compliance related to prepaid expenses.

The functional areas identified above are not the only areas with findings, as we issued management recommendations in the areas of human resources and payroll, capital assets, and information system security. In addition to these topics and the specific issues listed above that we believe could benefit from a system-wide approach to correct, we report a Comment to Management related to the challenges of implementing and achieving the Chancellor's vision for a shared services model. These challenges along with recommendations are in the section titled "Comment to Management" that immediately follows this transmittal letter.

We would like to express our appreciation to the many individuals at the System Office, Shared Services, and the individual colleges who responded to our requests and provided us the information needed to meet our audit objectives.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

COMMENT TO MANAGEMENT

Over the last two audits, including the current year, the Auditor of Public Accounts and the System have reported and responded, respectively, to management recommendations in several areas in the business and payroll offices of the colleges. While individual colleges have responded to each individual recommendation, the consistent identification and reporting of issues during each audit appears to indicate that there is an underlying cause that should be addressed. Management across the entire System agrees it would be in the best interest of the System to have mechanisms and processes in place to address business office staffing pressures and concerns going forward with the continued implementation and integration of Shared Services into the System.

For purposes of our reporting and for recommendations discussed herein, business offices means all staff collectively responsible for: financial reporting, payroll, procurement, capital assets, human resources, and/or student financial assistance. In other words, all aspects that require financial reporting and/or compliance with Commonwealth or federal requirements for each community college and with the aid of the new Shared Services. The Chancellor initiated the shared services model and sent a letter to the colleges informing them of the change in operations, sharing his vision of the administrative improvements and efficiencies this would bring to the System. While management at the System Office is responsible for carrying out the vision of the Chancellor, it is management at the colleges and Shared Services that is responsible for the design, implementation, and operational effectiveness of internal controls to meet operational, compliance, and financial reporting requirements.

In order to successfully achieve the Chancellor's vision for implementing a shared services model that can meet operational, compliance, and financial reporting requirements, the System Office needs to improve efforts to assist the individual colleges' business managers and accounting staff in various accounting and reporting areas. The System Office recognizes that reductions in college business office staff, resulting from departures for other jobs, retirements, layoffs associated with declining revenues from enrollment, and transition of duties as part of the implementation of Shared Services, has put an additional burden on the remaining college business office staff to complete the various daily, weekly, monthly, and year-end requirements. During the current fiscal year 2018 financial statement audit, we wrote 60 management recommendations dealing with issues at business offices. Every college that was subject to on-site testing in support of the financial statement audit received at least one management recommendation related to its business office. The number of findings in these areas is up from the prior year audit, where we issued 45 findings related to business offices in support of the financial statement audit. The successful implementation of the shared services model will depend on continued collaboration between the System Office, the colleges, and Shared Services.

The individual colleges and Shared Services should continue to fully develop and improve the service level agreements entered into by both parties for each service area, by increasing details of responsibilities and providing for a separation of duties between the parties to the agreement. As part of the implementation and continuous improvement goals of Shared Services, the streamlining of services and the performance of Shared Services in delivering the services to its System partners needs to be monitored carefully by the System's Independent Verification and Validation (IV&V) program. The

program manager of the IV&V program should report timely on the results of the IV&V initiative underway to analyze and document the challenges at each of the 23 community college's business offices to the Executive Council. The Executive Council, responsible under the Shared Service's Charter for setting the strategic direction of Shared Services, can do so by holding Shared Services accountable for its performance and ensuring that Shared Services is aligned with the priorities and mission of the System. By reporting directly to the Chancellor, the Executive Council should provide objective, accurate, and detailed information based on the input it received from the management and Process Councils and propose solutions to the Chancellor to create top management buy-in and show support for necessary adjustments and corrective actions to the system-wide implementation, so that the mission and goals of the System are preserved and advanced.

In addition to the IV&V work being performed by the IV&V program manager, the System Office should work with the colleges to conduct a system-wide review of the employee work profiles of the college's business office personnel. The System Office will need to recommend specific core competencies and experience levels for the colleges' business office positions, so that jobs are offered to adequately qualified candidates. The System Office should also establish regular meetings with the college's vice presidents of finance to discuss the continued need for adequate staffing within its business offices, and to ensure that management at each college are aware of the need for competent and adequately trained staff. The System Office should use its semi-annual administrative services conference to provide for additional oversight over business office issues indicated by the internal control deficiencies identified in this report and provide for adequate training in areas of finance, accounting, and budgeting. The System Office can help ensure that the recent trend of increasing management recommendations is reversed through increased efforts to ensure Shared Services implementation is successful and that the vision of the Chancellor is integrated into the mission of the System by providing successful outcomes for all stakeholders in the System. The success of shared services model and the colleges in the System can only be realized when System Office management takes the necessary steps to enable business offices to fully align their operations with the System's vision for a shared services model by providing adequate support, feedback, and collaboration between all System stakeholders.

INTERNAL CONTROL AND COMPLIANCE FINDINGS

All findings are grouped by the System Office, Shared Services, or individual colleges. To aid in the understanding of current and prior findings, there are three appendices to the report related to findings. The first two appendices contain lists of the current year findings within this report. The first appendix lists the findings in the order they appear in this report and the second appendix groups the findings by their respective topic. The third appendix provides the status of all 2017 findings as either resolved, deferred to future audits, or issued as a repeat finding.

SYSTEM OFFICE

2018-01: Encourage Community Colleges and the Shared Services Center to Control System Access

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The System Office should continue to work to provide adequate reference tools for the colleges with respect to the access roles and abilities of those roles in the System's administrative and student systems. The System Office is continuing to develop user manuals and access guides for the systems with the purpose of effectively communicating to the colleges and Shared Services how to establish appropriate roles and preferences to minimize segregation of duties issues. While System Office staff have provided training and education to college personnel, there is still an overall lack of awareness of the tools available to each college to help manage access. Many colleges are not aware of and are not using queries developed by the System Office to help detect potential systems access conflicts. We identified several issues with system access controls at seven out of eight (88%) colleges where we performed fieldwork and at Shared Services. Access findings detailed issues related to segregation of duties, excessive user access, and the untimely deletion of inactive and terminated user accounts. Findings were issued to: Germanna Community College, Lord Fairfax Community College, New River Community College, Northern Virginia Community College, Patrick Henry Community College, Piedmont Virginia Community College, Tidewater Community College, and Shared Services.

The System's Information Technology (IT) Security Standard (System's Security Standard), section 9.2.3 – Management of Privileged Access Rights, based on International Standards Organization (ISO) 27002:2013, dictates the principle of least privilege that must be used by each college, Shared Services and the System Office in the assignment of security roles and responsibilities. For segregation of duties, section 6.1.2 – Segregation of Duties, of the System's Security Standard, states that, conflicting duties and areas of responsibility should be segregated to reduce opportunities for unauthorized or unintentional modification or misuse of the organization's assets. Care should be taken that no single person can access, modify, or use assets without authorization or detection. Furthermore, in cases where this may not be practicable, compensating controls should be considered.

Allowing excessive access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Granting access based on the principle of least

privilege is a best practice for maintaining security over critical systems. When access granted violates the principle of least privilege or segregation of duties, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions.

The previously noted issues are a result of several contributing factors. There have been changes in key personnel at the colleges, for instance, colleges transitioning to new Information Security Officers, which may have resulted in communication issues. Individual colleges are unaware of assigned role definitions, privileges, and resources and tools offered by the System Office to reduce risk of inappropriate systems access levels. While there are likely contributing factors to the lack of awareness, such as employee turnover at the college level, the current approach to education and access management would benefit from further strengthening and refinement.

The System Office should continue to work with various stakeholders, including college personnel, Shared Services, and internal audit, to develop detailed and useful reference tools to ensure that managers over the various systems establish and maintain appropriate systems access levels. The System Office should continue to work to develop reference tools that provide guidance for management of the colleges and Shared Services justifying why conflicting access is necessary and to guide the design and implementation of compensating controls based on the System's Security Standard. The System Office should continue to educate and monitor operations to ensure the colleges and Shared Services align employee access with employee work profile responsibilities to eliminate conflicting or unnecessary access to maintain least privilege and adequate segregation of duties. The System Office should also leverage its creation of Shared Services to help colleges grant appropriate access levels based on the coordination of accounting and business functions between the colleges and Shared Services. Open communication between individual colleges, Shared Services, and the System Office regarding access is critical in ensuring that colleges have the tools and knowledge necessary to establish and evaluate appropriate employee systems access.

2018-02: Continue Improving Vulnerability Mitigation Efforts

Topic: Information Systems Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2017)

Prior Title: Improve Software Patching and Vulnerability Mitigation Efforts

The System Office continues to improve its vulnerability management process in accordance with the System's Security Standard. The System Office is using a vulnerability scanning tool that produces inaccurate results and requires additional effort from the System Office's IT staff to review and verify legitimate vulnerabilities in the IT environment. In the prior year audit, we identified the System Office was not patching software timely, but the System Office provided evidence to show it remediated the prior year issue.

We communicated the specific control weakness and compliance reference to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

Without identifying accurate vulnerability information, the System Office unnecessarily assigns resources to review the vulnerability scan reports to identify legitimate weaknesses in its IT environment. This reduces the resources available to perform other tasks in the IT environment.

The System Office should continue dedicating the necessary resources to implement the controls discussed in the communication marked FOIAE in accordance with the Security Policy and the System's Security Standard. By making these improvements, the System Office should be able to reduce the amount of resources necessary to research and remediate vulnerabilities. It should also reduce the data security risk for sensitive and mission critical systems that reside in the internal secure network.

2018-03: Improve Web Application Security

Topic: Information Systems Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The System Office does not properly secure a sensitive web application in accordance with the System's Security Standard.

We communicated the control weakness to management in a separate document marked FOIAE under § 2.2-3705.2 of the Code of Virginia, due to it containing descriptions of security mechanisms. The System's Security Standard requires the documentation and implementation of certain controls that reduce unnecessary risk to the confidentiality, integrity, and availability of the System's information systems and data.

The System Office should develop a plan to implement the controls discussed in the communication marked FOIAE in accordance with the System's Security Standard in a timely manner. Doing this will help to ensure the System Office secures the web application to protect its sensitive and mission critical data.

2018-04: Continue to Complete a Risk Assessment for Each Sensitive System

Topic: Information Systems Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2017)

Prior Title: Complete a Risk Assessment for Each Sensitive System

The System Office continues making progress to complete risk assessments for all sensitive systems in accordance with the System's Security Standard. The System Office has 24 sensitive systems that each require a risk assessment. The System Office has 12 risk assessments in draft status and plan to begin the remaining 12 between August and November of 2019.

The System's Security Standard requires the System Office to conduct risk assessments for sensitive information assets on at least an annual basis (section 4.2 Assessing Security Risks). Additionally, the System's Security Standard requires the System Office to conduct risk assessments to identify threats, vulnerabilities, likelihood of occurrences, and potential impacts (section 0.2 Information Security Requirements).

Without a complete risk assessment for each sensitive system, the System Office increases the risk it will not identify and mitigate existing vulnerabilities; increasing the chances a malicious attacker could exploit a known vulnerability. A successful attack could lead to a breach of data and create financial, legal, and reputational damages for the System.

The System Office experienced delays completing the risk assessments due to a loss in personnel and changes to essential positions, such as its Chief Information Officer and Chief Information Security Officer. The System Office plans to begin the remaining risk assessments when personnel resources are available.

The System Office should dedicate the necessary resources and complete risk assessments for each sensitive system. Further, the System Office should review and update the risk assessment for each sensitive system after it undergoes any significant change or on an annual basis. Maintaining current risk assessments will decrease the data security risk for the sensitive systems and improve the security posture of the System.

SHARED SERVICES CENTER

2018-05: Ensure Proper Processing and Approval of Vouchers

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Shared Services did not properly process vouchers on behalf of Northern Virginia Community College (Northern Virginia). Of the 18 randomly tested travel expenses, three (17%) exceeded the standard lodging rate; however, the Shared Services travel and expense team processed and approved the travel reimbursement vouchers for payment without receiving proper authorization from the college. Additionally, for two of the 12 (17%) randomly tested payments for goods or services, Shared Services did not accurately record the goods or services receipt date in the Commonwealth's accounting and financial reporting system. There was one instance, where the Shared Services travel and expense team approved a travel voucher for reimbursement after the System's Internal Audit Department reiterated the Commonwealth's requirements.

The Department of Accounts' (Accounts) Commonwealth Accounting Policies and Procedures Manual (CAPP) topic 20335 outlines the requirements for overnight travel and states that the agency head or designee must approve reimbursement for lodging exceptions in advance, for lodging up to 50

percent over the guidelines when circumstances warrant. Agencies should not reimburse expenses in excess of the guidelines, unless approved in advance.

Without proper internal controls over travel reimbursements, Shared Services could expose the Commonwealth to excessive travel costs that are not necessary for providing essential services to the Commonwealth's citizens. The goods or services receipt date is a required field in the Commonwealth's accounting and financial reporting system. The goods or services receipt date affects payment due dates and year-end payable accruals; therefore, it is essential that agencies accurately record the good or services receipt date.

The deficiencies noted above occurred because the Shared Services travel and expense team did not adhere to the CAPP manual requirements for higher lodging exceptions and deemed justifications from employees on their expense reports to be sufficient support to approve the travel vouchers. As a result, they approved travel vouchers that were incomplete, meaning they lacked required approvals from Northern Virginia for exceptions. Additionally, Shared Services personnel misunderstood the requirements for the good or services receipt date, using the invoice receipt date or other dates instead of the date the goods or services were physically received.

Shared Services should handle lodging exceptions in accordance with CAPP topic 20335. Prior to approving travel reimbursements for payment, Shared Services management should ensure that the travel and expense team verifies that vouchers are complete, accurate, and allowable. Additionally, Shared Services management should ensure that the appropriate personnel understand and accurately record the good or services receipt date in the Commonwealth's accounting and financial reporting system.

2018-06: Perform a Proper Evaluation and Analysis of System Access Levels

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Shared Services has not performed a proper evaluation and analysis to determine the appropriate system access levels that Shared Services personnel require to perform their job duties based on the concept of least privilege. Shared Services is responsible for providing services to the System's individual colleges, requiring Shared Services personnel to have access to various systems to process transactions and deliver services. For fiscal year 2018, we noted the following deficiencies:

- Shared Services did not timely request that Accounts remove two out of four (50%) terminated employees' access to the Commonwealth's accounting and financial reporting system. Removal requests for these employees took between 56 and 100 days.
- Shared Services employees retained unnecessary access to the System's administrative system. Two of ten (20%) employees had access that did not reflect their job duties. The

remaining eight employees had more access to the System's administrative system than their role required.

- Shared Services has not properly assigned access roles in the Commonwealth's human resource and payroll systems based on the principle of least privileges and to ensure proper segregation of duties. Four employees held dual access to the Commonwealth's payroll and the human resource systems as of the end of fiscal year 2018, indicating that payroll and human resource duties are not properly segregated.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises Shared Services to disable information system access upon termination of their employment, which is the date that an employee is terminated from the System's human resource system, and in cases where evaluation of risk of access indicates the removal from systems access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. The System's Security Standard, section 9.2.3 – Management of Privileged Access Rights, dictates the principle of least privilege that must be used by each college, Shared Services, and the System Office in the assignment of security roles and responsibilities. Additionally, System's Security Standard, section 9.2.3 states that privileges will be allocated to users on a need-to-use basis and on an event-by-event basis, based on the minimum requirement for their functional role.

Delaying the removal of all access privileges increases the risk that terminated employees will have unauthorized access to Commonwealth systems and sensitive information. Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Granting access based on the principle of least privilege is a best practice for maintaining security over critical systems. When access granted violates the principle of least privilege, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions. Employees with dual update access are able to update and certify payroll and to also update critical information in the Commonwealth's human resource system. Without proper segregation of duties over the Commonwealth's payroll and human resource systems, there is an increased risk that an employee may authorize improper payroll payments, alter an employee's salary or benefits due to error or inappropriate actions within the system. Detection risks are also increased due to Shared Services' personnel having similar access as the System's college personnel, possibly creating an overlap of access.

Due to turnover and lack of a well-defined process, Shared Services did not ensure that the terminated users were removed timely from the Commonwealth's accounting and financial system. According to Shared Services management, they are currently working to review employees' job responsibilities and refine access levels needed to the System's administrative system. Additionally, Shared Services was unaware of the fact that employees retained dual access to the Commonwealth's human resource and payroll systems.

Shared Services management should perform a proper evaluation and analysis of access to all systems, assigning access based on the principle of least privilege to ensure that access levels are appropriate and aligned with employees' job duties. Management should collaborate with various

stakeholders, including individual college personnel, internal audit, and the System's Office to ensure that they maintain appropriate systems access levels commensurate with their role in the services they provide to the System.

2018-07: Ensure Contracts Are Valid and Current

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax Community College (Lord Fairfax) operated under an expired contract for vending services for all twelve months of fiscal year 2018. The previous vending contract expired in 2016; however, Shared Services, who was responsible for contract administration for Lord Fairfax, did not renegotiate the contract and Lord Fairfax continued to receive vending services and commissions under the expired contract. Lord Fairfax's management was aware that they were operating under an expired contract for vending services, and received commissions, without a legally binding contract.

Chapter 1 of the Department of General Services Agency Procurement and Surplus Property Manual (Procurement Manual) has that there is a fundamental obligation to ensure procurements are accomplished in accordance with the intent of the law. Specifically, if there is to be a contract between a state agency and a nongovernmental vendor, the Virginia Public Procurement Act and the regulations set forth in the Procurement Manual apply regardless of the source of funds by which the contract is to be paid or that may or may not result in monetary consideration for either party. Specifically, section 4.12 of the Procurement Manual requires written contracts to be issued and every procurement transaction to originate from a requisition containing, among other information, budget details, and the necessary approval authority.

Operating under an expired contract limits an agency's ability to measure a contractor's performance against agreed upon deliverables. Operating without signed contracts may result in the receipt of incorrect commission payments, and missed opportunities of contracts not re-negotiated or negotiated with new vendors. Records for an expired contract cannot be audited to determine the accuracy of the payments and whether the payments are being made in accordance with contractual requirements as a result of having no contract in place. Contractual disputes could lead to issues for Lord Fairfax in the case of non-performance of contractual terms on the part of the contractor, with the potential for Lord Fairfax to have no recourse due to the condition of having no current contract in place.

Under the service level agreement between Lord Fairfax and Shared Services, Shared Services is responsible for administering and monitoring contractual agreements to verify proper adherence to all contract specifications, terms, and conditions. Shared Services did not properly coordinate the new contract due to the short-term contract that Lord Fairfax signed before transferring the contract over to Shared Services. Since there was not a legally binding contract, Shared Services could not properly evaluate if the commissions payments were accurate.

Shared Services management should ensure that upon expiration of contract renewals that measures are taken to procure a new contract. Shared Services should ensure that it follows the procurement procedures outlined within the Procurement Manual and should ensure that it has a valid contract in order to administer and monitor contractual agreements to verify proper adherence to all contract specifications, terms, and conditions. In addition, Shared Services should have a valid contract to aid it in its ability to verify commissions from revenue sharing contracts to ensure accuracy of revenues received.

2018-08: Obtain Information Needed to Enforce Revenue Contract Deliverables

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Shared Services, on behalf of Germanna Community College (Germanna), was not able compel a contractor to fulfil one of its contractual obligations as it renewed the contract for fiscal year 2019. The vending contractor did not provide a sales report, in order to substantiate commission payments as required by the contract, for two out of two (100%) agreed-upon commission payments. Therefore, Germanna could not provide proof of the suitability of receiving zero commission payments.

Section 10.22(d) of the Procurement Manual states the following regarding revenue sharing contracts:

Revenue Sharing Contracts. Certain agencies and institutions possess statutory authorization to generate revenue. Service contracts for the management of cash operations (e.g., food services, canteen or bookstore operations, etc.) commonly permit agencies and institutions to share in the revenues these activities generate rather than require any expenditure of funds. Commissions should be normally based as a percentage of gross receipts.... It is imperative that agencies have some ability to verify gross sales under agreement of this type.

The revenue contract between Germanna and the contractor stated that commissions were due at the end of each six-month interval over the course of the contract and reports of sales are due by the end of the month following the reported sales month. Not obtaining the monthly sales reports may result in Germanna receiving inaccurate, insufficient, or late commission payments.

While Germanna did not provide the vendor with an ideal ranking for three years in a row, Shared Services was unable to obtain the required support for the commission payments from the vendor and as a result, Shared Services was not able to verify the accuracy of the determination of revenue received by vendor by reviewing actual sales data.

Shared Services management is currently in the process of procuring a vendor for the same services. As the contract is developed and negotiated, Germanna and Shared Services should collaborate

to ensure that it contains clauses that allows for the proper collection of supporting sales information from the vendor to be able to monitor revenue contract deliverables to comply with Chapter 10 of the Procurement Manual.

2018-09: Ensure Vendors Are Aware of Special Instructions and Automated Processes Work as Intended

Topic: General Accounting

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Shared Services did not process a payment timely in compliance with the Prompt Payment Act, on behalf of Germanna. Shared Services processed one out of 20 (5%) randomly selected payments eighteen days past the thirty-day requirement in the Prompt Payment Act.

Code of Virginia § 2.2-4347 of the Virginia Public Procurement Act (Act), requires state agencies to pay for delivered goods and services within thirty calendar days after receipt of a proper invoice, or thirty days after receipt of the goods or services, whichever is later. Not following prompt pay requirements established by the Act may harm the Commonwealth's reputation as a buyer, damage relationships with vendors, and could result in late fees.

According to management, the untimely payment to the vendor was caused by Shared Services' system not processing the email with the invoice from the vendor because a comma was in the subject line. Additionally, according to management, Shared Services did not make the vendor aware of the formatting restriction as part of the terms and conditions of the contract.

Shared Services should review automated processes to ensure that vendor invoices for payment are not rejected for reasons other than those supported by the terms and conditions of the contract. Additionally, Shared Services along with the colleges that use its services should educate vendors of any special instructions for submitting invoices that the vendor is required to follow to support proper and timely processing.

LORD FAIRFAX COMMUNITY COLLEGE

2018-10: Ensure Staff Transmits Sensitive Information Securely

Topic: Information Systems Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Lord Fairfax did not transmit sensitive information securely. A Lord Fairfax employee transmitted personally identifiable information internally to another Lord Fairfax employee without disclosing the sensitive nature of the information. The second employee transmitted the sensitive personnel

documentation to another Commonwealth agency (receiving agency) without encrypting the information.

The System's Security Standard, section 13.2, requires the use of data protection mechanisms for the transmission of all data that is sensitive. Sensitive data includes, but is not limited to, personally identifiable information. Personally identifiable information is considered information that describes, locates, or indexes anything about an individual, such as financial transactions, Social Security numbers, medical history, ancestry, religion, political ideology, criminal or employment records, and photographs. In addition, Lord Fairfax has its "Standard Operating Procedure" policy manual, which includes section 10.1.1 – Data Encryption, cautioning staff that "transmission of sensitive data using email is not allowed unless the data is included as an encrypted attachment." If Lord Fairfax staff and management do not use email encryption or another suitable, secure method of sending personally identifiable information, Lord Fairfax could compromise the personal information of its employees and could expose those employees to risk of fraud or identity theft.

Staff at Lord Fairfax indicated that they did not review the information containing sensitive information prior to transmitting internally and subsequently to the receiving agency. Staff stated this was an oversight and provided the auditor with the Lord Fairfax Standard Operating Procedure section cited above. The policy was published on June 12, 2018, and was in place prior to the transmission of the sensitive information.

Lord Fairfax should ensure employees accurately understand the System's Security Standard and use secure methods to send sensitive information. Lord Fairfax management should train staff to ensure everyone knows how to send personally identifiable information securely, including how to notify each other that a communication contains sensitive information.

2018-11: Ensure Staff Responsible for Fixed Asset Inventory Receive Training

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax is not conducting an adequate annual inventory to ensure all fixed assets are properly recorded in the System's fixed asset system. The following issues were noted:

- Four out of eight (50%) fixed assets sampled from the System's listing could not be located.
- Two out of four (50%) fixed assets selected onsite that were being used by Lord Fairfax were classified as disposed in the fixed asset system and; therefore, were excluded from inventory counts.

CAPP topic 30505 requires a physical inventory of capital assets at least once every two years in order to properly safeguard assets and maintain fiscal accountability. Discrepancies between recorded

and actual inventories must be resolved in a timely manner through the submission of revised input forms and tagging, if necessary. Additionally, CAPP topic 30705 requires when the asset is not in current use and is located on-site at the agency; it needs to be classified as surplus.

Insufficient tracking of Lord Fairfax's fixed assets increases the risk of misappropriation of Commonwealth property and may contribute to the inclusion of inaccurate information in the fixed asset system and cause misstatements of the financial statements. Without proper inventory documentation, the disposition of assets cannot be determined. Lord Fairfax did not properly track and manage its fixed assets due to lack of staffing and training. The administrative specialist absorbed the role of inventory specialist in 2017 and was not properly trained in managing and tracking fixed assets.

Lord Fairfax should allocate proper resources and provide training and details on the requirements of fixed asset management to staff. Lord Fairfax should evaluate current inventory and tracking procedures and implement corrective action to ensure that fixed assets are monitored in accordance with state requirements and discrepancies are corrected following a full inventory.

2018-12: Ensure Adequate Staffing to Provide for Proper Separation of Duties Over the Cash Collection Process

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax did not establish separation of duties over the cash collection process. For all 25 (100%) of the cash deposits randomly sampled, the employee who prepared the cash deposit also entered the amounts into the accounting information system.

Best business practices recommend separation of duties between recording, custody, authorizing, and reconciling of financial transactions as part of a sound system of internal controls. Per CAPP topic 20905, agency management is responsible for instituting internal controls over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records.

Lack of separation of duties in the cash collection process can create the opportunity for fraud and could result in misappropriation of state funds. Due to lack of staffing and understanding of proper separation of duties, a Lord Fairfax employee creates the deposit slip and enters the deposit information into the accounting information system.

Lord Fairfax's management should direct resources to ensure that there enough staff to provide appropriate separation of duties for cash collections. Management should also educate staff on the importance of separation of duties in financial transactions.

2018-13: Ensure Proper Capitalization of Fixed Assets**Topic:** Capital Assets**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

Lord Fairfax is not capitalizing assets in accordance with the CAPP manual. For one out of five (20%) vouchers tested, staff did not properly capitalize a fixed asset and include it in the accounting information system.

CAPP topic 30305 states agencies should maintain proper stewardship over all agency capital assets for both control and required financial reporting. Agencies are to capitalize assets with an expected useful life of greater than one year and an individual value or cost of \$5,000 or more at the date of acquisition. All tangible property meeting the above criteria must be included in the fixed asset system.

Without proper capitalization of fixed assets, Lord Fairfax increases the risk of inaccurate reporting of capital assets in the financial statements and not detecting theft of assets. Lord Fairfax uses two separate systems in tracking assets. Lord Fairfax uses one system to enter and generate tags for fixed assets and uses the accounting information system as the system of record for the fixed asset. While Lord Fairfax staff tagged the asset, the staff did not enter the asset in the accounting information system. Lord Fairfax uses a software to perform a cross check between the two systems every two years, which stopped functioning during the fiscal year, resulting in staff overlooking the asset's exclusion from the system of record. Lord Fairfax is currently looking for a new inventory system to help manage and track fixed assets.

Lord Fairfax should ensure staff properly capitalize fixed assets and enter the assets into the accounting information system. Lord Fairfax should review and implement policies and procedures to ensure fixed assets are entered in both systems while researching a new inventory system. Additionally, Lord Fairfax should communicate to responsible staff the importance of entering capitalized assets into the accounting information system.

2018-14: Improve Effectiveness of System Access Controls**Topic:** Access Control**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

Lord Fairfax needs to improve the effectiveness of system access controls. Specifically, we noted the following deficiencies:

- Lord Fairfax employees retained unnecessary access to the System's administrative system. Five employees who terminated still retained access to the System's administrative system as of January 2019. Two of the five employees (40%) had terminated prior to June 30, 2017.
- Seven employees who no longer needed access to the System's administrative system due to changes in job duties, maintained access to the system as of January 2019. The Lord Fairfax employees last signed onto the system between December 2015 to May 2017 and no longer required access.
- Lord Fairfax did not have internal policies and procedures in place for granting and periodically reviewing access to the Commonwealth's accounting and financial reporting system.
- During fiscal year 2018, Lord Fairfax changed its security officer for the Commonwealth's accounting and financial reporting system; however, Lord Fairfax did not timely submit the required documentation to Accounts. The former security officer terminated in August 2017, and Lord Fairfax did not submit the updated documentation until April 2018.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises the colleges to disable an employee's information system access upon termination of their employment, which is the date that an employee is terminated from the System's human resource system, and in cases where evaluation of risk of access indicates the removal from systems access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. The removal of access, may be deemed necessary, in other circumstances, such as whenever an employee has a change in their duties. Per CAPP topic 70220, agencies are required to have policies and procedures in place for granting and periodically reviewing access to the Commonwealth's accounting and financial reporting system. Additionally, CAPP topic 70220, states that if the security officer changes, an updated authorized signatories form should be submitted to Accounts as soon as possible.

Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Granting access based on the principle of least privilege is a best practice for maintaining security over critical systems. When access granted violates the principle of least privilege, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions.

Lord Fairfax did not have procedures to account for the deactivation of access to the System's administrative system during the off boarding process; therefore, the employees maintained access in the system. Furthermore, Lord Fairfax did not perform comprehensive reviews of employees' access to the System's administrative system. Lord Fairfax is currently working to develop policies and procedures; therefore, they were unable to provide procedures concerning the Commonwealth's accounting and financial reporting system.

Lord Fairfax should improve its off boarding procedures and ensure that terminated employee access is promptly removed in accordance with the System's Security Standard. Lord Fairfax should

monitor the operational effectiveness of controls over access to the System's administrative system and ensure that they establish and maintain appropriate system access levels. Lord Fairfax management should perform thorough reviews of employee access to the System's administrative system in order to ensure that employees' access is adjusted upon role changes and that employees only retain access that is necessary to perform their job duties. Lord Fairfax management should design and implement policies and procedures over access to the Commonwealth's accounting and financial reporting system. Lord Fairfax should submit updated authorized signatories forms to Accounts timely on staffing changes affecting the security officer position as required by the CAPP manual.

2018-15: Review Leave Liability Report for Accuracy

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax inaccurately reported leave balances in the year-end leave liability report. Two out of 15 employees (13%) randomly selected for testing had both their leave hours earned during the year and year-end leave balance understated.

CAPP topic 40105 states the college's leave accounting system should record leave balances properly, manage leave balances, and accurately calculate the fiscal year-end leave liability. In addition, Shared Services sent out a fiscal year end communication with instructions for the college's review of the leave liability report. The communication placed responsibility on the colleges for ensuring the necessary corrections occurred prior to running the leave liability report for financial statement preparation.

The accurate reporting of fiscal year end leave liability is essential support for Lord Fairfax's State Schedule 7, Schedule of Accrued Leave Liability. Lord Fairfax's Schedule 7 supports the System Office's financial statement preparation. The inaccurate reporting of leave liability could lead to a potential misstatement of current and noncurrent compensated absences in the System's financial statements.

Lord Fairfax did not perform a proper review to ensure leave amounts were accurately calculated and included in the leave liability report prior to fiscal year end. Lord Fairfax should ensure the leave liability report used in the preparation of Schedule 7 is adequately reviewed prior to submission to the System Office. Lord Fairfax should also ensure staff responsible for preparing the report are aware of and understand the risks related to the preparation of the report.

2018-16: Improve Documentation for Small Purchase Charge Cards**Topic:** General Accounting**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

Lord Fairfax did not retain documentation for small purchase charge cards. One out of four (25%) cardholders sampled, did not have proper documentation showing approval for exceeding the monthly transaction limit. For one out of six (17%) cardholders sampled, the cardholder did not sign off on the small purchase charge card reconciliation.

CAPP topic 20355 indicates the agency is responsible for maintaining proper documentation to justify the reason for changes in the small purchase charge card limits for audit purposes. Additionally, CAPP topic 20355 states the agency is responsible for retaining documentation of purchases and returns and reconciling them, with the aid of the purchasing log, to the monthly charge card statement. As a part of the reconciliation procedures outlined in the CAPP manual, the cardholder must forward the monthly statement and the purchase log to the cardholder's supervisor with written certification that it has been reconciled.

Without maintaining proper documentation over small purchase charge cards, Lord Fairfax is increasing the risk of staff purchases exceeding the approved monthly transaction limit. Without proper documentation, Lord Fairfax is increasing the risk of errors in the reconciliations, which may result in overpayment and over spending.

Lord Fairfax staff relied on email approvals and did not ensure that the email correspondence was retained as support for the increase in the monthly transaction limit. Lord Fairfax management did not ensure proper review of the small purchase charge card reconciliation and overlooked the absence of signatures necessary to approve the reconciliation.

Lord Fairfax should ensure they retain correspondence and other documentation evidencing approvals for changes in the small purchase charge card limits. Lord Fairfax should ensure that cardholders prepare a small purchase charge card log in accordance with internal procedures and Commonwealth requirements. Lord Fairfax management should communicate to staff the importance of proper review of the small purchase charge card reconciliations prior to submitting for approval.

2018-17: Identify and Report Leases to Support the System's Financial Statements**Topic:** General Accounting**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

At the end of fiscal year 2018, Lord Fairfax personnel did not report at least two leases on the State Schedule 10 - Schedule of Operating Leases (State Funds) submitted to the System Office used in preparation of the System's financial statements. Lord Fairfax understated future obligations for rental

expense by \$32,312, and underreported \$10,599 in current year operating lease payments related to the two leases.

Statement No. 62 of the Governmental Accounting Standards Board requires the reporting of future minimum payments for operating leases having initial or remaining non-cancelable lease terms in excess of one year. Additionally, generally accepted accounting principles (GAAP) requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed. To comply with these reporting requirements, the System's financial reporting manager provides instructions for the preparation of State Schedule 10 in State Schedule 10A, which directs colleges preparing the schedule to include operating leases with obligations over \$5,000 and that extend beyond the current accounting period.

Errors reported in the state schedules submitted to the System Office result in inaccurate amounts being reported in the consolidated financial statements. According to Lord Fairfax management, they did not recognize some off-campus locations the school rented. Lord Fairfax staff and management did not analyze expenditures in order to identify leases.

Lord Fairfax management should implement procedures that assure staff properly identify operating leases for inclusion on the System's financial statement schedules, including making an accurate control listing of off-campus sites that are under lease. Lord Fairfax should follow instructions for financial statement schedules submitted to the System Office to ensure lease obligations are properly included as operating leases as applicable in the financial statements.

2018-18: Develop Policies and Procedures for Adjunct Employees without an Active Contract

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax has not documented and implemented policies and procedures related to adjunct employees that no longer have an active contract. CAPP topic 20905 requires each agency to develop its own internal policies and procedures that are approved in writing by agency management. The agency's policies and procedures are to be up-to-date to reflect current operations. In addition, best practices indicate that an agency should document, review, and update policies and procedures regularly to ensure the documentation is clear, concise, and adequately address all operational risk identified.

As a result of Lord Fairfax not having policies and procedures related to adjunct employees, we noted the following deficiencies related to the three adjunct employees in our random sample of terminated employees:

- For all three (100%), the date of the termination in the human resource system did not agree to supporting documentation.

- One (33%) Lord Fairfax adjunct employee did not complete the terminated checklist form. The terminated Employee checklist form documents the removal of system access and the return of Commonwealth property, such as charge cards, travel cards, and keys.

Lack of documented policies and procedures for adjunct employees that no longer have an active contract limits Lord Fairfax's ability to hold human resources accountable for not notifying the information technology personnel in a timely manner to remove access. Additionally, by not removing access in a timely manner or retaining documentation that Commonwealth property was returned, Lord Fairfax is increasing the risk that terminated employees may retain physical access to Commonwealth property and unauthorized access to state systems and sensitive information. Untimely deletion of access to systems can expose the colleges to inappropriate activity by individuals no longer employed by the institution.

Lord Fairfax has not devoted sufficient resources to develop, document, and implement policies and procedures related to adjunct employees. As a result, Lord Fairfax should dedicate the necessary resources to develop written policies and procedures to properly terminate adjunct employees without an active contract. Additionally, management should communicate to supervisory staff the importance of termination procedures that ensure the return of Commonwealth property and the removal of access for terminated employees to the Commonwealth systems in a timely manner.

2018-19: Maintain Proper Documentation for System Access Termination

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax could not provide the termination date of system access for prior employees. For 13 out of 21 (62%) prior employees sampled, human resources staff could not provide documentation to support the timely termination of system access.

CAPP topic 10305, Internal Control, states that agencies must document, evaluate, and test agency-level internal controls as a part of Agency Risk Management and Internal Control Standards (ARMICS). In addition, CAPP topic 21005, Records and Retention, states that agencies should develop and implement procedures, guidelines, systems, and business practices that facilitate the creation, backup, preservation, filing, storage, and disposal of records of all formats.

By not retaining supporting documentation, Lord Fairfax will not be able to assess its internal controls adequately and determine whether the timely removal of access for employees no longer needing access is effective. By not being able to assess its internal controls, Lord Fairfax increases the risk of employees inappropriately retaining access to state systems and sensitive information.

Currently, Lord Fairfax has no policies and procedures for creating and retaining documentation related to the date that system access was removed. Management should follow up with information technology personnel to ensure the removal of system access for terminated employees is complete in order to minimize the potential for unauthorized access. Additionally, Lord Fairfax should retain documentation regarding access termination to provide evidence that controls are operating as designed.

2018-20: Maintain Documentation for Federal Aid Program Reconciliations

Topic: Student Financial Assistance - Financial Statements

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Lord Fairfax personnel did not document the reconciliations for the federal assistance program. Twelve (100%) monthly federal aid reconciliations to the accounting information system did not have supporting documentation to ensure the reconciliation was performed timely and was accurate.

In accordance with 34 U.S. Code of Federal Regulations (C.F.R.) § 675.19(b)(2)(IV) and 685.300(b)(5), institutions must establish and maintain program and fiscal records that are reconciled at least monthly. Additionally, CAPP topic 21005, Records and Retention, states agencies should develop and implement procedures, guidelines, systems, and business practices that facilitate the creation, backup, preservation, filing, storage, and disposal of records of all formats. Accounts and the Library of Virginia established the minimum retention period for fiscal records at three years.

Without maintaining documentation of the monthly reconciliation of the federal student aid program and accounting information system, Lord Fairfax does not have evidence that it complied with federal requirements to perform reconciliations, which may lead to potential adverse actions, and may affect participation by the institution in Title IV programs. Lord Fairfax's business office did not document the federal aid reconciliation because the Director of Finance was not aware of the requirement to maintain supporting documentation. Lord Fairfax experienced turnover in the business office and two positions went unfilled; therefore, the Director of Finance had to take over certain roles.

Management should update policies and procedures to ensure during times of staff turnover, Lord Fairfax completes, documents, and reviews timely the reconciliation of federal aid programs to prevent future noncompliance. Additionally, management should ensure the business office maintains documentation of monthly federal aid program reconciliations between the internal accounting system and federal systems.

2018-21: Identify and Report Prepaid Expenses**Topic:** General Accounting**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

During fiscal year 2018, Lord Fairfax personnel did not report prepaid expenses in the state schedules submitted to the System Office used in preparation of the System's financial statements. There is an understatement on State Schedule 19 (Prepaid Expenses) of \$11,804 for at least one service contract and two subscription services.

CAPP topic 20310, Expenditures, outlines the expenses that are allowed to be paid as advance payments and System Office financial statement preparation directions sent to all colleges for State Schedule 19 directs staff to include advance payments and ensure they are in accordance with CAPP topic 20310 restrictions. Additionally, in accordance with generally accepted accounting principles (GAAP), accrual accounting requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed. A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period.

Errors reported in the state schedules submitted to the System Office resulted in inaccurate amounts being reported in draft consolidated financial statements for the System. According to Lord Fairfax's management, personnel did not review expenditures to determine if Lord Fairfax made any advance payments that required inclusion as prepaid expenses on the System's State Schedule 19.

Lord Fairfax personnel should analyze expenditures and the periods of service to determine whether expenditures meet the requirements for advance payments. Lord Fairfax should follow instructions for financial statement schedules submitted to the System Office to ensure advance payments are properly included as prepaid expenses in the financial statements, and also ensure that the advance payments meet the requirements of the CAPP topic 20310.

2018-22: Assign Responsibility for Proper Coding**Topic:** Human Resources and Payroll**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

Lord Fairfax could not provide source documents that supported the fund and program codes used to allocate the costs associated with two of the 15 (13%) employees randomly selected for testing. The Department of Human Resource Management (DHRM) Policy 6.10, Personnel Records Management, requires agencies to maintain complete and accurate records regarding each employee and position. Additionally, CAPP topic 21005, Records Retention and Disposition, outlines the minimum record retention periods for audit support, including all records relating to payroll. Finally, federal standards for documentation of personnel expenses (C.F.R. § 200.430(h)(8) require that records must

be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

Without proper documentation supporting employee pay coding, there is an increased risk of incorrect allocation of payroll expenditures. In addition, there is increased risk that Lord Fairfax is not following grant guidelines applicable to certain employees.

Lord Fairfax relies on the employee's department and role codes assigned in the Commonwealth's payroll system to populate the fund and program codes. Lord Fairfax's policies and procedures do not assign staff responsibilities to ensure correct program and fund codes are used when employees are hired or change positions. As a result, Lord Fairfax should re-evaluate and modify as needed written policies and procedures to ensure it clearly documents which staff are responsible for creating and retaining supporting documentation for the fund and program codes used to allocate the cost of each employee in their current position.

2018-23: Develop Policies and Procedures to Address Exceptions between the Commonwealth's Payroll and Human Resource Systems

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Lord Fairfax did not resolve exceptions between the Commonwealth's payroll and human resource systems in a timely manner. As a result, Accounts cited Lord Fairfax in the Comptroller's Report on Statewide Financial Management and Compliance (Quarterly Report) for the quarters ending September 2017, December 2017, and June 2018.

Agencies are required to submit explanations and/or reconciliations to Accounts for differences identified on the Commonwealth payroll system and the Commonwealth human resource system Unresolved Exceptions Report within six weeks of notification. CAPP topic 50810 states certain changes to employee records affecting payroll must be recorded in the Commonwealth human resource system before payroll is processed, and not recording the changes may result in a Commonwealth payroll system and the Commonwealth human resource system compare exception.

Without proper review of the unresolved exceptions in the Commonwealth's payroll and human resource systems, there is increased risk of unauthorized or incorrect payroll disbursements. The reasons for the unresolved exceptions are because Lord Fairfax does not have procedures for reviewing and addressing the exceptions between the two systems. During the period under audit, Accounts sent several notifications regarding the unresolved exceptions; however, no follow up on the exceptions occurred. According to management at Lord Fairfax, the notifications were in the Director of Human Resources' "junk" email inbox and overlooked. Due to lack of response, Accounts began sending the notifications to the Budget and Finance Director, who forwarded the notifications to the payroll staff to resolve the exceptions.

Lord Fairfax should develop procedures to assign responsibility for addressing unresolved exceptions between the Commonwealth's payroll and human resource systems in a timely manner. Additionally, human resources management should take actions to ensure the receipt of notifications from Accounts.

PIEDMONT VIRGINIA COMMUNITY COLLEGE

2018-24: Improve Controls over Fixed Asset Inventory

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Piedmont Virginia Community College (Piedmont) is not conducting an adequate annual inventory to ensure all fixed assets are properly recorded in the fixed asset system. We noted the following issues:

- Piedmont last completed a full inventory in October 2016, and started the subsequent inventory in November 2018; however, as of May 2019 it was not finished.
- Piedmont did not record assets taken out of service as surplus until the assets sold at auction.
- One out of three (33%) assets selected from the floor was not recorded on the capital asset listing nor did the asset have a tag.
- Piedmont had donated assets on site during inventory that are not recorded in the fixed asset system.
- Piedmont does not have policies and procedures for recording donated assets.

CAPP topic 30505 requires a physical inventory of assets at least every two years and that discrepancies between recorded and actual inventories be resolved in a timely manner through the submission of revised input forms and tagging, if necessary. Additionally, CAPP topic 30705 requires that when the asset is not in current use and is located on-site at the agency, it needs to be classified as surplus. Finally, CAPP topic 30205 requires the agency to develop its own internal policies and procedures to ensure donated items are properly recorded.

By not finishing a fixed asset inventory, Piedmont cannot ensure that the fixed asset system contains a complete and accurate listing of fixed assets. Additionally, by not reclassifying assets no longer in use as surplus, Piedmont may overstate its assets for inclusion in the System's financial statements. Finally, without proper internal controls in place for receiving donations and properly recording them, Piedmont may not report fixed assets accurately.

Piedmont did not complete its inventory timely due to it not being considered a priority. Lack of training regarding fixed assets resulted in the fixed assets coordinator not properly adjusting and designating as surplus assets that had no remaining service capacity. Donated assets were not recorded in the system due to a lack of policies in place regarding the handling of donated assets. Piedmont staff indicated they do not record donated assets in the fixed asset system.

Piedmont should make conducting an inventory a priority and provide training and details on the requirements of fixed asset management to staff. Piedmont should complete the fixed asset inventory timely as required by the CAPP manual. Further, Piedmont should complete the biennial inventory in time to make necessary adjustments prior to year-end reporting. Additionally, Piedmont should identify and properly tag assets not in the system. Piedmont should record impaired assets as surplus when the asset is no longer in use and moved to a new location, in accordance with CAPP manual guidance. Finally, Piedmont should implement an internal control system to properly account for donated assets.

2018-25: Remove System Access When Employees No Longer Need Access

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Piedmont is not effective at removing access to the Commonwealth's purchasing system and the System's administrative system. Piedmont allowed one terminated employee to retain access to the Commonwealth's purchasing system for ten days after their termination date. For another terminated employee, as of January 2019, the individual still had access to the System's administrative system despite having terminated in October 2018. Additionally, Piedmont employees retained unnecessary access to the System's administrative system. Specifically, two employees who no longer needed access due to changes in job duties, maintained access to the System's administrative system as of January 2019; however, the employees no longer needed access between January 2010 and September 2015.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises the colleges to disable information system access upon termination of their employment, which is the date that an employee is terminated from the System's human resource system and states that access should be removed within five business days from the date of the employee termination. Additionally, the System's Security Standard, section 9.2.6, states that the removal of access, may be deemed necessary whenever an employee has a change in their duties.

Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Untimely deletion of access to systems can expose Piedmont and the System to inappropriate activity by individuals no longer employed by the institution. Since the Commonwealth's purchasing system is a web-based application accessible from anywhere, removing a user from the college's internal network is not sufficient. The terminated employee's user identity badge (ID) must be deactivated. Untimely user access deactivations may

compromise the protection and integrity of confidential Commonwealth purchasing system data. Colleges may also be subject to an elevated risk of unauthorized access to online transactions.

Piedmont personnel did not remove access timely due to the lack of communication and coordination between the Human Resources Department and supervisors. The employee's supervisor did not submit a ticket requesting that access be removed. Furthermore, Piedmont did not perform periodic, comprehensive reviews of employee's access to the System's administrative system.

Piedmont should ensure that terminated employee access to the Commonwealth's purchasing system and to the System's administrative system is deactivated in accordance with the System's Security Standard. Management should improve communication between human resources and other departments to ensure that system owners of all critical systems are notified when employees are terminated. Management should perform thorough periodic reviews of employee access to the System's administrative system in order to ensure unnecessary access is adjusted upon changes in responsibilities and that employees only retain access that is necessary to perform their current job duties.

2018-26: Properly Monitor Grant Programs to Ensure Proper Accounting and Compliance for Accounts Receivable

Topic: General Accounting

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Piedmont did not record accounts receivable to the proper account. Piedmont consistently recorded accounts receivable as due from the New Economy Workforce Credential Grant Program (New Economy Program) before the underlying economic event occurred that would trigger the New Economy Program to owe Piedmont. In addition, Piedmont recorded the full tuition amount as a receivable when a student signed up for a class, with two-thirds due from the Commonwealth, when a student signed up for a program that was part of the Fast Forward program. The Fast Forward program requires a student to pay one-third of the tuition cost, then the Commonwealth in accordance with the New Economy Program, will pay one-third of the tuition when the student passes the class and then the remaining one-third when the student earns the credential for the related program. Piedmont should not record an accounts receivable due from the New Economy Program until the student passes the required class and earns the associated credential. Piedmont also did not forward accounts receivable to the Office of the Attorney General that were 60 days past due if the accounts had no invoice date.

CAPP topic 20505 states that a receivable must be reported when an underlying economic event occurs. It additionally states that all accounts of \$3,000 or more and are more than 60 days past due must be forwarded to the Office of the Attorney General and all accounts of \$3,000 or less and more than 60 days past due must be forwarded to a private debt collection agency.

Inaccurately recording accounts receivable results in an inaccurate financial statement representation. Errors reported in the state schedules submitted to the System Office result in

inaccurate amounts being included in the consolidated financial statements. Improper tracking of accounts receivable may result in accounts receivable being overstated, as some accounts could be long overdue when they should be written off. Improper recording of accounts receivable to the wrong accounts results in debts being difficult to track, and could result in the Commonwealth not recovering monies owed.

Piedmont's business office was not aware they should not record accounts receivable as due from the New Economy Program until the student had passed the class and the credential, in accordance with the New Economy Program requirements for payment. Piedmont's business office acknowledged improvement was needed in tracking accounts receivable's accounts with no invoice date and cited a lack of staff as the reason it was not tracked better.

Piedmont management should record accounts receivable and associate the accounts with the proper parties. Piedmont management should ensure that grant administrators and business office staff analyze and understand grant program requirements and ensure that the associated accounts receivable accounting reflects the program requirements, so that they record accounts receivable when the required underlying events occur. Management should implement improved policies for tracking and monitoring accounts receivable when there is no invoice date.

2018-27: Properly Consider if the Costs Associated with Putting an Asset into Service Should be Capitalized

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Piedmont does not capitalize installation and shipping charges related to capital assets as required by the CAPP manual and Piedmont's internal policy. Piedmont did not capitalize the installation and shipping charges for the one asset out of five (20%) equipment purchases randomly sampled for testing that had installation and shipping charges to place it into service.

Asset parts, installation, and shipping charges necessary to place the asset in service need to be capitalized as part of the asset. CAPP topic 30210 states that capital assets should be valued at the basic cost of the asset plus associated costs such as freight and transportation costs, installation costs, as well as costs incurred to place an asset in its intended location and in an operable condition. Incorrectly capitalizing items may result in the inaccurate reporting of Piedmont's fixed assets in the System's financial statements.

Piedmont typically considers each line item on the invoice as an individual asset and analyzes the line item using the capitalization threshold, leading to the improper expensing of items that should be considered part of the fully capitalized asset. Piedmont incorrectly expenses installation and shipping charges if listed on separate lines on the invoice and amounts fall below the capitalization threshold. Piedmont staff were not aware that they should capitalize expenses from shipping and installation or that the parts of an asset should be capitalized as one item. Piedmont staff informed us that there was

not enough time due to staffing pressures to adequately set aside time for a review of Piedmont's policies and procedures or the CAPP manual related to asset acquisition.

Piedmont staff should carefully review invoices supporting the capitalization of fixed assets and properly attribute all costs associated with putting an asset into service as part of the total asset capitalization in accordance with CAPP manual requirements. Piedmont staff should thoroughly review Piedmont's policy and CAPP manual guidance to ensure they sufficiently understand when to capitalize or expense items required to place the asset into service.

2018-28: Ensure Payroll Reconciliation is Performed as Required

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Piedmont payroll personnel did not complete the required monthly Report 10 to Report 33 reconciliation for all months of fiscal year 2018. As a result, Piedmont does not have running control totals of the following fields that must be reconciled monthly:

- OASDI Company Taxable Wages
- HI Company Taxable Wages
- Medicare Employee Wages
- Medicare Company Wages
- EIC Payments
- State Unemployment Insurance Gross
- OASDI Company Tax Paid
- HI Company Tax Paid
- Medicare Employee Tax Withheld
- Medicare Company Tax Paid
- State Unemployment Insurance Taxable

CAPP topic 50905 requires that key control totals be maintained and updated every time payroll is processed, or on a monthly basis, in order to facilitate the Report 10 to Report 33 reconciliation. CAPP topic 50905 also requires a monthly reconciliation of Report 10 to Report 33 to help identify potential problems with payroll records such as pre-tax deductions not being properly taxed, manual payment processing that affected taxable fields incorrectly, or improper withholding of certain taxes.

An oversight by management caused this reconciliation not to be performed monthly. Based on inquiry, it appears this reconciliation was done on a quarterly basis; however, there is no documentation of reconciling items and resolution of reconciling items. Subsequent to the period under audit, a Payroll Agreement between Shared Services and Piedmont was implemented; however, there is nothing in the agreement detailing the responsibility of performing this reconciliation in the future.

Management should implement corrective action to require the completion and documentation of all monthly payroll reconciliations required by CAPP topic 50905 and the documentation of all reconciling items and resolutions. Additionally, this required monthly reconciliation should be included in the agreement between the Shared Services and Piedmont and explicitly state the party responsible for the reconciliation.

2018-29: Perform and Document Retirement Benefit System Reconciliations

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Piedmont human resources and payroll personnel did not adequately perform and document reconciliations between the Commonwealth's human resource system, the Commonwealth's payroll system, and the Commonwealth's retirement benefits system during fiscal year 2018. In two out of two months (100%) we randomly sampled for testing, Piedmont did not maintain documentation to demonstrate that it performed the required reconciliation prior to certifying information to the Virginia Retirement System. While discussions with the Benefits Administrator and Payroll Analyst indicate that they are performing a reconciliation, there is no documentation of the reconciliation activities. Further, Piedmont has not created policies and procedures that describe reviewing creditable compensation and employee data between the systems mention above, and resolution of exceptions identified.

CAPP topic 50905 requires agencies to perform a reconciliation between the Commonwealth's human resource, payroll, and retirement benefits systems on a monthly basis. CAPP topic 50410 details the procedures required to perform the reconciliation mentioned above, which include reconciling creditable compensation and employee personnel data, and reviewing the cancelled records report and automated reconciliation reports. Furthermore, CAPP Topic 50905 requires agencies to maintain reconciliation documents for five years or until audited.

Inaccurate employee data in the benefits system may not be corrected timely when reconciliations are not being performed. Since the Virginia Retirement System (Retirement System) actuary uses the retirement benefits system data to calculate the Commonwealth's pension liabilities, inaccurate data due to leaving exceptions unresolved could result in a misstatement in the Commonwealth's financial statements. Additionally, without sufficient documentation, there is no audit trail to support the reconciliation's completion.

Management has not developed policies and procedures to describe the process, deadlines, or the requirements to create and maintain documentation of the reconciliation process and any resulting adjustments. The employee responsible for reconciling the snapshot prior to confirmation was unaware that documentation is required to be maintained.

Piedmont should develop and implement policies and procedures related to the performance and documentation of the reconciliation between the Commonwealth's human resource, payroll and retirement systems. Management should ensure that these procedures include the reconciliation of employee personnel data, and creditable compensation, and a review of the cancelled records report and automated reconciliation reports in order to comply with CAPP topics 50410 and 50905. Additionally, Piedmont should maintain records to support the reconciliations in accordance with Commonwealth guidelines in CAPP topic 50905.

2018-30: Confirm Retirement Contributions within the Required Timeframe

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Piedmont human resources personnel did not confirm retirement contribution snapshots timely for eight out of 12 (66%) months we randomly tested during fiscal year 2018. The Retirement System's Employer Manual for Contribution Confirmation and Payment Scheduling requires employers to submit a month's contribution snapshot by the tenth of the following month.

Untimely certification at the agency level impacts the ability of Accounts to process inter-agency transfers for any differences between the amounts confirmed in the Commonwealth's retirement benefits system and the retirement contributions actually withheld and paid for all agencies across the Commonwealth. Human resources personnel should reconcile human resource and retirement system benefits data prior to confirming the snapshot. There is only one staff member at Piedmont trained to perform this reconciliation, and there is no back up. Delays in the human resource and retirement benefits reconciliation process caused delays in confirming the snapshot. Additionally, management does not have policies and procedures that describe the entire process, deadlines, or the requirements to create and maintain documentation of any resulting adjustments.

Human resources personnel should complete reconciliations timely, so that they can confirm retirement contribution snapshots by the tenth of the following month. Management should develop and implement policies and procedures that include a timeline clarifying when reconciliations should be completed and snapshots confirmed.

2018-31: Properly Accrue Prepaid Expenses**Topic:** General Accounting**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

Piedmont did not consider that some of its prepayments during fiscal year 2018 were for items that occurred in the same fiscal year, resulting in three of six prepayments (50%) being overstated a total of \$407. Piedmont recorded the entire invoice amount for subscriptions and memberships as prepaid expenses despite some of the covered service dates occurring during fiscal year 2018.

CAPP topic 20310 defines an advance payment as a payment that is made prior to receipt of goods or services. In accordance with generally accepted accounting principles (GAAP), accrual accounting requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed. A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged as an expense. Errors reported in the state schedules submitted to the System Office result in inaccurate amounts being carried into the consolidated financial statements.

Piedmont management reported that Piedmont has always recorded advance payments as the total invoice amount, regardless of the covered period of services. Piedmont does not have a policy or procedure addressing the proper accruing of prepaid expenses when services are partially performed in the current year in accordance with GAAP and CAPP manual guidance.

Piedmont should implement policies and procedures that address the accruing of prepaid expenses when some of the services are performed in the current year. Management should evaluate current procedures for recording prepaid expenses in the state schedules submitted to the System Office and for inclusion in the annual financial statements.

2018-32: Return Unearned Title IV Funds Timely**Topic:** Student Financial Assistance – Accreditation**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

During aid year 2018, Piedmont personnel did not return \$8,542 of unearned Title IV funds timely. The underlying cause for the noncompliance is lack of employee execution and management oversight. Upon completion of the return of Title IV calculation, Piedmont personnel identify the amount of earned aid and post the earned aid to the student account. The business office nets the unearned portion against the subsequent drawdown. However, business office personnel did not return the previously mentioned unearned portion to the U.S. Department of Education as required. According to management, unearned funds remained in the Piedmont Local Funds Account and are subsequently processed as disbursements to other eligible students.

In accordance with 34 C.F.R. § 668.22 (a)(1), when a recipient of Title IV grant or loan assistance withdraws from an institution prior to 60 percent of the period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. In accordance with 34 C.F.R. § 668.22 (j)(1), the institution must return the amount of unearned funds within 45 days after the date that the institution determines the student has withdrawn. Not complying with the return provisions of the Code of Federal Regulations could result in the initiation of an adverse action on the institution's participation in federal financial aid programs by the U.S. Department of Education.

Management should review the existing process for returning unearned Title IV funds to the U.S. Department of Education. Management should implement corrective action to prevent future noncompliance. Business office personnel should collaborate with the Financial Aid Office during the Title IV process to identify and promptly return the amount of unearned funds for each student. Given the reduction of personnel in the business office, management should review its resources and allocate responsibilities to ensure the timely return of unearned Title IV funds.

2018-33: Perform Accurate Return of Title IV Calculations

Topic: Student Financial Assistance - Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During spring 2018, Piedmont personnel did not perform accurate return of title IV calculations. Financial Aid Office personnel used nine days rather than eight days in its calculation of the length of the spring break period. Although five out of five students tested for spring 2018 were determined to be non-compliant, due to the nature of the error, 100 percent of the calculations are inaccurate. The error occurred because Financial Aid Office personnel used a nine day break as annotated in the Federal Student Financial Aid Handbook, but later determined during the course of the audit that classes met on Saturday, March 17, 2018, thus necessitating the need to reduce the number of break days to eight.

In accordance with 34 C.F.R. § 668.22, when a recipient of Title IV grant or loan assistance withdraws from an institution prior to 60 percent of the period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date. The total number of calendar days in a payment period or period of enrollment includes all days within the period, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period. The institution must return the amount of unearned funds after the date that the institution determines the student has withdrawn. Not complying with the return provisions of the Code of Federal Regulations could result in the initiation of an adverse action by the U.S. Department of Education.

Management should review the existing process for determining the number of scheduled break days to exclude in the return of Title IV calculation. Management should implement corrective action to prevent future noncompliance. The Financial Aid Office must recalculate all return of Title IV calculations

for spring 2018. If a recalculation results in a required payment to the student or the U.S. Department of Education, Financial Aid Office and business office personnel must collaborate to remit payments timely in accordance with federal regulations.

2018-34: Reconcile Federal Aid Programs Timely

Topic: Student Financial Assistance - Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, Piedmont personnel did not perform timely reconciliations of federal aid programs. Our review of Piedmont's federal aid reconciliations found:

- Twelve out of 12 (100%) reconciliations did not contain an adequate audit trail to support the reconciliations and Piedmont did not perform reviews timely in accordance with federal requirements. The bank statements reflected a dated review and reviewer's initials, but there was no formal reconciliation documentation between the federal system for schools to request and return student financial assistance funding known as G5, the bank statement, and Piedmont's accounting system. Turnover due to the elimination of two positions in the business office is the primary cause of these deficiencies.
- The business manager is currently responsible for processing disbursement transactions in Piedmont's student accounting system, preparing reconciliations, reviewing reconciliations, and is listed as the authorized signer on the federal checking account. This combination of responsibilities does not provide for adequate segregation of duties. The lack of segregation of duties has been the result of turnover due to the elimination of two positions in the business office.
- For 12 out of 12 federal direct loan reconciliations (100%), Piedmont's financial aid personnel are reviewing some of its Student Account Statements (SAS) to identify reconciling items. However, financial aid personnel could not provide adequate documentation to support that personnel had reconciled cash funds received from G5 with actual disbursement records submitted to the Common Origination and Disbursement (COD) system. There was no documentation present to support the fact that Piedmont personnel had performed a review of the SAS ending cash balance and identified specific details for reconciling differences. The lack of complete audit trail was a result of staff not being aware of the additional documentation requirements.

In accordance with 34 C.F.R. 675.19(b)(2)(iv), 34 C.F.R. 675.19 (b)(2), 34 C.F.R. § 685.300(b) and 34 C.F.R. § 685.102(b), institutions must "establish and maintain program and fiscal records that are reconciled at least monthly." In addition, Institutions must reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary. Each month, COD provides colleges with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records to aid in this reconciliation process. The Student

Financial Aid Handbook further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

By not reconciling federal student aid programs monthly as required, Piedmont increases the risk that it will not identify issues and resolve them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and may impact participation by the institution in Title IV programs.

Management should review current policies and procedures related to the reconciliation of federal aid programs and should implement corrective action to ensure that reconciliations are completed and reviewed timely to prevent future noncompliance. Additionally, Management should ensure that college personnel maintain sufficient documentation of monthly federal aid program reconciliations between the internal accounting system, bank statements and federal systems as applicable. Management should refine the existing Federal Direct Loan Student Account Statement to incorporate a review of the ending cash balance and annotate the cause and resolution of any reconciling differences. Lastly, management should review the current business office structure and implement corrective action to strengthen segregation of duties.

2018-35: Improve Reporting to National Student Loan Data System

Topic: Student Financial Assistance - Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Piedmont did not report an accurate enrollment status for five out of 24 students tested (21%), reported an inaccurate effective date for nine students (38%), and did not report student status changes timely for ten students (42%). The underlying cause of the noncompliance relates to the submission of a file containing recent graduates of the college and the timing of the data capture and subsequent National Student Clearinghouse (NSC) batch submission.

In accordance with 34 C.F.R. 685.309 and further outlined in the National Student Loan Data System (NSLDS) Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, Piedmont can affect the U.S. Department of Education's monitoring processes and other higher education institutions reliance on the data when making aid decisions. Noncompliance may also have implications on an institution's participation in Title IV programs.

Management should perform a comprehensive review of current enrollment reporting policies and procedures. Management should implement corrective action to prevent future noncompliance, which may include implementing a quality control review process to monitor the submission of enrollment batches at both the campus and program levels in NSLDS. One of these options may be a quality control review workgroup comprised of those employees involved in the enrollment reporting

process. However, the type of quality control review process implemented should be determined by college personnel in conjunction with members of management.

NORTHERN VIRGINIA COMMUNITY COLLEGE

2018-36: Follow Commonwealth Requirements for the Stewardship of Fixed Assets

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2017)

Prior Title: Report Missing Assets

During fiscal year 2018, Northern Virginia personnel did not exercise adequate stewardship of fixed assets. Specifically, we found:

- Six out of ten (60%) fixed assets did not have an assigned tag affixed;
- Six out of ten (60%) fixed assets had no record in the college's fixed asset system; and
- Eleven out of 15 (73%) fixed assets could not be physically located; however, the assets were reported in the college's fixed asset system. Several of the assets included IT assets.

Additionally, Northern Virginia did not retain required documentation for fixed assets. Five assets reported as transferred or traded in during its fiscal year 2019 inventory were not documented with either the Property Transfer Request or the Property Disposal Authorization, respectively, as required by Northern Virginia's Administrative Services Procedures Manual (Procedures Manual). Furthermore, three assets reported as missing did not have a completed Report of Loss to State-Owned Property.

CAPP topic 30505 advises agencies to resolve discrepancies between recorded and actual inventories in a timely manner through the submission of revised input forms and tagging, if necessary. CAPP topic 30505 states that tagging provides a method of assigning a unique identification number to each capital asset equipment item, so that the item can be accounted for and identified within the fixed asset system. The tag should provide a unique number and the property owner's name (agency name). CAPP topic 30805 requires agencies to report lost or stolen inventory to agency security personnel.

Section 12.1.2.2 of Northern Virginia's Procedures Manual outlines the transfer requirements and states that appropriate documentation must be completed and submitted for all equipment transferred between campuses, between college personnel, and between departments of the same campus. Section 12.1.1.3 of the Procedures Manual specifies the requirements for traded in equipment and states that if equipment is used as a trade-in for the purchase of new equipment, that the appropriate documentation must be completed. Section 12.2 of the Procedures Manual states that all property reported missing must be reported to the college police department for investigation as soon

as the loss is discovered, and that the reporting requirement applies regardless of the dollar amount of the loss, which would include fully depreciated assets tracked in inventory.

Untagged assets increase the risk of theft or abuse, and misappropriation. Asset tagging shows that the asset is the property of Northern Virginia and ensures there is a one to one connection between an asset and the financial records. Lack of timely documentation of missing assets leads to a lack of transparency for Commonwealth assets that may have been stolen. Properly documented forms and follow up by campus security could also provide a deterrent effect to possible theft of state property because departments would know that marking an item as missing would necessarily lead to an investigation. Inadequately following up on missing items provides opportunity for abuse because there could be an increased perception that missing items do not matter.

There were several underlying causes that led to the deficiencies noted above. For the fixed assets that Northern Virginia personnel were unable to locate, personnel indicated that the assets were older and may have moved to another campus location or been surplused in prior years. Personnel admitted that Northern Virginia staff frequently move assets around campus locations as needed without alerting the appropriate personnel or completing the required documentation. Furthermore, Northern Virginia did not properly tag assets either when first received or tags were destroyed over time due to being moved. Additionally, Northern Virginia personnel were unaware of requirements outlined in the Procedures Manual; therefore, they did not complete the required documentation for transferred, traded in and missing assets.

Northern Virginia management should ensure the tagging of all fixed assets and proper recording of assets in the fixed asset system. Northern Virginia should ensure departments complete and submit all required documentation in accordance with its Procedures Manual and CAPP manual requirements, including: filing the proper loss reports and alerting campus security on discovery of loss, adjusting the location information in the fixed asset system when assets are moved from one campus location to another, and ensuring that surplus property is disposed of or surplused properly. Management should educate departments on proper fixed asset stewardship and evaluate the operational effectiveness of internal policies and procedures over fixed assets and inventories in accordance with the Northern Virginia's Procedures Manual and CAPP manual guidance.

2018-37: Improve Effectiveness of System Access Controls

Topic: Access Control

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Northern Virginia needs to improve the effectiveness of system access controls over the System's administrative system. Northern Virginia employees retained unnecessary access to the System's administrative system. Specifically, ten employees who no longer needed access due to changes in job duties, maintained access to the System's administrative system as of January 2019; however, the employees no longer needed access between December 2012 and March 2017.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises that the removal of access may be deemed necessary whenever an employee has a change in their duties. Additionally, the System's Security Standard, section 9.2.3 – Management of Privileged Access Rights, dictates the principle of least privilege that must be used by each college and the System Office in the assignment of security roles and responsibilities.

Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Granting access based on the principle of least privilege is a best practice for maintaining security over critical systems. When access granted violates the principle of least privilege, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions.

The underlying cause of the unnecessary access was Northern Virginia not recognizing the relationship between access to the Commonwealth's purchasing system and the System's administrative system. Northern Virginia initially granted employee access to both systems in order for the employee's to be able to perform their job duties. Employees had changes in their job duties and no longer required access to the Commonwealth's purchasing system; however, Northern Virginia did not remove the associated access to the System's administrative system. Northern Virginia removed employee access to the Commonwealth's purchasing system, but overlooked removing access to the System's administrative system. These deficiencies can also be directly linked to Northern Virginia performing ineffective reviews over access to the System's administrative system.

Northern Virginia should monitor the operational effectiveness of controls over access to the System's administrative system and ensure that they establish and maintain appropriate system access levels. Additionally, Northern Virginia Management should perform periodic thorough reviews of employee access to the System's administrative system in order to ensure unnecessary access is adjusted upon changes in responsibilities and that employees only retain access that is necessary to perform their job duties.

2018-38: Ensure Proper Processing of Vouchers

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Northern Virginia did not ensure that employees properly completed documentation for travel reimbursement or the correct receipt date was entered. In our random sample of 25 vouchers we found the following for the eight travel vouchers selected:

- For three (38%) vouchers, the employee completed and submitted pre-approval reports for approval after travel occurred, not prior to as is required.
- For three (38%) vouchers, the standard lodging rate was exceeded up to 40% over the allowable amount, without proper authorization.

Additionally, for one (8%) of the thirteen vouchers for goods and services selected, Northern Virginia did not accurately record the goods or services receipt date in the Commonwealth's accounting and financial reporting system.

CAPP topic 20335 outlines the requirements for overnight travel and states that an appropriate member of management must authorize planned travel, including cost estimates, prior to travel and on a form acceptable to the agency. Furthermore, the agency head or designee must approve reimbursement for lodging exceptions in advance for lodging up to 50% over the guidelines when circumstances warrant. Agencies should not reimburse expenses in excess of the guidelines unless approved in advance. The goods or services receipt date is a required field in the Commonwealth's accounting and financial reporting system. The good or services receipt date affects payment due dates and year-end payable accruals; therefore, it is essential that agencies accurately record the good or services receipt date.

Without proper internal controls over travel reimbursements, Northern Virginia could expose the Commonwealth to excessive travel costs that are not necessary for providing essential services to the Commonwealth's citizens. The deficiencies noted above occurred because the employee's supervisors did not ensure that employees completed the required travel documentation for preapproval prior to travel occurring. Northern Virginia was unaware of the CAPP manual requirements for higher lodging exceptions and deemed justifications from employees to be sufficient support to approve the travel vouchers. Additionally, accounts payable personnel misunderstood the requirements for the good or services receipt date, using other dates instead of the date the goods or services were physically received.

Supervisors should reiterate travel requirements to employees and Northern Virginia management should ensure that supervisors enforce the process for pre-approvals and exceeding the standard rates. Northern Virginia should handle lodging exceptions in accordance with CAPP topic 20335. Additionally, Northern Virginia management should ensure that the appropriate personnel understand and accurately record the good or services receipt date in the Commonwealth's accounting and financial reporting system.

2018-39: Ensure All Contracts Are Valid and Current

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Northern Virginia operated under an expired contract for dining services for 11 out of 12 (92%) months of fiscal year 2018. The original terms of the contract included dining services at four Northern Virginia campuses. In August 2016, Northern Virginia modified the contract terms to include dining services at one additional campus location. The contract modification expired at the end of July 2017; however, Northern Virginia did not manage the contract correctly and did not put out for bid a new

contract for the services as required. Instead, Northern Virginia continued to receive dining services and commissions at the campus location under the expired contract.

Section 10.12 (Modifications and Change Orders) of the Procurement Manual states: “Any request for change affecting price, quality, quantity, delivery, or cancellation requires a thorough written explanation by the agency prior to approval. A contractor shall not be notified that a change has been approved until that change has been authorized by the appropriate buyer or contract officer. All change requests should be evaluated for contract validity and a price reasonableness determination of the change shall be made in writing.”

Operating under an expired contract prevents agencies from adequately monitoring contract deliverables. Operating without signed contracts in place may result in the receipt of incorrect commission payments. Payments for this contract cannot be reviewed to determine the accuracy of the payments and whether the payments are being made in accordance with contractual requirements as a result of having no contract in place. Contract disputes could lead to issues for Northern Virginia in the case of non-performance of contractual terms on the part of the vendor.

Northern Virginia personnel were under the impression that the previously expired contract modification agreement that included the additional campus location remained in effect; therefore, they did not perform any further modifications to the contract. Furthermore, personnel were not able to review commission payment details in a timely manner, which lead to late commission payments.

Northern Virginia management should ensure that it has valid contracts to use to verify proper adherence to all contract specifications, terms, and conditions in accordance with Procurement Manual requirements. In addition, Northern Virginia should have valid revenue contracts to aid it in its ability to verify the accuracy of commission payments it receives.

2018-40: Implement Effective Exit Procedures for Adjunct Faculty and Wage Employees

Topic: Human Resources and Payroll

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in FY17)

Prior Title: Develop Procedures for Identifying Terminated Wage Employees

Northern Virginia has not designed and implemented effective exit procedures for adjunct faculty and wage employees, resulting in untimely removal of access. Northern Virginia holds wage employees’ supervisors responsible for completing exit procedures upon an employee’s departure, and terminates adjunct faculty employees using an automated process after three semesters of inactivity. Untimely collection of Commonwealth property, security badges, IDs, and the deactivation of building and system access is the result. Four out of five terminated hourly employees (80%) randomly tested retained access to buildings and systems in excess of three days after their termination date. Four out of five terminated adjunct faculty (80%) randomly tested retained access to buildings and systems in excess of 15 days after their termination date.

The System's Security Standard, section 9.2.6 – Removal of Access Rights, advises the colleges to disable information system access upon employment termination, which is the date that an employee is terminated within the human resource system, and in cases where evaluation of risk of access indicates the removal from systems access may be deemed necessary for certain employees prior to termination, such as, periods of inactivity. Delaying the removal of all access privileges increases the risk that terminated employees will have unauthorized access to Commonwealth property, including physical assets, systems, and sensitive information. When system access remains active for terminated employees there is the risk that false information, including timesheets for hours not worked, could be entered and subsequently paid.

Northern Virginia management is not properly communicating to adjunct faculty and wage employees the importance of their role in exit procedures. Northern Virginia's adjunct faculty appointment agreement states that an appointment terminates at the end of the semester/session referenced in the agreement. Exit procedures on the human resources page of Northern Virginia's website state that they are for full-time employees only. Employees are leaving Northern Virginia without communicating their departure to management. In addition, procedures allow adjunct faculty to remain inactive for up to three semesters before human resources staff terminate them from employment and remove access. Wage employees' supervisors are not always aware of their employees' departure, and are not notifying human resources staff timely to terminate the employees within the system. As a result, the Information Technology Help Desk is also not notified timely to remove building and systems access for these employees, leading to further risk of issues due to late removal of access.

Northern Virginia should develop and implement more effective exit procedures and monitoring controls to ensure the timely removal of system and building access for adjunct faculty employees and hourly employees. Human resources should consider modifying adjunct faculty appointment agreements to require a notification for the intent to continue employment in the future. Human resources should work in coordination with supervisors to advise adjunct faculty employees and hourly employees of the importance of adhering to the exit procedures. Finally, Northern Virginia may consider removing access for inactive employees prior to termination.

2018-41: Complete Employment Eligibility Verification within the Required Timeframe

Topic: Human Resources and Payroll

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

For one employee in our sample, Northern Virginia human resources personnel did not complete Section 2 of the Employment Eligibility Verification Form (I-9) within the required timeframe of three business days of the starting date of employment. Northern Virginia human resources personnel completed Section 2, 138 days after the first day of employment for one out of 20 (5%) employees hired in fiscal 2018 that we randomly selected for testing.

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986, have a Form I-9 completed to verify both employment eligibility and identity. The U.S. Citizenship and Immigration Services set forth federal requirements for completing the Form I-9 in the Handbook for Employers M-274 (the Handbook). Chapter 4 of the Handbook requires Section 2 of Form I-9 to be completed within three business days of the date employment begins.

Not complying with federal regulations related to employment verification could result in civil and/or criminal penalties and debarment from government contracts. Untimely completion of the employee's eligibility verification, and insufficient controls surrounding the completion of Form I-9 caused this oversight. To reduce the risks associated with not completing the form timely, Northern Virginia should evaluate current procedures surrounding employment verification, and implement corrective action to prevent future noncompliance related to the required timeframe to complete Section 2 of the Form I-9.

2018-42: Improve Reporting to National Student Loan Data System

Topic: Student Financial Assistance - Single Audit

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Northern Virginia did not report an accurate enrollment status for two out of 55 students tested (4%), reported an inaccurate effective date for 12 students (22%), and did not report student status changes timely for 13 students (24%). The underlying cause of the noncompliance is indeterminate and will require additional research.

In accordance with Code of Federal Regulations 34 C.F.R. 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, Northern Virginia can affect the reliance placed by the U.S. Department of Education for monitoring purposes and other higher education institutions when making aid decisions. Noncompliance may also have implication on an institution's participation in Title IV programs.

Management should perform a comprehensive review of current enrollment reporting policies and procedures. Management should implement corrective action to prevent future noncompliance. Management should consider implementing a quality control review process to monitor the submission of enrollment batches at both the campus and program reporting levels. One of these options may be a quality control review workgroup comprised of those employees involved in the enrollment reporting process. However, the type of quality control review process implemented should be determined by college personnel in conjunction with members of management.

PATRICK HENRY COMMUNITY COLLEGE

2018-43: Improve the Management of Critical System Access

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Patrick Henry Community College (Patrick Henry) personnel did not properly control access to critical systems. We noted the following deficiencies related to the revoking of access, lack of back-up, and segregation of duties:

- Eleven of 19 (58%) terminated employees randomly sampled did not have access revoked timely;
- One employee in the Human Resources Department of Patrick Henry transferred to Shared Services but retained access to the payroll system for Patrick Henry until the second quarter of fiscal year 2019;
- Two employees who no longer needed access to the System's administrative system, maintained access as of January 2019;
- One employee is currently designated to certify payroll without a backup assigned; and
- One employee has access to create requisitions and approve transactions in the Commonwealth's purchasing system for certain departments creating a lack of segregation of duties.

With respect to removal or adjustment of access rights, the System's Security Standard, section 9.6.2, states "the access rights of all employees and external party users to information and information processing facilities should be removed upon termination of their employment, contract or agreement, or adjusted upon change." For segregation of duties, the System's Security Standard, section 6.1.2, states that, "conflicting duties and areas of responsibility should be segregated to reduce opportunities for unauthorized or unintentional modification or misuse of the organization's assets. Care should be taken that no single person can access, modify or use assets without authorization or detection."

The underlying cause of the late revoking of access was due to emails not being sent timely between supervisors and the Information Security Officer. The identification of the employee with the payroll system access occurred during the access review related to the transition to Shared Services. The single employee is designated to approve payroll because the other employee that had the access as a back-up is no longer employed by Shared Services and a new back-up has not been assigned. By not properly managing critical system access, the college may elevate the level of risk of exposure to sensitive information or, in the case where there is no back-up, be able to perform critical functions.

Management should evaluate the procedures for granting, monitoring, and removing critical system access and ensure that roles and privileges are assigned to prevent segregation of duties concerns. Communication between Patrick Henry supervisors and the Information Security Officer should be enhanced to expedite the removal of access for terminated employees. Additionally, management should ensure that a second employee is designated to certify payroll should the Director of Human Resources not be available.

2018-44: Improve Fixed Asset Inventory Procedures and Tracking of Fixed Assets

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Patrick Henry personnel did not properly monitor fixed assets. We noted the following deficiencies:

- Three assets did not have an assigned tag affixed;
- One asset has a disposed status; however, there is no documentation supporting this status;
- One recorded asset could not be located;
- Three donated assets received in two departments were not evaluated to determine if they should be classified as controlled or capitalized and, if necessary, recorded into the fixed asset inventory system; and
- Two assets with tags had no record in the fixed asset inventory system.

Per the System's Capital Assets Policies and Procedures Manual and CAPP topic 30505, agencies should perform a physical inventory of capital assets at least once every two years in order to properly safeguard assets and maintain fiscal accountability. Agencies must resolve discrepancies between recorded and actual inventories in a timely manner through the submission of revised input forms and tagging, if necessary. Per CAPP topic 30705, Surplus Property Management, agencies must reclassify assets to surplus when the agency has determined that the asset has served its useful purpose, is no longer functional, cannot be repaired or improved, or is not needed within the agency.

Insufficient inventory of Patrick Henry's physical assets and a lack of recognition of donated assets increases the risk of misappropriation of college property and may contribute to the inclusion of inaccurate information in the fixed asset system and financial statements. A proper and effective inventory should result in an accurate accounting of equipment and indicates the reliability of the system of control for acquiring, using, and disposing of equipment.

According to management, the primary cause for the deficiencies listed above is a reduction in business office personnel at Patrick Henry. The reduction of one business office cashier initially led to the remaining cashier having to complete both the cashing and fixed asset inventory responsibilities. To address the cause, the Business Manager reassigned the fixed asset inventory responsibilities to the procurement office during fiscal year 2019. With regard to the donated assets, academic departments did not notify the procurement and business offices about the receipt of assets. Management should monitor the school's compliance with Commonwealth requirements for asset management to determine if the reassignment of responsibilities corrects known deficiencies and is effective at ensuring future compliance. Management should reinforce to departments that they need to notify the business and/or procurement office when they receive donated assets.

2018-45: Ensure Revenue Generating Contracts Are Current and Properly Monitored

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Patrick Henry personnel did not properly monitor revenue-generating contracts. We noted the following deficiencies:

- Personnel did not notice that Patrick Henry did not receive its December 2017 bookstore commission payment of \$482; and
- Patrick Henry has been operating under a contract that expired on July 1, 2017, and personnel have not started to negotiate a renewal or issued a new Request for Proposal.

Section 1 of the Procurement Manual requires that procurements be accomplished in accordance with the intent of the law. Specifically, if there is to be a contract between a state agency and a nongovernmental vendor, the Procurement Act and the regulations set forth in the Procurement Manual apply regardless of the source of funds from which the contract is to be paid or which may or may not result in monetary consideration for either party. Section 10.22(d) of the Procurement Manual further states the following:

Revenue Sharing Contracts. Certain agencies and institutions possess statutory authorization to generate revenue. Service contracts for the management of cash operations (e.g., food services, canteen or bookstore operations, etc.) commonly permit agencies and institutions to share in the revenues these activities generate rather than require any expenditure of funds. Commissions should normally be based as a percentage of gross receipts, and there should be some incentive for the contractor to contain costs. It is imperative that agencies have some ability to verify gross sales under agreements of this type.

Operating under an expired contract prevents agencies from adequately monitoring contract deliverables. Operating without a current contract may result in the receipt of incorrect commission payments. By not performing due diligence with regard to contract monitoring, Patrick Henry is not

receiving commission payments in a timely manner in accordance with the terms of the expired contract. As a result, Patrick Henry does not have access to the missing commission payment for use in its daily operations. Without issuing a new request for proposal, Patrick Henry is potentially not negotiating new, more favorable rates, which could result in an increase in auxiliary commissions, or providing other vendors with the opportunity to bid for Patrick Henry's business.

The underlying cause of the contract payment and renegotiation concerns is a lack of oversight; therefore, Patrick Henry's management should review current procedures for monitoring revenue-generating contracts and implement corrective measures. Management should ensure that contracts are routinely monitored to ensure that vendors are in compliance with the terms of the contract. Finally, management should ensure that before expiration of a contract, personnel issue a Request for Proposal in sufficient time to allow for proper competition in accordance with the Procurement Manual.

2018-46: Ensure Human Resources Department Corrects Inaccurate Employee Leave Balances

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Patrick Henry did not properly pay out leave balances and reported an inaccurate leave liability amount to the System Office. We noted the following deficiencies:

- Patrick Henry made improper payouts due to inaccurate leave balances for three out of three (100%) terminated employees tested. Two employees received overpayments of leave for 1.04 and 20 hours respectively. The Human Resources Department underpaid one employee for 0.6 hours.
- Patrick Henry miscalculated the ending leave balances for two out of seven classified employees (29%) tested, resulting in an understatement of approximately \$3,500 in leave liability for the employees tested.
- Patrick Henry included an employee of another entity in the accrued leave liability calculation of State Schedules 8 and 8B, resulting in an overstatement of total accrued leave liability of \$4,720 reported on State Schedule 7.

CAPP topic 40105, states the college's leave accounting system should record leave balances properly, manage leave balances, and accurately calculate the fiscal year-end leave liability. Errors in leave balances have resulted in improper payouts and the reporting of inaccurate leave liability to the System Office and in the consolidated financial statements for the System.

According to management at Patrick Henry, turnover in the Human Resources Department contributed to the issues with leave liability. Patrick Henry lost two employees in the Human Resources Department in fiscal year 2018. The losses increased the workload for the two remaining employees who were tasked with identifying and correcting known issues.

Patrick Henry management should ensure current Human Resources Department employees review leave balances and correct any errors. Patrick Henry's Human Resources Department employees should ensure leave balances reconcile to amounts reported in the leave system prior to paying out leave balances to terminated employees and reporting year-end leave liability balances to the System Office.

2018-47: Comply with Employment Eligibility Requirements

Topic: Human Resources and Payroll

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Patrick Henry did not have sufficient processes and controls over the employment eligibility process. Patrick Henry did not complete the Form I-9 in accordance with guidelines issued by the U.S. Citizenship and Immigration Services of the Department of Homeland Security. We noted the following deficiencies:

- Patrick Henry could not locate a Form I-9 for one employee out of six (17%); and
- Patrick Henry had one employee out of six (17%) sign Section 1 of the Form I-9 two days after the employee's first day of employment.

The Immigration Reform and Control Act of 1986 requires that all employees hired after November 6, 1986, have a Form I-9 completed to verify both employment eligibility and identity on or before the first day of starting work. The U.S. Citizenship and Immigration Services sets forth federal requirements for completing the Form I-9 in the Handbook for Employers (M-274). Not complying with federal regulations could result in substantial civil and/or criminal penalties and debarment from government contracts.

By not performing due diligence with regard to the Form I-9s as required by the Immigration Reform and Control Act of 1986, Patrick Henry is in noncompliance. The underlying causes for these issues are improper controls ensuring retention of the Form I-9 and personnel not following human resource's procedures for storing files.

Patrick Henry should evaluate current procedures for completing the Form I-9 and implement corrective action to prevent future noncompliance. Management should ensure that Form I-9s are retained for audit purposes and to comply with U.S. Department of Homeland Security requirements.

GERMANNA COMMUNITY COLLEGE

2018-48: Develop and Document Policies and Procedures for Operationalizing Payroll and Human Resource Functions

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Germanna Community College's (Germanna) Human Resources and Payroll Departments do not have written policies and procedures for several human resources and payroll functions. Germanna has no written procedures detailing the process used by staff to ensure the consistency of data in the human resource and payroll systems. Additionally, Germanna does not have procedures documenting the work done and the sources used to support accrued payroll in the State Schedule 5.

The CAPP manual instructs agencies to develop their own policies and procedures for processes used, especially for processes relating to the recording of financial transactions, compliance with financial reporting requirements, compliance with laws and regulations, and stewardship over Commonwealth assets. Additionally, written policies and procedures are a best practice. They help ensure the accuracy and continuity of processes performed by an agency, which are necessary to achieving the agency's goals and ensuring internal controls are functioning as designed.

Lack of detailed, written policies and procedures over human resources processes increases the risk of inconsistent application of internal controls. With payroll-related processes, the risk of inconsistent internal controls can affect the reliability of information included in the financial statements. Increased risk can also result when the agency experiences changes or vacancies in key positions.

For several processes, Germanna's human resources relies solely on general policies and procedures created by the DHRM and Accounts in the CAPP manual. Germanna does not have its own written policies and procedures describing how its staff are to specifically process and control payroll and human resource information.

Management at Germanna should ensure policies and procedures are developed, documented, and maintained for all processes performed by human resources and payroll staff, and tailor them to the operations of Germanna. Germanna should periodically review and update policies and procedures based on changes in human resources and payroll operations accordingly.

2018-49: Remove System Access No Longer Necessary to Perform Job Duties**Topic:** Access Control**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

Germanna needs to improve the effectiveness of system access controls over the System's administrative system. Eight employees, who no longer needed access due to changes in job duties, maintained access to the System's administrative system as of January 2019. The Germanna employees last signed onto the system from April 2012 through April 2017 and no longer required access.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises the colleges to disable information system access when evaluation of risk of access indicates the removal from system access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. The removal of access may be deemed necessary, in other circumstances, such as whenever an employee has a change in their duties. Additionally, the System's Security Standard, section 9.2.3 – Management of Privileged Access Rights, dictates the principle of least privilege that must be used by each college and the System Office in the assignment of security roles and responsibilities.

Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Granting access based on the principle of least privilege is a best practice for maintaining security over critical systems. When access granted violates the principle of least privilege, there is an increased risk that users can circumvent other compensating controls and perform unauthorized transactions.

As part of the service level agreement between Germanna and the Shared Services, Shared Services is responsible for performing certain functions on behalf of the college. In April 2017, Germanna transitioned to procure to pay services with Shared Services. As a result of the transition, Germanna personnel no longer needed certain access to the System's administrative system. However, Germanna did not take into consideration the removal of employee access prior to, during, or after the transition.

Germanna should monitor the operational effectiveness of controls over access to the System's administrative system and ensure that they establish and maintain appropriate system access levels. Since Shared Services has assumed some responsibilities in the procurement process for Germanna under the service level agreement, Germanna personnel should collaborate with Shared Services and perform thorough reviews of employee access to the System's administrative system related to Germanna's records to ensure that access is adjusted upon any changes in employment status and that employees only retain access that is necessary to perform their job duties.

2018-50: Improve Payroll Document Retention**Topic:** Human Resources and Payroll**Type:** Internal Control**Severity:** Significant Deficiency**Repeat:** No

During fiscal year 2018, Germanna could not provide several source documents supporting payroll expenditures. In our testing of employees selected, we noted the following exceptions:

- For one out of five wage employees (20%), Germanna did not have documentation supporting the employee's overtime pay or evidence that it was approved.
- For two out of 15 salaried employees (13%), Germanna could not locate supporting documentation for special pay amounts.
- For three out of five employees (60%), Germanna could not locate supporting documentation for amounts paid in excess of the employee's contract.
- For two out of ten terminated employees (20%), Germanna did not retain supporting documentation regarding termination.

DHRM Policy 6.10, Personnel Records Management, requires agencies to maintain complete and accurate records regarding each employee and position. Additionally, CAPP topic 21005, Records and Retention, outlines the minimum record retention periods for audit support, including all records relating to payroll. Accounts and the Library of Virginia established the minimum retention period for payroll files at five years or whenever audited, whichever is longer.

Not maintaining proper documentation can result in unsupported changes in an employee's electronic file including pay rates, benefits, current position, and other sensitive information. This could lead to the inaccurate pay or the leave an employee is accruing each pay period.

Payroll and human resources staff at Germanna are not consistently following the developed policies and procedures related to payroll documentation. In addition, the policies and procedures in place do not have sufficient detail or convey staff responsibilities, and consist of a general list of documents to retain in the employee records. The payroll and human resources employees searched hardcopy personnel files and scanned Germanna's digital shared drive for requested documents; however, the documents could not be located. A contributing factor to the lack of retention is that Germanna experienced a change in staffing for the payroll position at the beginning of the fiscal year.

Germanna should redesign policies and procedures to ensure staff properly file and consistently retain all payroll related documents supporting or approving employee overtime, special pays, and changes in contracts. In addition, Germanna should communicate the importance of document retention to staff and ensure the staff maintain and retain all payroll related documents in employees' payroll records in accordance with CAPP manual, DHRM, and other Commonwealth retention policies.

2018-51: Develop and Implement Policies and Procedures for Employee Terminations

Topic: Human Resources and Payroll

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Germanna personnel are not properly completing the termination process for employees leaving employment with the college. Staff did not remove system access timely for eight out of ten employees (80%), with removal dates ranging from four months to a year and eight months after termination. For nine out of ten employees tested (90%), Germanna could not provide documented evidence it received the return of Commonwealth property.

CAPP topic 50320, Terminations, recommends agencies develop a termination check-off list to complete as a part of the termination process. In addition, the System's Security Standard, section 9.2.6 – Removal of Access Rights, advises the college to disable information system access upon employment termination. Section 9.2.6 defines access rights that should be removed include: physical and logical access, keys, identification cards, information systems and data, subscriptions, and removal from any documentation that identifies them as a current member of the college.

By not removing access in a timely manner or retaining documentation that Commonwealth property was returned, Germanna is increasing the risk that terminated employees may retain physical access to Commonwealth property, unauthorized access to state systems, and sensitive information. While required by Accounts, Germanna does not have termination policies and procedures developed specifically for the college's operations. Germanna stated that they place reliance on Accounts' policies and procedures in CAPP topic 50320 and on the Department of Human Resources termination procedures and use several termination checklists. However, Germanna staff did not create or maintain checklists for the period under audit.

Management should design and implement policies and procedures that clearly communicate responsibilities to human resource staff that ensure the timely completion of termination procedures and proper retention of the documentation in the employee records. Additionally, Germanna management should communicate to supervisory staff the importance of termination procedures ensuring the return of Commonwealth property and the removal of access for terminated employees to Commonwealth systems in a timely manner. Germanna should retain sufficient documentation as evidence of the operational effectiveness of controls over the removal of system access and collection of Commonwealth property for all terminated employees.

2018-52: Document Justification for Prepaying Expenses

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Germanna did not document justifications for making advance payments in fiscal year 2018 as required. We found the following deficiencies concerning prepaid expenses:

- For six out of 24 (25%) of the advance payments, Germanna did not perform a cost-benefit analysis prior to making the payments to determine if the prepayments were beneficial to the Commonwealth, or conform to the CAPP manual.
- Germanna included the full value of the prepayment in seven out of 24 (29%) of cases where Germanna should have reclassified parts of the prepayment to expenses, to reflect months where the service was delivered in fiscal year 2018, resulting in a \$30,302 overstatement of prepaid expenses.
- Germanna included one advance payment out of 24 (4%) for pre-paying services to be delivered by Shared Services that had no support and that did not get processed by the System Office and; therefore, Germanna staff should not have included the amount on its financial statement schedule prepared for advance payments.

CAPP topic 20310, Expenditures, allows advance payments that are normally prepaid as standard industry practice, or if making the prepayment is sufficiently cost beneficial to the Commonwealth. In addition, CAPP manual guidance directs Commonwealth entities to encourage vendors to invoice on a monthly or quarterly basis in the absence of a sufficiently reduced annual pricing arrangement. Documentation to substantiate the decision to make the advance payments should be maintained and made available upon request. In accordance with generally accepted accounting principles (GAAP), accrual accounting requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed. A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged as an expense.

Advance payments open up the System to risks associated with non-performance and the possibility that vendors prepaid for a year of service file bankruptcy during the prepaid term. Additionally, funds allocated to prepaid expenses could have been placed into an interest bearing account, providing for a potentially higher rate of return for the Commonwealth than prepayments made in absence of adequate cost savings. As there is no guarantee of performance of the vendor, prepaying for services is a risk that could potentially cost the System legal fees to recover prepaid amounts, and possibly suspension of services while a new vendor is procured. Finally, the decision to make advance payments reduces the state funds available for the General Assembly to re-appropriate, if necessary, in the subsequent fiscal year. Improper accrual of prepaid amounts can lead to overstatements of prepaid expenses in the System's financial statements.

Germanna does not have a policy governing advance payments that requires support for the decision to prepay contracts and demonstrates justification for the increased risks associated with advance payments due to factors out of the control of Germanna, such as bankruptcy or non-performance of vendors. Lack of policies to seek sufficient cost savings also creates a situation where leases and other fixed contractual arrangements deliver negligible cost benefits to the Commonwealth, as costs are fixed by the contractual terms and would be the same prepaid or if billed monthly. Germanna staff reported that Germanna has always recorded advance payments as the total invoice amount, regardless of the covered period of services. Germanna does not have a policy or procedure addressing the proper adjustment of prepaid expenses when services are partially performed in the current year in accordance with GAAP and CAPP manual guidance.

Germanna should create a process over advance payments to ensure advance payments are allowable and justified sufficiently. Germanna should ensure that the decision to make advance payments is adequately supported by documentation and that there is a demonstrable cost benefit to the Commonwealth. In addition, management should evaluate current procedures for recording prepaid expenses in the state schedules submitted to the System Office and for inclusion in the consolidated financial statements to ensure the accurate accrual of advance payments for reporting prepaid expenses.

NEW RIVER COMMUNITY COLLEGE

2018-53: Improve Critical System Access Monitoring

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

New River Community College (New River) personnel did not properly monitor the addition and timely removal of critical system access. We noted the following deficiencies:

- New River personnel did not remove accounting information system access for five employees that had not accessed the system for as much as four years. A sixth employee's access was active even though the employee had never logged into the system.
- New River personnel did not remove student information system access timely for one employee that terminated during the fiscal year.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises the college to disable information system access upon termination of their employment, which is the date that an employee is terminated from the System's human resource system, and in cases where evaluation of risk of access indicates the removal from systems access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. The removal of access may be deemed necessary, in other circumstances, such as whenever an employee has a change in their duties.

The System's Security Standard, section 9.2.5 – Review of User Access Rights, states that a user's access rights will be reviewed at regular intervals, at least annually; and after any changes, such as promotion, demotion, or termination of employment. Furthermore, CAPP topic 50210 requires "the timely submission of requests to delete access for terminated/transferred employees is imperative to safeguard the assets of the Commonwealth. The System's procedures further clarify that access should be removed no later than five business days measured from the initial date of the employee notification or termination.

Delaying the removal of all access privileges increases the risk that terminated employees will have unauthorized access to Commonwealth systems and sensitive information. Allowing unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Additionally, not reviewing for periods of inactivity increases the risk that employees retain access that violates the principle of least privilege.

The underlying cause of the late removal of access for the terminated employees and the one employee that changed positions was due to employee oversight. Additionally, New River has not developed and implemented procedures for monitoring employees for periods of inactivity within its systems. Management should evaluate its procedures for monitoring and removing access to critical systems and implement corrective action to ensure timely removal of critical access that is no longer required. Additionally, management should incorporate a review of users that have not accessed the system regularly to determine the need for critical access.

2018-54: Improve Fixed Asset Inventory and Tracking

Topic: Capital Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, New River personnel did not properly monitor fixed assets. We noted the following deficiencies:

- Six assets did not have an assigned tag affixed;
- Four assets could not be located;
- One asset was identified as a surplus item during fiscal year 2017, but was not coded as disposed until fiscal year 2019;
- A record for five assets could not be located within the fixed asset system; and
- During review of two servers, it was determined that the assets were recorded as surplus on August 8, 2018, along with 32 other servers; however, personnel did not complete the surplus documentation until April 1, 2019, when identified by the audit.

Per the System's Capital Assets Policies and Procedures Manual and CAPP topic 30505, agencies should perform a physical inventory of fixed assets at least once every two years in order to properly safeguard assets and maintain fiscal accountability. Agencies must resolve discrepancies between recorded and actual inventories in a timely manner through the submission of revised input forms and tagging, if necessary. Per CAPP topic 30705, Surplus Property Management, agencies must reclassify assets to surplus when the agency has determined that the asset has served its useful purpose, is no longer functional, cannot be repaired or improved, or is not needed within the agency.

Insufficient inventory of New River's physical assets increases the risk of misappropriation of college property and may contribute to the inclusion of inaccurate information in the fixed asset system and financial statements. A proper and effective inventory results in an accurate accounting of equipment and indicates the reliability of the system of control for acquiring, using, and disposing of equipment. The primary cause for monitoring deficiencies is a lack of oversight and departments not notifying the Inventory Technician of changes affecting fixed assets.

Management should evaluate current inventory and tracking procedures and implement corrective action to ensure the monitoring of fixed assets is in accordance with state requirements. Management should ensure the tagging of all fixed assets, proper recording of assets in the fix asset system, and, when applicable, departments complete surplus documentation. Management should ensure the completion of a full inventory and the timely correction of discrepancies. Management should consider developing a fixed asset survey for asset custodians to identify donations, purchases, and the removal/surplus of assigned assets. Management should ensure personnel designate as surplus, assets that cannot be located or have been disposed of in accordance with state requirements.

2018-55: Ensure Contracts Are Properly Monitored

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

New River and Shared Services personnel did not properly monitor the security services contract. We noted the following deficiencies:

- The original terms of the contract required the contractor to provide a vehicle and cover all expenses related to vehicle maintenance. However, the fiscal year 2018 - 2019 Budget Recap provided by the contractor to support payments to the contractor included an annual vehicle charge of \$8,000. No contract modification could be located to indicate that New River personnel approved the inclusion of the vehicle charge.
- The original terms of the contract included a tiered hourly rate schedule for security officers by classification. New River personnel were to approve increases to the hourly rate during the renewal process. The 2018 - 2019 Budget Recap provided by the contractor included a flat rate rather than the mutually agreed tiered rate. No

contract modification could be located to support an approval from New River personnel on the level of increase.

- New River personnel prepaid the amount included on the 2018 – 2019 Budget Recap from the contractor without approving any related contract modifications.
- As of June 1, 2019, New River was continuing to receive services under the contract; however, the contract expired in April 2019 and New River has not agreed to the term of new contract negotiated by Shared Services.

In accordance with the Procurement Manual, Section 10.12 (Modifications and Change Orders), “Any request for change affecting price, quality, quantity, delivery or cancellation requires a thorough written explanation by the agency prior to approval. A contractor shall not be notified that a change has been approved until that change has been authorized by the appropriate buyer or contract officer. All change requests should be evaluated for contract validity and a price reasonableness determination of the change shall be made in writing.”

The assigned contract administrator did not recognize the payments for contract modifications that were not agreed to and authorized in writing. Additionally, miscommunications between Shared Services and New River caused expiration of the contract without New River agreeing to the new terms.

Since Shared Service is now assigned selected responsibilities in the procurement process for New River, New River personnel should collaborate with Shared Services to review their collective procedures for monitoring and approving contract modifications. Management should retain documentation of contract modification approvals for audit purposes.

2018-56: Confirm Virginia Retirement System Snapshot Timely

Topic: Human Resources and Payroll

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

New River did not confirm the Retirement System contribution snapshot timely. In five out of the twelve months (42%) tested, we noted the following deficiencies:

- July 2017 – one day late
- September 2017 – one day late
- October 2017 – seven days late
- March 2018 – six days late
- May 2018 – two days late

In accordance with the Retirement System's Employer Manual for Contribution Confirmation and Payment Scheduling, all employers are required to submit the contribution snapshot for the month by the 10th of the following month. Confirming the contribution snapshot late delays benefit processing and can result in errors due to incorrect or incomplete information. This inaccurate data in the Retirement System may cause retirement contributions to be paid late or inaccurately, the pension liability to be reported in the System's financial statements to be misleading, and/or employees to receive incorrect retirement benefits.

The underlying cause of the untimely confirmations is a lack of management oversight and review of staff priorities to ensure they complete the confirmations timely. Management should implement corrective action to ensure the contribution snapshot is confirmed by the 10th of the following month.

2018-57: Properly Report Accruals

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

New River personnel did not properly report prepaid expenses in the state schedules submitted to the System Office for inclusion in the annual financial statements. We noted the following deficiencies in the fiscal year 2018 state schedules for operating leases and prepaid expenses:

- Overstated liabilities for a mall site lease by \$389,578 and \$7,756 for fiscal years 2019 and 2022, respectively; and
- Overstated prepaid expenses by \$24,071 for security services.

In accordance with generally accepted accounting principles (GAAP), accrual accounting requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed. A prepaid expense is an expenditure paid for in one accounting period, but for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to an expense. Errors reported in State Schedule 19 submitted to the System Office resulted in inaccurate amounts being carried into the consolidated financial statements.

The primary cause for the deficiencies is an oversight in reporting. As a result, management should evaluate current procedures for recording prepaid expenses in the state schedules submitted to the System Office and for inclusion in the annual financial statements. Management should ensure that all documents are available for review to ensure the accuracy of reported amounts. Management should compare related schedules to determine reasonableness.

TIDEWATER COMMUNITY COLLEGE

2018-58: Perform Effective Reviews of System Access

Topic: Access Control

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Tidewater Community College (Tidewater) is not effective at evaluating if employees still require access to the System's administrative system. Of the 13 employees that did not log into the administrative system during fiscal year 2018, five employees (38%), as of January 2019, no longer needed access. The five employees in question last logged into the administrative system between November 2015 and April 2017.

The System's Security Standard, section 9.2.6 – Removal or Adjustment of Access Rights, advises the college to disable information system access when the evaluation of risk of access indicates the removal from system access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. Additionally, the System's Security Standard, section 9.2.3 – Management of Privileged Access Rights, dictates the principle of least privilege that must be used by each college and the System Office in the assignment of security roles and responsibilities.

Allowing employees to retain unnecessary access to critical systems increases the risk of compromising data integrity and increases unnecessary exposure to sensitive data. Maintaining access based on the principle of least privilege is a best practice for ensuring security over critical systems. When retained access violates the principle of least privilege, there is an increased risk that users can use the access to perform unauthorized transactions.

The employees in question and their managers confirmed that the employees still required their access during Tidewater's reviews over access to the System's administrative system completed in November 2018. However, the employees later confirmed in January of 2019 that they no longer needed their access, supported by their last login dates to the system. Due to ineffective reviews over access to the System's administrative system, Tidewater did not appropriately remove unnecessary access.

Tidewater should monitor the operational effectiveness of controls over access to the System's administrative system and ensure that they establish and maintain appropriate system access levels based on the principle of least privilege. Additionally, Tidewater Management should perform periodic thorough reviews of employee access to the System's administrative system in order to ensure unnecessary access is adjusted timely upon changes in responsibilities and that employees only retain access that is necessary to perform their current job duties.

2018-59: Properly Monitor Revenue Contract Deliverables

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Tidewater personnel did not properly monitor contract deliverables for a revenue generating contract during fiscal year 2018. We noted the following deficiencies:

- Tidewater did not receive three out of 12 (25%) monthly commission payments from the contractor. Payments not received for the months of September 2017, April 2018, and May 2018 totaled approximately \$19,000.
- The contractor submitted nine out of 12 (75%) commission payments after the 15th of the subsequent month. Additionally, for these nine payments, the contractor provided sales reports without proof of sales for nine out of 12 (75%) commission payments. Therefore, management was unable to verify the accuracy of the revenue received.

Section 10.22(d) of the Procurement Manual states the following regarding revenue sharing contracts:

Revenue Sharing Contracts. Certain agencies and institutions possess statutory authorization to generate revenue. Service contracts for the management of cash operations (e.g., food services, canteen or bookstore operations, etc.) commonly permit agencies and institutions to share in the revenues these activities generate rather than require any expenditure of funds. Commissions should be normally based as a percentage of gross receipts, and there should be some incentive for the contractor to contain costs. It is imperative that agencies have some ability to verify gross sales under agreement of this type.

Per standard contract wording, section 17 Reporting, the contractor is required to provide the college all reports in an itemized format to include specific details of each campus and each location. The reports shall include all cash, credit, check, declining balance, meal plan sales information, and customer counts by hour. Per section 19 Financial Terms, the contractor is required to remit monthly payments to the college by the 15th of the following month.

By not performing due diligence to monitor contract deliverables, Tidewater is not receiving commission payments in accordance with the contract terms. As a result, Tidewater does not have access to the missing commission payments for use in its daily operations. Although management assigned the contract administrator responsibilities to an individual in writing, this individual did not fulfill the assigned responsibilities for the year under audit.

Subsequent to the year under audit, Tidewater transferred contract administrator responsibilities for this revenue contract to Shared Services. Through its service level agreement and other activities, Tidewater management should ensure Shared Services is fulfilling its assigned

responsibilities and monitor to ensure the System is receiving all revenue commission payments in accordance with the terms of the contract and that are properly supported by sales receipts.

2018-60: Strengthen Interdepartmental Communications Related to Terminated Employees

Topic: Human Resources and Payroll

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Tidewater did not consistently execute its termination procedures for employees that terminated employment with the college. We noted the following deficiencies during our testing:

- For nine out of the 95 (9%) employees sampled with deactivated purchasing system access, Tidewater deactivated access between five and forty days after the employee's termination date.
- For ten out of the 25 (40%) terminated employees sampled, Tidewater did not deactivate the employee's access to the student information system within five business days after the employee's termination date.
- For one out of the 25 (4%) terminated employees sampled, Tidewater did not complete the terminated employee checklist form. The terminated employee checklist form documents the removal of system access and the return of Commonwealth property, such as charge cards, travel cards, and keys.

The System's Security Standard, section 9.2.6 – Removal of Access Rights, advises the college to disable information system access upon termination, which is the date that an employee is terminated within the human resources System, and in case where evaluation of risk of access indicates the removal from systems access may be deemed necessary for certain employees prior to termination, such as periods of inactivity. Section 9.2.6 defines access rights that should be removed including physical and logical access, keys, identification cards, information systems and data, subscriptions, and removal from any documentation that identifies them as a current member of the college system. Per Section 2.8 (Deactivation of Access) of the Commonwealth of Virginia Procurement System Security Standard, access should be deactivated when the requirement for access no longer exists. According to Tidewater Policy 5201, Access to Information Systems Containing Sensitive Data Policy, access should be removed within five business days from the date the employee is terminated. Per Tidewater procedure, established by Human Resources, supervisors must submit the termination form within three days from the employee's last day of employment.

By not removing access in a timely manner or retaining documentation that Commonwealth property was returned, Tidewater is increasing the risk that terminated employees may retain physical access to Commonwealth property, unauthorized access to state systems and sensitive information. Untimely deletion of access to systems can expose the colleges to inappropriate activity by individuals no longer employed by the institution. Since the Commonwealth's purchasing system is a web-based

application accessible from anywhere, removing a user from the college's internal network is not sufficient. Untimely deactivation of a user's access may compromise the protection and integrity of confidential Commonwealth purchasing system data.

Communication between supervisors of several departments to the Human Resources Department appears to be a challenge, resulting in a lack of documentation and timely notification of employees' terminations in the Human Resources Department. Tidewater should strengthen communications between department supervisors and human resources so that the employee termination form is completed accurately to ensure all access is removed and all Commonwealth property is returned. Management should communicate to supervisory staff the importance of termination procedures that ensure the return of Commonwealth property and removal of access for terminated employees to Commonwealth systems in a timely manner. Additionally, management should ensure that the Human Resources Department monitors the other departments to ensure they are consistently complying with the termination policies and procedures and provide training as necessary.

2018-61: Ensure Prepaid Expenses and Other Payments Comply with Commonwealth Requirements

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Tidewater prepaid \$109,804 for deliverables that cover periods of service extending beyond twelve months after year-end. Six out of the entire population of 65 prepaid expenses (9%) were for deliverables that the contractor is obligated to provide beyond twelve months after advance payment, the maximum allowable limit. Financial statement preparation instructions given to Tidewater by the System Office's financial reporting manager included instructions that all prepaid expenses follow the requirements of CAPP topic 20310, Expenditures.

CAPP topic 20310, Expenditures, allows advance payments that are normally prepaid as standard industry practice, or if making the prepayment is sufficiently cost beneficial to the Commonwealth. In addition, CAPP manual guidance directs Commonwealth entities to encourage vendors to invoice on a monthly or quarterly basis in the absence of a sufficiently reduced annual pricing arrangement. Documentation to substantiate the decision to make the advance payments should be maintained and made available upon request. Additionally, advance payments are limited to a maximum prepayment of twelve months.

Advance payments expose Tidewater to risks associated with non-performance and the possibility that vendors prepaid for a year or more of service file bankruptcy during the time of making the payment and receiving the deliverable. Additionally, funds allocated to prepaid expenses could have been placed into an interest bearing account, providing for a potentially higher rate of return for the Commonwealth than prepayments made in absence of adequate cost savings. As there is no guarantee of performance of the vendor, prepaying for services is a risk that could potentially cost Tidewater legal fees to recover prepaid amounts, and possibly suspension of services while a new vendor is procured.

Finally, dependent on the source of funds, making advance payments reduces the state funds available for the General Assembly to re-appropriate, if necessary, in the subsequent fiscal year.

Tidewater recognized the exceptions as not being in compliance with the CAPP topic policy for maximum length of prepaid expenses. Procurement staff generated purchase requisitions and orders that included contract terms specifying lengths of service exceeding twelve months as a condition of the vendor agreement inappropriately for maintenance and subscription payments, unallowable by CAPP manual requirements. Subsequently, accounts payable personnel paid the invoices for the unallowable length of agreements because the proper approvals had been made and the vendors submitted for payment appropriately, without considering the CAPP topic restrictions on prepaid expenses. The lack of specific policies at Tidewater governing limits on prepaid expenses allowed these exceptions to occur.

Tidewater should create an adequate policy and procedure that is in compliance with the CAPP manual to ensure advance payments are allowable based on the agreements entered into for services, leases, subscriptions, and other allowable prepaid expenses. Further, Tidewater should ensure that the maximum agreement term covers only up to a maximum of twelve months, with the exception of software licensing agreements, which may be longer than twelve months provided they adhere to further CAPP manual requirements. In addition, Tidewater should adequately train procurement managers to ensure purchase requisitions are not generated to purchase services, leases, and other allowable advance payments for greater than a twelve-month maximum period. Finally, management should empower accounts payable personnel to question transactions that are not in compliance.

2018-62: Improve Reporting to National Student Loan Data System

Topic: Student Financial Assistance – Single Audit

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Tidewater did not report an accurate enrollment status for three out of 50 students tested (6%), reported an inaccurate effective date for eight students (16%), and did not report a student status change timely for one student (2%). The cause appears to be the graduate file extracting incorrect enrollment data.

In accordance with Code of Federal Regulations 34 C.F.R. 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, Tidewater can affect the reliance placed by the U.S. Department of Education for monitoring purposes and other higher education institutions when making aid decisions. Noncompliance may also have implication on an institution's participation in Title IV programs.

Management should perform a comprehensive review of current enrollment reporting policies and procedures. Management should implement corrective action to prevent future noncompliance. Management should consider implementing a quality control review process to monitor the submission

of enrollment batches. One of these options may be a quality control review workgroup comprised of those employees involved in the enrollment reporting process. However, the type of quality control review process implemented should be determined by college personnel in conjunction with members of management.

RAPPAHANNOCK COMMUNITY COLLEGE

2018-63: Ensure Revenue is Recorded Timely and Accurately

Topic: General Accounting

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Rappahannock Community College (Rappahannock) did not timely and accurately record revenue entries originating in the student information system to the accounting information system. Sixteen of the 25 revenue entries (64%) randomly sampled were recorded later than one week after the end of the month in which the revenue was received. One of the 25 revenue entries (4%) totaling \$2,667 was not entered during the normal monthly process, but was captured during year-end closing procedures; however, it did not report activity in the proper accounts. Another of one of the 25 revenue entries (4%), recorded \$75 to an incorrect account. Additionally, an entry for \$39 was recorded to an incorrect account.

According to CAPP topic 20905, basic objectives of the classification, recording and summarization processes include monthly certification by the fiscal officer that all general ledger account balances in the Commonwealth's accounting and financial reporting system for the agency will be correct after the agency processes any needed general ledger journals. Untimely and inaccurate journal entries may result in inaccurate information within accounts and potentially the annual financial statements. In addition, the Commonwealth's accounting and financial reporting system will not reflect accurate and current information for updates that occur after recording to the general ledger.

Turnover in the Business Office Manager position and lack of documented procedures are the primary causes of revenue entries being recorded late and incorrectly to the accounting information system. Management should properly document and implement procedures to ensure revenue entries are properly and timely recorded in the accounting information system.

2018-64: Update Policies and Procedures for Cash Management Requirements

Topic: General Accounting

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Rappahannock did not follow Commonwealth requirements and System's guidance for its local funds bank accounts. Two of the three non-federal funds bank accounts had a total of \$1,253 in

outstanding checks that were more than one year after they became payable. Additionally, Rappahannock does not maintain its petty cash account in its accounting information system.

Code of Virginia § 55-210.9 states that all intangible property held for the owner by any government or governmental subdivision or agency, public corporation, or public authority that has remained unclaimed by the owner for more than one year after it became payable is presumed abandoned. Intangible property includes checks, as defined in Code of Virginia § 55-210.2 and that abandoned property is subject to the custody of the Commonwealth. The Department of Treasury's Division of Unclaimed Property (Unclaimed Property) serves as the custodian of abandoned property for the Commonwealth. Additionally, in February 2015, the System Office advised the colleges to dissolve state petty cash accounts and use a local account to handle any petty cash activity. Colleges were later instructed on how to setup a local petty cash fund in the accounting information system. The System's policy manual, section 4.2.2 (a), states that all activity for local and agency funds shall be accounted within the System's accounting system.

As Rappahannock did not surrender the abandoned checks to Unclaimed Property in a timely manner, Rappahannock is not complying with the applicable state laws. Additionally, although Rappahannock dissolved its state petty cash account, it did not create a local petty cash account in its accounting information system as instructed by the System Office. As a member of the System, Rappahannock is expected to follow guidance provided by the System Office to ensure proper financial reporting. Misstatement of the financial statements is possible as a result of accounts set up outside of the System's accounting system.

Rappahannock lacks adequate policies and procedures to address outstanding checks, staff were inadequately trained on bank reconciliations, and staff were unaware of state compliance and System policy requirements. Rappahannock should update its policies and procedures to address stale dated checks and properly and timely remit the funds to Unclaimed Property. Additionally, Rappahannock should also create a local petty cash account in its accounting information system to properly record and monitor activity in this account.

2018-65: Assign Contract Administrator Responsibilities in Writing

Topic: Procurement/Contract Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Rappahannock did not properly assign responsibilities for its café vending contract. The Procurement Manual Section 10.2 states that "all continuous or term contracts shall be assigned an administrator in writing." The designation letter should outline specific delegated tasks, which may include acceptance of goods or services, approval of invoices, scheduling and monitoring of project progress, coordination of the provision of agency or other resources when part of the contract, and favorable or critical feedback to the contractor and buyer. When contract administrator responsibilities are not properly assigned, it increases the risk that Rappahannock will not have access to the missing commission payments for use in its daily operations.

Rappahannock should assign contract administrators in writing with defined responsibilities as well as review current procedures for monitoring revenue-generating contracts and implement corrective measures. Management should ensure that contracts are routinely monitored to ensure that vendors are in compliance with terms of the contract.

2018-66: Properly Document Federal Aid Reconciliations

Topic: Student Financial Assistance – Financial Statement

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Rappahannock did not properly document the federal aid monthly reconciliations. Three out of three (100%) of the monthly reconciliations tested did not show the reviewer and date of the review indicating if the reconciliation was reviewed and performed timely. Without this information, Rappahannock could not demonstrate compliance with federal requirements.

In accordance with 34 C.F.R. § 674.19(d), “an institution shall establish and maintain program and fiscal records that are reconciled at least monthly.” The Student Financial Aid Handbook issued by the U.S. Department of Education further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

By not properly documenting the reconciliation of the federal student aid programs, Rappahannock is not able to demonstrate that it identified issues and resolved the issues before becoming a systemic problem. Systemic problems could result in federal non-compliance, which may lead to potential adverse actions by the U.S. Department of Education and affect Rappahannock’s participation in Title IV programs.

Turnover in the Business Office Manager position and lack of documented procedures are the primary causes of the inadequate documentation of the financial aid reconciliation. Management should review current policies and procedures related to the reconciliation of federal aid programs and should implement corrective action to ensure monthly reconciliations are completed, documented, and reviewed timely to prevent future noncompliance.

CENTRAL VIRGINIA COMMUNITY COLLEGE

2018-67: Reconcile Financial Aid Activity to Federal Systems

Topic: Student Financial Assistance – Single Audit

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (2015-099, Single Audit Report and 2017-55, System Report)

Prior Year Title: Perform and Document Monthly Reconciliations of Direct Loans

Central Virginia Community College (Central Virginia) personnel did not reconcile the cash it requested and received from the federal G5 system to the disbursements Central Virginia made to students and also reported to the federal government using the COD system. Representatives from the school indicated limited staff during the year led to not having enough time to reconcile the accounting records.

In accordance with 34 C.F.R. § 685.300(b), institutions must reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary. Each month, COD provides colleges with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records to aid in this reconciliation process. The Student Financial Aid Handbook further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

By not reconciling federal student aid programs monthly as required, Central Virginia places itself at more risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and may impact participation by the institution in Title IV programs.

Central Virginia should perform and retain sufficient documentation of monthly reconciliations and resolve reconciling items in a timely manner to ensure compliance with federal regulations. Additionally, Central Virginia should implement a review process to ensure complete documentation of reconciliation efforts and appropriate resolution of reconciling items.

2018-68: Improve Reporting to National Student Loan Data System

Topic: Student Financial Assistance – Single Audit

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (2015-098, Single Audit Report and 2017-54, System Report)

Prior Year Finding: Improve Compliance Over Enrollment Reporting

Central Virginia did not report an accurate effective date for ten out of 32 students tested (31%) and did not report student status changes timely for six students out of 31 tested (18%). The underlying cause of the noncompliance relates to the System's data capture of unofficial withdrawals.

In accordance with Code of Federal Regulations 34 C.F.R. 685.309 and further outlined in the NSLDS Enrollment Guide, published by the U.S. Department of Education, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. Untimely and inaccurate data submission to NSLDS can affect the reliance placed on the system by the U.S. Department of Education for monitoring purposes and other higher education institutions when making aid decisions. Noncompliance may also have implication on an institution's participation in Title IV programs and can potentially impact loan repayment grace periods.

Central Virginia in conjunction with the System Office management should perform a comprehensive review of current enrollment reporting policies and procedures to improve timeliness of submissions to NSLDS. The System should implement corrective action to prevent future noncompliance and should consider implementing an internal quality control review process to monitor the accuracy of submitted enrollment batches.

2018-69: Properly Process Title IV Refund Calculations

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, Central Virginia personnel did not accurately perform title IV return calculations. During the audit, we noted the following deficiencies:

- Central Virginia personnel incorrectly identified one student as needing a title IV calculation and reduced the student's Pell grant award by \$606.
- Central Virginia personnel did not perform the return to Title IV calculations correctly for eight students.
- Central Virginia personnel did not return the funds to the U.S. Department of Education within the required timeframe for eight students.
- Central Virginia personnel did not identify the withdrawal dates for two students within the required timeframe.
- Central Virginia personnel did not identify four students who withdrew from the college and required a return to Title IV calculation.

Code of Federal Regulations, 34 C.F.R. § 668.22 states that when a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date and return the money within a reasonable

timeframe. The institution must return the amount of unearned funds after the date that the institution determines the student has withdrawn. The total number of calendar days in a payment period includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period and the number of calendar days completed in that period.

Not complying with the return provisions of the Code of Federal Regulations could result in the initiation of an adverse action by the U.S. Department of Education against Central Virginia. Central Virginia personnel use an automated system for calculating the percentages of aid earned and unearned by a student. The Admissions and Records Office did not enter the scheduled break of eight consecutive days for the spring 2018 term into the automated system. By not entering this scheduled break into the automated system, Central Virginia did not identify all of the students who required a return to Title IV calculation and caused an error for all students requiring a return of Title IV calculation in the Spring 2018 term. For the remaining errors noted, representatives from the school indicated limited staffing and significant turnover in staff in the Financial Aid Office during aid year 2018 led to the deficiencies noted.

Management should review existing processes for entering scheduled breaks of five consecutive days or more into the automated system, correctly identifying students who withdraw, accurately performing the return to Title IV calculation, and returning unearned aid to the U.S. Department of Education within the required timeframe. The Financial Aid Office personnel should correct the erroneous reduction noted above. Additionally, the Financial Aid Office must recalculate all return of Title IV calculations for the spring 2018 term. If a recalculation results in a required payment to the student or the U.S. Department of Education, the Financial Aid Office and business office personnel must collaborate to remit payments timely in accordance with federal regulations.

2018-70: Return Unclaimed Aid to Department of Education

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, Central Virginia personnel did not return unclaimed student financial aid funds totaling \$4,711 for 12 of 12 students (100%) to the U. S. Department of Education. Representatives from the school indicated they were not aware of the requirement that unclaimed student financial aid must be returned to the U.S. Department of Education.

In accordance with 34 C.F.R. § 668.164(l), if an institution attempts to disburse the funds by check and the check is not cashed, the institution must return the funds no later than 240 days after the date it issued that check or no later than 45 days after an electronic funds transfer (EFT) is rejected. Not performing due diligence activities timely can result in federal non-compliance and subject the institution to potential adverse actions and affect the institution's participation in Title IV programs.

In the event the college is unable to contact the federal aid recipient and the check remains uncashed or EFT is rejected, the college should ensure unclaimed funds are returned to the U.S. Department of Education within the required timeframe. Central Virginia should request the funds noted from its third party vendor and return the funds to the U.S. Department of Education.

2018-71: Improve Cash Management Procedures

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, Central Virginia personnel did not reconcile federal aid programs adequately or timely. We noted the following deficiencies:

- Central Virginia personnel drew down \$300,000 in excess federal funds for Direct Loans in December 2017. In February 2018, the U.S. Department of Education requested and received the funds back from the College.
- Central Virginia personnel miscoded \$11,242 as Direct Loans 17-18 rather than Direct Loans 16-17 in April 2018. The miscoding error was shown as a reconciling item on the April 2018 reconciliation; however, it was not corrected.
- For five of 12 (41%) reconciliations of the bank statements, G5, and Central Virginia's internal accounting system, there was no record of when Central Virginia personnel completed the reconciliations. Seven of the 12 (58%) reconciliations had no supervisory review. Two of the 12 (16%) reconciliations were completed up to two months late.

Code of Federal Regulations Title 34 C.F.R. 668.166 considers excess cash to be any amount of Title IV, HEA program funds, other than Federal Perkins Program funds, that an institution does not disburse to students or parents by the end of the third business day following the date the institution received those funds from the Secretary.

Without consistent, proper reconciliation of the systems involved with Student Financial Aid function, there is an increased risk of undiscovered and unresolved errors, fraudulent behavior, and misuse of federal funds. Additionally, in order to rely on such reconciliations, proper segregation of duties, including evidence of review, should be maintained at all times. The drawdown error was a result of personnel entering the wrong number on the reconciliation used to calculate the amounts for drawdowns through G5. For the remaining errors, representatives from the school indicated personnel did not understand the importance of obtaining timely and supervisory review of the monthly G5 reconciliations.

Management should review current policies and procedures related to the reconciliation of federal aid programs. Management should implement corrective action to ensure reconciliations are completed and reviewed timely to prevent future noncompliance. Management should ensure college

personnel maintain a strong audit trail of monthly reconciliations between the accounting system and G5. Management should strengthen the review process to ensure reconciling items are addressed timely.

2018-72: Perform Monthly Bank Reconciliations

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, Central Virginia personnel did not reconcile the federal bank account timely and the timing of supervisory review of the reconciliations could not be determined. Two of 12 (17%) reconciliations were delayed up to two weeks. For four of the 12 (33%) reconciliations, Central Virginia personnel did not record when the supervisory review occurred. Representatives from the school indicated the importance of completing the reviews timely was not always considered during aid year 2018.

In accordance with 34 C.F.R. 675.19(b)(iv), 34 C.F.R. 675.19 (b)(2), and 34 C.F.R. § 685.102(b), institutions must “establish and maintain program and fiscal records that are reconciled at least monthly.” By not reconciling federal student aid programs monthly as required, Central Virginia places itself at more risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and may impact participation by the institution in Title IV programs.

Management should review current policies and procedures related to the reconciliation of federal aid programs. Management should implement corrective action to ensure reconciliations are completed and reviewed timely to prevent future noncompliance. Management should strengthen the review process to ensure reconciling items are being addressed timely.

2018-73: Improve Reporting to the Common Origination and Disbursement System

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The Central Virginia Financial Aid Office did not report disbursements timely to the COD system for 12 of 51 (23%) students. Representatives from the school indicated limited staffing and significant turnover in staff in the Financial Aid Office during aid year 2018 led to staff not having enough time to correct disbursement errors and submit the disbursements to COD within the required timeframe.

In accordance with 82 FR 29061, an institution must submit Federal Pell Grant and Direct Loan disbursement records no later than 15 days after making the disbursement and more than seven days prior to the disbursement date or becoming aware of the need to adjust a student’s previously reported disbursement. In accordance with 34 C.F.R. § 668.14(a), Title IV funds are disbursed on the date that the

institution (a) credits those funds to the student's account in the institution's general ledger or any sub ledger of the general ledger, or (b) pays those funds to the student directly. Title IV funds are disbursed even if the institution uses its own funds in advance of receiving program funds from the Secretary of Education.

If an institution does not submit disbursement records within the required timeframe, it may result in the Secretary rejecting all or part of the reported disbursement. This may impact the College's participation in the Title IV program. Central Virginia should review its current policies and procedures for submitting disbursement records and implement corrective action to ensure future compliance.

VIRGINIA WESTERN COMMUNITY COLLEGE

2018-74: Improve Notification Process for Federal Direct Loan Awards to Students

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

During aid year 2018, the Virginia Western Community College's (Virginia Western) Financial Aid Office did not properly notify all students receiving Federal Direct Loan awards. Specifically, no notifications were sent after March 20, 2018, resulting in 144 of 967 (14%) students not receiving their required notification. The Code of Federal Regulations mandates that Virginia Western provide written award notifications to students, which include important details on the rights, options, and requirements of the student loan. Representatives from the college indicated additional responsibilities being added to the staff during summer 2018 led to the staff not having enough time to send the disbursement notifications to the students.

Code of Federal Regulations, Title 34 C.F.R. 668.165(a) (2), requires institutions to properly notify students receiving Federal Direct Loans, in writing, of the date and amount of the disbursement, the student's right to cancel all or a portion of a loan or loan disbursement, and the procedure and time by which the student must notify the institution that he or she wishes to cancel the loan. Not properly notifying students in accordance with Federal Regulations may result in fines, withholding of Title IV funds, or suspension or termination of participation in Title IV programs.

The Financial Aid Office should revisit its policies and procedures of sending loan notifications to students to ensure Virginia Western properly notifies all students who receive Federal Direct Loans as required by the Code of Federal Regulations.

2018-75: Reconcile Federal Aid Programs Timely**Topic:** Student Financial Assistance – Accreditation**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

During aid year 2018, Virginia Western personnel did not reconcile federal aid program timely. We noted the following deficiencies:

- All reconciliations between the bank statements, G5, and Virginia Western's internal accounting system were completed. However, two out of 12 (17%) reconciliations were not completed timely. The December 2017 bank statement was completed in February 2018 and the March 2018 was completed in May 2018. Eight out of 12 (67%) of these reconciliations did not have a timely a timely supervisory review.
- Virginia Western personnel did not reconcile Direct Loan Servicing System accounting records with disbursements submitted to the COD system for the months of July 2018 and August 2018. Representatives from the school indicated additional responsibilities being added to the staff during summer 2018 led to the staff not having enough time to reconcile the accounting records.

In accordance with 34 C.F.R. 675.19(b)(2)(iv), 34 C.F.R. 675.19 (b)(2), 34 C.F.R. § 685.300(b) and 34 C.F.R. § 685.102(b), institutions must “establish and maintain program and fiscal records that are reconciled at least monthly.” In addition, Institutions must reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary. Each month, COD provides colleges with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records to aid in this reconciliation process. The Student Financial Aid Handbook further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

By not reconciling federal student aid programs monthly as required, Virginia Western places itself at more risk of not identifying issues and resolving them before they become a systemic problem. Systemic problems could result in federal non-compliance and may lead to potential adverse actions and may impact participation by the institution in Title IV programs.

Management should review current policies and procedures related to the reconciliation of federal aid programs. Management should implement corrective action to ensure that reconciliations are completed and reviewed timely to prevent future noncompliance. Management should ensure that college personnel maintain documentation of monthly reconciliations between college accounting system and the federal G5 and COD systems. Management should strengthen the review process to ensure that reconciling items are being addressed timely.

2018-76: Resolve Federal Department of Education Findings**Topic:** Student Financial Assistance – Accreditation**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

Virginia Western recently received a U.S. Department of Education Program Review. For compliance requirements tested by the U.S. Department of Education, we did not conduct testwork to avoid duplication of effort. The Program Review resulted in findings that require Virginia Western to implement a plan of corrective action. Management should continue to monitor the progress of the corrective action plan to resolve compliance findings.

J. SARGEANT REYNOLDS COMMUNITY COLLEGE**2018-77: Improve Direct Loan Reconciliations****Topic:** Student Financial Assistance – Accreditation**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

During aid year 2018, Reynolds Community College (Reynolds) personnel did not reconcile the cash it requested and received from the federal G5 system to the disbursements Reynolds made to students and also reported to the federal government using the COD system. Each month, COD provides colleges with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records to aid in the reconciliation process. The Student Financial Aid Handbook further details that the institution should identify any discrepancies and take necessary corrective action to ensure they will not recur in the following month.

In accordance with 34 C.F.R. § 685.300(b)(5), institutions must “on a monthly basis, reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary.”

The underlying cause of the noncompliance was a result of employee turnover. Management should review current policies and procedures related to the reconciliation of Federal Direct Loans. Management should implement corrective action to ensure that reconciliations are completed and reviewed timely to prevent future noncompliance. Additionally, management should ensure that college personnel maintain a strong audit trail of monthly reconciliations and the resolution of reconciling items when applicable.

2018-78: Resolve Federal Department of Education Findings**Topic:** Student Financial Assistance – Accreditation**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** No

Reynolds recently received a U.S. Department of Education Program Review. For compliance requirements tested by the U.S. Department of Education, we did not conduct testwork to avoid duplication of effort. The Program Review resulted in findings that require Reynolds to implement a plan of corrective action. Management should continue to monitor the progress of the corrective action plan to resolve compliance findings.

PAUL D CAMP COMMUNITY COLLEGE**2018-79: Improve Reporting to National Student Loan Data System****Topic:** Student Financial Assistance – Single Audit**Type:** Internal Control and Compliance**Severity:** Significant Deficiency**Repeat:** Yes (2015-098, Single Audit Report and 2017-54, System Report)**Prior Year Finding:** Improve Compliance Over Enrollment Reporting

Paul D. Camp Community College (Paul D. Camp) did not report an accurate enrollment status for nine out of 19 students tested (47%), reported an inaccurate effective date for ten students (52%), and did not report student status changes timely for six students (31%). The underlying cause of the noncompliance relates to the System's data capture of unofficial withdrawals.

In accordance with Code of Federal Regulations 34 C.F.R. 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, Paul D. Camp can affect the U.S. Department of Education's monitoring processes and other higher education institutions reliance on the data when making aid decisions. Noncompliance may also have implication on an institution's participation in Title IV programs.

Paul D. Camp in conjunction with the System Office should perform a comprehensive review of current enrollment reporting policies and procedures. The System should implement corrective action to prevent future noncompliance. The System should consider implementing a quality control review process to monitor the submission of enrollment batches at both the campus and program levels in NSLDS. One of these options may be a quality control workgroup comprised of those employees involved in the enrollment reporting process. However, the type of quality control review process implemented should be determined by Paul D. Camp personnel in conjunction with members of management.

DABNEY S. LANCASTER COMMUNITY COLLEGE

2018-80: Improve Reporting to National Student Loan Data System

Topic: Student Financial Assistance – Accreditation

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Dabney S. Lancaster Community College (Dabney S. Lancaster) did not report an accurate enrollment status for seven out of 22 students tested (32%), reported an inaccurate effective date for eleven students (50%), and did not report student status changes timely for thirteen students (59%). The underlying cause of the noncompliance relates to the System's data capture of unofficial withdrawals.

In accordance with Code of Federal Regulations 34 C.F.R. 685.309 and further outlined in the Enrollment Guide, enrollment changes must be reported to NSLDS within 30 days when attendance changes, unless a roster file will be submitted within 60 days. The accuracy of Title IV enrollment data depends heavily on information reported by institutions. By not submitting timely and accurate data to NSLDS, Dabney S. Lancaster can affect the U.S. Department of Education's monitoring processes and other higher education institutions reliance on the data when making aid decisions. Noncompliance may also have implications on an institution's participation in Title IV programs.

Dabney S. Lancaster in conjunction with the System Office should perform a comprehensive review of current enrollment reporting policies and procedures and should implement corrective action to prevent future noncompliance. The System should consider implementing a quality control review process to monitor the submission of enrollment batches at both the campus and program levels in NSLDS. One of these options may be a quality control workgroup comprised of those employees involved in the enrollment reporting process. However, the type of quality control review process implemented should be determined by Dabney S. Lancaster personnel in conjunction with members of management.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 25, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

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 Community College System** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated July 25, 2019. 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 System, 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 System's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System'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. 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 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 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 over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, which are described in finding numbers 2018-01 through 2018-80 in the section titled "Internal Control and Compliance Findings" that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 Governmental Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings" as items:

Finding Numbers: 2018-

01	02	03	04	06	09	10	14
20	25	26	32	33	34	35	40
41	42	43	47	49	51	53	58
60	62	64	66	67	68	69	70
71	72	73	74	75	76	77	78
79	80						

The System's Response to Findings

We discussed this report with management at an exit conference held on July 17, 2019. The System's response to the findings identified in our audit are described in the accompanying section titled

“Virginia Community College System – Report Response.” The System’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

We did not audit the implementation of corrective actions for all findings in the prior year audit. Due to the risk based approach we use for determining which colleges are “in-cycle” to be subject to on-site testing, we did not test implementation of corrective actions of all prior audit findings during the fiscal year under audit. Testing of the corrective action plans for these findings will occur during subsequent audits of the System. Please see Appendix III: “Status of Prior Findings” for the current disposition of all audit findings from the year audit.

With respect to prior nonfederal audit findings that we followed up on this year, the System has not taken adequate corrective action to resolve findings titled: “2017-06: Improve Software Patching and Vulnerability Mitigation Efforts,” “2017-08: Complete a Risk Assessment for Each Sensitive System,” “2017-45: Report Missing Assets,” and “2017-46: Develop Procedures for Identifying Terminated Wage Employees.” Accordingly, we designated these findings with a “repeat” label in the section titled “Internal Control and Compliance Findings.” Refer to Appendix III for a cross-reference between the prior and current year findings.

With respect to current year federal student financial assistance audit findings that are the result of follow up of prior audit findings, individual colleges have not taken adequate corrective action to resolve certain findings which have been reissued as findings titled: “2018-67: Reconcile Financial Aid Activity to Federal Systems,” “2018-68: Improve Reporting to National Student Loan Data System,” and “2018-79: Improve Reporting to National Student Loan Data System.” These findings are in the section titled “Internal Control and Compliance Findings.” Refer to Appendix III for a cross-reference to the prior year findings.

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 Audit Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

SCHEDULE OF FINDINGS IN REPORT ORDER

Report ID Number/Entity	Finding Title	Topic
System Office		
N/A	Comment to Management	Shared Services Implementation
2018-01	Encourage Community Colleges and the Shared Services Center to Control System Access	Access Control
2018-02	Continue Improving Vulnerability Mitigation Efforts	Information System Security
2018-03	Improve Web Application Security	Information System Security
2018-04	Continue to Complete a Risk Assessment for Each Sensitive System	Information System Security
Shared Services Center		
2018-05	Ensure Proper Processing and Approval of Vouchers	General Accounting
2018-06	Perform a Proper Evaluation and Analysis of System Access Levels	Access Control
2018-07	Ensure Contracts Are Valid and Current	Procurement/Contract Management
2018-08	Obtain Information Needed to Enforce Revenue Contract Deliverables	Procurement/Contract Management
2018-09	Ensure Vendors Are Aware of Special Instructions and Automated Processes work as Intended	General Accounting
Lord Fairfax Community College		
2018-10	Ensure Staff Transmits Sensitive Information Securely	Information Systems Security
2018-11	Ensure Staff Responsible for Fixed Asset Inventory Receive Training	Capital Assets
2018-12	Ensure Adequate Staffing to Provide for Proper Separation of Duties Over the Cash Collection Process	General Accounting
2018-13	Ensure Proper Capitalization of Fixed Assets	Capital Assets
2018-14	Improve Effectiveness of System Access Controls	Access Control
2018-15	Review Leave Liability Report for Accuracy	Human Resources and Payroll
2018-16	Improve Documentation for Small Purchase Charge Cards	General Accounting
2018-17	Identify and Report Leases to Support the System's Financial Statements	General Accounting
2018-18	Develop Policies and Procedures for Adjunct Employees without an Active Contract	Human Resources and Payroll
2018-19	Maintain Proper Documentation for System Access Termination	Human Resources and Payroll
2018-20	Maintain Documentation for Federal Aid Program Reconciliations	Student Financial Assistance
2018-21	Identify and Report Prepaid Expenses	General Accounting
2018-22	Assign Responsibility for Proper Coding	Human Resources and Payroll

SCHEDULE OF FINDINGS IN REPORT ORDER

Report ID Number/Entity	Finding Title	Topic
2018-23	Develop Policies and Procedures to Address Exceptions between the Commonwealth's Payroll and Human Resource Systems	Human Resources and Payroll
Piedmont Virginia Community College		
2018-24	Improve Controls over Fixed Asset Inventory	Capital Assets
2018-25	Remove System Access When Employees No Longer Need Access	Access Control
2018-26	Properly Monitor Grant Programs to Ensure Proper Accounting and Compliance for Accounts Receivable	General Accounting
2018-27	Properly Consider if the Costs Associated with Putting an Asset into Service Should be Capitalized	Capital Assets
2018-28	Ensure Payroll Reconciliation is Performed as Required	Human Resources and Payroll
2018-29	Perform and Document Retirement Benefit System Reconciliations	Human Resources and Payroll
2018-30	Confirm Retirement Contributions within the Required Timeframe	Human Resources and Payroll
2018-31	Properly Accrue Prepaid Expenses	General Accounting
2018-32	Return Unearned Title IV Funds Timely	Student Financial Assistance
2018-33	Perform Accurate Return of Title IV Calculations	Student Financial Assistance
2018-34	Reconcile Federal Aid Programs Timely	Student Financial Assistance
2018-35	Improve Reporting to National Student Loan Data System	Student Financial Assistance
Northern Virginia Community College		
2018-36	Follow Commonwealth Requirements for the Stewardship of Fixed Assets	Capital Assets
2018-37	Improve Effectiveness of System Access Controls	Access Control
2018-38	Ensure Proper Processing of Vouchers	General Accounting
2018-39	Ensure All Contracts Are Valid and Current	Procurement/Contract Management
2018-40	Implement Effective Exit Procedures for Adjunct Faculty and Wage Employees	Human Resources and Payroll
2018-41	Complete Employment Eligibility Verification within the Required Timeframe	Human Resources and Payroll
2018-42	Improve Reporting to National Student Loan Data System	Student Financial Assistance
Patrick Henry Community College		
2018-43	Improve the Management of Critical System Access	Access Control
2018-44	Improve Fixed Asset Inventory Procedures and Tracking of Fixed Assets	Capital Assets
2018-45	Ensure Revenue Generating Contracts Are Current and Properly Monitored	Procurement/Contract Management
2018-46	Ensure Human Resources Department Corrects Inaccurate Employee Leave Balances	Human Resources and Payroll
2018-47	Comply with Employment Eligibility Requirements	Human Resources and Payroll

SCHEDULE OF FINDINGS IN REPORT ORDER

Report ID Number/Entity	Finding Title	Topic
Germanna Community College		
2018-48	Develop and Document Policies and Procedures for Operationalizing Payroll and Human Resource Functions	Human Resources and Payroll
2018-49	Remove System Access No Longer Necessary to Perform Job Duties	Access Control
2018-50	Improve Payroll Document Retention	Human Resources and Payroll
2018-51	Develop and Implement Policies and Procedures for Employee Terminations	Human Resources and Payroll
2018-52	Document Justification for Prepaying Expenses	General Accounting
New River Community College		
2018-53	Improve Critical System Access Monitoring	Access Control
2018-54	Improve Fixed Asset Inventory and Tracking	Capital Assets
2018-55	Ensure Contracts Are Properly Monitored	Procurement/Contract Management
2018-56	Confirm Virginia Retirement System Snapshot Timely	Human Resources and Payroll
2018-57	Properly Report Accruals	General Accounting
Tidewater Community College		
2018-58	Perform Effective Reviews of System Access	Access Control
2018-59	Properly Monitor Revenue Contract Deliverables	Procurement/Contract Management
2018-60	Strengthen Interdepartmental Communications Related to Terminated Employees	Human Resources and Payroll
2018-61	Ensure Prepaid Expenses and Other Payments Comply with Commonwealth Requirements	General Accounting
2018-62	Improve Reporting to National Student Loan Data System	Student Financial Assistance
Rappahannock Community College		
2018-63	Ensure Revenue is Recorded Timely and Accurately	General Accounting
2018-64	Update Policies and Procedures for Cash Management Requirements	General Accounting
2018-65	Assign Contract Administrator Responsibilities in Writing	Procurement/Contract Management
2018-66	Properly Document Federal Aid Reconciliations	Student Financial Assistance
Central Virginia Community College		
2018-67	Reconcile Financial Aid Activity to Federal Systems	Student Financial Assistance
2018-68	Improve Reporting to National Student Loan Data System	Student Financial Assistance
2018-69	Properly Process Title IV Refund Calculations	Student Financial Assistance

SCHEDULE OF FINDINGS IN REPORT ORDER

Report ID Number/Entity	Finding Title	Topic
2018-70	Return Unclaimed Aid to Department of Education	Student Financial Assistance
2018-71	Improve Cash Management Procedures	Student Financial Assistance
2018-72	Perform Monthly Bank Reconciliations	Student Financial Assistance
2018-73	Improve Reporting to the Common Origination and Disbursement System	Student Financial Assistance
Virginia Western Community College		
2018-74	Improve Notification Process for Federal Direct Loan Awards to Students	Student Financial Assistance
2018-75	Reconcile Federal Aid Programs Timely	Student Financial Assistance
2018-76	Resolve Federal Department of Education Findings	Student Financial Assistance
J. Sargeant Reynolds Community College		
2018-77	Improve Direct Loan Reconciliations	Student Financial Assistance
2018-78	Resolve Federal Department of Education Findings	Student Financial Assistance
Paul D. Camp Community College		
2018-79	Improve Reporting to National Student Loan Data System	Student Financial Assistance
Dabney S. Lancaster Community College		
2018-80	Improve Reporting to National Student Loan Data System	Student Financial Assistance

SCHEDULE OF FINDINGS BY TOPIC

Report ID Number/Topic	Finding Title	Applicable To:
Share Services Implementation		
N/A	Comment to Management	System Office
Access Control		
2018-01	Encourage Community Colleges and the Shared Services Center to Control System Access	System Office
2018-06	Perform a Proper Evaluation and Analysis of System Access Levels	Shared Services Center
2018-14	Improve Effectiveness of System Access Controls	Lord Fairfax Community College
2018-25	Remove System Access When Employees No Longer Need Access	Piedmont Virginia Community College
2018-37	Improve Effectiveness of System Access Controls	Northern Virginia Community College
2018-43	Improve the Management of Critical System Access	Patrick Henry Community College
2018-49	Remove System Access No Longer Necessary to Perform Job Duties	Germanna Community College
2018-53	Improve Critical System Access Monitoring	New River Community College
2018-58	Perform Effective Reviews of System Access	Tidewater Community College
Student Financial Assistance		
2018-20	Maintain Documentation for Federal Aid Program Reconciliations	Lord Fairfax Community College
2018-32	Return Unearned Title IV Funds Timely	Piedmont Virginia Community College
2018-33	Perform Accurate Return of Title IV Calculations	Piedmont Virginia Community College
2018-34	Reconcile Federal Aid Programs Timely	Piedmont Virginia Community College
2018-35	Improve Reporting to National Student Loan Data System	Piedmont Virginia Community College
2018-42	Improve Reporting to National Student Loan Data System	Northern Virginia Community College
2018-62	Improve Reporting to National Student Loan Data System	Tidewater Community College
2018-66	Properly Document Federal Aid Reconciliations	Rappahannock Community College
2018-67	Reconcile Financial Aid Activity to Federal Systems	Central Virginia Community College
2018-68	Improve Reporting to National Student Loan Data System	Central Virginia Community College
2018-69	Properly Process Title IV Refund Calculations	Central Virginia Community College
2018-70	Return Unclaimed Aid to Department of Education	Central Virginia Community College
2018-71	Improve Cash Management Procedures	Central Virginia Community College
2018-72	Perform Monthly Bank Reconciliations	Central Virginia Community College
2018-73	Improve Reporting to the Common Origination and Disbursement System	Central Virginia Community College
2018-74	Improve Notification Process for Federal Direct Loan Awards to Students	Virginia Western Community College

SCHEDULE OF FINDINGS BY TOPIC

Report ID Number/Topic	Finding Title	Applicable To:
2018-75	Reconcile Federal Aid Programs Timely	Virginia Western Community College
2018-76	Resolve Federal Department of Education Findings	Virginia Western Community College
2018-77	Improve Direct Loan Reconciliations	J. Sargeant Reynolds Community College
2018-78	Resolve Federal Department of Education Findings	J. Sargeant Reynolds Community College
2018-79	Improve Reporting to National Student Loan Data System	Paul D. Camp Community College
2018-80	Improve Reporting to National Student Loan Data System	Dabney S. Lancaster Community College
General Accounting		
2018-05	Ensure Proper Processing and Approval of Vouchers	Shared Services Center
2018-09	Ensure Vendors Are Aware of Special Instructions and Automated Processes work as Intended	Shared Services Center
2018-12	Ensure Adequate Staffing to Provide for Proper Separation of Duties Over the Cash Collection Process	Lord Fairfax Community College
2018-16	Improve Documentation for Small Purchase Charge Cards	Lord Fairfax Community College
2018-17	Identify and Report Leases to Support the System's Financial Statements	Lord Fairfax Community College
2018-21	Identify and Report Prepaid Expenses	Lord Fairfax Community College
2018-26	Properly Monitor Grant Programs to Ensure Proper Accounting and Compliance for Accounts Receivable	Piedmont Virginia Community College
2018-31	Properly Accrue Prepaid Expenses	Piedmont Virginia Community College
2018-38	Ensure Proper Processing of Vouchers	Northern Virginia Community College
2018-52	Document Justification for Prepaying Expenses	Germanna Community College
2018-57	Properly Report Accruals	New River Community College
2018-61	Ensure Prepaid Expenses and Other Payments Comply with Commonwealth Requirements	Tidewater Community College
2018-63	Ensure Revenue is Recorded Timely and Accurately	Rappahannock Community College
2018-64	Update Policies and Procedures for Cash Management Requirements	Rappahannock Community College
Human Resources and Payroll		
2018-15	Review Leave Liability Report for Accuracy	Lord Fairfax Community College
2018-18	Develop Policies and Procedures for Adjunct Employees without an Active Contract	Lord Fairfax Community College
2018-19	Maintain Proper Documentation for System Access Termination	Lord Fairfax Community College
2018-22	Assign Responsibility for Proper Coding	Lord Fairfax Community College
2018-23	Develop Policies and Procedures to Address Exceptions between the Commonwealth's Payroll and Human Resource Systems	Lord Fairfax Community College
2018-28	Ensure Payroll Reconciliation is Performed as Required	Piedmont Virginia Community College

SCHEDULE OF FINDINGS BY TOPIC

Report ID Number/Topic	Finding Title	Applicable To:
2018-29	Perform and Document Retirement Benefit System Reconciliations	Piedmont Virginia Community College
2018-30	Confirm Retirement Contributions within the Required Timeframe	Piedmont Virginia Community College
2018-40	Implement Effective Exit Procedures for Adjunct Faculty and Wage Employees	Northern Virginia Community College
2018-41	Complete Employment Eligibility Verification within the Required Timeframe	Northern Virginia Community College
2018-46	Ensure Human Resources Department Corrects Inaccurate Employee Leave Balances	Patrick Henry Community College
2018-47	Comply with Employment Eligibility Requirements	Patrick Henry Community College
2018-48	Develop and Document Policies and Procedures for Operationalizing Payroll and Human Resource Functions	Germanna Community College
2018-50	Improve Payroll Document Retention	Germanna Community College
2018-51	Develop and Implement Policies and Procedures for Employee Terminations	Germanna Community College
2018-56	Confirm Virginia Retirement System Snapshot Timely	New River Community College
2018-60	Strengthen Interdepartmental Communications Related to Terminated Employees	Tidewater Community College
Capital Assets		
2018-11	Ensure Staff Responsible for Fixed Asset Inventory Receive Training	Lord Fairfax Community College
2018-13	Ensure Proper Capitalization of Fixed Assets	Lord Fairfax Community College
2018-24	Improve Controls over Fixed Asset Inventory	Piedmont Virginia Community College
2018-27	Properly Consider if the Costs Associated with Putting an Asset into Service Should be Capitalized	Piedmont Virginia Community College
2018-36	Follow Commonwealth Requirements for the Stewardship of Fixed Assets	Northern Virginia Community College
2018-44	Improve Fixed Asset Inventory Procedures and Tracking of Fixed Assets	Patrick Henry Community College
2018-54	Improve Fixed Asset Inventory and Tracking	New River Community College
Procurement/Contract Management		
2018-07	Ensure Contracts Are Valid and Current	Shared Services Center
2018-08	Obtain Information Needed to Enforce Revenue Contract Deliverables	Shared Services Center
2018-39	Ensure All Contracts Are Valid and Current	Northern Virginia Community College
2018-45	Ensure Revenue Generating Contracts Are Current and Properly Monitored	Patrick Henry Community College
2018-55	Ensure Contracts Are Properly Monitored	New River Community College
2018-59	Properly Monitor Revenue Contract Deliverables	Tidewater Community College
2018-65	Assign Contract Administrator Responsibilities in Writing	Rappahannock Community College
Information System Security		
2018-02	Continue Improving Vulnerability Mitigation Efforts	System Office

SCHEDULE OF FINDINGS BY TOPIC

Report ID Number/Topic	Finding Title	Applicable To:
2018-03	Improve Web Application Security	System Office
2018-04	Continue to Complete a Risk Assessment for Each Sensitive System	System Office
2018-10	Ensure Staff Transmits Sensitive Information Securely	Lord Fairfax Community College

STATUS OF PRIOR FINDINGS

Entity Report ID Number	Finding Title	Follow-up Disposition	Current Year Report ID Number
Shared Services Center			
2017-01	Encourage the Communication of Responsibilities for Shared Services	Resolved**	N/A
2017-02	Through a Separate Evaluation, Monitor the Internal Controls of the Shared Services Center	Resolved**	N/A
2017-03	Confirm that No Reconciliation is Appropriate	Deferred*	N/A
2017-04	Retain Supporting Documentation for Payments	Deferred*	N/A
System Office			
2017-05	Improve Effectiveness of System Access Controls	Resolved**	N/A
2017-06	Improve Software Patching and Vulnerability Mitigation Efforts	Partial Repeat	2018-02
2017-07	Improve Web Application Security	Resolved**	N/A
2017-08	Complete a Risk Assessment for Each Sensitive System	Partial Repeat	2018-04
Thomas Nelson Community College			
2017-09	Ensure Everyone Knows How to Send Sensitive Information Securely	Deferred*	N/A
2017-10	Comply with Prompt Payment Requirement	Deferred*	N/A
2017-11	Improve Segregation of Duties between Human Resources and Payroll	Deferred*	N/A
2017-12	Ensure Terminated Employees are Properly Classified in the Payroll System	Deferred*	N/A
2017-13	Perform Small Purchase Charge Card Reconciliations in Accordance with Commonwealth Requirements	Deferred*	N/A
2017-14	Deactivate Terminated User Access Timely	Deferred*	N/A
2017-15	Ensure Employee Clearance Forms are Completed at Termination	Deferred*	N/A
2017-16	Ensure Access to Commonwealth's Retirement Benefits System is Controlled Across the System	Deferred*	N/A
2017-17	Ensure Reconciling Inventory Items Are Properly Classified	Deferred*	N/A
2017-18	Report Allowance for Doubtful Accounts Quarterly	Deferred*	N/A
Paul D. Camp Community College			
2017-19	Ensure Revenue Contracts are Valid	Deferred*	N/A
2017-20	Ensure Leave Liability Report is Complete	Deferred*	N/A
2017-21	Implement Proper Procedures for Classifying Missing Assets	Deferred*	N/A
2017-22	Establish Chain of Custody Protocol for Critical Documentation	Deferred*	N/A
Southside Virginia Community College			
2017-23	Reconcile Benefits System to Other Systems	Deferred*	N/A
2017-24	Improve Human Resources Data Reconciliation Procedures	Deferred*	N/A
2017-25	Improve Internal Controls over Terminated Employees	Deferred*	N/A
2017-26	Deactivate Terminated User Access Timely	Deferred*	N/A
2017-27	Maintain Legal Agreements	Deferred*	N/A
2017-28	Improve Fixed Asset Inventory and Tracking	Deferred*	N/A
2017-29	Verify Daily Cash Settlement Reports Timely	Deferred*	N/A
2017-30	Ensure Revenue Journal Entries are Approved Timely	Deferred*	N/A
2017-31	Improve Controls over Payroll Processing	Deferred*	N/A
Eastern Shore Community College			
2017-32	Improve Benefits System Reconciliation Process	Deferred*	N/A
2017-33	Improve Process over Terminated Employees	Deferred*	N/A
2017-34	Improve Human Resources Data Reporting Procedures	Deferred*	N/A
2017-35	Improve Documentation of Policies and Procedures	Deferred*	N/A
2017-36	Improve Fixed Asset Controls	Deferred*	N/A

STATUS OF PRIOR FINDINGS

Entity Report ID Number	Finding Title	Follow-up Disposition	Current Year Report ID Number
2017-37	Properly Approve P-3 Forms	Deferred*	N/A
2017-38	Properly Maintain Faculty Records	Deferred*	N/A
Blue Ridge Community College			
2017-39	Ensure Accuracy in Reporting Accrued Payroll	Deferred*	N/A
2017-40	Perform Monthly Reconciliations Between the Benefits System and Other Systems	Deferred*	N/A
2017-41	Improve Controls over Employee Terminations	Deferred*	N/A
2017-42	Obtain Commonwealth Purchasing System Acceptable Use Agreements	Deferred*	N/A
2017-43	Properly Monitor Revenue Contract Deliverables	Deferred*	N/A
Northern Virginia Community College			
2017-44	Document Justification for Prepaying Expenses	Resolved**	N/A
2017-45	Report Missing Assets	Repeat	2018-36
2017-46	Develop Procedures for Identifying Terminated Wage Employees	Repeat	2018-41
2017-47	Improve Document Retention for Payroll	Resolved**	N/A
J. Sargeant Reynolds Community College			
2017-48	Improve Process over Petty Cash	Deferred*	N/A
2017-49	Improve Internal Controls over Terminated Wage Employees	Deferred*	N/A
Student Financial Aid - Rappahannock Community College			
2017-50	Improve Reporting to National Student Loan Data System	Deferred*	N/A
2017-51	Properly Perform Title IV Calculations	Deferred*	N/A
2017-52	Identify and Address Reconciling Items Timely	Deferred*	N/A
Student Financial Aid - Eastern Shore Community College			
2017-53	Improve Reporting to National Student Loan Data System	Deferred*	N/A
Student Financial Aid Prior Year Findings - Central Virginia, Germanna, John Tyler, Paul D. Camp, Southwest Virginia, and Virginia Highlands Community College			
2017-54	Improve Compliance over Enrollment Reporting	Repeat***	2018-68 2018-79
Student Financial Aid Prior Year Findings - Central Virginia Community College			
2017-55	Perform and Document Monthly Reconciliations of Direct Loans	Repeat	2018-70

*Deferred finding follow-up means audit procedures were not performed as part of the current year audit, but are planned for the future. Currently, Northern Virginia Community College, Tidewater Community College, the System Office, and Shared Services Center can expect to have some follow-up procedures in each audit year.

**Resolved means that audit procedures indicated that the issue was adequately addressed in the current fiscal year.

***Repeat applies only to Central Virginia Community College and Paul D. Camp Community College.

ABBREVIATIONS

Abbreviations/Acronyms	Definition
Accounts	Department of Accounts
ARMICS	Agency Risk Management and Internal Control Standards
business offices	Staff collectively responsible for: financial reporting, payroll, procurement, capital assets, human resources, and/or student financial assistance
C.F.R.	U.S. Code of Federal Regulations
CAPP	Commonwealth Accounting Policies and Procedures Manual
Central Virginia	Central Virginia Community College
COD	Common Origination and Disbursement
colleges	Community colleges
Dabney S. Lancaster	Dabney S. Lancaster Community College
DHRM	Department of Human Resource Management
ETF	Electronic Fund Transfer
FOIAE	Freedom of Information Act Exempt
G5	Federal system for schools to request and return student financial assistance funding
Germanna	Germanna Community College
ID	identity badge
ISO	International Standards Organization
IT	Information Technology
IV&V	Independent Verification and Validation Program
Lord Fairfax	Lord Fairfax Community College
New Economy Program	New Economy Workforce Credential Grant Program
New River	New River Community College
Northern Virginia	Northern Virginia Community College
NSC	National Student Clearinghouse
NSLDS	National Student Loan Data System
Patrick Henry	Patrick Henry Community College
Paul D. Camp	Paul D. Camp Community College
Piedmont	Piedmont Virginia Community College
Procedures Manual	Northern Virginia's Administrative Services Procedures Manual
Procurement Manual	Department of General Services' Agency Procurement and Surplus Property Manual
Rappahannock	Rappahannock Community College
receiving agency	another Commonwealth agency not named in the report
Retirement System	Virginia Retirement System
Reynolds	Reynolds Community College
SAS	Student Account Statement
Shared Services	Shared Services Center
System	Virginia College System
System Office	Virginia Community College System Office
System's Security Standard	System's Information Technology Security Standard, based on ISO 27002:2013
Tidewater	Tidewater Community College
Virginia Western	Virginia Western Community College



August 7, 2019

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

Dear Ms. Mavredes:

We are providing this letter in response to your report on the audit of the financial records of the Virginia Community College System for the fiscal year ended June 30, 2018.

We confirm that we have received the findings and recommendations and have prepared a corrective action plan that will be submitted to the Department of Accounts.

If you have any questions, please contact Craig Herndon, VCCS Senior Vice Chancellor for Administration, Finance, and Technology, at (804) 819-4782.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn DuBois", is written over the printed name and title.

Glenn DuBois
Chancellor

GD/ch

Enclosure

cc: Dr. Craig Herndon

STATE BOARD FOR COMMUNITY COLLEGES

As of June 30, 2018

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Robin Sullenberger, Vice-Chair

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Nathaniel L. Bishop	Peggy Layne
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Douglas M. Garcia	

COMMUNITY COLLEGE CHANCELLOR AND PRESIDENTS

As of June 30, 2018

Glenn DeBois
Chancellor, Virginia Community College System

Blue Ridge Community College	Dr. John A. Downey
Central Virginia Community College	Dr. John Capps
Dabney S. Lancaster Community College	Dr. John J. Rainone
Danville Community College (Interim President)	Dr. Betty Jo Foster
Eastern Shore Community College (Interim President)	Dr. William T. Greer, Jr.
Germanna Community College	Dr. Janet Gullickson
J. Sargeant Reynolds Community College	Dr. Gary L. Rhodes
John Tyler Community College	Dr. Edward Raspiller
Lord Fairfax Community College	Dr. Kimberly Blosser
Mountain Empire Community College	Dr. Kristen Westover
New River Community College	Dr. Patricia B. Huber
Northern Virginia Community College	Dr. Scott Ralls
Patrick Henry Community College	Dr. Angeline D. Godwin
Paul D. Camp Community College	Dr. Daniel Lufkin
Piedmont Virginia Community College	Dr. Frank Friedman
Rappahannock Community College	Dr. Elizabeth H. Crowther
Southside Virginia Community College	Dr. Alfred A. Roberts
Southwest Virginia Community College	Dr. Tommy Wright
Thomas Nelson Community College	Dr. John T. Dever
Tidewater Community College	Dr. Edna Baehre-Kolovani
Virginia Highlands Community College	Dr. Gene C. Couch, Jr.
Virginia Western Community College	Dr. Robert H. Sandel
Wytheville Community College	Dr. Dean Sprinkle