

Committee Minutes

COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

The Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University met in Closed Session on Sunday, November 7, 2021, at 9:00 a.m. on the Blacksburg campus at The Inn at Virginia Tech in the Latham A/B Ballroom.

Committee Members Present

Sharon Brickhouse Martin (Chair)
Greta Harris
Anna James
Jeff Veatch

Board Members Present

Letitia Long (Rector)
Shelly Butler Barlow
Charles C. T. Hill
Melissa Nelson
Chris Petersen
Horacio Valeiras
Preston White

The following Virginia Tech staff members were present: Cyril Clarke, Corey Earles, Kay Heidbreder, Sharon Kurek, Justin Noble, Kim O'Rourke, Dwayne Pinkney, Timothy Sands

Also present was the following guest: Ashley Deihr (Baker Tilly)

Closed Session

Chair Martin convened the meeting and welcomed everyone to the Compliance, Audit, and Risk Committee meeting.

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Motion to Begin Closed Session

Ms. James moved that the Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University convene in a closed meeting, pursuant to §2.2-3711, Code of Virginia, as amended, for the purposes of discussing:

1. Audits or reviews that include evaluation of performance of departments or schools of public institutions of higher education where such evaluation will involve discussion of the performance of specific individuals;

2. Audits or reviews that include threats to cybersecurity;

The motion was seconded by Ms. Harris and passed unanimously.

The meeting concluded at 10:07 a.m.

The Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University reconvened in Open Session on Sunday, November 7, 2021, at 10:07 a.m. on the Blacksburg campus at The Inn at Virginia Tech in the Latham A/B Ballroom.

Committee Members Present

Sharon Brickhouse Martin (Chair)
Greta Harris
Anna James
Jeff Veatch

Board Members Present

Letitia Long (Rector)
Melissa Nelson

Constituent Representatives Present

Serena Young (Staff Representative)
Phil Miskovic(Graduate Student Representative)

The following Virginia Tech staff members were present: Eric Brooks, Charlene Casamento, Cyril Clarke, Al Cooper, Jon Deskins, Corey Earles, Kari Evans, Guru Ghosh, Kay Heidbreder, Rachel Holloway, Sharon Kurek, Connie Marshall, Andrew McWhinney, Scott Midkiff, Kenneth Miller, Justin Noble, Kim O'Rourke, Mark Owczarski, Ellen Plummer, Chris Rhames, Dwayne Pinkney, Timothy Sands, Don Taylor, Melinda West

Also present were the following guests: Kevin Savoy (APA), Jonathan South (APA)

Open Session

1. **Motion to Reconvene in Open Session:** Following the Closed Session, the doors were opened and Chair Martin called on Mr. Veatch to make the motion to return to Open Session. Mr. Veatch made the following motion to return to open session:

WHEREAS, the Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University has convened a closed meeting on

this date pursuant to an affirmative recorded vote and in accordance with the provision of The Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3712 of the Code of Virginia requires a certification by the Compliance, Audit, and Risk Committee of the Board of Visitors that such closed meeting was conducted in conformity with Virginia law;

NOW, THEREFORE, BE IT RESOLVED that the Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Compliance, Audit, and Risk Committee of the Board of Visitors.

The motion was seconded by Ms. Harris and passed unanimously.

2. **Welcome and Introductory Remarks:** Chair Martin convened the meeting and welcomed everyone to the Compliance, Audit, and Risk Committee meeting.
3. **Consent Agenda:** The Committee considered for approval and acceptance the items listed on the Consent Agenda.
 - a. **Minutes for the June 7, 2021 and August 30, 2021 Meetings:** The Committee reviewed and approved the minutes of the June 7, 2021 and August 30, 2021 meetings.
 - b. **Update of Responses to Open Internal Audit Comments:** The Committee reviewed the university's update of responses to all previously issued internal audit reports. As of March 31, 2021, the university had five open recommendations. Thirteen audit comments were issued during the fourth quarter of the fiscal year. As of September 30, 2021, the university had addressed eight comments, leaving 10 open recommendations in progress.
 - c. **Audit Plan Status Report:** The committee reviewed the Audit Plan Status Report. The Office of Audit, Risk, and Compliance (OARC) has completed 28 percent of its audit plan, and 50 percent is underway, in accordance with the fiscal year 2021-22 annual audit plan.

- d. **Internal Audit Reports:** The following internal audit reports were issued by OARC since the June 7, 2021 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
- i. Athletics: The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvements were noted in the areas of transfer evaluation timeliness and interdepartmental communication and collaboration.
 - ii. Fralin Life Sciences Institute: The audit received a rating of improvements are recommended. Observations were noted on the need to improve governance of distributed funds and completion of chemical registrations. Additionally, a low-priority recommendation of a less significant nature was noted regarding physical security.
 - iii. IT: External Interfaces and Wire Transfers: The audit received an effective rating. A low priority recommendation related to server configuration was identified and reported to management.
 - iv. Principal Investigator Research Management: The audit received a rating of improvements are recommended. An audit recommendation was issued to management where opportunities for further improvements were noted regarding one principal investigator's compliance with sponsor requirements. A low-priority recommendation of a less significant nature was noted regarding enhancing Office of Sponsored Programs training and tools
 - v. Procurement and Accounts Payable: The audit received an effective rating.
 - vi. Research: Biosafety: The audit received a rating of improvements are recommended. A low-priority recommendation of a less significant nature was noted regarding the annual review process. Opportunities include broadening coverage of onsite reviews and ensuring annual reviews are monitored for completion.
 - vii. Student Fees: The audit received an effective rating. One observation with university-wide impact was noted regarding the processes used to account for expenses paid by course fees.
 - viii. Virginia Tech Carilion School of Medicine Policy Compliance Review: The audit received a rating of improvements are recommended. Audit

recommendations were issued to management where opportunities for further improvement were noted in the areas of wage payroll, leave reporting, P14 appointments, and information technology.

- e. **Review and Approval of Audit Charters:** The Committee reviewed the Compliance, Audit, and Risk Committee Charter and the Charter for the Office of Audit, Risk, and Compliance in accordance with professional standards.
- 4. **Auditor of Public Accounts Financial Statement Audit and Management Letter:** The Committee received a report from Mr. Kevin Savoy, Audit Director for the Auditor of Public Accounts, on the results of the university's financial statement audit and management letter for the fiscal year ended June 30, 2021, which resulted in an unmodified opinion. Furthermore, the audit identified no new material weaknesses or significant deficiencies during fiscal year 2021.
- 5. **Statewide Reviews and Special Reports:** The Committee received a report on additional reviews and special reports that have occurred at the university. Ms. Melinda West, the Associate Vice President and University Controller, discussed the APA's 2019 Report on Compliance – NCAA Subsidy Percentage Requirements, the Internal Revenue Service audit on 403(b) deferred compensation plans, and the Financial Audit of Costs Catalyzing Afghan Agricultural Innovation Program conducted by USAID and the Special Inspector General for Afghanistan Reconstruction. Ms. Sharon Kurek, the Executive Director of the Office of Audit, Risk, and Compliance, discussed the Office of the State Inspector General's Clery Act performance audit and the capital construction project reviews conducted as outsourced contract compliance audits.
- 6. **OARC Annual Report:** The Committee reviewed the Annual Report for OARC. Acceptance of this report documents the Committee's review of the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity, and reporting relationships as required by the Committee's Charter. In addition to conducting scheduled audits, policy compliance reviews, and advisory services, the department participated in annual audit activities, fraud investigations, and professional development activities. Fifteen audit projects, or 65 percent of the audits on the fiscal year 2020-21 amended audit plan, have been completed. Nine audit projects were underway at June 30th and carried forward into fiscal year 2021-22.

In addition to operating the audit function, OARC continued implementation of the Enterprise Risk Management (ERM) program and Institutional Compliance Program

(ICP). OARC deployed an updated risk landscape with a comprehensive evaluation of the “top ten risks” and increased the visibility of ERM across the CAR Committee and other Board of Visitors committees. A university-wide compliance matrix, including the identification of distributed compliance owners and a mechanism to capture associated risk assessments, was developed as part of the ICP, as well as managing the anonymous hotline.

7. **Internal Audit Reports:** The following internal audit reports were issued by the Office of Audit, Risk, and Compliance (OARC) since the June 7, 2021 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management’s implementation of agreed upon improvements for previously issued audit recommendations.
 - a. Equine Medical Center: The audit received a rating of significant improvements are needed. Audit recommendations were issued to management where opportunities for further improvements were noted related to dispensary inventory, delinquent accounts, compliance with financial policies, and supplies inventory. A low-priority recommendation of a less significant nature was noted regarding invoice adjustments.
 - b. Veterinary Teaching Hospital: The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvements were noted related to supplies inventory management. A low-priority recommendation of a less significant nature was noted regarding controls over adjustments to supplies inventory.
8. **Academic Enterprise Risk Discussion:** The committee received an update on certain academic enterprise risks. Management led a discussion on the following enterprise risks: evolving pedagogy and delivery, faculty and staff recruitment and retention, and global engagement.
9. **Discussion of Future Topics:** The Committee discussed topics to be covered in future committee meetings.

The meeting concluded at 11:17 a.m.

The Compliance, Audit, and Risk (CAR) and Governance and Administration (G&A) Committees of the Board of Visitors of Virginia Polytechnic Institute and State University convened in Joint Closed Session on Sunday, November 7, 2021, at 11:23 a.m. on the Blacksburg campus at The Inn at Virginia Tech in the Latham A/B Ballroom.

Committee Members Present

Sharon Brickhouse Martin (CAR Chair)
Anna James
Chris Petersen (G&A Chair)
Horacio Valeiras
Jeff Veatch

Committee Members Absent

Greta Harris
Mehul Sanghani

Board Members Present

Letitia Long (Rector)
Edward Baine
Charles C. T. Hill
Melissa Nelson
Preston White

The following Virginia Tech staff members were present: Charlene Casamento, Cyril Clarke, Kay Heidbreder, Sharon Kurek, Justin Noble, Kim O'Rourke, Dwayne Pinkney, Timothy Sands

Joint Closed Session

Chair Martin convened the meeting and welcomed everyone to the Compliance, Audit, and Risk Committee meeting.

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Motion to Begin Joint Closed Session

Ms. James moved that the Compliance, Audit, and Risk and the Governance and Administration Committees of the Board of Visitors of Virginia Polytechnic Institute and State University convene in a closed meeting, pursuant to §2.2-3711, Code of Virginia, as amended, for the purposes of discussing:

1. Audits or reviews that include evaluation of performance of departments or schools of public institutions of higher education where such evaluation will involve discussion of the performance of specific individuals;
2. Audits or reviews that include threats to cybersecurity;

The motion was seconded by Mr. Veatch and passed unanimously.

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Motion to End Joint Closed Session

Following the Closed Session, the doors were opened and Chair Martin called on Ms. James to make the motion to end the Joint Closed Session. Ms. James made the following motion to end the joint closed session:

WHEREAS, the Compliance, Audit, and Risk Committee and the Governance and Administration Committee of the Board of Visitors of Virginia Polytechnic Institute and State University have convened a closed meeting on this date pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, §2.2-3711 of the Code of Virginia requires a certification by the Compliance, Audit, and Risk Committee and the Governance and Administration Committee that such closed meeting was conducted in conformity with Virginia Law;

NOW, THEREFORE, BE IT RESOLVED, that the Compliance, Audit, and Risk Committee and the Governance and Administration Committee of the Board of Visitors of Virginia Polytechnic Institute and State University hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the committees.

The motion was seconded by Mr. Veatch and passed unanimously.

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There being no further business, the meeting adjourned at 12:05 p.m.

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Consent Agenda
COMPLIANCE, AUDIT, AND RISK COMMITTEE
November 7, 2021

The Committee will consider for approval and acceptance the items listed on the Consent Agenda.

- a. Minutes from the June and August Meetings
 - i. Minutes from the June 7, 2021 Meeting
 - ii. Minutes from the August 30, 2021 Meeting
- b. Update of Responses to Open Internal Audit Comments
- c. Audit Plan Status Report
- d. Internal Audit Reports
 - i. Athletics
 - ii. Fralin Life Sciences Institute
 - iii. IT: External Interfaces and Wire Transfers
 - iv. Principal Investigator Research Management
 - v. Procurement and Accounts Payable
 - vi. Research: Biosafety
 - vii. Student Fees
 - viii. Virginia Tech Carilion School of Medicine Policy Compliance Review
- e. Review and Approval of Charters
 - i. Compliance, Audit, and Risk Committee Charter
 - ii. Charter for the Office of Audit, Risk, and Compliance

Update of Responses to Open Audit Comments

COMPLIANCE, AUDIT, AND RISK COMMITTEE

September 30, 2021

As part of the internal audit process, university management participates in the opening and closing conferences and receives copies of all final audit reports. The audited units are responsible for implementing action plans by the agreed upon implementation dates, and management is responsible for ongoing oversight and monitoring of progress to ensure solutions are implemented without unnecessary delays. Management supports units as necessary when assistance is needed to complete an action plan. As units progress toward completion of an action plan, the Office of Audit, Risk, and Compliance (OARC) performs a follow-up visit within two weeks after the target implementation date. OARC is responsible for conducting independent follow up testing to verify mitigation of the risks identified in the recommendation and formally close the recommendation. As part of management's oversight and monitoring responsibility, this report is provided to update the Compliance, Audit, and Risk Committee on the status of outstanding recommendations. Management reviews and assesses recommendations with university-wide implications and shares the recommendations with responsible administrative departments for process improvements, additions or clarification of university policy, and inclusion in training programs and campus communications. Management continues to emphasize the prompt completion of action plans.

The report includes outstanding recommendations from compliance reviews and audit reports. Consistent with the report presented at the June Board meeting, the report of open recommendations includes three attachments:

- Attachment A summarizes each audit in order of final report date with extended and on-schedule open recommendations.
- Attachment B details all open medium and high priority recommendations for each audit in order of the original target completion date, and with an explanation for those having revised target dates or revised priority levels.
- Attachment C charts performance in implementing recommendations on schedule over the last seven years. The 100 percent on-schedule rate for fiscal year 2022 reflects closing 1 of 1 recommendations by the original due date.

The report presented at the June 7, 2021 meeting covered audit reports reviewed and accepted through March 31, 2021 and included five open medium and high priority recommendations. Activity for the period April 1, 2021 to September 30, 2021 resulted in the following:

Open recommendations as of March 31, 2021	5
Add: medium and high priority recommendations accepted June 7, 2021	13
Subtract: recommendations addressed since March 31, 2021	8
Remaining open recommendations as of September 30, 2021	<u>10</u>

While this report is prepared as of the end of the quarter, management continues to receive updates from OARC regarding auditee progress on action plans. All open recommendations are progressing as expected and are on track to meet their respective target due dates. Management continues to work jointly with all units and provides assistance as needed to ensure action plans are completed timely.

Open Recommendations by Priority Level
COMPLIANCE, AUDIT, AND RISK COMMITTEE

September 30, 2021

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
29-Jul-19	College of Liberal Arts & Human Sciences	18-1387	3	2		1 *			1
11-May-20	College of Science	20-1491	3	2				1	1
17-May-21	Linex Server Security	21-1530	4	3				1	1
21-May-21	Scholarships	21-1535	7	0				7	7
Totals:			17	7	0	1	0	9	10

* The College of Liberal Arts & Human Sciences missed their implementation date as actions were not implemented by the original due date. College management has conducted significant work to address a portion of the recommendation resulting in Office of Audit, Risk, & Compliance (OARC) lowering the item from high to medium priority. A new implementation date of December 15, 2021 has been issued.

ATTACHMENT B

Internal Audit Open Recommendations

COMPLIANCE, AUDIT, AND RISK COMMITTEE

September 30, 2021

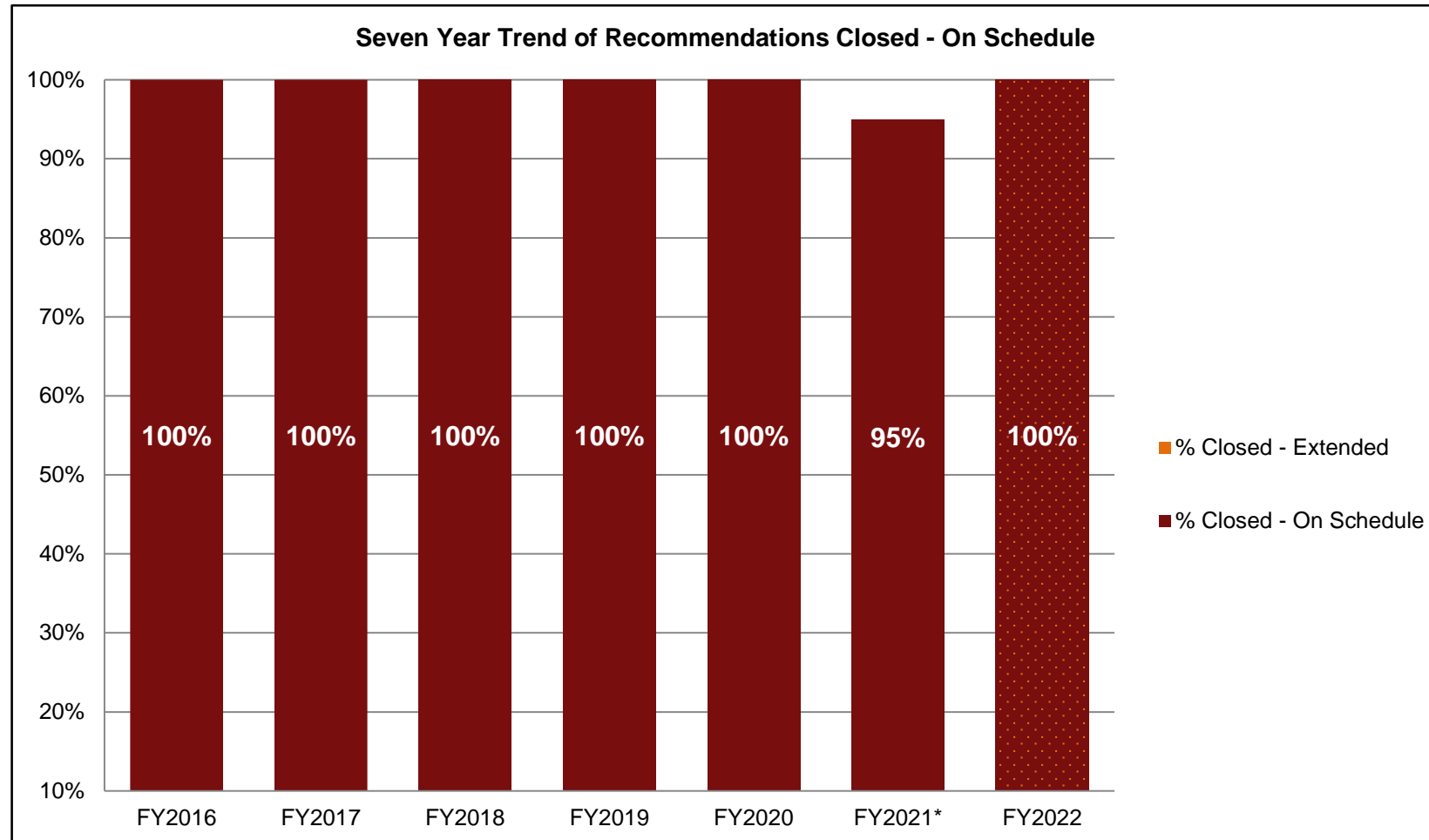
Report Date	Item	Audit Number	Audit Name	Recommendation Name	Priority		Target Date		Follow Up Status	Status of Recommendations with Revised Priority / Target Dates
					Original	Revised	Original	Revised		
25-Aug-19	1	18-1387	College of Liberal Arts & Human Sciences	Information Technology	High	Medium	31-Dec-20	15-Dec-21	1	Auditee missed original implementation date. Priority level has been reduced to Medium with a new target date of 12/15/21.
11-May-20	2	20-1491	College of Science	Information Technology	Medium		01-Dec-21		2	
21-May-21	3	21-1535	Scholarships	Scholarship Utilization	Medium		31-Dec-21		2	
21-May-21	4	21-1535	Scholarships (Appendix A: Athletics)	Scholarship Utilization	Medium		01-Mar-22		3	
21-May-21	5	21-1535	Scholarships (Appendix B: College of Ag & Life Sciences)	Scholarship Utilization	Medium		01-Mar-22		3	
21-May-21	6	21-1535	Scholarships (Appendix H: College of Science)	Scholarship Utilization	Medium		01-Mar-22		3	
21-May-21	7	21-1535	Scholarships (Appendix H: College of Science)	Submission of Scholarship Utilization Reports	Medium		01-Mar-22		3	
21-May-21	8	21-1535	Scholarships (Appendix H: College of Science)	Awarding Procedures Documentation	Medium		01-Mar-22		3	
21-May-21	9	21-1535	Scholarships (Appendix H: Vice President for Advancement)	Scholarship Utilization	Medium		01-Mar-22		3	
17-May-21	10	20-1530	Linux Server Security	Information Technology Standards	Medium		30-Jun-22		3	

Follow Up Status

- 1 Management confirmed during follow up discussions with the Office of Audit, Risk, and Compliance (OARC) that the auditee missed their original implementation date. College management has conducted significant work to address a portion of the recommendation resulting in OARC lowering the item from high to medium priority. Management has established a revised target date of December 15, 2021.
- 2 Management confirmed during follow up discussions with the Office of Audit, Risk, and Compliance (OARC) that actions are occurring and the target date will be met.
- 3 Target date is beyond current calendar quarter. Management has follow-up discussions with the auditor to monitor progress, to assist with actions that may be needed to meet target dates, and to assess the feasibility of the target date.

For Open Detail Report: "current calendar quarter" is used to refer to the current working quarter instead of the quarter being reported on.

Presentation Date: November 7, 2021

Management Performance and Trends Regarding Office of Audit, Risk, and Compliance Recommendations**COMPLIANCE, AUDIT, AND RISK COMMITTEE****September 30, 2021**

* 95% consists of 19 out of 20 recommendations being closed on time during FY2021

Audit Plan Status Report

COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

Audit Plan Update

Audits were performed in accordance with the fiscal year 2021-22 annual audit plan at a level consistent with the resources of the Office of Audit, Risk, and Compliance (OARC). Fifteen planned projects have been completed since the June board meeting, specifically:

- 4 FY 2020-21 projects were completed by June 30, 2021¹
- 9 FY 2020-21 projects were carry-forward
- 2 current fiscal year projects

The types of projects completed included 11 risk-based audits, 2 policy compliance reviews, and 2 advisory projects. The two completed advisory projects were related to Gift Accounting and Robotic Process Automation.

The following nine projects are underway: Continuing and Professional Education, Data Analytics: Research Compliance, Fralin Biomedical Research Institute at VTC, HR: Compensation and Classification, Mechanical Engineering, Service Centers, Title IX Compliance, Senior Vice President and Chief Business Officer Policy Compliance Review, and Vice President for Finance Policy Compliance Review.

In fiscal year 2021-22, OARC has completed 27 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1
FY 2021-22 Completion of Audit Plan

Audits	
Total # of Audits Planned	31
Total # of Supplemental Audits	0
Total # of Carry Forwards	9
Total # of Planned Audits Canceled and/or Deferred	0
Total Audits in Plan as Amended	40
Total Audits Completed	11
Audits - Percentage Complete	28%
Audits - Percentage Complete or Underway	50%
Note: Includes Policy Compliance Reviews and Advisory Services	

¹ These projects were unable to be reported to the Compliance, Audit, and Risk Committee in August since the committee did not meet in open session.

Internal Audit Reports
COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

Background

This report provides a summary of audit ratings issued this period and the full rating system definitions. The following reviews have been completed during this reporting period. The Office of Audit, Risk, and Compliance has made a concerted effort to ensure progress on the annual audit plan.

Consent Agenda Reports	Rating
Athletics	Improvements are Recommended
Fralin Life Sciences Institute	Improvements are Recommended
IT: External Interfaces and Wire Transfers	Effective
Principal Investigator Research Management	Improvements are Recommended
Procurement and Accounts Payable	Effective
Research: Biosafety	Improvements are Recommended
Student Fees	Effective
Virginia Tech Carilion School of Medicine Policy Compliance Review	Improvements are Recommended
Report for Discussion	Rating
Equine Medical Center	Significant Improvements are Needed
Veterinary Teaching Hospital	Improvements are Recommended

Summary of Audit Ratings

The Office of Audit, Risk, and Compliance's rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact wording of the assessment in order to capture varying degrees of deficiency or significance.

Definitions of each assessment option

Effective – The audit identified opportunities for improvement in the internal control structure, but business risks are adequately controlled in most cases.

Improvements are Recommended – The audit identified occasional or isolated business risks that were not adequately or consistently controlled.

Significant or Immediate Improvements are Needed – The audit identified several control weaknesses that have caused, or are likely to cause, material errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management should undertake immediate corrective actions to mitigate the associated business risk and possible damages to the organization.

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit. Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

RECOMMENDATION:

That the internal audit reports listed above be accepted by the Compliance, Audit, and Risk Committee.

November 7, 2021

Review and Approval of Charters

COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

The International Professional Practices Framework (IPPF) provides the conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Auditors (IIA). The Office of Audit, Risk, and Compliance (OARC) conducts its activities in accordance with the IIA IPPF. In accordance with Attribute Standard 1000 – Purpose, Authority, and Responsibility and 2060 – Reporting to Senior Management and the Board, the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

According to the IPPF, the internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Therefore, the Compliance, Audit, and Risk Committee Charter for the Board of Visitors Compliance, Audit, and Risk Committee, which was last updated in November 2017, has been reviewed by OARC and no changes are proposed. Also, the Charter for the Office of Audit, Risk, and Compliance, which was last updated in November 2020, has been reviewed by OARC and no changes are proposed.

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
COMPLIANCE, AUDIT, AND RISK COMMITTEE OF THE BOARD OF VISITORS**

COMPLIANCE, AUDIT, AND RISK CHARTER

I. PURPOSE

The primary purpose of the Compliance, Audit, and Risk (CAR) Committee is to assist the Board of Visitors in fulfilling its fiduciary responsibilities related to oversight of:

- The university's enterprise risk management program, as an essential part of a strong control environment, to ensure that risk appetite aligns with management's decisions and strategy,
- Adherence to this charter, including reviewing audits conducted by the Office of Audit, Risk, and Compliance and external bodies and providing guidance on auditing concerns to the full Board,
- The university's compliance with all federal, state, and local laws and executive orders; and policies promulgated by academic and athletic accrediting bodies, regulatory agencies, funding agencies, and the State Council of Higher Education for Virginia,
- The maintenance of effective systems of internal control, including the integrity of the university's financial accounting and reporting practices, and
- The performance of the university's internal and independent audit functions.

The function of the Committee is oversight. University management is responsible for the preparation, presentation, and integrity of the university's financial statements, fiscal plans, and other financial reporting. University management is also responsible for maintaining appropriate financial accounting and reporting policies, procedures, and controls designed to assure compliance with generally accepted accounting principles and applicable laws and regulations. The Office of Audit, Risk, and Compliance examines and evaluates the adequacy and effectiveness of the university's internal control systems. The university's external auditor, the state Auditor of Public Accounts, is responsible for planning and conducting the financial statement examination in accordance with generally accepted government auditing standards.

This document and the related meeting planner are intended to identify and document the Committee's oversight responsibilities in order that such sound practices will continue despite the turnover of Committee members. It also outlines the regularly scheduled review activities that will ensure that the university continues to have an independent and objective internal audit function and obtains the greatest possible benefit from its external audits.

II. MEETINGS

By statute the Board of Visitors, including the CAR Committee, must meet once a year, but traditionally holds four meetings a year. Additional meetings may occur more frequently as circumstances warrant. The Committee Chair should discuss the agenda with the

Executive Director of Audit, Risk, and Compliance prior to each Committee meeting to finalize the meeting agenda and review the items to be discussed.

III. RESPONSIBILITIES

In performing its audit oversight responsibilities, the CAR Committee shall:

A. General

1. Adopt a formal written charter that specifies the Committee's responsibilities and practices. The charter should be reviewed annually and updated as necessary.
2. Maintain minutes of meetings.
3. Authorize audits within the Committee's scope of responsibilities.
4. Report Committee actions to the Board of Visitors with such recommendations as the Committee may deem appropriate.
5. Meet in closed session, consistent with state law, (without members of senior management present, when appropriate) with the external auditors and/or the Executive Director of Audit, Risk, and Compliance to discuss matters that the Committee or the auditors believe should be discussed privately. The Executive Director of Audit, Risk, and Compliance shall have a regularly scheduled opportunity to meet privately with the Committee at each of its four annual meetings.

B. Risk Management and Internal Control

1. Review the university's enterprise risk management (ERM) efforts including the program structure and the processes for assessing significant risk exposures and the steps management has taken to monitor and control such exposures, as well as the university's risk assessment and risk management policies.
2. Consider the effectiveness of the university's internal control systems, including those over information technology and financial reporting.
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses.
4. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct the identified weaknesses in the internal control system.
5. Advise management that they are expected to provide a timely analysis of significant reporting issues and practices.

C. External Auditors

1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year.
2. As necessary, discuss with the external auditors their processes for identifying and responding to key audit and internal control risks.

3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks.
4. Meet with external auditors at the completion of the financial statements audit to receive and discuss the audit report(s), and determine whether external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles.
5. Review the results and organizational response stemming from significant reviews by regulatory agencies or other external entities (non-financial statement audits).

D. Internal Auditors

1. Approve the charter for the Office of Audit, Risk, and Compliance. The charter should be reviewed annually and updated as necessary.
2. Review and approve the annual audit plan and any significant changes to the plan.
3. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity and reporting relationships.
4. Review completed audit reports and progress reports on executing the approved annual audit plan.
5. Review the results of the Office of Audit, Risk, and Compliance's Quality Assurance and Improvement Program (QAIP), including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the university.
6. Inquire of the Executive Director of Audit, Risk, and Compliance regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information.
7. Review and concur in the appointment, replacement, reassignment, or dismissal of the Executive Director of Audit, Risk, and Compliance.
8. Evaluate the Executive Director of Audit, Risk, and Compliance's annual performance and make decisions regarding compensation.

E. Compliance, Ethics, and Business Conduct

1. Support leadership by promoting and supporting a university-wide culture of ethical and lawful conduct.
2. Require management to periodically report on procedures that provide assurance that the university's mission, values, and codes of conduct are properly communicated to all employees.
3. Review the programs and policies of the university designed by management to assure compliance with applicable laws and regulations and monitor the results of the compliance efforts.
4. Monitor the university's conflict of interest policies and related procedures.

The “CAR Agenda Meeting Planner” is an integral part of this document. If the Board of Visitors meets less frequently than anticipated, the Planner will be adjusted accordingly.

Virginia Polytechnic Institute and State University
Compliance, Audit, and Risk Committee of the Board of Visitors
CAR Agenda Meeting Planner

A=Annually; Q=Quarterly; AN=As Necessary	Frequency			Planned Timing			
Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	A	Q	AN	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun
A. General							
1. Review and update CAR Committee charter	X				X		
2. Approve and maintain minutes of previous meeting		X		X	X	X	X
3. Authorize audits within the Committee’s scope of responsibilities			X				
4. Report Committee actions to the Board of Visitors with recommendations deemed appropriate		X		X	X	X	X
5. Meet in closed session with Executive Director of Audit, Risk, and Compliance, and with external auditors, as needed		X		X	X	X	X
B. Risk Management and Internal Control							
1. Review the university’s ERM efforts including the program structure, processes, risk assessment, and risk management policies		X		X	X	X	X
2. Consider the effectiveness of the university’s internal control systems			X				
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management’s responses		X		X	X	X	X
4. Review management’s written responses to significant potential issues and recommendations of the auditors, including the timetable to correct identified weaknesses in the internal control system		X		X	X	X	X
5. Advise management that they are expected to provide a timely analysis of significant current reporting issues and practices	X				X		
C. External Auditors							
1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year	X						X
2. Discuss with the external auditors their processes for identifying and responding to key audit and internal control risks			X		X	X	
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university’s risks			X	X		X	

A=Annually; Q=Quarterly; AN=As Necessary	Frequency			Planned Timing			
Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	A	Q	AN	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun
4. Meet with external auditors at the completion of the financial statements audit to receive and discuss the audit report(s)	X				X		
5. Review results of other significant reviews from regulatory agencies or other external entities			X				
D. Internal Auditors							
1. Review and approve the charter for the Office of Audit, Risk, and Compliance, if changes are needed	X				X		
2. Review the draft annual audit plan	X						X
3. Approve the annual audit plan	X			X			
4. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity, and reporting relationships	X			X			
5. Review the results of the QAIP, including internal and external assessments			X				
6. Review completed audit reports and progress reports on executing the approved annual audit plan		X		X	X	X	X
7. Inquire of the Executive Director of Audit, Risk, and Compliance regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information		X		X	X	X	X
8. Review and concur in the appointment, replacement, reassignment, or dismissal of the Executive Director of Audit, Risk, and Compliance			X				
9. Evaluate the Executive Director of Audit, Risk, and Compliance's annual performance and make decisions regarding compensation	X			X			
E. Compliance, Ethics, and Business Conduct							
1. Convey commitment to ethical conduct through periodic receipt of management reports on how the university's mission, values, and codes of conduct are properly communicated to all employees			X				
2. Review the programs and policies of the university designed to assure and monitor compliance		X		X	X	X	X
3. Monitor the university's conflict of interest policies and related procedures		X		X	X	X	X



Virginia Polytechnic Institute and State University

Charter for the Office of Audit, Risk, and Compliance

No. 3350

Policy Effective Date:
2/9/1989

Last Revision Date:
11/15/2020

Policy Owner:
President Sands

Policy Author:
(Contact Person)
Sharon Kurek

1.0 Purpose

2.0 Policy

3.0 Procedures

4.0 Definitions

5.0 References

6.0 Approval and Revisions

1.0 Purpose

This policy outlines the policies and procedures covering the Office of Audit, Risk, and Compliance (OARC) at Virginia Polytechnic Institute and State University and serves as a charter for the department.

2.0 Policy

It is the policy of the Compliance, Audit, and Risk (CAR) Committee of the Board of Visitors and the management of Virginia Polytechnic Institute and State University to support the maintenance of an internal audit function to assist in the effective discharge of their fiduciary responsibilities in assessing the effectiveness of the internal control environment.

The Office of Audit, Risk and Compliance (OARC) performs independent internal audits, plans and oversees the university risk management process, and oversees the institutional compliance program. OARC's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight as follows:

1. *Audit:* Provide independent, objective assurance and advisory activities designed to add value and improve university operations. It helps the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. *Risk Management:* Provide oversight of the enterprise risk management (ERM) program by creating and maintaining the framework to identify, assess, and manage risk.
3. *Compliance:* Provide oversight of the institutional compliance program and the distributed processes that support compliance across the university.

2.1 Scope of the Office of Audit, Risk, and Compliance

The scope of OARC's work is to determine whether Virginia Tech's risk management, internal controls, compliance activities and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- Programs, plans, and strategic objectives are achieved.
- Risks are appropriately identified, managed, and considered in institutional decision making.
- Significant financial, managerial and operating information is accurate, reliable, and timely.
- Compliance with policies, procedures, standards, laws, and regulations.
- Measures are taken to foster continuous improvement in control processes.
- Resources are acquired, managed, and protected in an economical, efficient, and effective manner.



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2.2 Independence and Objectivity

Independence is essential to enable the internal audit function to accomplish its purpose. Accordingly, the Executive Director of Audit, Risk, and Compliance reports functionally to the CAR committee and also serves in a staff role to the committee. For day-to-day operations, the Executive Director of Audit, Risk, and Compliance reports administratively to the President. These reporting relationships allow for direct and unrestricted access to the President and the CAR Committee of the Board of Visitors.

All work will be conducted in an objective and independent manner. Staff will maintain an impartial attitude in selecting and evaluating evidence and in reporting results. Independence in fact and appearance enables unbiased judgments essential to the proper conduct of the department's scope of work. OARC staff have the responsibility to maintain high standards of conduct, professionalism, independence, and character to carry out proper and meaningful internal auditing within the university.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that would normally be audited. Therefore, internal audit review and appraisal procedures do not in any way substitute for the responsibilities assigned to other persons in the organization.

2.3 Authority

OARC has unrestricted access to all university departments, records, reports, activities, property, and personnel that they deem necessary to discharge their audit responsibilities. OARC will exercise discretion in their review to assure the necessary confidentiality of matters that come to its attention.

OARC will allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports. OARC will also obtain assistance for specialized services from within or outside the university in order to complete engagements.

2.4 Auditing Standards

The internal audit function will conduct its activities in accordance with the Institute of Internal Auditors' International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

2.5 Systems Planning and Development

Management will consult OARC during the planning, development, and modification of major financial or operating systems and procedures (manual and automated) to ensure that:

- Reasonable and adequate internal controls exist.
- Systems or procedural documentation is complete and appropriate.
- An adequate audit trail exists.

OARC's participation will be designed to help ensure safeguarding of information assets and compliance with appropriate procedures and aid management efficiency by avoiding costly systems or procedural changes at later dates.



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2.6 Responsibilities of the Executive Director of Audit, Risk, and Compliance

The Executive Director of Audit, Risk, and Compliance has primary responsibility for the proper maintenance and management of OARC to ensure that the work fulfills the purposes and responsibilities established in this policy statement. The Executive Director of Audit, Risk, and Compliance is specifically charged with the following responsibilities:

- Coordinating all auditing activities to provide a central source of information for management and the CAR Committee regarding all audit activities and to provide comprehensive, cost-effective audit coverage for the university.
- Facilitating the university's efforts regarding enterprise risk management (ERM) on behalf of senior management and the CAR Committee.
- Coordinating the university's institutional compliance program to be a resource and serve as a catalyst for the achievement of university best practices in compliance-related subject matter areas.
- Establishing written policies and procedures for OARC and directing its technical and administrative functions.
- Developing, submitting for approval, and executing comprehensive risk-based annual audit plan to carry out departmental responsibilities.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter, and provide information on the sufficiency of department resources.
- Recommending improvements in controls designed to increase efficiency, safeguard university resources, and ensure compliance with government laws and regulations.
- Issuing an annual summary report of activities to the CAR Committee.
- Appraising the adequacy of the action taken by management to correct significant reported internal control weaknesses and deficient conditions, and reporting this information to the CAR Committee and responsible senior manager as appropriate.
- Establishing and maintaining a Quality Assurance and Improvement Program to evaluate the operations of the department, including periodic internal self-assessments and external peer reviews at least once every five years by qualified persons who are independent of the university, the results of which will be presented to senior management and the CAR Committee.
- Communicating directly with the CAR Committee any matters considered to warrant its attention as appropriate, including trends and emerging issues that could impact the university.
- Performing sufficient tests and examinations to determine and report to management, the CAR Committee, and the appropriate authorities the extent of any fraud, waste, and abuse and to identify the weaknesses in control procedures that may have allowed the fraudulent activity to occur. The investigation of the specific event with the objective of recovery and/or prosecution is the responsibility of the appropriate law enforcement agency and Commonwealth's Attorney, based on jurisdiction.

2.7 Audit Reports

OARC will issue audit reports and/or memoranda in all audit activities performed. The format and style of the report will be determined by the Executive Director of Audit, Risk, and Compliance, depending upon the nature and conditions surrounding the audit. Communications must include the engagement's objectives and scope as



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well as applicable conclusions, recommendations, and action plans. The formulation of overall opinions requires consideration of the engagement results and their significance. All reports on engagements scheduled in the annual audit plan will be issued to the members of the CAR Committee; the President; appropriate senior management; and other appropriate personnel as deemed necessary by the Executive Director of Audit, Risk, and Compliance. In addition, reports approved at open meetings of the committee shall be made available to the public in accordance with state statutes. In certain circumstances, the Executive Director of Audit, Risk, and Compliance may decide, with the approval of the Chair of the CAR Committee, to restrict the issuance of an audit report to certain members of management and/or the committee.

2.8 Responsibility for Corrective Action

Senior management to whom the audited department, activity, or agency reports organizationally is responsible for the issuance of a written response to recommendations made or deficient conditions reported. The responses should be submitted to the Executive Director of Audit, Risk, and Compliance for inclusion in the issued audit report. At each meeting, the CAR Committee will receive status updates of recommendations in the process of implementation.

2.9 Coordination with External Auditing Agencies

To ensure appropriate coordination and completeness of the CAR Committee reporting responsibilities, senior managers should promptly notify the Executive Director of Audit, Risk, and Compliance of any external audits or reviews. OARC will coordinate its audit efforts with those of the Auditor of Public Accounts or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary, and their combined efforts provide comprehensive, cost-effective audit coverage for the university. The Executive Director of Audit, Risk, and Compliance will work with the appropriate members of management to determine the level of involvement of OARC, if any, in the performance of each external audit. Duplication of work will be avoided as much as possible.

2.10 Special Projects

The Executive Director of Audit, Risk, and Compliance is empowered to conduct special audit projects, reviews, advisory services, or investigations at the request of the President, Vice Presidents or their designee, and the CAR Committee. Special projects assist management in meeting its objectives; promoting economy and efficiency in the administration of its programs and operations; or preventing and detecting fraud, waste, and abuse, examples of which may include facilitation of risk and control evaluation, training, and advisory services.

3.0 Procedures

Principal guidance and direction on how OARC accomplishes its mission and responsibilities is provided to the audit staff through an office procedures manual. The manual promotes adherence to the International Professional Practice Framework developed by the Institute of Internal Auditors.

4.0 Definitions

Abuse

The excessive or improper use of a thing or policy, or employment of something in a manner contrary to the natural or legal rules for its use. Abuse includes the destruction, diversion, manipulation, misapplication, mistreatment, or



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misuse of university resources, as well as the extravagant or excessive use of one's position or authority. Abuse can occur in financial or nonfinancial settings.

Advisory Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Assurance

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Charter

The charter is a formal document that defines OARC's purpose, authority, and responsibility. The charter establishes the office's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest could prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control (e.g. integrity and ethical values; management's philosophy and operating style; organizational structure; and the assignment of authority and responsibility).

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.



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Executive Director of Audit, Risk, and Compliance

The individual who serves as the chief audit executive and is responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Institute of Internal Auditors' International Professional Practices Framework.

Engagement

A specific assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Enterprise Risk Management

A process applied in strategy-setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risk to be within the entity's risk tolerance, and support the achievement of entity objectives.

Fraud

The intentional misrepresentation or concealment of information in order to deceive, mislead, or acquires something of value. Fraud is an intentional deception perpetrated to secure an unfair advantage or personal benefit.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. The governance process includes: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Independence

The freedom from conditions that threaten the ability of a function to carry out its responsibilities in an unbiased manner.

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Auditors. Authoritative guidance is comprised of two categories including mandatory guidance (Core Principles, Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing) and strongly recommended guidance (implementation and supplemental guidance).

Objectivity

An unbiased mental attitude that allows internal auditors to make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact, likelihood, and velocity.



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Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Scope

A statement that specifies the focus, extent, and boundary of a particular audit. The scope can be specified by defining the physical location of the audit, the organizational units that will be examined, the processes and activities that will be included, and/or the time period that will be covered.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Waste

The careless expenditure, consumption, mismanagement, use, or squandering of university resources. Waste also includes incurring unnecessary costs due to inefficient or ineffective practices, systems, or controls.

5.0 References

Section 2.1-155.3 of the *Code of Virginia*, enacted in 1984.

State Fraud, Waste, and Abuse Hotline Policies and Procedures Manual, Office of the State Inspector General, Commonwealth of Virginia, 2020 edition.

The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing, revised in 2016 and effective 2017.

6.0 Approval and Revisions

- Revision 0
Approved February 9, 1989, by the Director of Internal Audit, David C. Goodyear.
- Revision 1
Annual review. Section 2.8 - changed so that reports "approved" by the Finance and Audit Committee of the Board of Visitors shall be available to the public.
Approved March 29, 1990, by the Director of Internal Audit, David C. Goodyear.
- Revision 2
Changes were made to eliminate minor discrepancies between the audit manual and the policy statement as presented to the Board of Visitors.
Approved November 3, 1995, by the Director of Internal Audit, David C. Goodyear.
Annual review, November 5, 1998, by Office of the Executive Vice President. No revisions.



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- **Revision 3**
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors. Policy serves as a charter for the Internal Audit Department.
Approved March 29, 2004 by the Executive Vice President and Chief Operating Officer, Minnis E. Ridenour.
Approved March 29, 2004 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 4**
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors, in conjunction with the Internal Audit Department's quality assurance review.
Approved March 14, 2005 by the Executive Vice President and Chief Operating Officer, James A. Hyatt.
Approved March 14, 2005 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 5 April 1, 2008:**
Updates to position titles and/or responsibilities due to university reorganization.
- **Revision 6**
 - Policy title changed from "Internal Audit Department" to "Internal Audit Charter."
 - Section 2.2 revised to reflect change in Director of Internal Audit reporting relationship.
 - Sections 2.5 and 2.7 revised to clarify the role of Internal Audit and the standards under which it conducts its activities.
 - Section 2.9 revised to clarify the process for senior management areas submitting corrective action plans.

Approved November 7, 2011 by the university President, Charles W. Steger.
Approved November 7, 2011 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 7**
 - Full technical review correcting grammatical, punctuation, word usage, sentence structure, and minor content and/or format inconsistencies. The charter was also revised to incorporate the concept of objectivity, and to include applicable procedures and definitions.
 - Policy title changed from "Internal Audit Charter" to "Charter for the University's Internal Audit Function."

Approved November 9, 2015 by the Finance and Audit Committee of the Board of Visitors and President, Timothy D. Sands.
- **Revision 8**
Revised to address the reorganization of the Board of Visitors' committee structure and additional responsibilities with regard to risk management and compliance. Additional revisions were made to reflect revised guidance from the Institute of Internal Auditors.
Approved November 5, 2017 by the Compliance, Audit, and Risk Committee of the Board of Visitors and President, Timothy D. Sands.
- **Revision 9**
Revisions from technical review correcting grammatical, punctuation, word usage, sentence structure, and minor content and/or format inconsistencies.



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Approved November 18, 2019 by the Compliance, Audit, and Risk Committee of the Board of Visitors and President, Timothy D. Sands.

- Revision 10
Revisions from technical review correcting grammatical, punctuation, and minor format inconsistencies. Additionally, section 2.9 was revised to clarify expectations on OARC's responsibility for coordinating external audits and reviews.

Approved November 15, 2020 by the Compliance, Audit, and Risk Committee of the Board of Visitors and President, Timothy D. Sands.

Auditor of Public Accounts Financial Statement Audit and Management Letter

COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

The Committee will receive an update on the status of
the Auditor of Public Accounts financial statement audit
and Management Letter
for the fiscal year ended June 30, 2021.

Statewide Reviews and Special Reports
COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

Background

Virginia Tech is subject to reviews by a variety of Commonwealth agencies, including the Auditor of Public Accounts (APA), the Office of the State Inspector General (OSIG), and others. In addition to the annual audits of the university's financial statements and its Intercollegiate Athletics program conducted by the APA, Virginia Tech has been included along with other agencies in statewide reviews typically included as part of an agency's annual work plan. Due to the breadth of the programs and the dollar volume of activities at Virginia Tech, the university is often selected for inclusion in a variety of statewide reviews. The following report provides an analysis of statewide audit activities consistent with the university's planned approach to manage and report on these audit activities.

Review of Chapters 759/769 Bond Issuance Limit (APA, September 2018)

To satisfy the requirements in Chapters 759/769 of the 2016 Acts of Assembly, Items 10 and 11, the APA determines how the Six-Year Capital Outlay Plan Advisory Committee is monitoring the \$300 million annually debt limit for capital projects and whether the Commonwealth stayed within the limits. Additionally, the APA determined if the Departments of Planning and Budget and General Services were complying to the legislation, and issued quarterly reports related to the status of the General Assembly building to members of the Senate Finance Committee and House Appropriations Committee. The APA concluded the advisory committee is properly monitoring these requirements and that they are being met.

Virginia Department of Veterans Services (2019)

Virginia Tech received notice of its selection in a Compliance Survey, which was conducted to ensure that schools, training establishments, and their approved courses are in compliance with all applicable provisions of the laws administered by the U.S. Department of Veterans Affairs and State Approving Agency (DVS). This limited scope review was to monitor compliance based on a review of records for a specific set of students.

Report on Compliance – NCAA Subsidy Percentage Requirements (APA, September 2020)

The APA prepared a summary by reviewing a Schedule of Revenues and Expenses for Intercollegiate Athletics Programs at each institution for the fiscal year ended June 30, 2019. The APA performed calculations in accordance with the provisions of § 23.1-1309. The subsidy percentage shall not exceed 20 percent for Virginia Tech, and the review found the university was in compliance with this threshold.

Each fiscal year, any percentage increase in the subsidy at an institution shall be matched by a like percentage increase in generated revenue, except that each such institution shall utilize a rolling average of the change in generated revenue and student fees over the immediately preceding five years for the purposes of such calculation. Fiscal year 2019 is the third reporting

year following the effective date of the regulation, and as such, five years of data is not available to develop a rolling average.

Increases in student fee revenue may result from several factors, including changes in the per student allocation of an institution's mandatory non-educational and general (E&G) fee and fluctuations in an institution's enrollment. For several institutions, including Virginia Tech, significant increases in enrollment resulted in larger increases to student fee revenue allocated to the institution's respective athletics departments without substantial increases in fees assessed to students. It was noted that Virginia Tech allocates the lowest portion of their mandatory non-E&G fee, in both dollars and on a percentage basis, to Athletics when compared to other public four-year institutions in Virginia.

The report noted as the COVID-19 pandemic continues to disrupt normal athletic department activities, the APA expects that many institutions may not be compliant with subsection C and/or subsection D of § 23.1-1309 of the Code of Virginia by the end of fiscal year 2021 without specific legislative relief.

Report on the Audit of the Statement of Expenditures (APA, November 2020)

The APA audited the statement of expenditures on grant number 2000001678 with the International Fund for Agricultural Development (schedule) for reporting period January 8, 2018 to December 31, 2019. The APA found the accompanying schedule presented fairly, in all material respects, the expenditures and revenues associated with the grant are in accordance with the financial reporting provisions of the grant agreement.

Internal Revenue Service (Spring 2021)

The university is undergoing an IRS audit on 403(b) deferred compensation plans for tax year 2018 and work is in progress.

Financial Audit of Costs Catalyzing Afghan Agricultural Innovation Program

(U. S. Agency for International Development (USAID), 2021)

The USAID contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP (CLA) to conduct an audit of Cooperative Agreement No. 306-72030618LA00002 for the period May 28, 2018 to December 31, 2019. The audit objectives for this cooperative agreement include: to opine on USAID fund accountability, evaluate the university's internal control for this award, and compliance with agreement terms and applicable laws and regulations. The university has received a draft report from the auditors and provided initial responses. Discussions are occurring with the grantor regarding the allowability of working capital advances.

Additionally, the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is performing an audit on the award for the period January 1, 2020 through May 28, 2021. We anticipate that the audit will begin in the fall of 2021 and continue for six months.

Audit Report on Disclosed Cost Accounting Practices

(Defense Contract Audit Agency (DCAA), May 2021)

The DCAA examined the cost accounting practices disclosed in the university's Conformed Disclosure Statement Form Cost Accounting Standards Board Disclosure Statement (CASB DS-2), Rev. 6, certified January 7, 2021, and subsequent Conformed Disclosure Statement Form

CASB DS-2, Rev. 6A, certified April 14, 2021, for compliance with Cost Accounting Standards (CAS) for Educational Institutions and Code of Federal Regulations, Title 2, Part 200 (2 CFR 200). The DCAA opined that the changes made to the DS-2 comply, in all material respects. The Office of Naval Research (ONR), our cognizant agency, also determined the practices described in the university's DS-2, Revisions 5, 6, and 6A are in compliance with CAS.

OSIG Clery Act Performance Audit (2020-2021)

In accordance with the Code of Virginia § 2.2-309 [A](10), OSIG conducts performance audits of executive branch state agencies, including colleges and universities, to ensure state funds are spent as intended and to evaluate the efficiency and effectiveness of programs. All higher education institutions, including Virginia Tech, were originally notified in December 2020 that OSIG will conduct a performance audit of the implementation of the Clery Act during fiscal year 2021. The preliminary scope of the project was calendar years 2015 through 2020, with the preliminary methodology consisting of interviewing key staff members, documenting processes and procedures related to the Clery Act, reviewing any information systems used to track and maintain information, and benchmarking with other states. The expected value of this performance audit would potentially be improving the timeliness and accuracy of reporting and ensuring that higher education institutions are taking actions to address trends identified in the reporting at a sampling of Virginia's colleges and universities.

Virginia Tech subsequently responded to a detailed survey provided by OSIG. OSIG recently selected three universities (George Mason University, University of Mary Washington, and Virginia State University) and three community colleges (Dabney Lancaster, Virginia Western, and New River) for detailed assessment. Further involvement for Virginia Tech is not anticipated at this time.

OSIG 2022 Work Plan (June 2021)

OSIG will monitor quality assurance reviews performed by independent assessors for Virginia Polytechnic Institute and State University as required for compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Capital Construction Project Reviews (on-going)

The Office of Audit, Risk, and Compliance (OARC) works in close collaboration with the Division of Campus Planning, Infrastructure, and Facilities (CPIF) in outsourced reviews of certain capital construction projects. In general, the contract compliance audits are conducted on Construction Manager at Risk (CMaR) contracts in three phases (preconstruction, construction in progress, contract close out) with a goal of ensuring billings and payments are in accordance with contract documents, reviewing for duplicate costs, appropriateness of change orders, and identifying opportunities for cost avoidance.

In summer 2021, Virginia Tech rebid its long-standing construction project review program and three firms were selected. OARC and CPIF work collaboratively to assign and monitor firm performance on the selected capital construction projects. The following reviews have occurred since September 2019 on the active CMaR projects:

Capital Construction Project	Preconstruction	Construction In Progress	Contract Close Out
Holden Hall Renovation	✓	✓	
Data and Decision Sciences	✓	In Progress	
Corps Leadership and Military Science	✓		
Innovation Campus Academic Building	✓		
New Upper Quad Residence Hall	✓		



Enabling
Informed
Decisions



OFFICE OF AUDIT, RISK,
AND COMPLIANCE
VIRGINIA TECH™

Annual Report

For the Fiscal Year Ended June 30, 2021

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Mission Statement

The Office of Audit, Risk, and Compliance (OARC) performs independent internal audits, plans and oversees the university risk management process, and oversees the institutional compliance program. OARC's mission is to **enhance and protect organizational value** by providing risk-based and objective **assurance, advice, and insight** as follows:

Assurance
Advice
Insight

1. **Audit:** Provide **independent, objective** assurance and advisory activity designed to **add value** and **improve university operations**. Audits help the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. **Enterprise Risk Management:** Provide **oversight** of the enterprise risk management program by **creating and maintaining the framework** to effectively identify, assess, and manage risk.
3. **Compliance:** Provide **oversight** of the institutional compliance program and the distributed processes that **support compliance** across the university.



Protected & Connected

OARC **protects** the university by independently and objectively identifying business risks and **connects** with key leaders and stakeholders to evaluate risk-mitigation strategies.

State of Control Environment

OARC's internal audit function continues to be a significant element of the university's overall control structure and a positive influence on the control environment. During fiscal year 2020-21, OARC examined and tested the operations and systems of internal control within a number of university departments to assist management and the Board of Visitors in the discharge of their fiduciary responsibilities.

As a result of the audit, advisory, and investigative work performed during fiscal year 2020-21, **deficiencies representing significant control weaknesses were identified related to information technology security**; as well as, a number of other areas requiring improvement were identified. The scope of audit work was not limited in any way by management or others, nor were there any instances where OARC considered its independence or objectivity to have been impaired. Management and others were found to be conscientious, cognizant, and accepting of their responsibility for internal control, as well as open, cooperative, and supportive of audit efforts.

Management has generally accepted audit issues and responded by developing action plans to address the concerns noted. These statements are made with the understanding that no system of internal control provides absolute assurance that controls are functioning effectively. These statements are also not meant to imply that fraud and other irregularities do not exist or, if they do exist, are certain to be detected. Decisions as to the level of risk that is tolerable and should be accepted by the university are the responsibility of management. That said, based on the audit, advisory, and investigative work performed, OARC did not identify any areas where management decided to accept a level of risk that we believed to be unacceptable.

OARC did not identify any areas where management decided to accept a level of risk that we believed to be unacceptable.



FY 2020-21 Highlights

Internal Audit

- 65% of audit plan completed
- 17 completed engagements
- 19 fraud, waste, or abuse cases initiated
- 4.6 out of 5 (92%) on client satisfaction surveys
- 60 management action plans were closed

92%

client
satisfaction

Enterprise Risk Management (ERM)

- Update of university's enterprise risk landscape and heat map
- Refresh of the "top ten" focus areas
- Increased ERM engagement at all Board of Visitor committees

Whole-of-
leadership
engagement

Institutional Compliance Program (ICP)

- 75+ distributed university-wide risk owners completed 160+ compliance risk assessments
- Ongoing management of the anonymous compliance concern reporting hotline

98%

risk
assessments
completed

Internal Audit

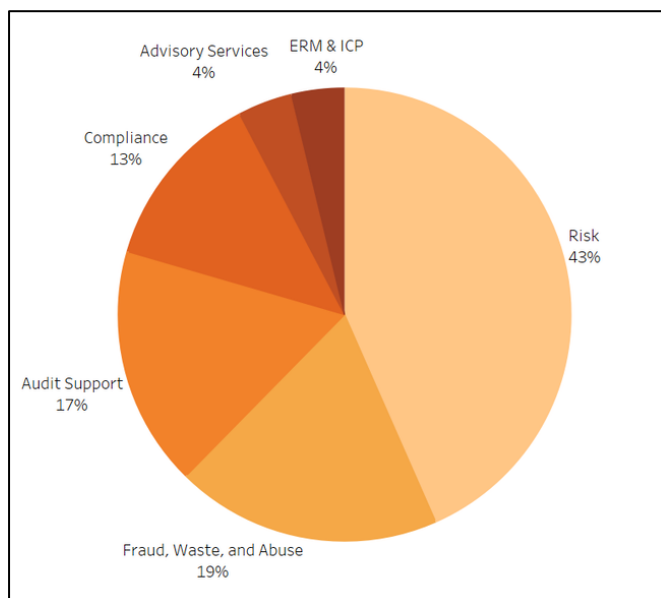
Internal Audit continued its role as the assurance and advisory arm within the university. Value-added engagements through traditional audits, a limited number of advisory activities, and providing insight through formal and informal means were hallmarks throughout the year. As depicted below, fiscal year 2010-21 began with 28 proposed engagements. A combination of changing risks, including the continued effects of COVID-19, led to the cancelation or deferment of seven audits. Coupled with two supplemental advisory reviews and three carry forward engagements, we ended the year with 26 planned audits, of which we completed 17 as of the end of the fiscal year. This results in a 65% completion rate for fiscal year 2021. Appendix A shows the status of each audit in the fiscal year 2020-21 audit plan.

Audits	
Total # of Audits Planned	28
Total # of Supplemental Audits	2
Total # of Carry Forwards	3
Total # of Planned Audits Deferred and/or Canceled	7
Total Audits in Plan as Amended	26
Total Audits Completed	17
Audits – Percentage Complete	65%
Audits – Percentage Complete or Underway	100%
Note: Includes Policy Compliance Reviews and Advisory Services	

The 65 percent completion rate is far below the 85 percent goal. OARC management conducted a thorough review of last year's results to identify root causes of the missed completion rate. We believe contributing factors include:

- Challenges of employees learning how to execute engagements in the hybrid working environment.
- Difficulties encountered with auditees working offsite.
- A metered approach that recognized the ongoing operational challenges within the institution.

Effort



Of the 24,200 hours logged by OARC last year, 65% was charged directly to executing our core mission. The remaining 35% was spent on office administration, computer support, training, and compensated absences.

This chart depicts how 15,700 of core-mission hours were spent.

- 60% on Risk, Advisory, and Compliance engagements.
- 19% on fraud, waste, and abuse investigations.
- 4% on ERM and compliance.
- 17% on audit support (annual audit planning, supervision).

Follow Up Activities and Management Corrective Actions

OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations. Each audit recommendation is given a rating of high, medium, or low priority. This judgment is made in a local context, and items identified as high do not necessarily convey material deficiencies or risks beyond the operating environment in which they were found. The Board of Visitors' Compliance, Audit, and Risk (CAR) Committee receives the high and medium priority recommendations and associated management corrective actions. However, OARC and management closely monitor all outstanding recommendations to ensure they are adequately addressed by the responsible parties.

60
management
corrective
actions were
closed

Of the 52 management corrective actions generated during fiscal year 2020-21 engagements, OARC categorized eight as high priority (15%). High-priority management corrective actions include those that are systemic or have a broad impact; have contributed to a significant investigation finding; are reportable conditions under professional literature; create health or safety concerns; involve senior officials; create exposures to fines, penalties, or refunds; or are otherwise judged as significant control issues. Open management corrective action plans at fiscal year-end have been outstanding an average of 322 days. Audits for fiscal year 2020-21 resulted in recommendations with ratings of high, medium, or low management corrective actions as follows:

Beginning # of management corrective actions	56
Management corrective actions added	52
Management corrective actions closed	60
Current # of open management corrective actions	48

Results of Surveys for Evaluating OARC Services

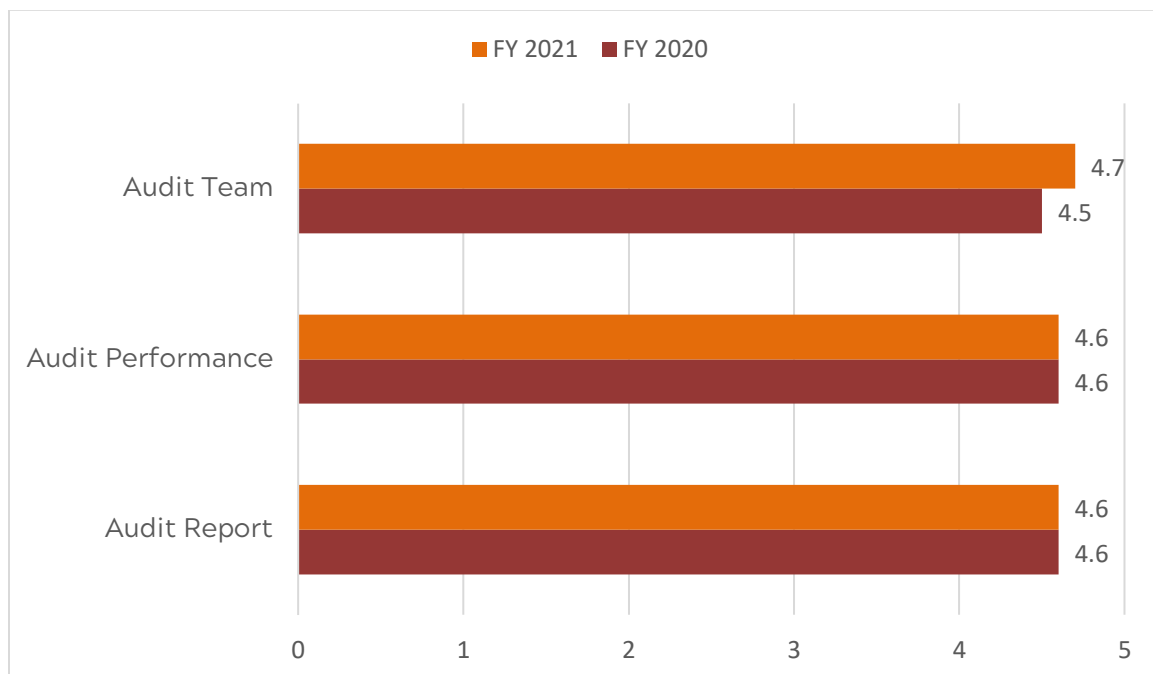
After the completion of each engagement, the primary contacts within the area under review are provided a survey requesting their evaluation of the quality of the services provided. Feedback from the surveys is used to **enhance the overall quality** of the engagements and to **ensure we are meeting our customer service focus**. The survey responses are grouped into three categories:

92%

client
satisfaction

<u>Audit Team</u>	Demonstrated technical proficiency, approached audit in an objective and professional manner, and provided effective conclusions and opinions.
<u>Audit Performance</u>	Discussed the preliminary audit objectives, scope, and timing of the audit, solicited and considered management concerns and suggestions in the audit, and minimized disruption of auditee's daily activities as much as possible.
<u>Audit Report</u>	Written clearly, contained adequate explanations for the observations, and recommended improvements or added value to the department's operation.

FY 2020-21 Survey Results



Overall, **customer ratings were highly favorable** with results ranging from good to excellent. Attaining a cumulative average score of 4.6 on a 5-point scale exceeded OARC's goal of a 4.0 rating on survey feedback, resulting in 92 percent client satisfaction.

"Professional, helpful, and skilled team that identified areas for improvement as well as identified resources to guide our corrective action."

- Department Business Manager

Quality Assurance and Improvement Program

In accordance with requirements set forth by the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing as shown in [Appendix B](#), OARC maintains a comprehensive Quality Assurance and Improvement Program. This program includes ongoing monitoring, periodic self-assessments, and an independent external assessment that should be conducted at a minimum of every five years.

The on-going monitoring program consists of four elements: the supervisory review of the project working papers, quality assurance reviews of individual audits, the pre-issuance review of reports, and periodic assessments of the quality control system.

An external assessment was last completed during fiscal year 2015-16, when the internal audit function received the **highest rating possible of "generally conforms."** The next independent external assessment has been scheduled for the fall of 2021. In anticipation of the external review, a self-assessment was completed in fiscal year 2019-20, during which recommendations to improve internal processes were made and subsequently implemented.



Fraud, Waste, and Abuse

OARC conducts reviews of all state and local Hokie Hotline reports and internal complaints alleging fraud, waste, and abuse. During fiscal year 2020-21 OARC:

- Initiated 19 cases, including 11 internal and 8 state hotline complaints.
- Closed 10 cases from prior fiscal years and 15 for the current fiscal year.

For the 25 cases completed:

- 0 of 10 state hotline cases were substantiated.
- 6 of 15 (40%) internally reported cases were substantiated.

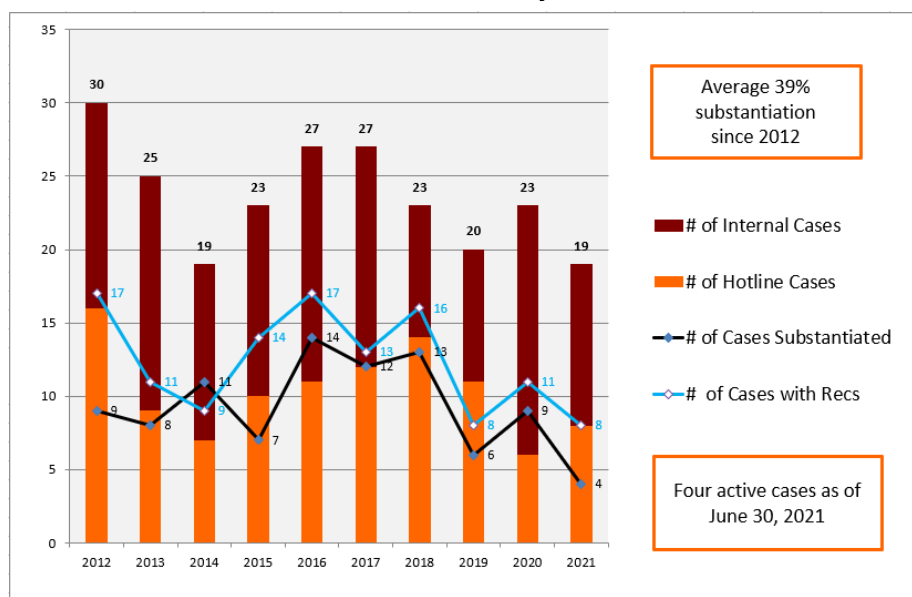
Since fiscal year 2011-12, approximately 56 percent of internally reported allegations have been substantiated, and 18 percent of state hotline cases have historically been substantiated, for a combined weighted average of 39 percent.

OARC maintains a fraud, waste, and abuse hotline service (“Hokie Hotline”) that offers an easy, safe, secure, and anonymous platform to accept tips and complaints from all sources about potential fraud, waste, abuse, and noncompliance at the university. Two of the 11 internally reported complaints mentioned above were received via the Hokie Hotline.



Since fiscal year 2011-12, approximately 72 percent of the allegations investigated by OARC have fallen within five general categories: improper use of university resources; abuse of authority; leave or time abuse; misfeasance and waste; and conflict of interest.

Historical Case Volume by Fiscal Year



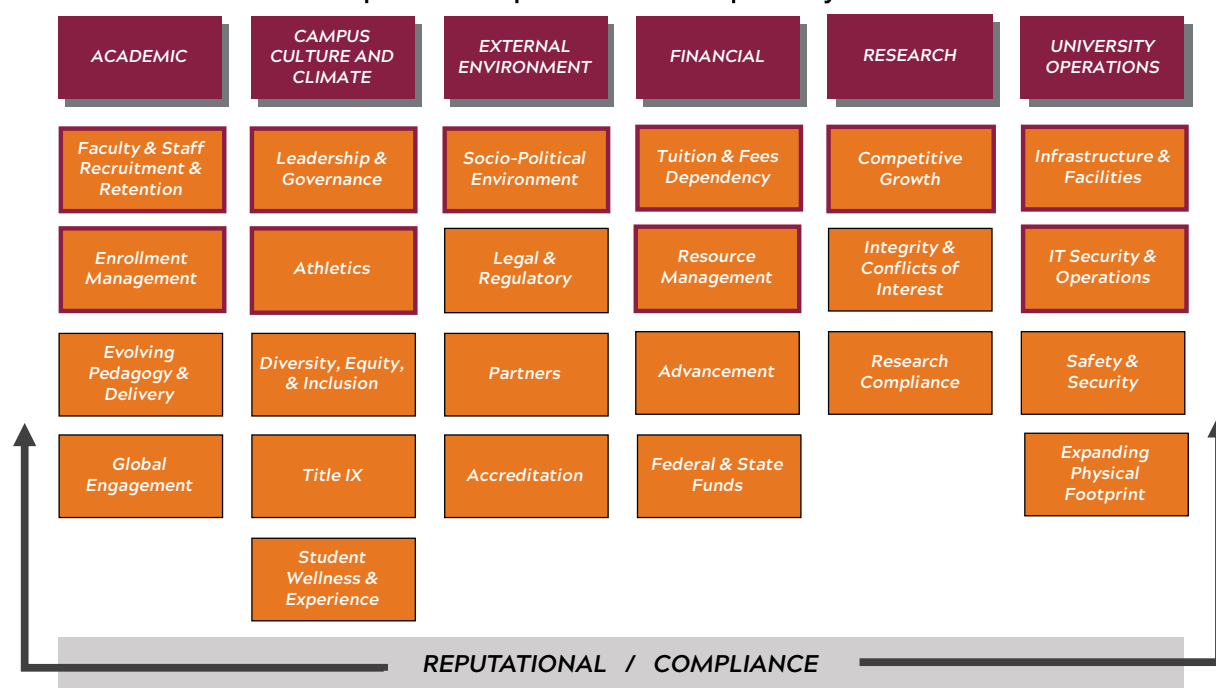
Enterprise Risk Management Program

OARC has coordinated Virginia Tech's Enterprise Risk Management (ERM) program since its inception at the request of the Board of Visitors CAR Committee in 2017. The ERM process, a key tool in setting strategic goals across the enterprise, is designed to **identify potential events** that may affect the university, **manage those risks** within the university's risk tolerance, and **support the achievement of Virginia Tech's mission and objectives**. The ERM program strengthens the university's ability to achieve its mission and strategic objectives through effective management of key risks and seizure of opportunities related to the achievement of strategic objectives. In this context, risk encompasses both negative events ("downside risk") and opportunities ("upside risk").

ERM-related activities that took place in fiscal year 2020-21, both planned and *ad hoc*, included:

- Deployed an updated risk landscape with a comprehensive evaluation of the "top ten risks."
- Increased the visibility of ERM across the CAR Committee and other Board of Visitors committees.

Updated Enterprise Risk Landscape – May 2021



Maroon Border = Top 10 Risk

We are pleased to see **continued engagement** with the identified enterprise risks across the Board of Visitors committees and the executive leadership team. On multiple occasions during the past year, executive and senior leadership mentioned how the issues facing the institution were contemplated through the ERM process. Additionally, we are encouraged by the continued **broadening of coverage** in presentations to the Board of Visitors on ERM risks. Since the formation of the formal ERM program and introduction of the university's Enterprise Risk

20 of 24

enterprise risks
discussed with the
board

Landscape, 33 presentations and discussions highlighting ERM risk areas took place across the five standing Board of Visitors committees. The 24 enterprise risks are depicted in the following graphic with the size corresponding to number of discussions.



Institutional Compliance Program

Virginia Tech is committed to **integrity**, a **culture of compliance**, and promoting the **highest ethical standards** for all employees. Since 2017, OARC has led the university's Institutional Compliance Program (ICP) in promoting and supporting a working environment reflecting our commitment to compliance with all relevant legal and regulatory requirements. The ICP is a resource to support the Virginia Tech community in proactively meeting its compliance obligations and managing compliance risks.

"Virginia Tech is committed to integrity, a culture of compliance, and the promotion of the highest ethical standards for all employees."

- President Tim Sands

In fiscal year 2020-21, ICP activities included:

- Achieving a 97.5% completion rate (157 of 161) by 78 university-wide risk owners for initial risk assessments and initial analysis of resulting data.
- Managing an anonymous reporting hotline for compliance-related concerns.
- Pivoting focus of the Compliance Advisory Committee to compliance outreach and education.

In order to scale the compliance program to fully support the ever-growing complex regulatory frameworks, a Compliance Officer position was funded after the fiscal year to focus on monitoring compliance efforts university-wide, facilitating discussion amongst compliance owners, and staying current on emerging trends in higher education compliance. Once personnel is onboarded, OARC will begin developing compliance-related tools, such as a dedicated web-based site with training resources, compliance owner connectivity, and reporting functions.

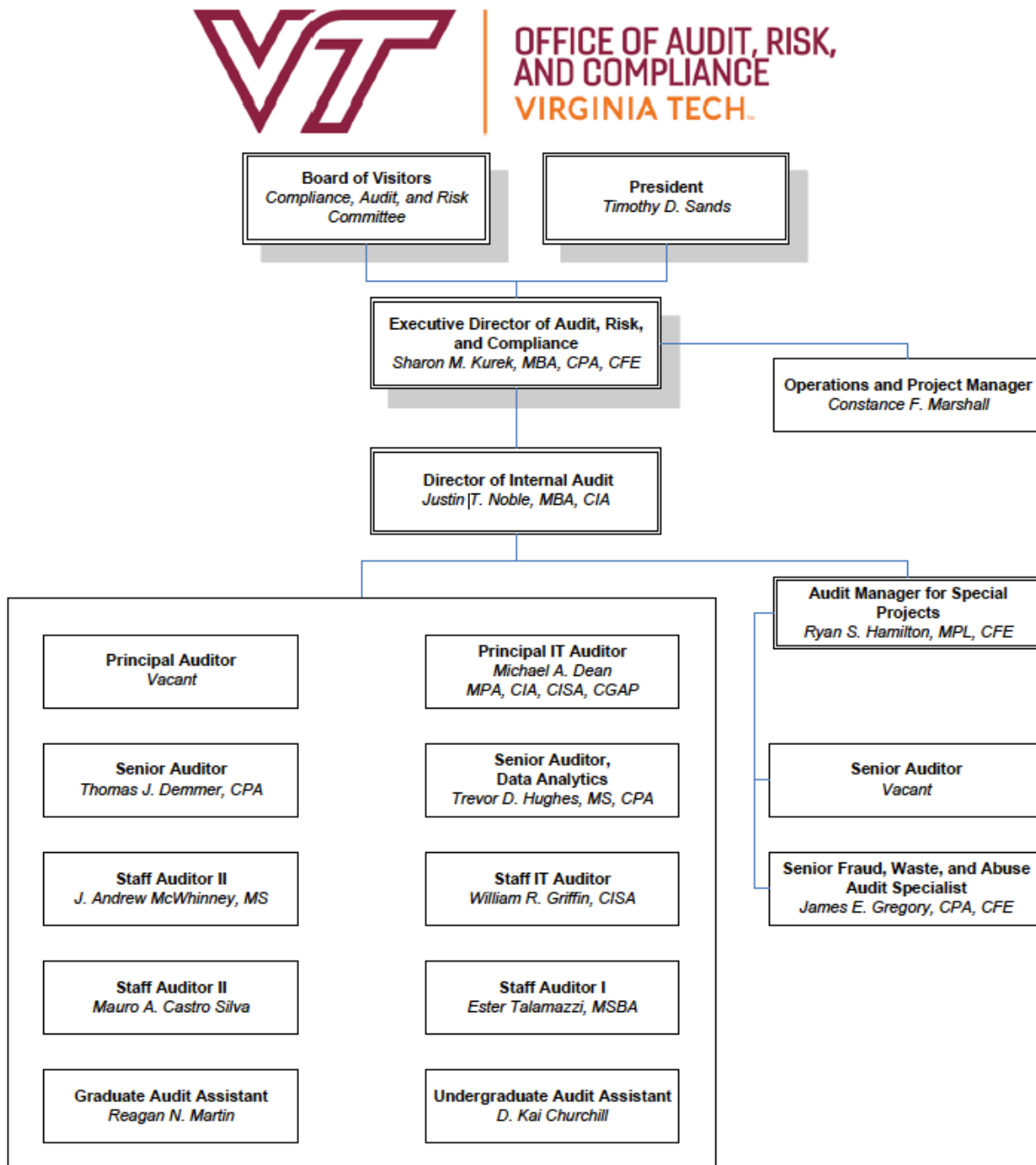
8 ELEMENTS OF AN EFFECTIVE COMPLIANCE PROGRAM



Staffing and Resources

Staffing continues to be a strategic focus. During the year, we successfully onboarded two new staff auditors, a graduate assistant, and an undergraduate student wage employee. The office is currently recruiting to fill two vacant auditor positions.

OARC Organizational Chart



Professional Service

OARC continues its longstanding tradition of professional engagement and service. Activities this year included:

- Association of College and University Auditors (ACUA)
 - Sharon M. Kurek served on the Ambassador Committee and Nominating Committee, is a member of the ACUA Faculty program, and was a speaker at AuditCon.
 - Justin T. Noble served on the Ambassador Committee and Nominating Committee, and was a speaker at AuditCon.
 - Trevor D. Hughes was a speaker at Audit Interactive and AuditCon, and volunteered on the data analytic ad-hoc group.
- Institute for Internal Auditors Southwest Virginia Chapter
 - Sharon M. Kurek, Thomas J. Demmer, and Mauro Castro Silva served on the Audit Committee.

Professional Qualifications

We are proud of our staff and the depth of experience in the team. OARC staff has more than 180 years of combined professional experience, including 165 years of combined experience in the audit, risk, and compliance profession. Additionally, staff has over 55 years of service to Virginia Tech. The staff maintains an extensive background with expertise in such areas as:

- Information technology;
- Fraud and forensics;
- Athletics;
- Healthcare;
- Financial aid;
- Research; and
- General financial, compliance, and operational auditing.

165

years of
professional
audit, risk, and
compliance
experience

Certification and Advanced Degrees

Professional Certifications			
4	Certified Public Accountants (CPA)	2	Certified Information Systems Auditor (CISA)
3	Certified Fraud Examiners (CFE)	1	Certified Government Auditing Professional (CGAP)
2	Certified Internal Auditor (CIA)	1	Project Management Professional (PMP)
Advanced Degrees			
2	Master of Business Administration (MBA)	1	Master of Public Administration (MPA)
1	Master of Architecture (MArch)	4	Master of Science (Business Analytics, Environmental Natural Resources, Sociology)
1	Master of Policy Leadership (MPL)		

Resourcing

The table below compares OARC's fiscal year 2020-21 expenditures with fiscal year 2019-20. While over 95% of OARC expenditures supported salaries and benefits, these costs decreased due to vacancies among staff members, which were intentionally held open due to the pandemic-related hiring freeze. Due to travel restrictions and other impacts of the COVID-19 pandemic, training expenses continued to decrease as training remained in virtual modality. Due to the prior year's decision to engage an external audit firm to complete two planned audit projects, we incurred expenses in that category in fiscal year 2019-20, but the use of consultants was avoided per university guidance in fiscal year 2020-21. Costs continue to remain high for software necessary to carry out OARC responsibilities in an effective and efficient manner, including electronic workpapers, data analysis tools, and the new Hokie Hotline.

Analysis of Expenditures

	FY 2019-20	FY 2020-21
Salaries and Benefits	\$ 1,782,251	\$ 1,730,542
Equipment	5,135	2,997
External Audit Firm Engagement	74,174	
Operating Expenses	40,940	35,461
Training	22,379	14,695
Personnel Expenses & Recruitment	22,769	
Audit Software	33,643	31,167
Total	\$ 1,981,282	\$ 1,814,862

Appendix A: FY 2020-21 Audit Plan Status

The chart below outlines the status of the fiscal year 2020-21 audit plan, as amended. Nine projects, including two advisory reviews, were carried forward to fiscal year 2021-22 but were completed before the November 2021 BOV meeting.

FY 2020-21 Audit Plan Status

Audit Project	Risk Ranking	BOV Mtg
Risk-Based Audit		
Americans with Disabilities Act (ADA) Compliance	High	<i>Canceled</i>
Athletics*	High	Nov 2021
Computer Science	High	Jun 2021
Foreign Gift and Contracts Reporting	High	<i>Deferred</i>
Fralin Life Sciences Institute	High	Nov 2021
HR: Compensation and Classification	High	<i>Deferred</i>
IT: Data Privacy	High	<i>Deferred</i>
IT: External Interfaces and Wire Transfers	High	Nov 2021
IT: Linux Server Security	High	Jun 2021
IT: Network Security	High	<i>Deferred</i>
Principal Investigator Research Management	High	Nov 2021
Procurement and Accounts Payable	High	Nov 2021
Research: Biosafety*	High	Nov 2021
Scholarships*	High	Jun 2021
Student Engagement and Campus Life	Medium	Mar 2021
Student Fees	Medium	Nov 2021
Student-Athlete Academic Success	High	Nov 2021
Title IX Compliance	High	<i>Deferred</i>
Veterinary Teaching Hospital	High	Nov 2021
Equine Medical Center	High	Nov 2021
Policy Compliance Reviews		
Office of the President		Mar 2021
Office of the Provost		Jun 2021
Pamplin College of Business		Mar 2021
Virginia Tech Carilion School of Medicine		Nov 2021
* Annual Audit on Different Components		

Additionally, OARC responded to management's requests for advisory services and consultative guidance in the following areas:

- Charlotte County – The Charlotte County Office of Virginia Cooperative Extension provides education through programs in Agriculture and Natural Resources, Family and Consumer Sciences, 4-H Youth Development, and Community Viability. The objective of this review was to assist management in assessing the office's funds handling procedures.
- Construction Project Management – Effective construction project management is a critical component to achieving the university's growth plans and requires cooperation and communication across all university stakeholders as well as construction partners. The objective of this review was to assess how the university managed risk associated with the capital construction program.
- Gift Accounting – The university's ambitious goals require the ongoing financial support of its alumni and donors. The objective of this review was to assist management in reviewing gift accounting processes across the various units involved. This project was carried forward as it was not completed during the fiscal year.
- Honors College – The mission of the Virginia Tech Honors College is to inspire and facilitate an extraordinary undergraduate education for students of exceptional motivation with a variety of life experiences. The objective of this review was to assess the major processes in the newly established college, including procedures used to establish or integrate new programs.
- Information Technology Security – The university maintains a vast IT enterprise to support meeting its mission. In any large research university, the IT risks are complex and ever evolving. At Virginia Tech, the risks are further elevated by the highly decentralized computing environment. The objective of this review was to assess risks and identify opportunities to address noncompliance in Virginia Tech's distributed computing environment.
- International Dependencies – Virginia Tech's mission is to be a leading global university – one that has a worldwide perspective, empowers graduates to solve world challenges, and is a top destination for global talent and innovation. Among the tremendous benefits, this global viewpoint introduces an element of risk in the form of dependency on international populations, governments, and infrastructure. This review was in follow-up to an Enterprise Risk Management tabletop exercise focused on potential impacts of reduced international student enrollment and will focus on specific and general takeaways regarding the identification of opportunities in this space. This project was initially halted during the COVID pandemic and subsequently canceled.
- Robotics Process Automation (RPA) – RPA is a technology that allows a "robot" to emulate and integrate the actions of humans in digital systems to execute business processes. The university has and continues to implement RPA into core financial functions. The objective of this review was to assist management in ensuring sound internal controls remain in the RPA enhanced processes. This project was carried forward as it was not completed during the fiscal year.

Appendix B: IIA Standards Disclosures



Per Charter:

The internal audit function will conduct its activities in accordance with the Institute of Internal Auditors' International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and *International Standards for the Professional Practice of Internal Auditing*.

MANDATORY GUIDANCE	
Core Principles	<ul style="list-style-type: none"> • Demonstrates integrity. • Demonstrates competence and due professional care. • Is objective and free from undue influence (independent). • Aligns with the strategies, objectives, and risks of the organization. • Is appropriately positioned and adequately resourced. • Demonstrates quality and continuous improvement. • Communicates effectively. • Provides risk-based assurance. • Is insightful, proactive, and future-focused. • Promotes organizational improvement.
Definition of Internal Auditing	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
Code of Ethics	<p>Internal auditors are expected to apply and uphold the following principles:</p> <ul style="list-style-type: none"> • Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. • Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. • Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. • Competency – Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.
International Standards for the Professional Practice of Internal Auditing	<p>Attribute Standards (1000 through 1300)</p> <p>1000 Purpose, Authority, and Responsibility</p> <p>1100 Independence and Objectivity</p> <p>1200 Proficiency and Due Professional Care</p> <p>1300 Quality Assurance and Improvement Program</p> <p>Performance Standards (2000 through 2600)</p> <p>2000 Managing the Internal Audit Activity</p> <p>2100 Nature of Work</p> <p>2200 Engagement Planning</p> <p>2300 Performing the Engagement</p> <p>2400 Communicating Results</p> <p>2500 Monitoring Progress</p> <p>2600 Communicating the Acceptance of Risks</p>



OFFICE OF AUDIT, RISK,
AND COMPLIANCE
VIRGINIA TECH.

ANNUAL REPORT

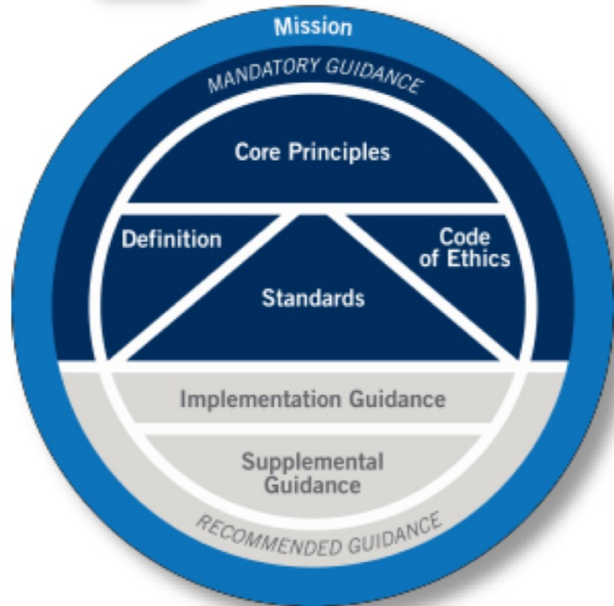
Sharon M. Kurek, CPA, CFE, MBA
Executive Director of Audit, Risk, and Compliance

November 7, 2021





International Professional
Practices Framework



The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter, including internal audit activity's purpose, authority, and responsibility.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues (Quality Assurance & Improvement Program).
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.

The Office of Audit, Risk, and Compliance (OARC) performs independent internal audits, plans and oversees the university risk management process, and oversees the institutional compliance program. OARC's mission is to **enhance and protect organizational value** by providing risk-based and objective **assurance, advice, and insight** as follows:

- **Audit:** Provide **independent, objective** assurance and advisory activity designed to **add value** and **improve university operations**. Audits help the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- **Enterprise Risk Management:** Provide **oversight** of the enterprise risk management program by **creating and maintaining the framework** to effectively identify, assess, and manage risk.
- **Compliance:** Provide **oversight** of the institutional compliance program and the distributed processes that support compliance across the university.

OARC did not identify areas where management decided to accept a level of risk that we believed to be unacceptable.

Deficiencies representing significant control weaknesses were identified related to information technology security, as well as, a number of other areas requiring improvement.

Overall, management:

- accepts their responsibility for internal control and is supportive of audit efforts;
- generally accepts audit recommendations and responds by developing action plans to address concerns; and
- did not limit the work performed and independence/objectivity was not impaired.

Internal Audit:

- 65% of audit plan completed
- 17 completed engagements
- 19 fraud, waste, or abuse cases initiated
- 4.6 out of 5 (92%) on client satisfaction surveys
- 95% on-time completion of high and medium action plans

92%

client
satisfaction

ERM

“top ten”
updated

98%

compliance
risk
assessments
completed

Enterprises Risk Management

- Updated university's enterprise risk landscape and heat map.
- Refreshed the "top ten" focus areas.
- Increased ERM engagement at all Board of Visitor committees .

Institutional Compliance Program:

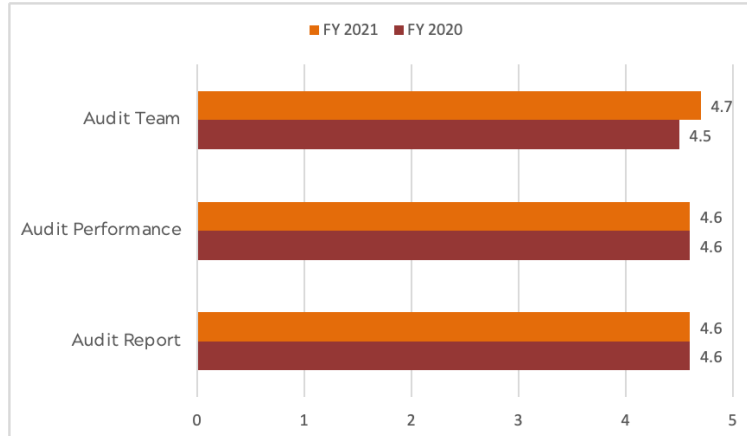
- 75+ distributed university-wide risk owners completed 160+ compliance risk assessments.
- 98% of compliance risk assessments completed.
- Ongoing management of the anonymous compliance concern reporting hotline.

FY 2020-21 AUDIT PLAN METRICS

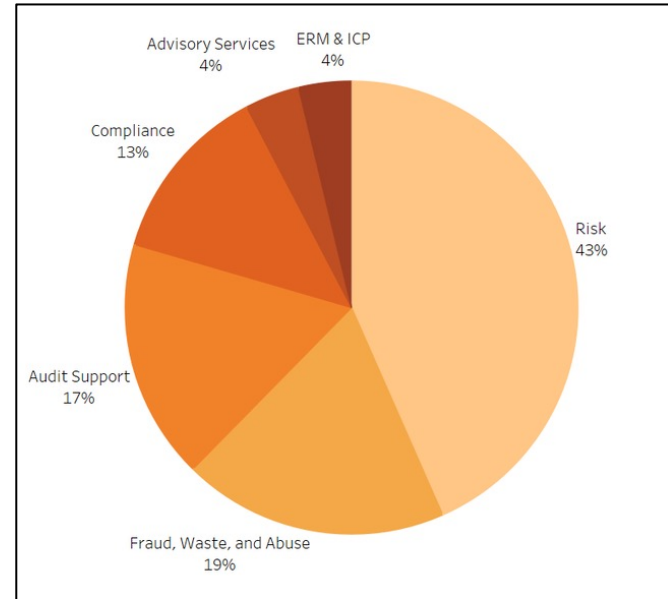
Audit Plan Status

Audits	
Total # of Audits Planned	28
Total # of Supplemental Audits	2
Total # of Carry Forwards	3
Total # of Planned Audits Deferred and/or Canceled	7
Total Audits in Plan as Amended	26
Total Audits Completed	17
Audits – Percentage Complete	65%
Audits – Percentage Complete or Underway	100%
Note: Includes Policy Compliance Reviews and Advisory Services	

Client Satisfaction Survey Results



Distribution of Direct Audit Hours

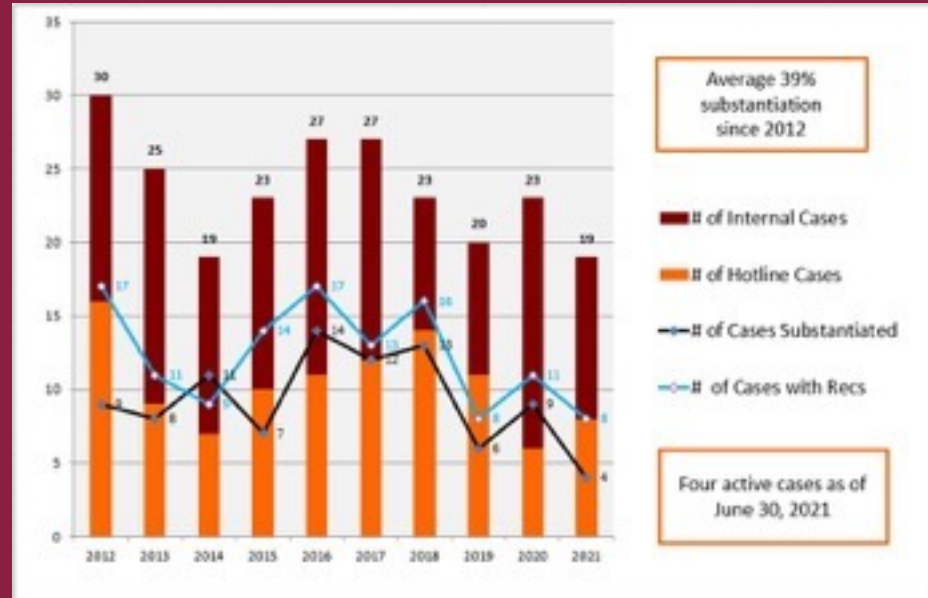


Management Corrective Action Summary

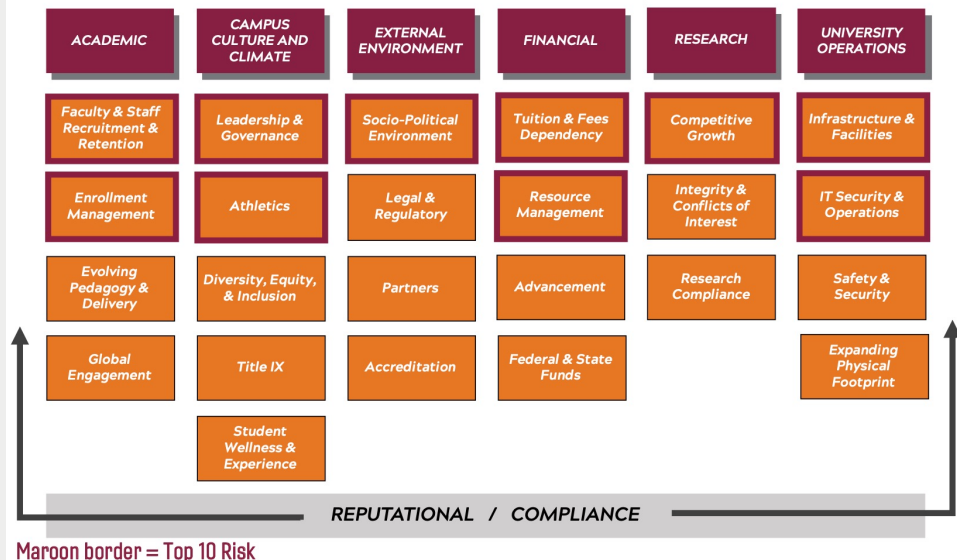
Beginning # of management corrective actions	56
Management corrective actions added	52
Management corrective actions closed	60
Current # of open management corrective actions	48



H O K I E H O T L I N E



Updated Enterprise Risk Landscape – May 2021



updated risk landscape including
evaluation of the 'top ten risks'

continued broadening of coverage in
presentations to the Board of Visitors on
ERM risks



Highlights include:

- Achieving a 97.5% completion rate (157 of 161) by 78 university-wide risk owners for initial risk assessments
- Managing an anonymous reporting hotline for compliance-related concerns
- Pivoting focus of the Compliance Advisory Committee to compliance outreach and education
- Compliance Officer position was funded for FY 2022

“Virginia Tech is committed to integrity, a culture of compliance, and the promotion of the highest ethical standards for all employees.”

- President Tim Sands

8 ELEMENTS OF AN EFFECTIVE COMPLIANCE PROGRAM

High-level personnel exercising oversight

Written policies and procedures

Training and Education

Lines of Communication

Well publicized disciplinary guidelines

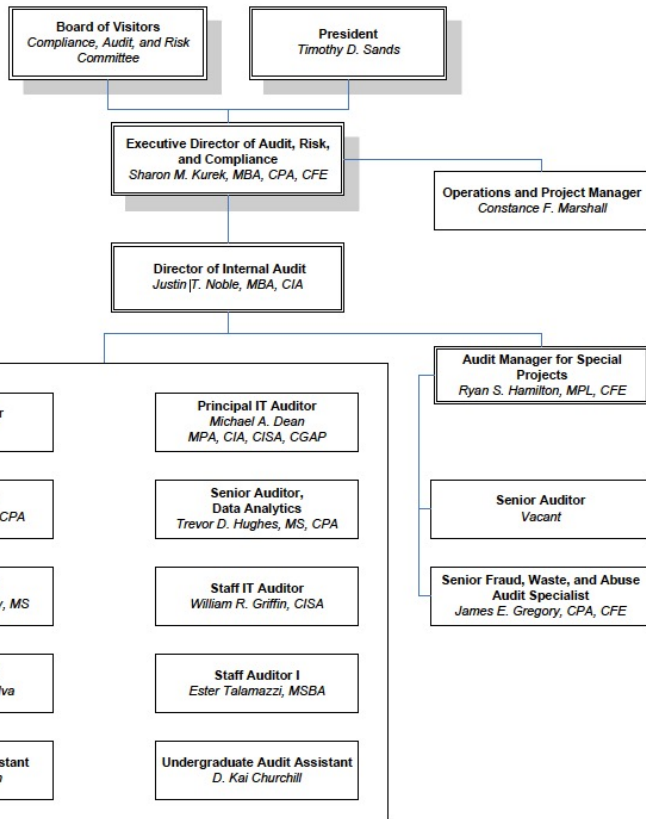
Internal compliance monitoring

Response to detected offenses

Perform periodic compliance risk assessments



**OFFICE OF AUDIT, RISK,
AND COMPLIANCE**
VIRGINIA TECH.



Certification and Advanced Degrees

Professional Certifications			
4	Certified Public Accountants (CPA)	2	Certified Information Systems Auditor (CISA)
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2	Certified Internal Auditor (CIA)	1	Project Management Professional (PMP)
Advanced Degrees			
2	Master of Business Administration (MBA)	1	Master of Public Administration (MPA)
1	Master of Architecture (MArch)	4	Master of Science (Business Analytics, Environmental Natural Resources, Sociology)
1	Master of Policy Leadership (MPL)		

165
years of
professional
audit experience

>55
years of
Virginia Tech
experience

Analysis of Expenditures

	FY 2019-20	FY 2020-21
Salaries and Benefits	\$ 1,782,251	\$ 1,730,542
Equipment	5,135	2,997
External Audit Firm Engagement	74,174	
Operating Expenses	40,940	35,461
Training	22,379	14,695
Personnel Expenses & Recruitment	22,769	
Audit Software	33,643	31,167
Total	\$ 1,981,282	\$ 1,814,862



QUESTIONS?

Internal Audit Reports
COMPLIANCE, AUDIT, AND RISK COMMITTEE

November 7, 2021

Background

This report provides a summary of audit ratings issued this period and the full rating system definitions. The following reviews have been completed during this reporting period. The Office of Audit, Risk, and Compliance has made a concerted effort to ensure progress on the annual audit plan.

Consent Agenda Reports	Rating
Athletics	Improvements are Recommended
Fralin Life Sciences Institute	Improvements are Recommended
IT: External Interfaces and Wire Transfers	Effective
Principal Investigator Research Management	Improvements are Recommended
Procurement and Accounts Payable	Effective
Research: Biosafety	Improvements are Recommended
Student Fees	Effective
Virginia Tech Carilion School of Medicine Policy Compliance Review	Improvements are Recommended
Report for Discussion	Rating
Equine Medical Center	Significant Improvements are Needed
Veterinary Teaching Hospital	Improvements are Recommended

Summary of Audit Ratings

The Office of Audit, Risk, and Compliance's rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact wording of the assessment in order to capture varying degrees of deficiency or significance.

Definitions of each assessment option

Effective – The audit identified opportunities for improvement in the internal control structure, but business risks are adequately controlled in most cases.

Improvements are Recommended – The audit identified occasional or isolated business risks that were not adequately or consistently controlled.

Significant or Immediate Improvements are Needed – The audit identified several control weaknesses that have caused, or are likely to cause, material errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management should undertake immediate corrective actions to mitigate the associated business risk and possible damages to the organization.

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit. Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

RECOMMENDATION:

That the internal audit reports listed above be accepted by the Compliance, Audit, and Risk Committee.

November 7, 2021

— Academic Enterprise Risk Discussion

Board of Visitors Meeting

Guru Ghosh

Don Taylor

November 2021



Today's Agenda

- **Evolving Pedagogy & Delivery**
- **Faculty & Staff Recruiting & Retention**
- **Global Engagement**



Campus Environment:

- Pedagogy, course delivery methods, and student perceptions are rapidly evolving.
- Experiential learning is becoming much more important to adult learners.
- The pandemic has made on-line learning more ubiquitous, yet the quality is often mixed.
- Employer needs are rapidly shifting, necessitating new programs.
- Innovation often appears in the boundaries between disciplines, requiring knowledge of how to tackle complex problems, leveraging technology and working in diverse teams.

Evolving
Pedagogy &
Delivery

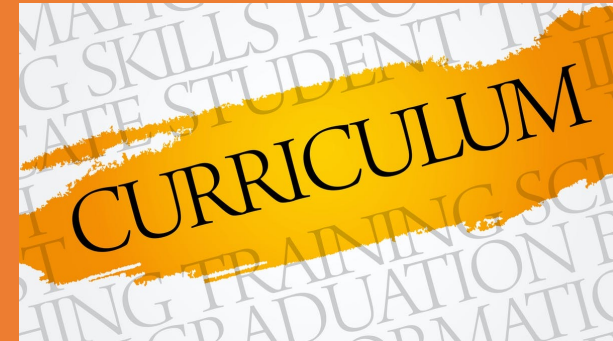




Mitigation Strategies

Practice continuous improvement in curriculum and course design to meet changing market demands, student expectations, and economic growth opportunities.

- DA/SGA Curricula
- Pathways general education
- Degree and major innovation
- Experiential learning academy
- Online learning committee established



Current Status:

- Seeking ways to increase faculty salaries and offer more competitive start-up packages
- Seeking ways to increase research funding and productivity
- Seeking ways to broaden our portfolio of state-of-the art courses and majors
- Seeking to maintain appropriate student-faculty ratios

Faculty & Staff Recruitment & Retention



Mitigation Strategies



Plan a recruitment budget that allows for competitive start-ups



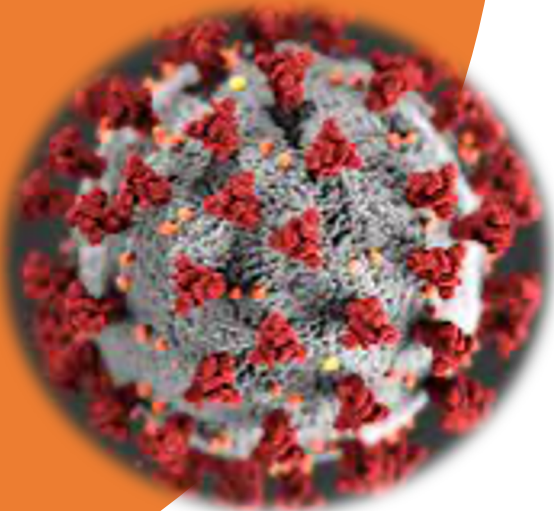
Allocate salary funding to facilitate market competitive salaries



Allocate a budget that funds dual career hires

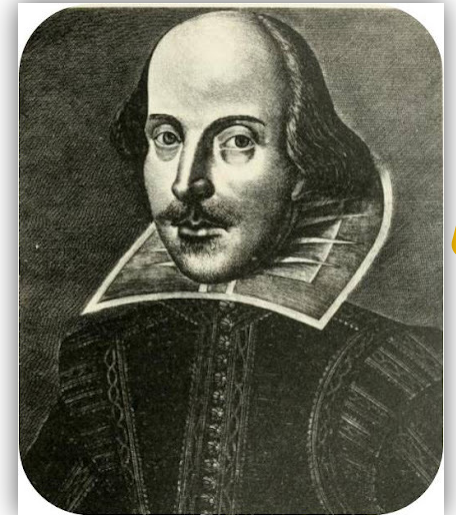


Global Interdependence



Risk Statement:

- Challenges in expanding international experiential experiences for students, geographic diversity in recruiting international students, and growing global research portfolio.





Sub-Risks:

- Dependence on relatively few countries for international students
- Lack of standardization of study abroad programs
- Growth on the African continent
- Limited participation of students in study abroad experiences
- Global Education, Global Research and Global Recruitment





Mitigation Strategies



Continue diversifying international recruitment activities and expand VT Bound program



Developing institutional expertise in Africa



Grow funding opportunities for global experiential experiences



Compliance of best practices established by the forum on education abroad-QUIP standards





Opportunities for Improvements:

- Each college should identify personnel responsible for international programs with liaison responsibilities to the office of outreach and international affairs. Deans and VPOIA should identify personnel and their responsibilities and provide appropriate training through OIA and Global Education Office based on responsibilities.
- Pursue scholarship support for student to use specifically for study abroad. VPOIA and Provost taking leadership on scholarship initiative.
- Formalize more international recruitment initiatives at the university.



General Discussion

