

## **Committee Minutes**

### **COMPLIANCE, AUDIT, AND RISK COMMITTEE Solitude Room, The Inn at Virginia Tech 8:00 a.m. March 31, 2019**

#### **Closed Session**

**Committee Members:** Mehmood Kazmi (chair), Anna James, Robert Mills, Horacio Valeiras

**Other Board Members:** Dennis Treacy (rector)

**VPI & SU Faculty and Staff:** Cyril Clarke, Brian Daniels, Ryan Hamilton, Kay Heidbreder, Sharon Kurek, Kim O'Rourke, Timothy Sands, Dwight Shelton

#### **Compliance, Audit, and Risk Closed Session**

1. **Motion for Closed Session:** Motion to begin closed session.
2. **Update on Fraud, Waste, and Abuse Cases:** The Committee received an update on outstanding fraud, waste, and abuse cases.
3. **Discussion with the Executive Director of Audit, Risk, and Compliance:** The Executive Director discussed audits of specific departments and units where individual employees were identified, as well as individual salaries and personnel changes.

#### **Open Session**

**Committee Members:** Mehmood Kazmi (chair), Anna James, Robert Mills, Horacio Valeiras

**Other Board Members:** Greta Harris, Dennis Treacy (rector), Preston White

**Representatives to the Board:** Rachel Iwicki, Robert Sebek

**VPI & SU Faculty and Staff:** Charity Boyette, Ron Bradbury, Cyril Clarke, Al Cooper, Ryan Hamilton, Kay Heidbreder, Sharon Kurek, Theresa Mayer, Nancy Meacham, Scott Midkiff, Ken Miller, Kim O'Rourke, Mark Owczarski, Dwayne Pinkney, Timothy Sands, Dwight Shelton, Tamarah Smith, Jon Clark Teglas, Steve Vantine

## **Compliance, Audit, and Risk Open Session**

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Welcome and Introductory Remarks:** The chair of the Compliance, Audit, and Risk Committee provided opening remarks.
3. **Consent Agenda:** The Committee considered for approval and acceptance the items listed on the Consent Agenda.
  - a. **Approval of Minutes of the November 4, 2018 Meeting:** The Committee reviewed and approved the minutes of the November 4, 2018, meeting.
  - 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 September 30, 2018, the university had eight open recommendations. One audit comment was issued during the second quarter of the fiscal year. As of December 31, 2018, the university had addressed six comments, leaving three 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 29 percent of its audit plan, and 33 percent was underway in accordance with the fiscal year 2018-19 annual audit plan.
  - d. **Internal Audit Reports:** The following internal audit reports were issued by OARC since the November 4, 2018 meeting. Where applicable, management developed action plans to address the issues in the report with a reasonable implementation timeframe. As noted above, OARC follows up on management's implementation of agreed-upon improvements for previously issued audit recommendations.
    - i. **Maintenance Reserve:** The audit received a rating of effective. No audit recommendations were issued.
    - ii. **University Building Official:** The audit received a rating of improvements are recommended. Audit recommendations were issued related to monitoring expired permits, and entry and approval of time entries for review and inspection work on capital projects.

- iii. Vice President and Dean for Graduate Education 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 expenditures and funds handling.
- e. **Auditor of Public Accounts Financial Statement Audit and Management Letter:** The Committee received a report on the Auditor of Public Accounts audit of the university's financial statements and management letter for the fiscal year ended June 30, 2018. During the audit, the APA found the financial statements were presented fairly in all material respects. The audit identified an internal control finding requiring management's attention but did not consider it a material weakness. The APA also found one instance of noncompliance related to testing over the major federal program of the Student Financial Assistance Programs Cluster for the Commonwealth's Single Audit.
- f. **Auditor of Public Accounts Intercollegiate Athletics Programs Report:** The Committee received a report on the Auditor of Public Accounts (APA) 2018 Intercollegiate Athletics review for fiscal year 2018. The APA performed certain agreed-upon procedures to evaluate whether the Schedule of Revenues and Expenses of the Intercollegiate Athletics Programs for fiscal year ended June 30, 2018 was in compliance with the National Collegiate Athletic Association (NCAA) bylaws. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts of the Schedule of Revenues and Expenses should be adjusted. This review did not constitute an audit and therefore no opinion was issued.
- g. **Report on Audits of University Related Corporations:** The university-related corporations include Virginia Tech Applied Research Corporation; Virginia Tech Foundation, Inc.; Virginia Tech Intellectual Properties, Inc.; Virginia Tech Services, Inc.; Virginia Tech Innovations Corporation; and Virginia Tech India Research and Education Forum. Consistent with the Board of Visitors' resolution establishing university-related corporations, each corporation was required to provide audited annual financial statements, management letters from external auditors, and management's responses to the university's president on an annual basis. Each corporation is also required to submit an annual certification stating that all procedures outlined in the resolution were met. All corporations were in full compliance with the Board of Visitors' requirements regarding audits.

- h. **ERM Program Update:** The Committee received an update on the status of the Enterprise Risk Management (ERM) program. Since the November 4, 2018 meeting, risk owners have completed risk snapshots for each enterprise risk. OARC is reviewing the risk snapshots, planning for the next tabletop exercise, and discussing the Enterprise Risk Landscape with leadership during annual audit plan meetings. The Committee requested that OARC solicit feedback from the risk owners and report on the responses at the June 2019 meeting.
  - i. **ICP Program Update:** The Committee received an update on the status of the Institutional Compliance Program. Since the November 4, 2018 meeting, the Compliance Advisory Committee (CAC), OARC, and distributed university-wide compliance owners met over a dozen times to review the compliance matrix (including requirements, categorizations, and identification of compliance owners). OARC has worked with service providers to develop an online compliance system and hotline allowing employees to report compliance concerns.
4. **ERM – Tuition Dependency:** The Committee received a presentation on tuition dependency from Dr. Pinkney, Senior Vice President for Operations and Administration, and Mr. Shelton, Vice President for Finance and Chief Financial Officer, as it related to identifying and mitigating risks to the university under the auspices of the ERM program.
  5. **Internal Audit Reports:** The following internal audit report was issued by OARC since the November 4, 2018 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. **IT: Third-Party Access to University Data:** The audit received a rating of improvements are recommended. Audit recommendations were issued regarding the university's software license acquisition request review process and regarding contractual language that affects third-party access to university data.
  6. **Discussion of Future Topics:** The Committee briefly discussed topics to be covered in future committee meetings.

There being no further business, the meeting adjourned at 9:35 a.m.



## Update of Responses to Open Audit Comments

### COMPLIANCE, AUDIT, AND RISK COMMITTEE

**December 31, 2018**

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 November 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 2019 reflects closing 7 of 7 recommendations by the original target date.

The report presented at the November 4, 2018 meeting covered audit reports reviewed and accepted through September 30, 2018 and included eight open medium and high priority recommendations. Activity for the quarter ended December 31, 2018 resulted in the following:

Open recommendations as of September 30, 2018	8
Add: medium and high priority recommendations accepted November 4, 2018	1
Subtract: recommendations addressed since September 30, 2018	6
Remaining open recommendations as of December 31, 2018	<u>3</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. Through February 25, 2019, OARC has closed two of the three outstanding medium and high priority recommendations. The remaining open recommendation is progressing as expected and is on track to meet its respective target due date. Management continues to work conjointly with all units and provides assistance as needed to ensure action plans are completed timely.

**ATTACHMENT A****Open Recommendations by Priority Level****COMPLIANCE, AUDIT, AND RISK COMMITTEE****December 31, 2018**

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
09-Aug-18	Department of Athletics	18-1389	4	2				2	2
19-Oct-18	Endowed Professorship Utilization	18-1370	1					1	1
<b>Totals:</b>			<b>5</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>3</b>

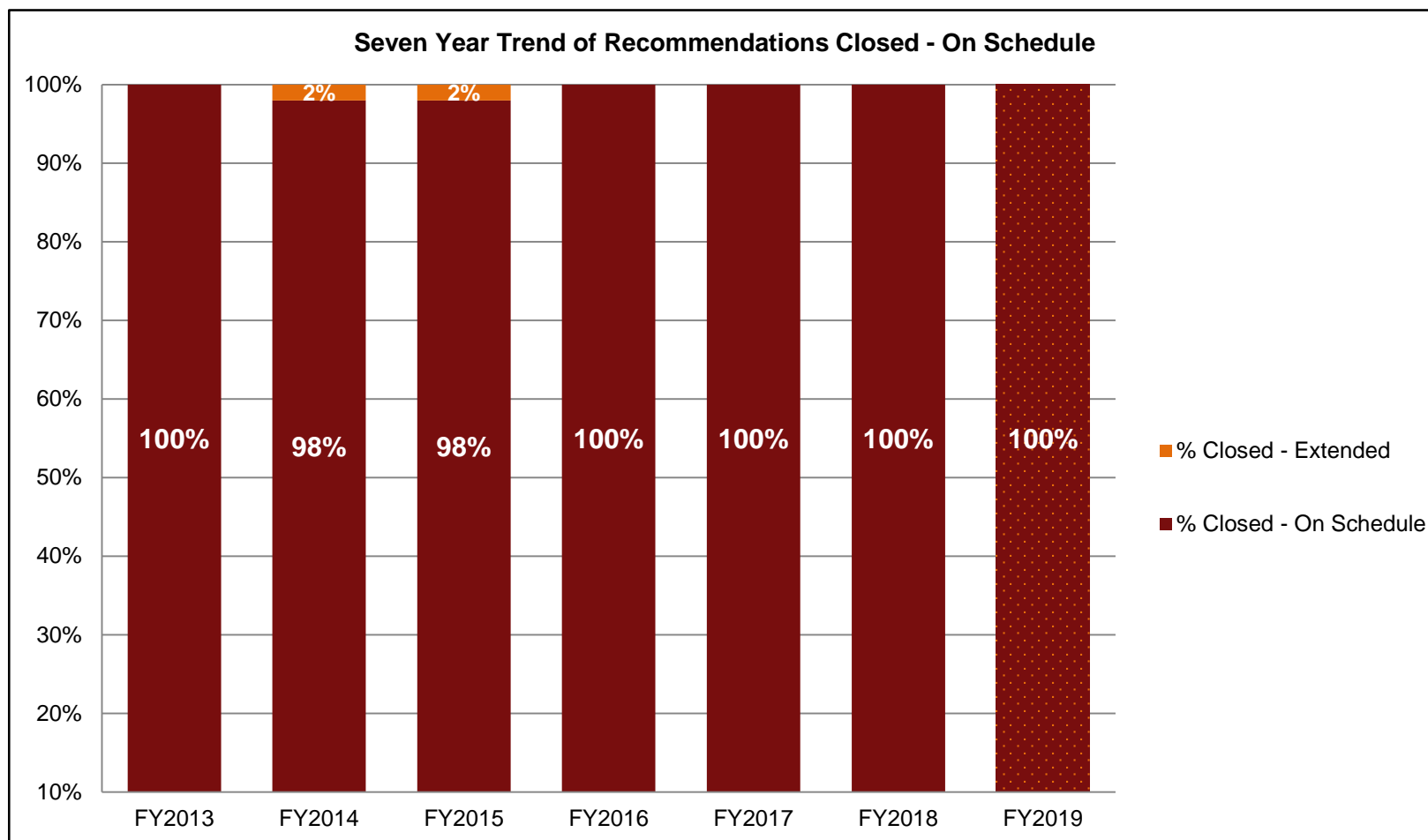
**ATTACHMENT B****Open Audit Recommendations****COMPLIANCE, AUDIT, AND RISK COMMITTEE****December 31, 2018**

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		
09-Aug-18	1	18-1389	Department of Athletics	Fixed Assets	Medium		31-Jan-19		1	
09-Aug-18	2	18-1389	Department of Athletics	Wage Payroll	Medium		31-Jan-19		1	
04-Nov-18	3	18-1370	Endowed Professorship Utilization	Endowed Professorship Utilization	Medium		15-Oct-19		2	

Follow Up Status

- 1 As of February 25, 2019, 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. OARC will conduct testing after the due date to confirm that the Management Action Plan is implemented in accordance with the recommendations.
- 2 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.

**ATTACHMENT C****Management Performance and Trends Regarding  
Office of Audit, Risk, and Compliance Recommendations****COMPLIANCE, AUDIT, AND RISK COMMITTEE****December 31, 2018**

## Audit Plan Status Report

### COMPLIANCE, AUDIT, AND RISK COMMITTEE

**March 31, 2019**

#### **Audit Plan Update**

Audits were performed in accordance with the fiscal year 2018-19 annual audit plan at a level consistent with the resources of the Office of Audit, Risk, and Compliance (OARC). Three risk-based audits and one university policy compliance review has been completed since the November board meeting. Additionally, an advisory service project for the School of Plant and Environmental Sciences has been completed.

The following six audit projects are underway: Hume Center, IT: Controlled Unclassified Information and Secure Research Environment, IT: Industrial Control Systems, University Registrar, and the policy compliance reviews for the College of Agriculture and Life Sciences and the College of Liberal Arts and Human Sciences. Additionally, an advisory service project related to Youth Protection Activities is underway.

The following three projects have been deferred to the fiscal year 2019-20 audit plan based on staffing levels, the need to engage industry expertise in the form of external resources possessing the requisite specialized knowledge, and pending regulatory changes: Americans with Disabilities Act (ADA) Compliance, Title IX Compliance, and University Scholarships and Financial Aid.

So far in fiscal year 2018-19, OARC has completed 29 percent of its audit plan as depicted in Exhibit 1.

**Exhibit 1**  
**FY 2018-19 Completion of Audit Plan**

<b>Audits</b>	
Total # of <b>Audits</b> Planned	22
Total # of Supplemental <b>Audits</b>	0
Total # of Carry Forwards	2
Total # of Planned <b>Audits</b> Canceled and/or Deferred	3
Total <b>Audits</b> in Plan as Amended	21
Total <b>Audits</b> Completed	6
<b>Audits</b> - Percentage Complete	29%
<b>Audits</b> - Percentage Complete or Underway	62%
Note: Includes Policy Compliance Reviews and Advisory Services	

**Internal Audit Reports**  
**COMPLIANCE, AUDIT, AND RISK COMMITTEE**  
**March 31, 2019**

## **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.

<b>Consent Agenda Reports</b>	<b>Rating</b>
Maintenance Reserve	Effective
University Building Official	Improvements are Recommended
Vice President and Dean for Graduate Education Policy Compliance Review	Improvements are Recommended
<b>Reports for Discussion</b>	<b>Rating</b>
IT: Third-Party Access to University Data	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.

March 31, 2019



# VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350





## AUDIT SUMMARY

We have audited the basic financial statements of Virginia Polytechnic Institute and State University as of and for the year ended June 30, 2018, and issued our report thereon, dated November 28, 2018. Our report, included in the University's Financial Report, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the University's website at [www.vt.edu](http://www.vt.edu). Our audit found:

- the financial statements are presented fairly, in all material respects;
- an internal control finding requiring management's attention; however, we do not consider it to be a material weakness; and
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal program of the Student Financial Assistance Programs Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Compliance Supplement; and found an internal control finding requiring management's attention and an instance of noncompliance in relation to this testing.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Reporting to National Student Loan Data System**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The University did not report enrollment data to the National Student Loan Data System (NSLDS) accurately and timely. We tested thirty students with an enrollment status of either “Graduated” or “Withdrawn.” For the thirty students tested, we noted the enrollment status was incorrectly reported for three students (10%).

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

The University should consider implementing additional controls to monitor the submission of enrollment batches and ensure the accuracy of reporting at both the campus and program levels in the NSLDS.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

November 28, 2018

The Honorable Ralph S. Northam  
Governor of Virginia

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

Board of Visitors  
Virginia Polytechnic Institute and State University

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER

## FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of **Virginia Polytechnic Institute and State University** as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 28, 2018. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial

reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting entitled "Improve Reporting to National Student Loan Data System," which is described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the section titled "Internal Control and Compliance Findings and Recommendations" in the finding entitled "Improve Reporting to National Student Loan Data System."

### **The University's Response to Findings**

We discussed this report with management at an exit conference held on December 11, 2018. The University's response to the finding identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

AUDITOR OF PUBLIC ACCOUNTS

JMR/vks

December 16, 2018

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

Dear Ms. Mavredes:

We have reviewed the audit finding and recommendation resulting from the fiscal year 2018 audit by the Auditor of Public Accounts (APA) and Virginia Tech concurs with the audit finding. The following contains the APA's finding and management's response to the finding.

### **Finding of the APA:**

#### **Improve Reporting to National Student Loan Data System**

The University did not report enrollment data to the National Student Loan Data System (NSLDS) accurately and timely. We tested thirty students with an enrollment status of either "Graduated" or "Withdrawn". For the thirty students tested, we noted the enrollment status was incorrectly reported for three students (10%).

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

The University should consider implementing additional controls to monitor the submission of enrollment batches and ensure the accuracy of reporting at both the campus and program levels in the NSLDS.

### **University Response:**

The identified enrollment reporting issue is not affecting all students who are reported Graduated (G) to NSLDS. Virginia Tech provides electronic updates to the National Student Clearinghouse and thus NSLDS every 21 days. Our study of the records identified that updates of enrollment status were not reported to NSLDS in instances where Virginia Tech's subsequent submissions to National Student Clearinghouse were not applied to individual students. We have learned that participation in the Clearinghouse's degree verify (DV) program creates conflicting results, in some instances, on which "Graduated" statuses are applied from the file submissions. Specifically, the G to DV process that the National Student Clearinghouse uses to report graduates from subsequent enrollment files omits students who have a graduation record

without a corresponding enrollment entry. Virginia Tech has met with the National Student Clearinghouse and will begin providing a separate graduation file to the Clearinghouse to ensure all G records are reported to NSLDS. The production of this file, testing with the National Student Clearinghouse, and creation of an auditing process will be completed by March 31, 2019.

Responsible Person: Rick A. Sparks Jr.  
Associate Vice Provost for Learning Systems Innovation and Effectiveness and  
University Registrar

Completion Date: March 31, 2019

Sincerely,



Kenneth Miller  
AVP for Finance & University Controller  
Virginia Tech



## VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

As of June 30, 2018

### BOARD OF VISITORS

Dennis H. Treacy  
Rector

Horacio A. Valeiras  
Vice Rector

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Charles T. Hill	Deborah L. Petrine
Anna L. James	Michael J. Quillen
Mehmood S. Kazmi	Wayne H. Robinson
Letitia A. Long	Mehul P. Sanghani
Robert J. Mills Jr.	Jeffrey E. Veatch

Hans Robinson  
Faculty Representative

Robert M. Sebek  
Staff Representative

Brett R. Netto, Seyi Olusina  
Student Representatives

Kim O'Rourke  
Secretary to the Board of Visitors

### ADMINISTRATIVE OFFICERS

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President

M. Dwight Shelton, Jr.  
Vice President for Finance and Chief Financial Officer

Cyril Clarke  
Interim Executive Vice President and Provost



# VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

## INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
(804) 225-3350



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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

January 22, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

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

Timothy D. Sands  
President, Virginia Polytechnic Institute and State University

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Virginia Polytechnic Institute and State University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2018. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

### Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed four percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

## **Internal Controls**

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

## **Affiliated and Outside Organizations**

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule.
6. Intercollegiate Athletics Department management provided to us any additional reports regarding internal control matters identified during the audits of affiliated and outside organizations performed by independent public accountants. We were not made aware of any internal control findings.

## **Schedule of Revenues and Expenses of Intercollegiate Athletics Programs**

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2018, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. Certain adjustments to the Schedule were necessary to conform to

NCAA reporting guidance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.

8. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding ten percent of prior period amounts or budget estimates are explained below:

<b>Line Item</b>	<b>Explanation</b>
Ticket Sales	The University experienced an increase in ticket sales due to the home football game against the defending national champions (Clemson) and a neutral site game against West Virginia University, resulting in an increase of \$2.1 million.
Contributions	In the prior year, Athletics chose to cover \$4 million of scholarship expense with operating funds instead of drawing contributions from the Foundation. In fiscal year 2018, all scholarship expenses were funded with contributions from the Foundation. Additionally, contributions revenue increased due to more Foundation funding being used to cover operating expenses, including repair and maintenance expenses such as the repairs to the basketball locker rooms.
Media Rights	Additional revenue is primarily attributable to participation in post-season competition for men's basketball and football, resulting in an increase of \$2.8 million.
Direct Overhead and Administrative Expenses	The University replaced seating within the Cassell Coliseum and performed repairs of the men's basketball locker rooms, resulting in an increase of approximately \$1.0 million.

## **Revenues**

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We performed a recalculation of ticket sales revenue for football and men's basketball by comparing the number of tickets sold, attendance, and sale price to total revenue recorded in the Schedule. We determined the reconciliations reviewed to be accurate and the amounts reported in the Schedule to be substantially in agreement with our recalculation.
10. We obtained documentation of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount of direct institutional support revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Tech Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Virginia Tech Foundation, which exceeded ten percent of all contributions and agreed them to supporting documentation. Due to a duplicate contribution entry of \$522,362, an overstatement of both revenues and expenses was corrected for this report as well as the submission to the NCAA.
14. We obtained the amount of in-kind revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from media rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.

16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We inspected the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. We obtained the amount of program, novelty, parking, and concession sales revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount of royalties, licensing, advertisement, and sponsorships revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
19. We obtained the amount of Athletics restricted endowment and investments income reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
20. We obtained the amount of other operating revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
21. We obtained the amount of post-season bowl game revenue reported in the Schedule. This amount was deemed to be immaterial for detailed testing.

### **Expenses**

22. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system. We performed a check of selected students' information as reported in the NCAA's Compliance Assistant software to ensure proper calculation of revenue distribution equivalencies.
23. We obtained the amount of game guarantee expense reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.



25. We obtained the amount of severance payments expense reported in the Schedule. This amount was deemed to be immaterial for detailed testing.
26. We obtained the Intercollegiate Athletics Department's written recruiting and team travel policies from Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
27. We selected a sample of disbursements for team travel; game expenses; direct overhead and administrative expenses; and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
28. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We selected a sample of facility payments included in the Schedule, including the two highest facility payments, and agreed them to supporting documentation.
29. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

#### **Other Reporting Items**

30. We obtained repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We recalculated annual maturities reported in the notes to the Schedule and agreed total annual maturities and total outstanding athletic related debt to supporting documentation.
31. We agreed total outstanding institutional debt to the University's audited financial statements.
32. We agreed the fair value of athletics dedicated endowments to supporting documentation provided by the University, including the audited financial statements of the University's Foundation.
33. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
34. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

### **Additional Procedures**

35. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the Calculation of Revenue Distribution Equivalencies Report (CRDE) from the NCAA's Compliance Assistant software for the institution. We noted agreement of the sports reported.
36. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
37. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/vks

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**  
**SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**For the year ended June 30, 2018**

	<b>Football</b>	<b>Men's Basketball</b>	<b>Women's Basketball</b>	<b>Men's Other Sports</b>	<b>Women's Other Sports</b>	<b>Non-Program Specific</b>	<b>Total</b>
<b><u>Operating revenues:</u></b>							
Ticket sales	\$ 16,396,909	\$ 2,852,423	\$ 177,735	\$ 1,360	\$ -	\$ -	\$ 19,428,427
Student fees	-	-	-	-	2,394,629	7,309,447	9,704,076
Direct institutional support	-	-	-	4,125	1,084	1,411	6,620
Guarantees	3,045,052	100,000	-	18,164	2,000	-	3,165,216
Contributions	8,659,290	2,077,931	779,491	2,573,499	3,820,088	3,735,347	21,645,646
In-Kind	30,811	64,557	5,881	886	12,444	31,509	146,088
Media rights	19,239,448	5,642,168	312,011	31,850	36,750	-	25,262,227
NCAA distributions	1,460,574	1,703,772	-	-	-	1,176,521	4,340,867
Conference distributions (non-media or bowl)	4,291,824	975,138	71,635	169,748	174,349	-	5,682,694
Program, novelty, parking, and concession sales	1,605,492	66,313	12,978	7,485	7,507	15,059	1,714,834
Royalties, licensing, advertisement and sponsorships	1,046,786	58,889	48,000	205,351	181,125	689,968	2,230,119
Athletics restricted endowment and investments income	711,786	139,088	139,088	678,345	955,453	406,338	3,030,098
Other operating revenue	126,818	-	-	72,379	54,316	359,100	612,613
Bowl revenues	993,504	-	-	-	-	-	993,504
Total operating revenues	<u>57,608,294</u>	<u>13,680,279</u>	<u>1,546,819</u>	<u>3,763,192</u>	<u>7,639,745</u>	<u>13,724,700</u>	<u>97,963,029</u>
<b><u>Operating expenses:</u></b>							
Athletic student aid	3,700,552	737,585	827,752	2,951,434	4,472,141	1,592,508	14,281,972
Guarantees	600,000	595,000	100,531	7,500	500	-	1,303,531
Coaching salaries, benefits, and bonuses paid by the University and related entities	9,259,467	3,788,468	1,310,113	2,954,420	2,645,061	-	19,957,529
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	2,576,435	739,394	555,842	146,147	165,836	9,463,759	13,647,413
Severance payments	17,713	8,173	-	285,424	126,676	52,270	490,256
Recruiting	563,744	293,585	152,574	299,850	262,815	16,185	1,588,753
Team travel	918,966	910,841	530,090	1,239,803	1,335,267	-	4,934,967
Sports equipment, uniforms, and supplies	797,898	269,949	105,394	539,101	613,272	146,111	2,471,725
Game expenses	2,570,562	784,223	293,895	367,308	203,155	468,733	4,687,876
Fundraising, marketing and promotion	143,945	240,208	100,883	129,340	102,421	235,291	952,088
Spirit groups	259,515	41,402	51,290	-	-	125,755	477,962
Athletic facility leases and rental fees	-	-	700	128,025	128,275	25,000	282,000
Athletic facility debt service	4,091,162	327,631	327,631	451,792	451,792	-	5,650,008
Direct overhead and administrative expenses	3,207,142	1,888,908	147,418	476,545	261,002	3,363,905	9,344,920
Indirect cost paid to the institution by athletics	233,268	-	-	-	-	4,931,068	5,164,336
Medical expenses and insurance	244,932	49,666	33,417	284,917	214,358	389,235	1,216,525
Memberships and dues	3,259	2,930	3,566	8,805	11,469	30,902	60,931
Student-Athlete Meals (non-travel)	881,521	142,904	63,543	140,827	239,299	119,667	1,587,761
Other operating expenses	1,497,254	364,328	63,927	318,166	190,502	748,984	3,183,161
Bowl expenses	1,782,185	-	-	-	-	-	1,782,185
Total operating expenses	<u>33,349,520</u>	<u>11,185,195</u>	<u>4,668,566</u>	<u>10,729,404</u>	<u>11,423,841</u>	<u>21,709,373</u>	<u>93,065,899</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 24,258,774</u>	<u>\$ 2,495,084</u>	<u>\$ (3,121,747)</u>	<u>\$ (6,966,212)</u>	<u>\$ (3,784,096)</u>	<u>\$ (7,984,673)</u>	<u>\$ 4,897,130</u>
<b><u>Other Reporting Items:</u></b>							
Total athletics-related debt							\$ 71,559,000
Total institutional debt							\$ 450,787,000
Value of athletics-dedicated endowments							\$ 65,149,751
Value of institutional endowments							\$ 1,088,548,961
Total athletics-related capital expenditures							\$ 30,282,000

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF**  
**INTERCOLLEGIATE ATHLETICS PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2018. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

**2. AFFILIATED ORGANIZATIONS**

The University received \$24,675,744 from the Virginia Tech Foundation, Inc. Approximately \$14,281,972 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$11,251,874 is included in the Contributions line item and \$3,030,098 is included in the Athletics Restricted Endowment and Investment Income line item.

**3. LONG-TERM DEBT**

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$1,890,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$7,625,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was completed in 2006. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$25,045,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, an \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center. Part of the original debt was refinanced in November 2016 with a \$5,385,000 note that will be repaid through 2030 and has an outstanding balance of \$5,385,000. The remaining original debt issuance has an outstanding balance of \$790,000 which will be repaid with private fund raising and operating revenues through 2020.

In October 2015, a \$510,000 revenue bond was issued for the Athletic Department. This bond was issued for the Indoor Practice Facility. This note has an outstanding balance of \$510,000 and will be repaid with general operating revenues through 2035.

In August 2016, a \$31,509,000 internal loan was issued for the Athletic Department. This loan was issued for improvements to the Baseball Stadium and Rector Field House. This note has an outstanding balance of \$30,374,000 and will be repaid with general operating revenues through 2034.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2018 is presented as follows:

<u>FY Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,468,000	\$ 2,176,000	\$ 5,644,000
2020	3,905,000	2,017,000	5,922,000
2021	4,112,000	1,843,000	5,955,000
2022	4,294,000	1,655,000	5,949,000
2023	4,355,000	1,461,000	5,816,000
2024-2028	23,642,000	4,768,000	28,410,000
2029-2033	24,781,000	1,627,000	26,408,000
2034-2035	3,002,000	66,000	3,068,000
	<u>\$ 71,559,000</u>	<u>\$ 15,613,000</u>	<u>\$ 87,172,000</u>

#### 4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$5,164,336 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes \$233,268 in Football, and \$4,931,068 in the Non-Program Specific category.

#### 5. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at

actual cost as expenses are incurred. All gifts of capital assets are recorded at fair market value as of the donation date.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Software is capitalized when the acquisition and/or the development costs exceed \$100,000. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2018 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Depreciable capital assets</i>				
Buildings	\$ 172,236	\$ 1,996	\$ -	\$ 174,232
Moveable equipment	7,510	474	487	7,497
Software	313	-	-	313
Fixed equipment	10,773	799	-	11,572
Infrastructure	<u>19,429</u>	<u>1,833</u>	<u>-</u>	<u>21,262</u>
Total depreciable capital assets, at cost	<u>210,261</u>	<u>5,102</u>	<u>487</u>	<u>214,876</u>
<i>Less accumulated depreciation</i>				
Buildings	50,123	3,945	-	54,068
Moveable equipment	5,226	556	487	5,295
Software	245	20	-	265
Fixed equipment	3,919	555	-	4,474
Infrastructure	<u>16,871</u>	<u>755</u>	<u>-</u>	<u>17,626</u>
Total accumulated depreciation	<u>76,384</u>	<u>5,831</u>	<u>487</u>	<u>81,728</u>
Total depreciable capital assets, Net of accumulated depreciation	<u>133,877</u>	<u>(729)</u>	<u>-</u>	<u>133,148</u>
<i>Non-depreciable capital assets</i>				
Construction in progress	<u>7,457</u>	<u>28,871</u>	<u>3,691</u>	<u>32,637</u>
Total non-depreciable capital assets	<u>7,457</u>	<u>28,871</u>	<u>3,691</u>	<u>32,637</u>
Total capital assets, net of accumulated depreciation	<u>\$141,334</u>	<u>\$ 28,142</u>	<u>\$ 3,691</u>	<u>\$ 165,785</u>

## **VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY**

As of June 30, 2018

### **BOARD OF VISITORS**

Dennis Treacy, Rector

Horacio Valeiras, Vice Rector

Greta Harris	Chris Petersen
Charles Hill	Deborah Petrine
Anna James	Michael Quillen
Mehmood Kazmi	Wayne Robinson
Letitia Long	Mehul Sanghani
Robert Mills, Jr.	Jeffrey Veatch

Kim O'Rourke  
Secretary to the Board of Visitors

### **UNIVERSITY OFFICIALS**

Timothy D. Sands, President

Whit Babcock, Director of Intercollegiate Athletics Programs

**COMPLIANCE, AUDIT, AND RISK COMMITTEE**

**February 14, 2019**

In accordance with the resolution passed by the Finance and Audit Committee on April 25, 1985, and as amended on November 13, 1995 and March 31, 2008, each university-related corporation is required to provide the University's President audited annual financial statements, management letters from the external auditors, management's responses thereto, and an annual certification that all procedures outlined in the resolution have been met. These financial statements, management letters, and management responses have been reviewed as of June 30, 2018, and found to meet the standards set forth in the audit resolution.

**VIRGINIA TECH CORPORATIONS  
COMPLIANCE WITH AUDIT RESOLUTION**

Corporation	Audited Financial Statement	Management Letter	Response to Management Letter	External Auditor Length of Service	Certification Letter
VT Applied Research Corporation	✓	*	*	Ω	✓
VT Foundation, Inc.	✓	*	*	Ω	✓
VT Intellectual Properties, Inc.	✓	*	*	Ω	✓
VT Services, Inc.	✓	*	*	Ω	✓
VT Innovations Corporation	✓	*	*	Ω	✓
VT India Research and Education Forum <sup>1</sup>	✓	*	*	€	✓

\* No management recommendations resulted from the audit.

Ω Corporation using same audit firm as in years past; management team has been rotated within the past five years in accordance with the audit resolution.

€ Corporation has not been in existence for five years. Hence, the requirement in the affiliation agreement to rotate the external audit firm or the audit team after a consecutive five year team is not applicable.

<sup>1</sup> The financial statement year end for VT India Research and Education Forum (VTIREF) is March 31.

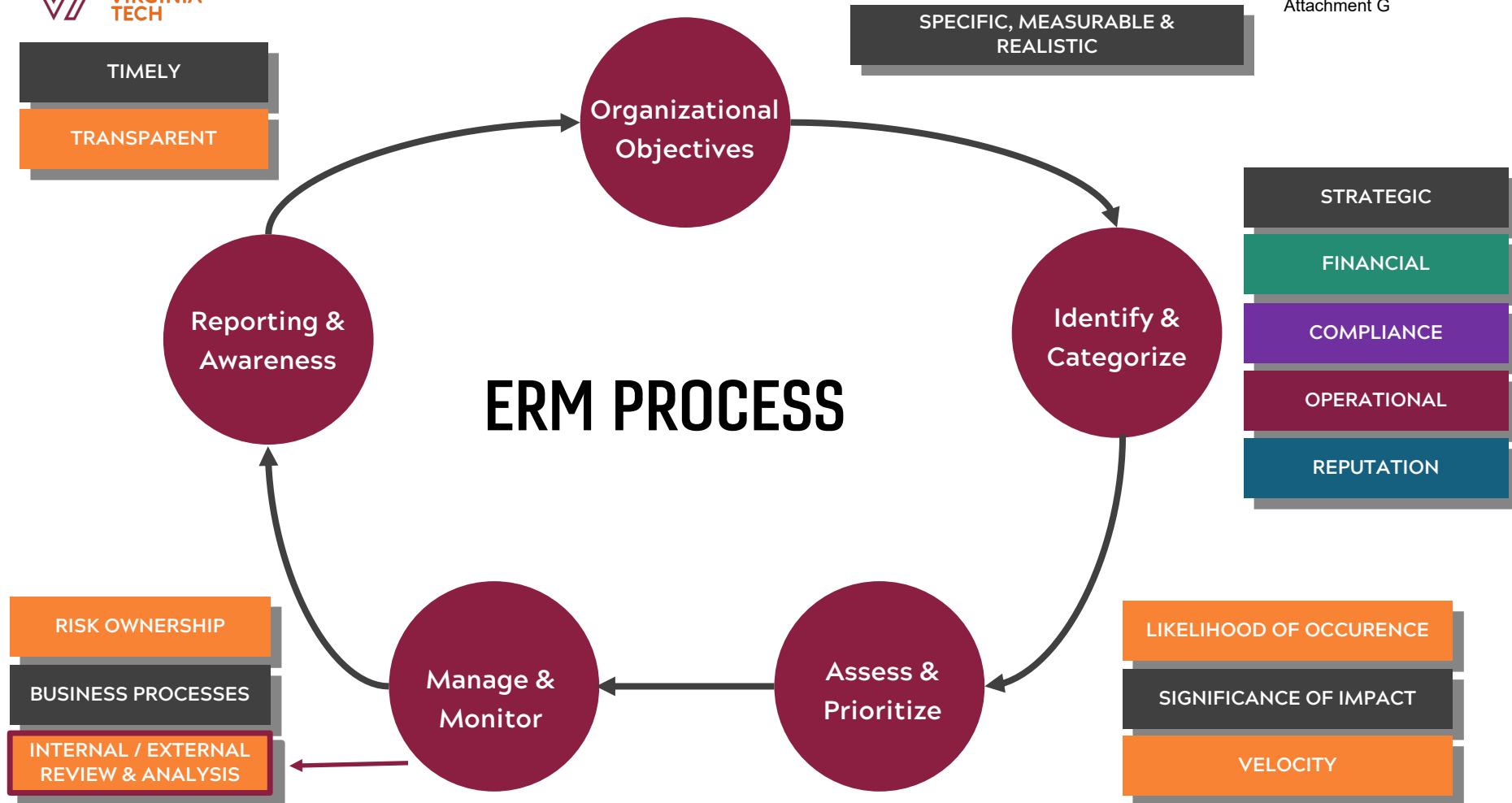


March 31, 2019

# *ERM Program Update*

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





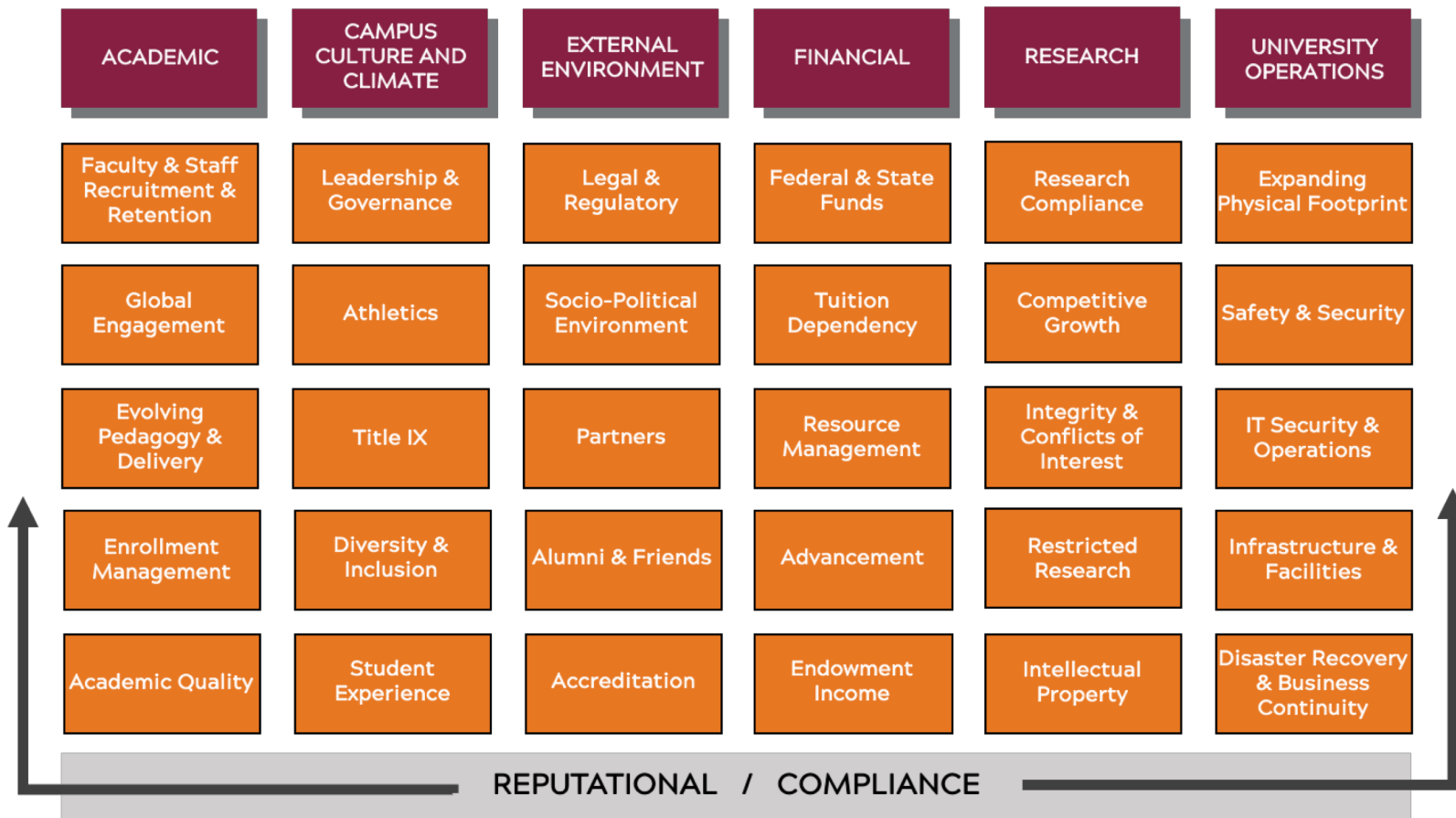
## Update since November

- Collected Risk Snapshots from Risk Owners that capture Process Owners, Risk Statement, Sub-risks, Current Key Processes, Mitigation Action Plans, etc.
- OARC reviewing Risk Snapshots with Risk Owners
- Planning for next Tabletop Exercise
- Discussing Enterprise Risk Landscape with leadership during annual audit plan meetings

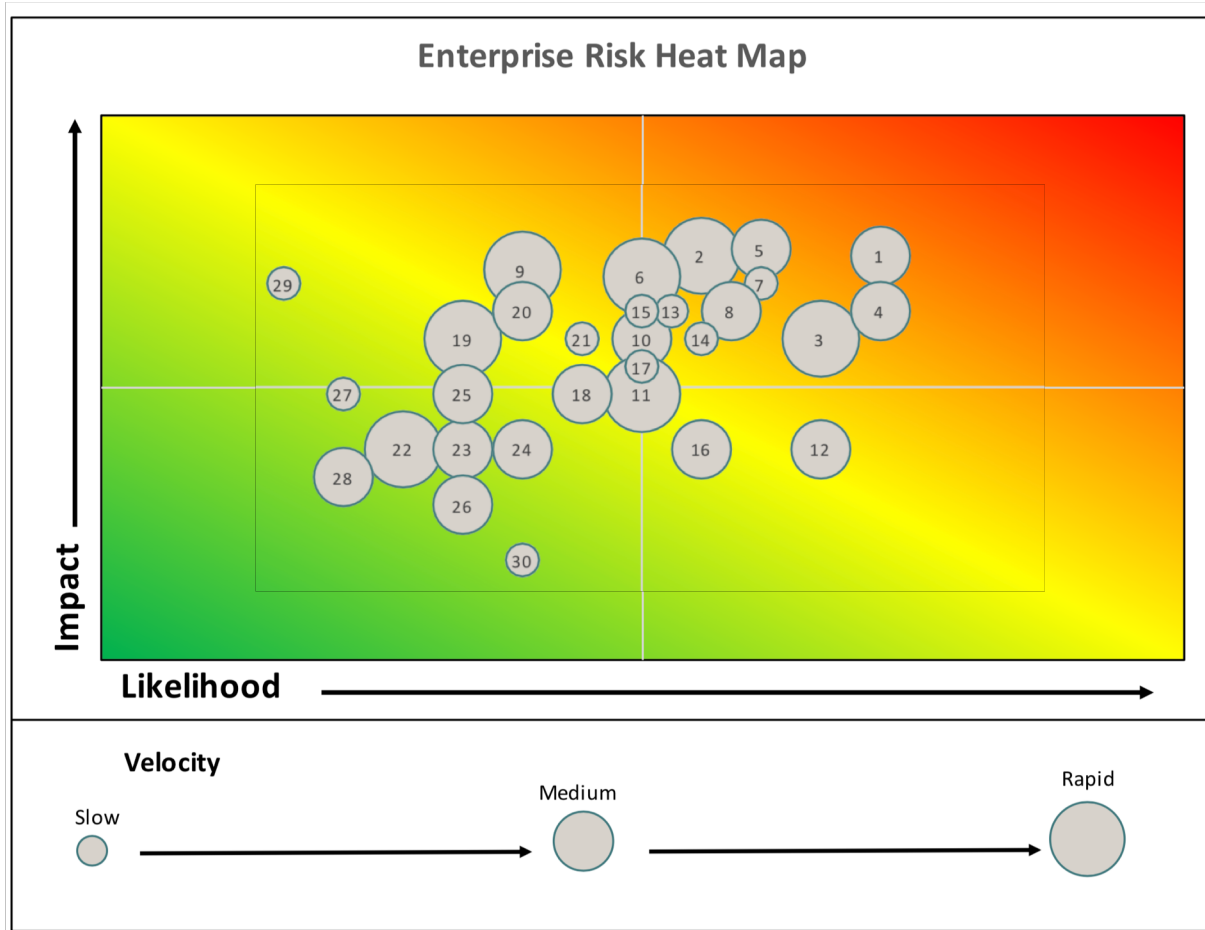
## Going Forward

- Update Risk Snapshots for each enterprise risk as needed
- Periodic Tabletop Exercises
- Analyses of Current Processes
- Periodic Reporting to OARC and ERM Committees
- Risk Owners Periodically Brief BOV
- Refresh Enterprise Risk Landscape & Heat Map in 2020

# Enterprise Risk Landscape



# Enterprise Risk Heat Map



## Graph Legend

Number	Risk
1	Federal & State Funds
2	Legal & Regulatory
3	Socio-Political Environment
4	Tuition Dependency
5	Leadership & Governance
6	Athletics
7	Expanding Physical Footprint
8	Faculty & Staff Recruitment & Retention
9	Safety & Security
10	Research Compliance
11	IT Security & Operations
12	Global Engagement
13	Resource Management
14	Competitive Growth
15	Advancement
16	Title IX
17	Infrastructure & Facilities
18	Partners
19	Integrity & Conflicts of Interest
20	Evolving Pedagogy & Delivery
21	Diversity & Inclusion
22	Disaster Recovery & Business Continuity
23	Enrollment Management
24	Restricted Research
25	Endowment Income
26	Student Experience
27	Academic Quality
28	Alumni & Friends
29	Accreditation
30	Intellectual Property

# INSTITUTIONAL COMPLIANCE PROGRAM (ICP) UPDATE

March 31, 2019

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Sharon M. Kurek

*Executive Director of Audit, Risk, and Compliance*

# 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

# COMPLIANCE FRAMEWORK



## STATISTICS

- CAC – 20 Members
- 76 Distributed Compliance Owners
- 348 Regulations Identified



# ICP SUMMARY

## Update since November

- The Compliance Advisory Committee (CAC) met twice
- Subgroups of the CAC met 6 times to complete review of compliance matrix (including requirements, categorizations, and identification of compliance owners)
- 6 ICP information sessions were held for distributed university-wide compliance owners (over 50 attended)
- OARC has worked with BAMS IT to create online Compliance System, enabling review of Compliance Matrix by compliance owners

# ICP SUMMARY

## In Progress and Going Forward

- Distributed university-wide compliance owners are reviewing regulations in Compliance System for accuracy and completeness
- The Compliance Advisory Committee (CAC) meets in April to approve the risk assessment methodology
- OARC and BAMS IT will develop compliance risk assessments capability in online Compliance System, which will be completed by Compliance Owners
- OARC has contracted with external vendor for a “hotline” allowing employees to report compliance concerns, including the opportunity to report anonymously



# ERM - Tuition Dependency

*DWIGHT SHELTON, VICE PRESIDENT FOR FINANCE AND CHIEF  
FINANCIAL OFFICER*

*MARCH 31, 2019*



# Student Revenue 2018-19

(\$ in Millions)

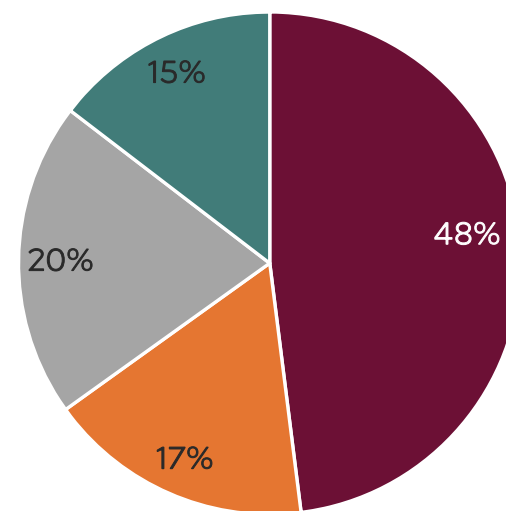
	2018-19 Budget	Student Revenues	%
<b><u>Educational and General</u></b>			
University Division	\$761.0	\$552.1	72.5%
Coop Ext/Ag Experiment Station	88.1	-	N/A
<b>Subtotal</b>	<b>\$849.2</b>	<b>\$552.1</b>	<b>65.0%</b>
Auxiliary Enterprises	\$351.5	\$188.8	53.7%
Sponsored Programs	322.1	-	N/A
Financial Aid (Appropriated)	30.2	8.5	28.1%
UMA* and Other Activities	7.3	-	N/A
<b>Total</b>	<b>\$1,560.3</b>	<b>\$749.4</b>	<b>48.0%</b>

\* Unique Military Activities

# Overview of Tuition & Fees

2018-19 University Revenues

- Largest revenue stream for the university
  - Student Revenue makes up 48% of budget
  - Over time supporting an increasing share
- Funds core programs
  - Instruction
  - Student Services
  - Support Services



■ Student Revenue ■ General Fund ■ Sponsored Programs ■ Other

# Risks

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## ■ Enrollment Demand

- Varies by residency, level, and program
- Regional and national college-age population growth projected to slow

## ■ Increasingly Competitive Environment

- Discounting, quality, student amenities, perception, nonresident market

## ■ Governmental/Regulatory

- Federal/state, level of funding (institution/student), authority

## ■ Ability of institution to fund mission

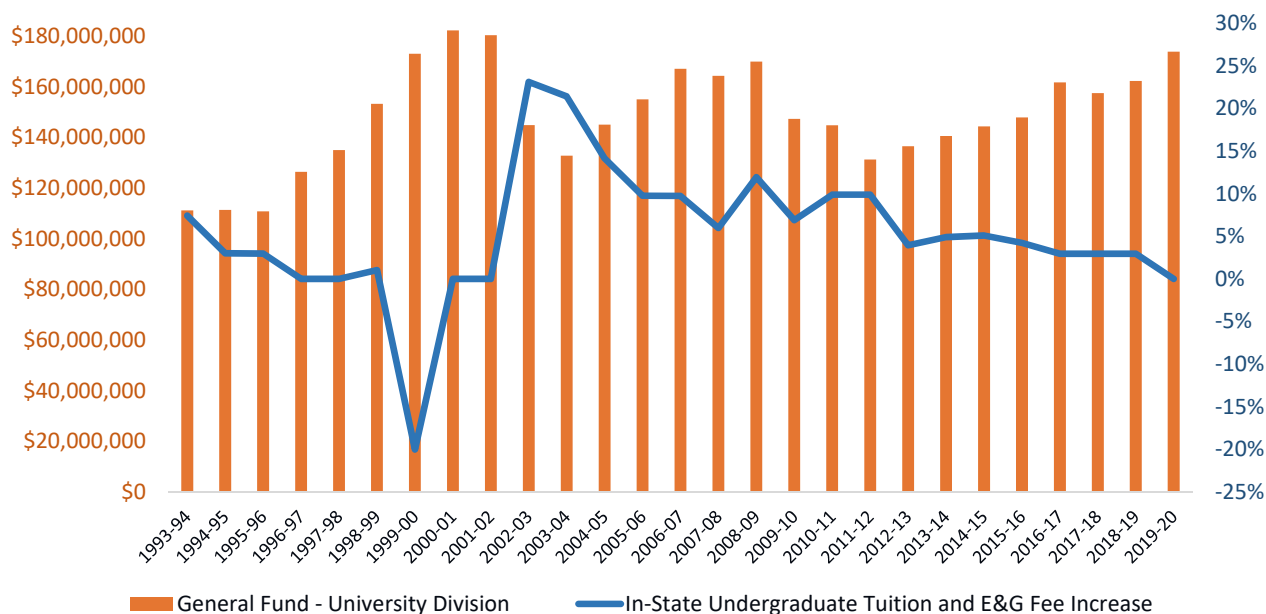
- Market capacity
  - Relevant quality programs, access & affordability, talent, unavoidable costs
  - Sustaining enrollment levels, both undergraduate and graduate
- 

## Risks (cont.)

### ■ Economic Cycle

- Impact of state budget reduction (prior reductions 1990: \$46.7M, 2010: \$74.7M)

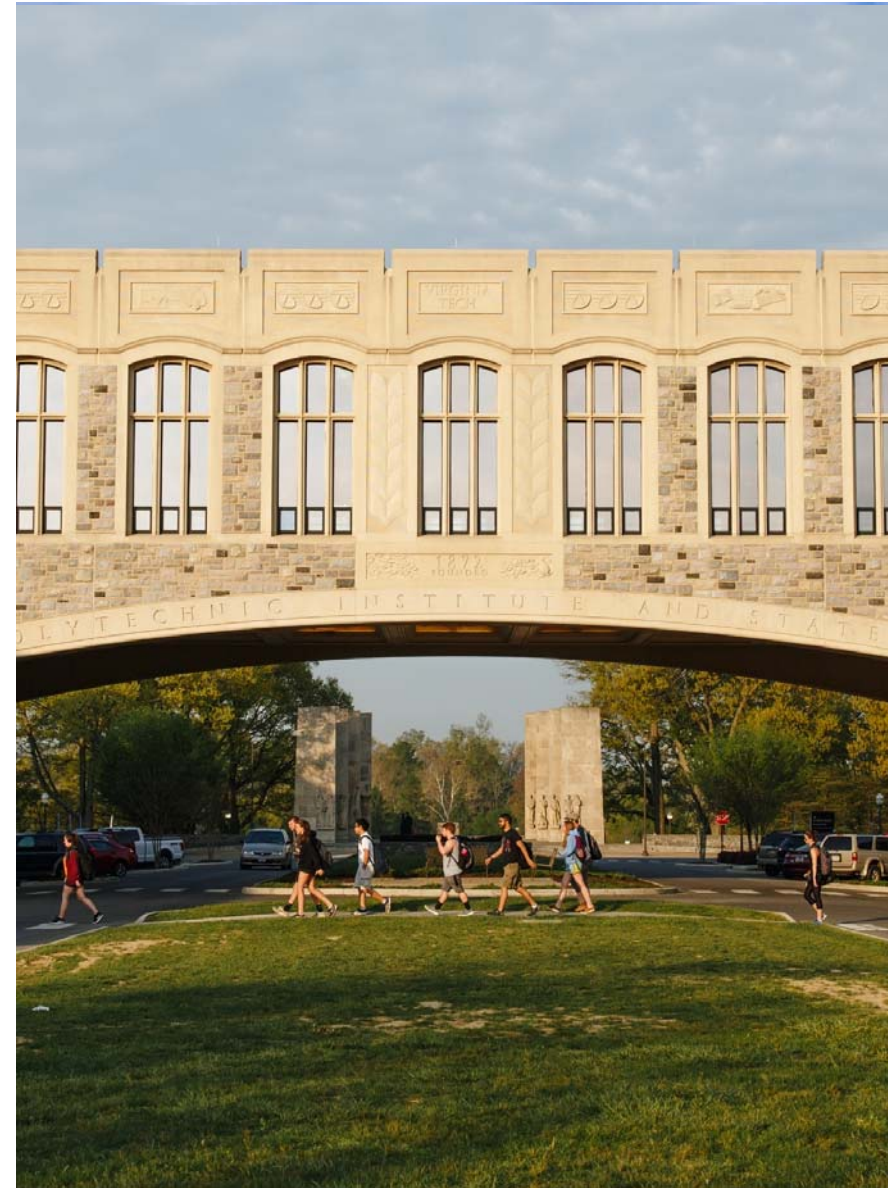
General Fund Impact on In-state Undergraduate Charges



- Economic volatility impacts family income and capacity to pay
- Market performance impacts Endowment earnings and contributions

## ┐ *Strategies to Minimize Risk*

- Enrollment: thoughtful management strategies
  - High-demand degrees/credentials
  - Strategic pricing & discounting
  - Student experience/value
- Strong Brand
  - Quality programs
  - Strategic Brand Management
- Talent recruitment & retention
- A welcoming, inclusive environment







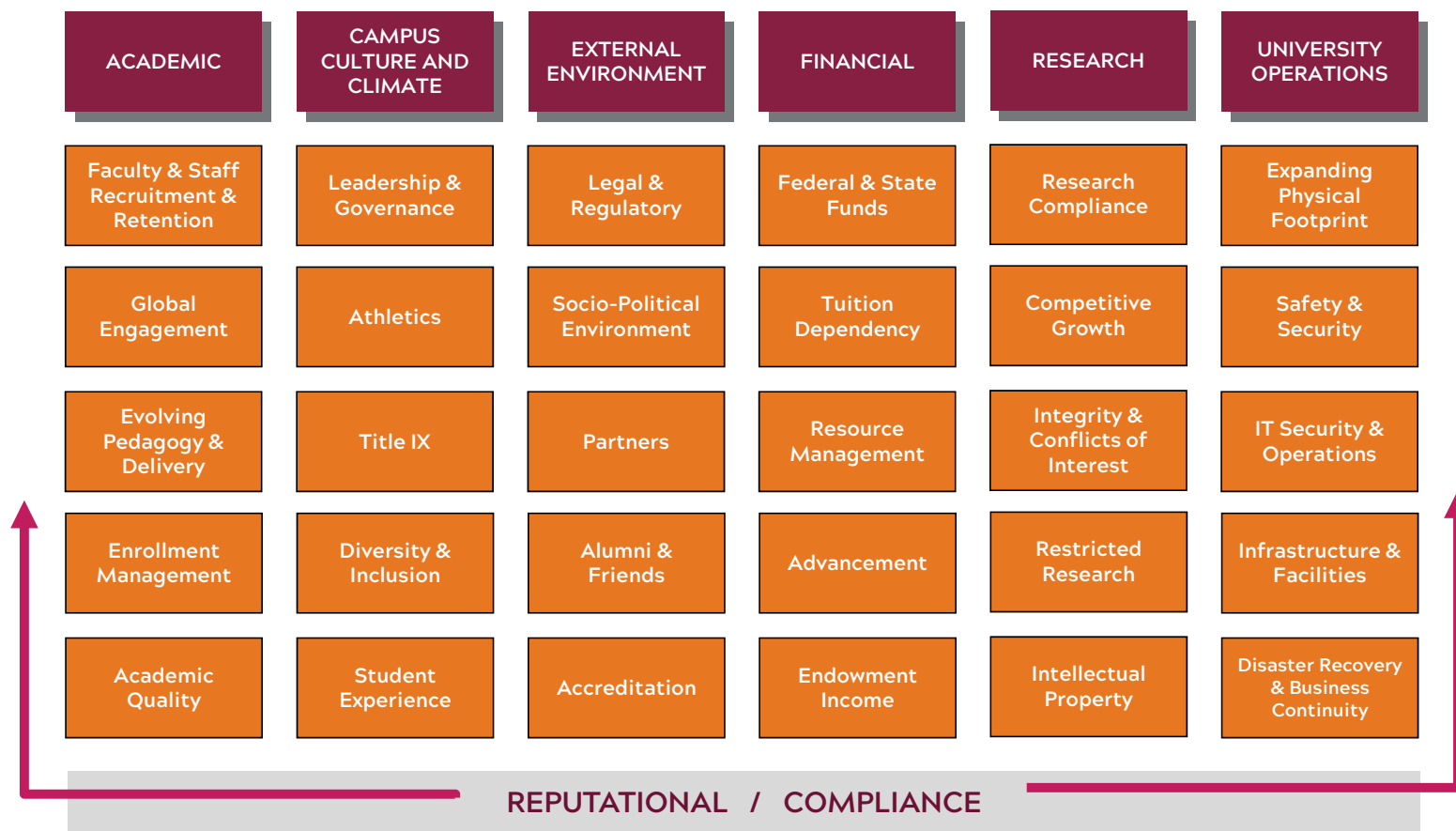
## *Strategies to Minimize Risk*

- Prudent Management
  - Structurally balanced budget
  - Reserves & liquidity
  - Cost Containment
  - Flexible & responsive
- Diversification: expand alternative revenue
  - Philanthropy
  - Endowment
  - Self-generated
  - Entrepreneurial activities
- Leverage Partnerships
  - Academic synergies
  - Research opportunities
- Scale





# Enterprise Risk Landscape





# Discussion

