

Committee Minutes

FINANCE AND AUDIT COMMITTEE

340 Lavery Hall

June 6, 2016

Audit Closed Session

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Ms. Deborah Petrine, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Ms. Kay Heidbreder, Ms. Sharon Kurek, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Ms. Tracy Vosburgh

1. **Update on Fraud, Waste, and Abuse Cases:** The Committee met in closed session to receive an update on outstanding fraud, waste, and abuse cases.
2. **Update on the Washington-Alexandria Architecture Center Advisory Review:** The Committee met in closed session to receive an update on the Washington-Alexandria Center Advisory Review.
3. **Discussion with the Director of Internal Audit:** The Committee met in closed session with the Director of Internal Audit to discuss audits of specific departments and units where individual employees were identified.

Audit Open Session

Board Members Present: Mr. Jim Chapman, Mr. Dan Cook - staff representative, Mr. Charles T. Hill, Ms. Deborah Petrine, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Bill Abplanalp, Mr. Bob Broyden, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Ms. Miranda Grove, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Daysha Holmes, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Sharon Kurek, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Mr. Mark Owczarski, Dr.

Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Brad Sumpter, Mr. Steve Vantine

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Approval of Items Discussed in Closed Session:** The Committee reviewed and took action on items discussed in closed session.
3. **Opening Remarks and Approval of Minutes of the March 21, 2016 Meeting:** The Committee reviewed and approved the minutes of the March 21, 2016 meeting.
4. **Annual External Audit Scope Discussion with the Auditor of Public Accounts (APA):** The Committee met with the Auditor of Public Accounts (APA) for a discussion of the scope of the audit of the 2016 financial statements and the APA's plans for conducting and completing the audit. APA confirmed that the audit schedule is developed such that the final report will be presented to the Board at the November Board meeting.
5. **Review and Acceptance of University's Update of Responses to all Previously Issued Internal Audit Reports:** The Committee reviewed the university's update of responses to all previously issued internal audit reports. As of December 31, 2015, the university had 10 open recommendations. Nineteen audit comments have been issued during the third quarter of this fiscal year. As of March 31, 2016, the university has addressed five comments, leaving 24 open recommendations in progress. Through May 10, 2016, Internal Audit has closed six of the 24 open recommendations leaving 18 open recommendations. The Committee received a briefing at the meeting that reviewed the status of the outstanding comments, including the comments that have been addressed since March 31, 2016.

The Committee accepted the report.

6. **Review of the University Internal Audit's Status Report as of March 31, 2016:** The Committee reviewed University Internal Audit's Status Report as of March 31, 2016. University Internal Audit has completed 73 percent of its audit plan in accordance with the fiscal year 2015-16 annual audit plan.
7. **Review and Discussion of Proposed 2016 Audit Plan:** The Committee reviewed the proposed audits for the development of the fiscal year 2016-17 annual audit plan. University Internal Audit conducted the annual risk assessment after reviewing financial and operational data and seeking input from senior management. In addition, a university-wide information technology risk assessment

and audit plan were created in accordance with industry standards. For fiscal year 2016-17, approximately 30 audit projects are proposed, with 74 percent of available resources committed to the completion of planned projects. Audits not completed in the fiscal year scheduled will be carried forward to the next fiscal year.

8. Review and Acceptance of the following Reports and Memos Issued by University Internal Audit: The committee reviewed and accepted four internal audit reports and one compliance review:

- a. Electrical and Computer Engineering: 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 financial oversight of sponsored research and service center billing. Additionally, a low-priority recommendation was noted for timely submissions of Personnel Activity Reports.
- b. Research: Effort Reporting: The audit received a rating of effective. A low-priority recommendation was noted for improved efficiency of the effort reporting process.
- c. Building Construction / Myers-Lawson School of Construction: The audit received a rating of improvements are recommended. An audit recommendation was issued to management where opportunities for further improvement were noted in the area of health and safety training. Additionally, a low-priority recommendation was noted where opportunities for improvement were identified with regard to financial management of sponsored research.
- d. Institute for Critical Technology and Applied Science: 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 investment awarding and oversight and management of lab safety training. Additionally, a recommendation for central administration was noted with respect to the measurement of success for research institutes.
- e. University Libraries: The compliance review received a rating of improvements are recommended. A recommendation was issued to management where opportunities for further improvement were noted in the area of funds handling.

9. Update on the External Quality Assessment of the University's Internal Audit

Function: The Committee received an update on the external quality assessment of the university's internal audit function. The external assessment team, led by consultant Baker Tilly, completed their onsite visit during early May. The university provided full support to the review team during the course of the assessment.

The preliminary results shared at the conclusion of the onsite visit indicated that the internal audit function "generally conforms" with the IIA Standards, which is the highest rating. The final report of the review team's findings will be presented at the August 2016 meeting of the Finance and Audit Committee.

10. Review of Compliance with Audit Resolution of University-Related

Corporations: The Committee received a compliance report for the audits of the university-related corporations for which the affiliation agreements require annual compliance reporting. These corporations include Virginia Tech Foundation, Inc., Virginia Tech Services, Inc., Virginia Tech Intellectual Properties, Inc., and Virginia Tech Applied Research Corporation. Consistent with the Board of Visitors' resolution establishing university-related corporations, each corporation is annually required to provide audited annual financial statements, management letters from external auditors, and management's responses to the university's president. Each corporation is also required to submit an annual certification stating that all procedures outlined in the resolution have been met. All corporations are in full compliance with the Board of Visitors' requirements regarding audits.

Finance Closed Session

Board Members Present: Mr. Jim Chapman, Mr. Charles T. Hill, Ms. Deborah Petrine, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Ms. Kay Heidbreder, Ms. Sharon Kurek, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Ms. Tracy Vosburgh

1. Motion for Closed Session: Motion to begin closed session.

* **2. Ratification of Personnel Changes Report:** The Committee met in closed session to review and take action on the quarterly personnel changes report.

The Committee recommended the personnel Changes report to the full Board for approval.

- * 3. **2016-17 Promotion, Tenure, and Continued Appointment Program:** The Committee met in closed session to review and take action on the 2016-17 Promotion, Tenure, and Continued Appointment Program.

The Committee recommended the 2016-17 Promotion, Tenure, and Continued Appointment Program to the Full Board for approval.

Finance Open Session

Board Members Present: Mr. Jim Chapman, Mr. Dan Cook - staff representative, Mr. Charles T. Hill, Ms. Deborah Petrine, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Mr. Bill Abplanalp, Mr. Bob Broyden, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Ms. Miranda Grove, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Daysha Holmes, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Sharon Kurek, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Mr. Mark Owczarski, Dr. Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Brad Sumpter, Mr. Steve Vantine

1. **Opening Remarks and Approval of Minutes of the March 21, 2016 Meeting:** The Committee reviewed and approved the minutes of the March 21, 2016 meeting.
2. **Update on JLARC Study on Higher Education:** The Committee was scheduled to receive a report on the current implementation status of JLARC recommendations to be addressed by the Board of Visitors. Due to timing constraints, this agenda item was deferred to the August Board of Visitors meeting.
- * 3. **Approval of 2016-17 Staff Merit Process:** The Committee reviewed the 2016-17 Staff Merit Process for approval. The commonwealth has approved a three percent average compensation program for staff employees for 2016-17, contingent upon the state meeting 2015-16 revenue targets. The proposed compensation action is scheduled to become effective on November 10, 2016, impacting employee's paychecks on December 1, 2016.

Understanding the importance of recognizing employee performance and in accordance with the state's approved compensation plan, the university has developed a comprehensive staff compensation program for implementation in 2016-17. The staff compensation program will be a merit-based process to encourage the utilization of employee performance to the extent possible, providing flexibility to senior management areas to recognize individual staff performance within their organization with differentiated salary actions for all eligible classified and university staff. Salary adjustments are based on merit and are not automatic. For 2016-17, this merit process will include all eligible classified and university staff.

This request was to approve the implementation of the staff compensation process as a merit process, consistent with state authorization, effective November 10, 2016 and subject to achievement of the revenue target established by the state.

The Committee recommended the 2016-17 Staff Merit Process to the full Board for approval, subject to achievement of the revenue target established by the state.

- * 4. **Approval of 2016-17 Faculty Compensation Plan:** The Committee reviewed for approval the 2016-17 Faculty Compensation Plan. The report defines the qualification criteria for teaching and research faculty and administrative and professional faculty, provides guidance on the authorized salary average for full-time teaching and research faculty positions, and requires board approval.

For Fall 2014, Virginia Tech's Authorized Salary was \$93,104. This placed Virginia Tech at the 29th percentile of its peer group for 2014-15, based on the most recent peer salary data available from IPEDS (Integrated Postsecondary Education Data System). As a result of the state authorized merit process in Summer 2015, the Fall 2015 authorized salary was increased by 3.5 percent to \$96,362. Based on SCHEV's two percent forecast of salary escalation at peer institutions, it is estimated that the university's authorized salary will rise to the 32nd percentile of peer institutions for Fall 2015. The university's actual salary average of \$97,420 for 2015-16 is estimated to be at the 35th percentile of our peer group.

Recognizing the critical nature of faculty compensation, the university's standing relative to the 60th percentile of the university's peer group average salary, the higher levels of competing offers being received by key faculty, and to minimize the high cost of turnover, the university proposes continuing the traditional annual merit-based faculty salary increase program in 2016-17. This plan authorizes management to plan and budget for the resource allocations necessary to support a merit-based faculty salary increase consistent with the commonwealth's

approved three percent compensation plan for faculty for 2016-17. The university may also elect to create a supplemental pool to achieve certain targeted salary compensation or retention needs, such as national distinction.

The state's appropriation includes a contingency regarding the achievement of its 2015-16 revenue forecast. The achievement of the revenue forecast is uncertain, at this time. The university has an alternative compensation strategy under consideration if the state does not achieve its revenue budget.

The Committee recommended the 2016-17 Faculty Compensation Plan to the full Board for approval.

- * 5. **Approval of Year-to-Date Financial Performance Report (July 1, 2015 – March 31, 2016):** The Committee reviewed the Year-to-Date Financial Performance Report for July 1, 2015 – March 31, 2016 for approval. For the third quarter, all programs of the university are on target and routine budget adjustments were made to reflect changes in General Fund revenues and expenditure budgets in academic and administrative areas. The tuition and fee budget increased by \$4.6 million due to winter session and stronger than projected spring retention. All Other Income budget was increased by \$450,000 for stronger than projected Veterinary Teaching hospital revenues and by \$100,000 for stronger than projected activity in the Equine Medical Center. Athletic Services budgets were increased by \$2.8 million for indoor practice facility capital project fundraising and by \$3.3 million for primarily one-time football coaching staff transition costs.

For year-to-date ending March 31, 2016, \$30.2 million has been expended for Educational and General capital projects, and \$36.5 million has been expended for Auxiliary Enterprises capital projects. Capital outlay expenditures for year-to-date ending March 31, 2016 totaled \$66.7 million.

The Committee recommended the Year-to-Date Financial Performance Report to the full Board for approval.

- * 6. **Review and Approval of Revisions to the 2016-2022 Six-Year Plan:** The Committee reviewed for approval the revisions to the 2016-22 Six-Year Plan. The Higher Education Opportunity Act of 2011 established goals and objectives for higher education in Virginia, and outlined an annual planning process. This process requires submission of six-year academic, financial, and enrollment plans for the future three biennia. The focus of the plan, submitted each odd-numbered year, is the first biennium of the planning period, and even-numbered year submissions may revise these plans as necessary.

The university has developed the revised Six-Year Plan for submission to the state due on July 1, 2016. This report provided an overview of this process, key assumptions, and substantive revisions to the original plan submitted last year.

The revision to the Six-Year Plan includes updates to the academic, financial, and enrollment plans and nongeneral fund revenue projections. Key highlights of the revised plan include:

Academic Plan:

- Enrollment growth, particularly of Virginia undergraduate students, remains a top academic priority
- STEM-H degree enhancement has been revised and expanded to focus on economic development in the Commonwealth through investment in market-centered instruction and research clusters (identified within the university as “destination areas”).
- Creation of a “cybersecurity test range” to facilitate training for Virginia high school and college students has been added to reflect the state’s funding of this initiative in the 2016 General Assembly.

Financial Plan:

- Competitive faculty and staff compensation remains the top priority.
- Increases in health insurance and state-mandated employee benefit costs outpacing original plans have been included.

An element of the nongeneral fund revenues is the projection of tuition and fee rates for 2017-18. The revised plan includes placeholders for tuition and fee rate increase of 3.0 percent for 2017-18 for all student groups. The 3.0 percent placeholder represents a reduction from the prior placeholder of 3.9 percent reflecting the universities continued moderation of rate increases and the Commonwealth’s investment in General Fund support. While the plan includes the projected increase for planning purposes, it does not commit to a rate at this time. The Board retains the authority for approving the final tuition and fee rates. Tuition and Fee are traditionally approved by the Board in the spring.

The Six-Year Plan submission begins a discussion with the commonwealth about the university’s planned progress towards the goals of the Statewide Strategic Plan for Higher Education, and how the university can partner with the state to advance shared outcomes. This process is also an important step in positioning the university to seek state support during the Executive Budget development process each fall.

The Committee recommended the Revisions to the 2016-2022 Six-Year Plan to the full Board for approval.

- * 7. **Approval of 2016-17 University Budget:** The Committee received reports and information regarding the 2016-17 Operating and Capital Budgets.

The Committee reviewed for approval the following 2016-17 university budgets:

- a. Operating and Capital Budgets: The university anticipates an initial authorization of \$1.5 billion during 2016-17 to carry out all of its programs, based on the forecast of direct appropriations to the university. However, the annual internal budget varies from this external expenditure authorization for several reasons, some of which increase the annual expenditure authority while others reduce the expenditure plans.

For 2016-17, the recommended internal budget for all operations is \$1.47 billion, an increase of \$41.6 million or approximately 2.9 percent, over the adjusted 2015-16 budget. For 2016-17, the university's total General Fund allocation is estimated to be approximately \$265.3 million, an increase of \$15.2 million from the 2015-16 adjusted budget. This incremental General Fund includes \$12.7 million for the University Division's Educational and General program, \$1.8 million for the land-grant programs in Cooperative Extension and Agricultural Experiment Station (Agency 229), \$0.2 million for Unique Military Activities and \$0.5 million for Student Financial Aid. The university's Educational and General budget will be \$774.9 million in 2016-17.

The total 2016-17 auxiliary revenue budget is \$320.2 million, a growth of \$4.8 million or 1.5 percent over the adjusted 2015-16 budget, with a significant portion of the increase attributable to growth in Residential and Dining Programs, Student Health Services, and Recreational Sports. The projected annual budget for Financial Assistance for Educational and General Programs is \$342 million, a growth of \$4 million or 1.2 percent over the adjusted 2015-16 budget. The most significant activity in this category is externally sponsored research.

The capital outlay program for 2016-17 is comprised of 12 Educational and General projects and 12 Auxiliary Enterprise projects for a total of 24 projects. The total capital outlay budget for fiscal year 2016-17 includes approximately \$510 million of authorizations with an estimated available balance of about \$392 million. Of the available balance, the university plans to spend about \$105 million for capital projects in fiscal year 2016-17.

The Committee recommended the 2016-17 University Budget to the full Board for approval.

- b. Hotel Roanoke Conference Center Commission Budget: The Hotel Roanoke Conference Center Commission was established by resolutions adopted by Virginia Tech and the City of Roanoke, under Commonwealth of Virginia enabling legislation. The enabling legislation provided that the Commission shall annually prepare and submit to both the City of Roanoke and Virginia Tech a proposed operating budget showing its estimated revenues and expenses for the forthcoming fiscal year, and, if the estimated expenses exceed the estimated revenues, the portion of the unfunded balance is to be borne by each participating party for the operation of the conference center. Virginia Tech plans to allocate a total \$80,000 for fiscal year 2016-17 to the Hotel Roanoke Conference Center Commission budget and the funds come from the Fralin endowment which was established to assist with the project.

The Committee recommended the 2016-17 Hotel Roanoke Conference Center Commission budget to the full Board for approval.

- c. Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences Budget: The Committee reviewed for approval the 2016-17 budget for the Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences. The collaboration agreement, which outlines the relationship and responsibilities of each party, requires the governing boards of each university to approve the annual operating budget for the School of Biomedical Engineering and Sciences. The financial commitment for the Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences for fiscal year 2016-17 is \$ 4.8 million and is comparable to expenditure levels in prior years.

The Committee recommended the 2016-17 Virginia Tech-Wake Forest University School of Biomedical Engineering and Sciences to the full Board for approval.

- * 8. **Approval of 2016-17 Auxiliary Systems Budgets:** The Committee reviewed for approval the 2016-17 Auxiliary Systems Budgets. In accordance with the resolutions authorizing and securing the Dormitory and Dining Hall System, Electric Service Utility System, University Services System, and Athletics Facilities System revenue bonds, the Board of Visitors is required to adopt an annual

budget. All budgets are balanced and designed in accordance with bond covenants, including maintenance and reserve requirements. Once approved by the Board of Visitors, the annual budget will be the basis for making payments from the revenue fund to meet the operating costs of the auxiliary systems.

The 2016-17 budget for the auxiliary systems, including debt service are:

- a. Dormitory and Dining Hall System - \$116.8 million
- b. Electric Service System - \$34.6 million
- c. University Services System - \$46.7 million
- d. Athletics Facilities System - \$66.1 million

The Committee recommended each of the four Auxiliary Systems Budgets for 2016-17 to the full Board for their approval.

- * 9. **Approval of 2016-17 Pratt Fund Budgets:** The Committee reviewed for approval the 2016-17 Pratt Fund budgets for Engineering and Animal Nutrition. The Pratt Fund provides funding for programs in both the College of Engineering and Department of Animal Nutrition in the College of Agriculture and Life Sciences. For 2016-17, the College of Engineering proposes expenditures of \$958,801 and the Animal Nutrition proposes expenditures of \$930,498.

The Committee recommended the 2016-17 Pratt Fund Budgets to the full Board for approval.

- * 10. **Approval of Resolution to Reappoint University Commissioner to the Hotel Roanoke Conference Center Commission:** The Committee reviewed for approval a resolution concerning a reappointment to the Hotel Roanoke Conference Center Commission. The resolution seeks approval to reappoint the Vice President for Finance and Chief Financial Officer as the university's representative on the Hotel Roanoke Conference Center Commission.

The Committee recommended this resolution to reappoint the Vice President for Finance and CFO as the university's representative to the Hotel Roanoke Conference Center Commission to the full Board for approval.

- * 11. **Approval of Revisions to and Renewal of Related Corporation Affiliation Agreements:** The Committee reviewed for approval revisions to and renewal of related corporation affiliation agreements. As approved by the Board of Visitors, the university has entered into affiliation agreements with the following university-

related corporations for the purpose of defining the relationship and requirements of university-related corporations: Virginia Tech Alumni Association, Inc., Virginia Tech Applied Research Corporation, Virginia Tech Athletic Fund, Inc., Virginia Tech Corps of Cadets Alumni, Inc., Virginia Tech Foundation, Inc., Virginia Tech Innovation Corporation (formerly Virginia Tech Technology Services and Operations Corporation), Virginia Tech Intellectual Properties, Inc., and Virginia Tech Services, Inc..

The terms of these agreements end on June 30, 2016. No changes are proposed to the affiliation agreements. It is recommended that the agreements be renewed at this time to be extended for a four year term ending June 30, 2020.

The Committee recommended the Revisions to and Renewal of Related Corporation Affiliation Agreements to the full Board for approval.

Joint Open Session

Board Members Present: Mr. Jim Chapman, Mr. Dan Cook - staff representative, Mr. William Fairchild, Mr. Charles T. Hill, Ms. Deborah Petrine, Mr. Mike Quillen, Mr. Steve Sturgis, Mr. Dennis Treacy, Mr. Horacio Valeiras

VPI & SU Staff: Ms. Venice Adams, Mr. Mac Babb, Mr. Bob Broyden, Ms. D'Elia Chandler, Mr. Van Coble, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Mr. Kevin Foust, Ms. Karen Gilbert, Ms. Miranda Grove, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Angela Kates, Mr. Chris Kiwus, Ms. Sharon Kurek, Ms. Leigh Laclair, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Mr. Mark Owczarski, Mr. Charles Phlegar, Dr. Scot Ransbottom, Ms. Lisa Royal, Mr. Charlie Ruble, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Jason Soileau, Ms. Katryn Stewart, Mr. Brad Sumpter, Mr. Steve Vantine, Dr. Sherwood Wilson

- * 1. **Approval of Resolution for Planning Renovations for Undergraduate Science Laboratories:** The Committees reviewed for approval a resolution for a capital project planning authorization for renovations for Undergraduate Science Laboratories. The university's current inventory of science instruction laboratory spaces is not sufficient to accommodate projected enrollment growth through 2023. To meet demand for laboratory instruction, the university has developed a two-pronged strategy that includes new construction to add space and renovations to repurpose underutilized spaces. During the 2016 state budget session, the university successfully obtained a state-funded planning project for a new 105,000 gross square foot laboratory instruction building to help meet this demand. The

planning project is effective July 1, 2017, and the building may be available for scheduling fall semester 2021.

The renovations component provides strategically important space to address short and long-term needs to accommodate the planned enrollment growth. In the short-term, the renovations will provide space to meet the immediate impacts of enrollment growth demand for laboratory courses until the new state funded building is available. In the long-term, the renovations will also serve to fully accommodate expected demand for laboratory course sections through 2023 and beyond. The plan for the renovations component is for the university to self-fund repurposing up to seven laboratory spaces in Derring Hall and up to three laboratories in Hahn Hall. These laboratories would expand space to meet growing demand for course sections in biology, chemistry, organic chemistry, physics, and micro-biology. These renovations will be planned in coordination with planning for the new laboratory building to leverage both investments for optimal capacity and impact.

This request is for a \$600,000 planning authorization to complete preliminary designs for the renovations component. As with all self-supporting projects, the university has developed a financing plan to provide assurance regarding the financial feasibility of this planning project.

The Committees recommended the Resolution for Planning Renovations for Undergraduate Science Laboratories to the full Board for approval.

There being no further business, the meeting adjourned at 11:54 a.m.

***Requires full Board approval.**

Update of Responses to Open Internal Audit Comments

FINANCE AND AUDIT COMMITTEE

March 31, 2016

As part of the internal audit process, university management participates in the opening and closing conferences and receives copies of all Internal Audit final 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, Internal Audit performs a follow-up visit within two weeks after the target implementation date. Internal Audit 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 Finance and Audit 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 March 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 high or medium 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 2016 reflects closing 22 of 22 recommendations by the original target date.

The report presented at the March 21, 2016 meeting covered Internal Audit reports reviewed and accepted through December 31, 2015 and included 10 open medium and high priority recommendations. Activity for the quarter ended March 31, 2016 resulted in the following:

Open recommendations as of December 31, 2015	10
Add: Medium & High priority recommendations accepted March 21, 2016	19
Subtract: recommendations addressed since December 31, 2015	5
Remaining open recommendations as of March 31, 2016	<u>24</u>

While this report is prepared as of the end of the quarter, management continues to receive updates from Internal Audit regarding auditee progress on action plans. Through May 10, 2016 Internal Audit has closed six of the 24 outstanding medium and high priority recommendations for an adjusted total of 18 open recommendations. The remaining open recommendations are progressing as expected and are on track to meet their respective target due dates. Management continues to work jointly with the units and providing assistance as needed to ensure the action plans are completed timely.

ATTACHMENT A

Open Recommendations by Priority Level

FINANCE AND AUDIT COMMITTEE

March 31, 2016

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
23-Oct-14	Facilities Work Order System	14-1176	2	1				1	1
05-Mar-15	Conflicts of Interest and Commitment	14-1163	3	1			2		2
27-Jul-15	College of Science	15-1209	2	1			1		1
29-Jul-15	Environmental Health and Safety	15-1207	2	1			1		1
31-Jul-15	FERPA and HIPAA Compliance	15-1227	2				2		2
14-Oct-15	Language and Culture Institute	15-1221	1					1	1
22-Oct-15	Facilities Operations	15-1206	2				1	1	2
23-Feb-16	The Inn at Virginia Tech and Skelton Conference Center	16-1246	3				2	1	3
23-Feb-16	Contract Administration	16-1241	1				1		1
24-Feb-16	Center for Organizational and Technological Advancement	16-1248	1					1	1
02-Mar-16	Linux Server Security	16-1238	13	4			7	2	9
Totals:			32	8	0	0	17	7	24

ATTACHMENT B

Internal Audit Open Recommendations

FINANCE AND AUDIT COMMITTEE

March 31, 2016

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		
23-Oct-14	1	14-1176	Facilities Work Order System	HokieServ Process Improvements	Medium		01-Apr-16		1	
22-Oct-15	2	15-1206	Facilities Operations	Inventory Control Process	High		01-Apr-16		1	
23-Feb-16	3	16-1241	Contract Administration	Advance Payment for Services	High		01-Apr-16		1	
02-Mar-16	4	16-1238	Linux Server Security	Access and Configuration - Athletics	High		01-Apr-16		1	
02-Mar-16	5	16-1238	Linux Server Security	Logging - CAUS	Medium		01-Apr-16		1	
02-Mar-16	6	16-1238	Linux Server Security	Change Management - University Libraries	High		15-Apr-16		1	
24-Feb-16	7	16-1248	Center for Organizational and Technological Advancement	Grant Award Process	Medium		01-Jun-16		1	
23-Feb-16	8	16-1246	The Inn at Virginia Tech and Skelton Conference Center	Accuracy of the Inventory Process	High		15-Jun-16		1	
23-Feb-16	9	16-1246	The Inn at Virginia Tech and Skelton Conference Center	Accuracy of Event Charging	High		15-Jun-16		1	
27-Jul-15	10	15-1209	College of Science	Fiscal Responsibility	High		30-Jun-16		1	
29-Jul-15	11	15-1207	Environmental Health and Safety	Establishment and Oversight of Inspection Process	High		30-Jun-16		1	
31-Jul-15	12	15-1227	FERPA and HIPAA Compliance	HIPAA Compliance	High		30-Jun-16		1	
31-Jul-15	13	15-1227	FERPA and HIPAA Compliance	FERPA Training for Employees	High		30-Jun-16		1	
02-Mar-16	14	16-1238	Linux Server Security	Access and Configuration - Geosciences	High		30-Jun-16		1	
02-Mar-16	15	16-1238	Linux Server Security	Operating System and Network Services - Geosciences	Medium		30-Jun-16		1	
02-Mar-16	16	16-1238	Linux Server Security	Change Management - Unix Administrative Services	High		01-Jul-16		2	
23-Feb-16	17	16-1246	The Inn at Virginia Tech and Skelton Conference Center	Effective Employee Training Plans	Medium		29-Jul-16		2	

ATTACHMENT B**Internal Audit Open Recommendations****FINANCE AND AUDIT COMMITTEE****March 31, 2016**

22-Oct-15	18	15-1206	Facilities Operations	Monitoring of Safety Training	Medium		31-Jul-16		2	
02-Mar-16	19	16-1238	Linux Server Security	Control Environment for Linux Servers	High		31-Jul-16		2	
02-Mar-16	20	16-1238	Linux Server Security	Password Policy	High		31-Jul-16		2	
14-Oct-15	21	15-1221	Language and Culture Institute	Accuracy of LCI Tuition and Fee Charges	Medium		01-Sep-16		2	
05-Mar-15	22	14-1163	Conflicts of Interest and Commitment	Conflict of Interest Programmatic Enhancement	High		30-Sep-16		2	
05-Mar-15	23	14-1163	Conflicts of Interest and Commitment	Clarification of Conflict of Interest Officer Role and Disclosure Requirements	High		30-Sep-16		2	
02-Mar-16	24	16-1238	Linux Server Security	Logging - Geosciences	High		01-Oct-16		2	

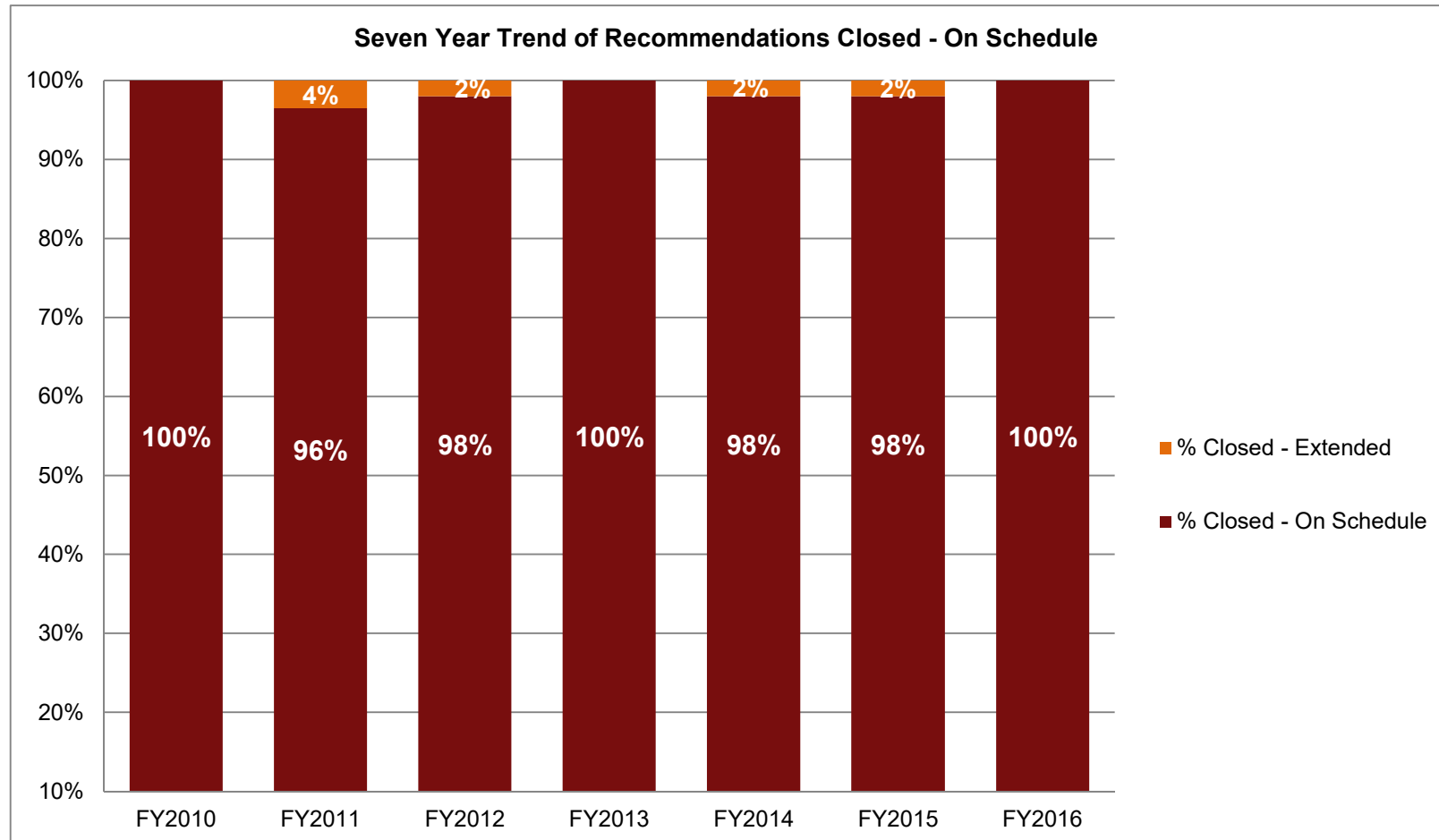
- (1) As of March 31, 2016, management confirmed during follow up discussions with Internal Audit that actions are occurring and the target date will be met. The Internal Audit department will conduct testing after the due date to confirm that the Management Action Plan is implemented in accordance with 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.

ATTACHMENT C

Management Performance and Trends Regarding Internal Audit Recommendations

FINANCE AND AUDIT COMMITTEE

March 31, 2016



University Internal Audit Status Report

FINANCE AND AUDIT COMMITTEE

April 26, 2016

Audit Plan Update

Audits were performed in accordance with the fiscal year 2015-16 annual audit plan at a level consistent with the resources of University Internal Audit. Four risk-based audits and one compliance review have been completed since the March board meeting. Four projects have been completed as advisory services. These included one conducted confidentially at the request of University Legal Counsel, one of privately owned athletic camp and clinic activity conducted at the request of the Department of Athletics, and two of the organizational structures of administrative functions within the Advancement and Research and Innovation divisions (conducted at the respective management's request). Additionally, the advisory review of business process efficiencies within the Veterinary Teaching Hospital (conducted at the request of the Virginia-Maryland Regional College of Veterinary Medicine) was referred to the Office of Capital Assets and Financial Management. This project has been closed in our records.

Due to personnel turnover, the risk-based audits of Physics, Student Engagement and Campus Life, University Scholarships and Financial Aid, IT: Printer Security, and IT: Network Security (RLAN, Routers, and Firewalls) have been cancelled on this year's audit plan and will be reconsidered for inclusion on next year's audit plan.

The following six audit projects are underway: Athletics NCAA Compliance, Human Resources: Leave Accounting, Graduate Admissions Application System, Construction Management, Interdisciplinary Center for Applied Mathematics / Institute for Society, Culture, and Environment, and the compliance review of the Office of the Executive Vice President and Provost.

So far in fiscal year 2015-16, University Internal Audit has completed 73 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1 FY 2015-16 Completion of Audit Plan

Audits	
Total # of Audits Planned	28
Total # of Supplemental Audits	6
Total # of Carry Forwards	4
Total # of Planned Audits Canceled and/or Deferred	5
Total Audits in Plan as Amended	33
Total Audits Completed	24
Audits - Percentage Complete	73%
Note: Includes Compliance Reviews and Advisory Services	

Review and Discussion of the Proposed Fiscal Year 2016-17 Audit Plan

FINANCE AND AUDIT COMMITTEE

May 27, 2016

University Internal Audit presents the proposed fiscal year 2016-17 audit plan to the Finance and Audit Committee for review and comment ahead of the final review, which will occur at the August meeting. An annual risk assessment was conducted to identify the entities that should receive audit attention in fiscal year 2016-17 and a core audit plan was developed.

For fiscal year 2016-17, approximately 30 audit projects are proposed, with 74 percent of University Internal Audit's available resources committed to the completion of planned projects. A description of proposed projects has been provided within the audit plan. University Internal Audit's goal will be to complete 85 percent of the audit plan. The proposed audit plan may be modified based on the external audit environment or changes in regulations, management, or resources.

Virginia Tech

University Internal Audit

Fiscal Year 2016-17 Proposed Audit Plan

June 6, 2016

OVERVIEW

University Internal Audit conducts risk-based assurance engagements, compliance reviews, management advisory services, and investigations. The risk-based assurance engagement is an objective examination of evidence to provide an independent assessment of governance, risk management, and the control systems within the university. The objective of the compliance review is to ensure all senior management areas (even low risk) receive periodic reviews from University Internal Audit every five years to perform tests of compliance with major university business policies at a minimum. The nature and scope of management advisory service activities, developed through agreement with the client, add value and improve the university's governance, risk management, and control processes without the internal auditor assuming management responsibility.

RISK ASSESSMENT PROCESS

University Internal Audit leadership conducted an annual risk assessment to identify the entities that should receive audit attention in fiscal year 2016-17. University departments and administrative operations were grouped into approximately 175 auditable entities or responsibility centers based on common missions and the existing organizational structure.

For each auditable entity, University Internal Audit reviewed financial data, including expenditures, revenues, cash receipts, federal contracts and grants, and the total number of employees. The relative business risk was assessed on a judgmental basis for the following qualitative and quantitative factors.

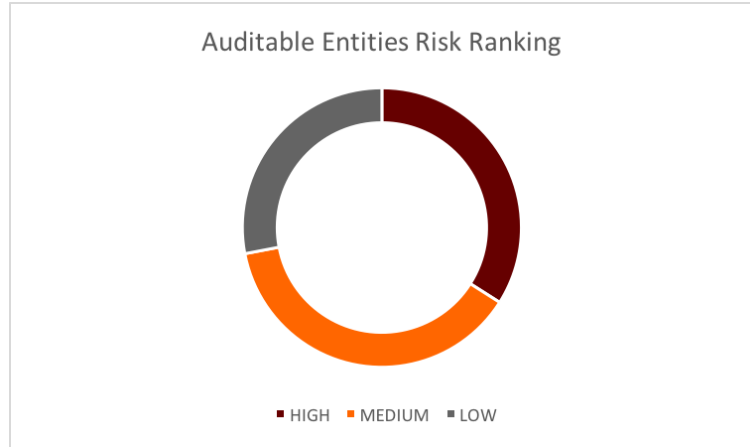
Factors
Quality and Stability of Control Environment
Business Exposure (Materiality and Liquidity of Operational Resources)
Public and Political Sensitivity
Compliance Requirements
Information Technology and Management Reporting

Elements considered within these factors included:

- Management's awareness of internal controls;
- Stability and expertise of management;
- Interval since the last audit review;
- Complexity of operations and technology applications;
- Materiality or financial impact to the university;
- Potential impact to reputation;
- Impact of noncompliance with internal and external policy, procedure, regulatory, and statutory requirements; and

- Reliance on information and management reporting for operating decisions, monitoring performance, providing services, and allocating resources.

The chart depicts the results of the risk assessment classifications. The risk assessment results were consistent with previous risk assessments conducted by University Internal Audit.



INFORMATION TECHNOLOGY RISK ASSESSMENT

University Internal Audit has also created a university-wide information technology (IT) risk-based audit plan mapped to the ISO 27002 standard, a best practice for developing and maintaining enterprise-wide IT security also references by university policies. University Internal Audit consulted with key IT personnel to ensure that audit coverage is maximized and properly targeted. The assessment of IT and business operations at the university identified four high-level risk domains intended to encapsulate the vast majority of the systems and computing environments within the university as follows:

- Student Systems;
- Finance and Administrative Systems;
- Human Resources Systems; and
- Research Systems.

The IT audit approach includes a variety of topical audits to gain a better understanding of the university-wide environment instead of narrowly focusing on the performance of individual departments. This approach also allows University Internal Audit to maintain current knowledge of the IT security and operating conditions in a dynamic industry through the constant evaluation and reassessment of planned audit engagements.

CORE AUDIT PLAN

University Internal Audit has identified certain critical areas for inclusion in the core audit plan to ensure that adequate coverage is provided over a reasonable time. To obtain additional insight and validate the plan, one-on-one discussions were conducted with senior leadership to identify reputation factors, regulatory changes, organization shifts, new initiatives, and deployment of new systems or technology tools.

The critical areas for core audit plan inclusion are:

- Academic Units
- Auxiliary Enterprises and Athletics
- Campus Safety and Security
- Enrollment Services
- Facilities and Operations
- Financial Management
- Human Resources
- Information Technology
- Off-Campus Locations
- Research
- Student Services

The core audit plan includes several multi-year audits that will allow for annual reviews of selected components of the entities with high external compliance risk and complex operations. These entities are University Scholarships and Financial Aid, Research, Human Resources, and Intercollegiate Athletics.

FISCAL YEAR 2016-17 AUDIT PLAN

The audit plan focuses on delivering value to Virginia Tech with an emphasis on the follow risk areas: strategic, operational, financial, compliance, and IT. If new topics emerge during the audit plan period that require more immediate attention, reconfiguration of the plan can be undertaken to accommodate these changes. University Internal Audit's goal is to complete 85 percent of the audit plan. As each audit is undertaken, risks will be re-evaluated to ensure proper audit coverage with consideration of confidentiality, integrity, and availability. Annual expenditures and revenues referenced below reflect fiscal year 2014-15 data unless otherwise noted.

Risk-Based Assurance

Planned Engagement	Overview	Risk Area
Athletics NCAA – Recruiting *	The Department of Athletics, with 22 varsity sports at the NCAA Division I level, monitors more than 550 student-athletes each academic year. Athletics had operating revenues of approximately \$78 million and total operating expenses of approximately \$77 million. University Internal Audit conducts a complete audit of Athletics over a five-year period. This audit will include reviews of recruiting; institutional control; and awards, benefits, and expenses.	Compliance
Biochemistry	Biochemistry is the branch of the life sciences devoted to the identification and analysis of the structure, function, and mechanisms of action of the molecules of life. With more than 600 undergraduate Biochemistry majors, this program is one of the largest B.S. granting programs in the nation. Total expenditures for the department were \$8.4 million, with sponsored research totaling nearly \$4 million, a figure that represents 14% growth since 2010.	Operational – Academic
Compliance Program Assessment	The university, with its significant footprint in terms of the breadth of operations, research, and human resources, is subject to dynamic and expansive compliance requirements. Various compliance functions operate in a distributed manner with various entities responsible for topical compliance, including NCAA, Title IX, export control, human and animal	Compliance

Planned Engagement	Overview	Risk Area
	subjects, and safety and security, among many other topics. An effective compliance program ensures that the requirements of Federal Sentencing Guidelines are met, including periodically performing risk assessments and taking appropriate steps to reduce the risk identified through this process.	
Controller's Office – Fixed Assets	The Fixed Assets and Equipment Inventory Services (FAEIS) section of the Controller's Office is responsible for maintaining and managing the university's official fixed assets system that includes land, buildings, improvements, and both fixed and moveable equipment. Ongoing moveable equipment inventories are conducted to meet state and federal regulations. In addition, FAEIS provides institutional reporting services to the university, the Commonwealth, and other regional and national agencies, including federal sponsors.	Financial
Dining Services	Dining Services manages nine dining centers and is the largest single department on campus with over 2,300 employees in 2015. The award winning and nationally recognized unit serves approximately 7.1 million meals per year and manages approximately 19,000 dining plan holders with debit-style plans that can be used in any of the dining centers. Dining Services expenditures equaled almost \$52 million and total revenue equaled \$58.6 million, comprised of \$6.3 million in cash receipts.	Operational – Student
Emergency Preparedness	The Office of Emergency Management, within the Division of Administrative Services, coordinates planning, training, response, and recovery efforts to ensure the emergency readiness of the Virginia Tech community. The office oversees more than 220 departmental continuity of operations plans, public information and communication capabilities, regular drills and exercises, resource management, hazard mitigation, and coordination of internal and external stakeholders. The office's efforts led to Virginia Tech's recognition in 2014 as the first college or university accredited by the Emergency Management Accreditation Program.	Operational – Safety
Geosciences	The Department of Geosciences, awarding degrees at the university since 1907, focuses on research, education, and outreach dealing with the nature of the earth. Students and faculty investigate earth processes at scales ranging from atomic to planetary. Expenditures for the department totaled \$8.8 million, with sponsored research totaling just over \$2.7 million.	Operational – Academic
Human Resources: Benefits *	Human Resources administers the Commonwealth benefits program and provides benefit management and guidance for approximately 7,500 faculty and staff. The benefits program is an integral part of the university's employee compensation package and includes health insurance, leave, legal resources, retirement plans, tuition assistance, and workers' compensation.	Financial
International Activities	The university's emphasis on efforts to further develop its global presence presents distinct opportunities and challenges. International operations can pose significant risks related to immigration compliance, economic and tax implications, fraud and loss of funds, life safety, transportation and evacuation, and reputational concerns, among others. Previously issued presidential memoranda and university policies require completion of requisite forms and reports as well as notification	Strategic

Planned Engagement	Overview	Risk Area
	of the appropriate offices in advance of international activities, particularly when students are involved.	
Investments and Debt Management	The Office of Investments and Debt Management oversees the financial assets of the university and the related Virginia Tech Foundation Inc. (VTF). Responsibilities include the investment oversight of the VTF endowment and life income programs along with the management, accounting, and reporting of various operating and short-term investment funds. The office also manages the comprehensive debt program for the university and other university-related corporations. The program includes securing debt financing for many of the capital projects located on campus and at the adjacent Corporate Research Center as well as maintaining compliance of all bond covenants.	Financial
Mining and Minerals Engineering	With the first engineering degree offered at the university to a “mining engineer” in 1885, the Department of Mining and Minerals Engineering has developed into a leading mining and minerals engineering program. In recent years, enrollment in both undergraduate and graduate programs has grown significantly. The department is home to two internationally recognized research centers: the Virginia Center for Coal and Energy Research and the Center for Advanced Separation Technologies. Department expenditures totaled nearly \$8.7 million, with sponsored research totaling approximately \$6.1 million, a figure that represents significant growth since 2010 when this figure was under \$400,000.	Operational – Academic
Physics	The Department of Physics offers degrees in physics, applied physics, industrial physics, and nuclear science and engineering, among others. Faculty members within the department have been recognized nationally and internationally for research in areas of particle and nuclear physics, condensed matter physics, biophysics, and astrophysics. Expenditures for the department exceeded \$11.2 million, with sponsored research nearing \$3.1 million. While the sponsored research portfolio has been stable since 2010, overall departmental expenditures have grown by 21% over that same period.	Operational – Academic
Research: High Performance Computing	Virginia Tech is continually advancing its portfolio of high-performance computing (HPC) services and strengthening its commitment to bring the advantages of high-performance computing and visualization to more fields of academic endeavor. Advanced Research Computing (ARC), a unit within the division of IT, provides centralized support for research computing by building, operating, and promoting the use of advanced cyberinfrastructure at Virginia Tech. ARC recently unveiled its newest HPC system, named NewRiver. This and other supercomputing resources are available to individuals and departments throughout the university.	Information Technology – Research
Research: Lab Safety *	Lab Safety requires the cultural commitment of faculty, staff, and students to proper procedures, training, and behavior. This is especially important at Virginia Tech where numerous teaching and research labs operate within the extensive overall research portfolio, where the university ranked 39 th in the most recent National Science Foundation (NSF) rankings with more than \$513 million in total research spending. Among its	Compliance – Safety

Planned Engagement	Overview	Risk Area
	Commonwealth peers, Virginia Tech maintains the largest research portfolio and is the only university ranking in the NSF top 50. Environmental Health and Safety works to create a safe work environment through the promotion of lab safety.	
Student Engagement and Campus Life	Student Engagement and Campus Life, a unit within the Division of Student Affairs, complements the academic program by providing a variety of activities, educational opportunities, programs, facilities, and services that enhance student development and enrich the quality of campus life. The university has three student centers: Squires Student Center, the Graduate Life Center at Donaldson Brown, and Johnston Student Center. Previously known as Student Centers and Activities, the unit had operating revenues of approximately \$13.8 million and total operating expenses of \$12.9 million.	Operational – Student
Travel and Employee Reimbursements	Travel, meal, and other employee reimbursement documents flow from university departments to the Controller's Office. While the Controller's Office reviews the requests and processes them for payment in accordance with federal, state, and university policy and procedures, significant responsibility still lies with the employee's department and supervisory structure to ensure good stewardship of public and other university funds. All reimbursements must be in accordance with the plan approved by the Internal Revenue Service to help ensure effective reimbursement without significant taxable income implications.	Financial
Undergraduate Admissions	The Office of Undergraduate Admissions strives to attract, recruit, and enroll a highly qualified, talented, and diverse student body in a manner that supports the university's well-being. The class of 2019 required processing of approximately 22,500 applicants, of which approximately 16,400 were offered admission and 6,500 ultimately accepted admission. These results reflect the increasingly positive university reputation and strategic initiatives related to enrollment growth.	Operational – Student
University Policies Review	The university maintains approximately 180 policies governing the various aspects of university operations including teaching and learning, research, administration, and outreach. These policies function as a key element in the university governance structure. Specific policy groups include Finance and Business, Human Resources, Facilities, Academics, Student Affairs, Development and University Relations, and Research. University-level policies require approval through a governance process intended to assure appropriate perspective and forethought on developing matters or as conditions change requiring policy revision.	Strategic
University Scholarships and Financial Aid *	The Office of University Scholarships and Financial Aid (USFA) is part of the Enrollment and Degree Management area. USFA supports the university's student access, enrollment, and retention goals by providing the financial means to encourage economic, social, cultural, and academic diversity in the student body. USFA provided or monitored approximately \$425 million in student financial assistance. A complete audit of USFA is performed over a four-year period. This review will include state and institutional programs and over-awards.	Compliance and Financial

Planned Engagement	Overview	Risk Area
Virginia Tech Carilion Research Institute	Located in Roanoke, the Virginia Tech Carilion Research Institute (VTCRI) combined with the Virginia Tech Carilion School of Medicine comprise the entity known as Virginia Tech Carilion (VTC). VTCRI leverages the university's world-class strength in basic sciences, bioinformatics, and engineering along with Carilion Clinic's highly experienced medical staff and rich history in medical education. VTC strives to improve human health and quality of life by providing leadership in medical education and biomedical and clinical research. Reporting to the Vice President for Health Sciences and Technology, VTCRI had expenditures of more than \$22 million, including more than \$9 million in sponsored research, representing growth of 35% and 59% respectively since 2012.	Operational – Research
Virginia Tech Police Department	The Virginia Tech Police Department is a full-service, nationally accredited police agency responsible for the well-being of more than 50,000 students, employees, and visitors at Virginia Tech, 24 hours a day. The department works closely with administrators, students, and employees to create and maintain a secure atmosphere, chairing the Threat Assessment team, leading the university's Clery Act compliance, and overseeing the Virginia Tech Rescue Squad. The department employs 50 full-time sworn police officers as well as more than a dozen security guards and Safe Ride officers.	Operational – Safety

* Entity receives an annual audit on different components of their operation.

Information Technology Assurance

Planned Engagement	Overview	Risk Area
IT: Governance and General Controls Review	Information Technology General Controls (ITGCs) apply to system components, processes, and data for the university. The objectives of ITGCs are to ensure the proper development and implementation of applications, as well as the integrity of programs, data files, and computer operations. Common ITGCs include logical access controls over infrastructure, applications, and data; computer operation controls; data center physical security controls; and IT governance.	Information Technology
IT: Network Security	Virginia Tech provides an extensive telecommunications and data network that accommodates tens of thousands of registered users connecting work and personal devices through wired, Wi-Fi, and virtual private network connections. Additionally, the university operates a Restricted/Limited Access Network (RLAN), which provides more security for sensitive data.	Information Technology
IT: Printer and Networked Device Security	There are numerous printers and other networked devices within the university's administrative and academic units. These devices can serve critical roles in processing sensitive data or vital operations critical to continued operations and safety of students and employees. This is of particular concern in that the devices themselves continue to become more complex with their own data storage and operating systems in use, yet may not be secured with the same level of detail that servers or personal computers endure.	Information Technology

Planned Engagement	Overview	Risk Area
IT: Surplus Property	The Procurement Department is responsible for oversight of the disposal of surplus property. The surplus property activity at the university includes disposal of a wide variety of items including vehicles, kitchenware, office equipment, as well as computer and personal electronic equipment. Approximately eight public auctions are held per year at the Surplus Property Warehouse with the proceeds from auction sales returned to the university general fund. Computer and personal electronic equipment sales represent a significant portion of the approximate \$1.1 million in total annual revenue, but also increase the risk of exposure of sensitive data if appropriate data sanitization procedures are not implemented. Sanitization is a dynamic challenge as equipment and device storage methods change.	Information Technology

University Policy Compliance Reviews

University Internal Audit will continue its program of limited scope reviews of senior management areas. These surveys review major aspects of a department's administrative processes using internal control questionnaires and limited testing that provides broad audit coverage ensuring compliance with university policies on campus.

Planned Engagement	Overview	Risk Area
College of Architecture and Urban Studies	The College of Architecture and Urban Studies (CAUS) consists of four schools and a multi-college program. CAUS offers 11 undergraduate majors, 7 minors, and 13 graduate degree programs. Degree programs are based both in Blacksburg and Alexandria, Virginia, and there is an international location in Riva San Vitale, Switzerland through Virginia Tech's Steger Center for International Scholarship.	Operational – Academic
Other Executive Offices	Additional executive offices within the hierarchy of the Office of the President will receive a review. These entities include the Global Forum for Urban and Regional Resilience, the Office of the Senior Fellow for Resource Development, and University Legal Counsel.	Operational – Administrative
Vice President for Finance	The finance division provides the primary support to university leadership in identifying, obtaining, and allocating the resources needed to achieve the university's mission and the goals and objectives of the university's strategic plan. Offices include Budget and Financial Planning, Bursar, Capital Assets and Financial Management, Controller, Procurement, Risk Management, and the University Treasurer.	Operational – Administrative
Vice President for Outreach and International Affairs	The Vice President for Outreach and International Affairs (OIA) supports the university's engagement mission by creating community partnerships and economic development projects, offering professional development programs and technical assistance, and building collaborations to enrich discovery and learning within the Commonwealth and throughout the world. OIA leads Virginia Tech's presence on five continents, regional research and professional development centers across the Commonwealth, and Blacksburg-based centers.	Operational – Administrative

Management Advisory Services

Planned Engagement	Overview	Risk Area
Advancement System (Blackbaud)	In 2015, the university restructured alumni relations, development, and university relations into a more cohesive Advancement division. The Advancement division procured and began implementation of a system designed to support its operations to allow managers to control and evaluate the diverse activities critical to the university, including alumni cultivation, donor relations, prospect management, campaign solicitation, gift processing and accounting, and pledge tracking. Implementation will include conversion of content and database structure while maintaining data integrity.	Information Technology
Club Sports	An extramural sport club is a group of students who form an organization to practice and compete in a sport. There are currently 31 sport clubs administered by the Virginia Tech Department of Recreational Sports. Each club is comprised students, who organize, fund, and promote their clubs with the ultimate goal of competing against other colleges and universities on both a regional and national level. Club Sports are legally considered to be a part of the Department of Recreational Sports.	Operational – Student
Enterprise Risk Management	Universities face an ever-changing and extensive myriad of risks related to continued success and operation. Enterprise Risk Management (ERM) is an organization-wide systematic approach to identify and tactically manage risk, focusing broadly across all risks: compliance, finance, operations, and strategic. ERM integrates risk into an institution's strategic plans with the goal of achieving an appropriate balance of risk and return. Some of the benefits of ERM include improved communication on risk among senior leaders and Board members which leads to more informed decisions, better allocation of resources, and stronger governance practices.	Strategic
School of Medicine	The Virginia Tech Carilion School of Medicine represents a unique, public-private partnership between a top-tier research university and a major health care institution. The school, with full accreditation from the Southern Association of Colleges and Schools Commission on Colleges and the Liaison Committee on Medical Education, is slated for transition within Virginia Tech.	Operational – Academic
Title IX Program Policies and Procedures	Virginia Tech receives federal financial assistance in many forms, including research grants from federal agencies. Failing to comply with Title IX or other federal civil rights requirements can result in the termination of all or part of a university's federal funding. Educational institutions are required to provide women and men in all disciplines comparable resources, support, and promotional opportunities. Title IX requires that males and females receive fair and equal treatment in all areas of education, including athletics. Other areas that fall within the scope of Title IX include recruitment, admissions, course offerings and access, scholarships and financial aid, sexual harassment, assault, and violence.	Compliance
Youth Protection Activities	The university is committed to the safety and welfare of its students, employees, and visitors through the establishment of practices that support a safe and secure environment in all buildings and grounds owned, controlled, or leased by Virginia Tech, including satellite locations, as well as promoting safety	Operational – Administrative

Planned Engagement	Overview	Risk Area
	through policies and programs. Administrators, employees, students, volunteers, and others working with minors (children under the age of 18) have a responsibility to promote their protection.	

Special Projects and Annual Audit Activities

Activity	Overview
Special Projects	Investigate fraud, waste, and abuse allegations.
Annual Audit Activities (Follow-up, Inventory)	Conduct follow-up audit procedures to ensure that management is implementing controls as described within their responses to audit report recommendations. Assist management with year-end inventory counts for financial statement verifications.
External Audit Coordination	Manage and serve as the liaison for all external audit services including contracted and regulatory-imposed audits.

AUDIT RESOURCES

The audit plan for fiscal year 2016-17 is based on professional staffing of 13 full-time equivalents (FTEs). Staffing will be augmented by the continuation of the student internship program in which two Virginia Tech students are employed. Approximately 74 percent of University Internal Audit's available resources are committed to the completion of planned audit projects, management advisory reviews, and investigations. The annual audit plan is designed to provide appropriate coverage utilizing a variety of audit methodologies including audits of individual units, functional and process audits, university-wide reviews, and information system projects. University Internal Audit conducts follow-up audit procedures throughout the year to ensure that management is implementing controls as described within their responses to audit report recommendations.

Audit resources are allocated as follows:

- 52% of the University Internal Audit's available resources are committed to the completion of planned audit projects and follow-up audit procedures.
- 14% to accommodate requests from management and consultations with university departments.
- 8% to conduct investigations into fraud, waste, and abuse allegations.
- 13% for employee professional development, internal quality improvement projects, and other internal administrative functions.
- 13% for compensated absences such as annual, sick, and holiday leave.

Review and Acceptance of Internal Audit Reports Issued

FINANCE AND AUDIT COMMITTEE

April 26, 2016

Background

In concurrence with the fiscal year 2015-16 Internal Audit Plan approved by the Finance and Audit Committee at the August 31, 2015 Board of Visitors meeting, the department has completed four risk-based audits and one compliance review during this reporting period. This report provides a summary of the ratings issued during the period and the rating system definitions. Internal Audit continues to make progress on the annual audit plan.

Ratings Issued This Period

Electrical and Computer Engineering	Improvements are Recommended
Research: Effort Reporting	Effective
Building Construction / Myers-Lawson School of Construction	Improvements are Recommended
Institute for Critical Technology and Applied Science	Improvements are Recommended
University Libraries	Improvements are Recommended

Summary of Audit Ratings

Internal Audit'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 reviewed above be accepted by the Finance and Audit Committee.

June 6, 2016

External Quality Assessment of the University's Internal Audit Function

FINANCE AND AUDIT COMMITTEE

May 20, 2016

This report provides an update on the status of the independent external quality assessment of the university's internal audit function.

Background

The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* require that internal audit functions implement a comprehensive Quality Assurance and Improvement Program. This program includes ongoing internal assessments, periodic self-assessments, and an independent external assessment that should be conducted at a minimum of every five years. The most recent independent external assessment was completed in 2011.

The intent of the assessment is to provide reasonable and objective assurance that the internal audit work being performed by University Internal Audit meets the requirements of the *Standards*. It is also intended to identify whether or not there are opportunities that would enhance the effectiveness of the audit process and improve the value of the university's internal auditing function.

External quality assessments can be performed in two ways:

1. A full assessment by a qualified, independent reviewer or review team;
2. A self-assessment with independent validation by a qualified, independent reviewer or review team.

Status

In consultation with the Finance and Audit Committee of the Board of Visitors and the President, the Director of Internal Audit initiated discussions with the university's Procurement Department to develop a request for proposal (RFP) for an external consultant to coordinate and lead a team of peer chief audit executives (CAEs) in the completion of a full assessment. The RFP was developed and released during the fall 2015.

In early 2016, consulting firm Baker Tilly was awarded the project. Additionally, three peer CAEs were engaged to serve on the review team. These individuals include:

- Richard N. Cordova, Executive Director of Internal Audits, University of Washington
- Pamela A. Doran, Executive Director of Audit and Advisory Services, University of South Carolina System

- Michael L. Somich, Executive Director of Audit, Risk, and Compliance, Duke University

In preparation for the review, an extensive request for information and documentation was received. University Internal Audit leadership worked to respond and provide that information. The review team visited campus in early May to interview more than 20 senior leaders and key audit contacts as well as the audit staff. All members of the Finance and Audit Committee provided feedback to the team in advance of the onsite visit. In addition to the individual interviews, over 90 key constituents and recent audit clients had the opportunity to provide feedback via survey as to governance, personnel, management, and process components of the internal audit function. The university provided full support to the review team during the course of the assessment.

The preliminary results shared at the conclusion of the onsite visit indicated that the internal audit function “generally conforms” with the IIA Standards, which is the highest rating. Further, the review team shared that University Internal Audit has established a strong foundation of alignment to the Standards and has a history of solid work performed. The review team will offer recommendations for institution-wide opportunities as well as several items for the internal audit function to encourage continued growth and evolution.

Next Steps

The final report of the review team’s results will be presented at the August 2016 meeting of the Finance and Audit Committee.

Report on Audits of University-Related Corporations

FINANCE AND AUDIT COMMITTEE

April 22, 2016

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, 2015, 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	✓	1	1	2	✓
VT Foundation, Inc.	✓	1	1	2	✓
VT Intellectual Properties, Inc.	✓	1	1	2	✓
VT Services, Inc.	✓	1	1	2	✓

¹ No management recommendations resulted from the audit.

² 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.

Report on JLARC Recommendations to be Addressed by the Board of Visitors

FINANCE AND AUDIT COMMITTEE

May 19, 2016

This report provides an update on the implementation status of the seven JLARC recommendations to be addressed by the Board of Visitors.

Background

The 2012 General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to conduct a study on cost efficiency of public higher education institutions in Virginia and to identify opportunities to reduce the cost of public higher education in Virginia. The House Joint resolution that directed JLARC to conduct the study identified 14 areas to consider in its study including both academic and non-academic factors that affect the cost of higher education operations. The study was conducted over a period of two years and was completed on November 30, 2014. JLARC issued a total of five reports during the course of the study. The university has provided highlights from all of the reports at prior Board meetings. The fifth and final report titled *“Addressing the Cost of Public Higher Education in Virginia”* was issued on November 10, 2014.

JLARC issued a total of 32 recommendations and seven policy options in the five reports. Subsequent to the issuance of the fifth report, the Council of Presidents (COP) convened a meeting and created a subcommittee to develop unified higher education institutional positions on the JLARC recommendations. The subcommittee asked the finance officers from the higher education institutions to review the recommendations and propose a collective position for each of the recommendations for consideration by the COP.

The COP adopted the institutional position recommendations proposed by the finance officers. The recommendations were divided into two categories:

- Recommendations that could be implemented promptly, as determined by management. Of the 32 recommendations, the COP agreed that 17 recommendations could be implemented promptly, if the action was deemed appropriate by management. Examples of such recommendations include: a) disclosure and enhanced transparency of various fees assigned to students, b) institutional review of organizational structure, and c) standardized purchases of commonly procured goods, implementation of cooperative procurement, etc.
- Recommendations requiring further discussion and analysis to assess the ease or complexity of implementation and the impact on the diverse missions of Virginia public institutions. Examples of such recommendations include benchmarking of discipline-level faculty salary averages, imposing limitation on tuition and fee increases, etc.

General Assembly Actions

Prior to the start of the General Assembly session, the House of Delegates established a Higher Education Advisory Group to look at various higher education issues, including the JLARC reports. Upon request from the Advisory Group, the COP submitted the unified higher education institutional position paper to the General Assembly along with the finance officers' recommendations.

The approved budget passed by the General Assembly included language recommending implementation of a subset of the 17 JLARC recommendations listed by the financial officers as items that could be addressed in the short-term. The budget language included seven items which the General Assembly believed should be addressed by the Board of Visitors, to the extent practicable.

Status of Institutional Actions on the Outstanding Recommendations by General Assembly

Of the seven recommendations proposed by the General Assembly for Board's consideration, the university has fully implemented two with the remaining five in various stages of implementation. The following table provides a summary of the implementation status of all recommendations.

Recommendation Numbers	Recommendation Category	Status
1	Display of tuition and fee including mandatory fees on university website and student invoices	Fully Implemented
2	Feasibility and Impact of raising additional revenue through campus recreation and fitness enterprises	Fully Implemented
3, 4, 5	Review of organizational structure including analysis of span of control	In Progress
6, 7	Standardization of Purchases of commonly procured goods and use of institution-wide contracts	In Progress

This report provides an update on the implementation status of the five outstanding recommendations. These recommendations are grouped into two categories.

Review of organizational structure including analysis of span of control **Status: In Progress**

3. *Recommendation: Direct staff to perform a comprehensive review of the institution's organizational structure, including an analysis of spans of control and a review of staff activities and workload, and identify opportunities to streamline the organizational structure.*

Boards should further direct staff to implement the recommendations of the review to streamline their organizational structures where possible;

- Virginia Tech established a cross-functional team comprised of Human Resources, IT, and Finance personnel to evaluate the current status of organizational structure, data availability, collection, and assessment, and review of existing span of control studies, etc.
 - The university has completed the first phase of the project to populate the university's centralized Enterprise Resource Planning (ERP) system with the required data elements in order to create a consistent platform for conducting the span of control study. University departments reviewed the data sets for their respective areas for validation purposes to ensure data integrity for conducting the study. Completion of this work will enable the university to commence the organizational structure study.
- The university has decided to engage a consultant to conduct the second phase of the project. The second phase would include conducting an analysis of the current organizational structure and span of control for the administrative functions and benchmarking of the structure and practices against peer institutions and best practices. Based on the results of the assessment, a recommended course of action and an implementation plan that meets the intent of this recommendation will be presented for consideration by the Board.

4. Require periodic reports on average and median spans of control and the number of supervisors with six or fewer direct reports;

- Virginia Tech currently provides scorecard metrics on multiple academic and administrative measures. While the university recognizes the value in initial reporting of this information, the university will work with the Board members to evaluate if additional measures related to average and median spans of control should be an ongoing reporting metric.

5. Direct staff to revise human resource policies to eliminate unnecessary supervisory positions by developing standards that establish and promote broader spans of control. The new policies and standards should (i) set an overall target span of control for the institution, (ii) set a minimum number of direct reports per supervisor, with guidelines for exceptions, (iii) define the circumstances that necessitate the use of a supervisory position, (iv) prohibit the establishment of supervisory positions for the purpose of recruiting or retaining employees, and (v) establish a periodic review of departments where spans of control are unusually narrow;

- Based upon the results of the university assessment on Recommendation #3 above, the university will evaluate if revisions to human resources policies are necessary.

Standardization of Purchases of commonly procured goods and use of institution-wide contracts

Status: *In Progress*

6. Direct institution staff to set and enforce policies to maximize standardization of purchases of commonly procured goods, including use of institution-wide contracts;

- After completing an internal evaluation of the status of its procurement processes regarding standardization of purchases and the use of institution-wide contracts, the university has engaged a consultant to conduct an independent assessment of the current state of standardized purchasing. The scope of the engagement includes:
 - Assessment of the current state of standardized procurement including analysis of percentage of university's expenditures "commonly procured" and the extent of standardization for procurement of such items
 - Benchmarking of university's policies and practices for standardization against peer institutions and other industries
 - Additional opportunities for standardization – supplier consolidation, cooperative purchasing, product and service standards, etc.
 - Potential strategies for balancing the competing procurement goals for increasing standardization while maintaining local and SWAM (Small, Women-Owned, and Minority) procurement goals.
- The engagement is currently underway with expected completion in June, 2016. Based on the evaluation of the current practices and the procurement environment, the consultant will present recommendations and actions plans to close any gaps that may exist in the university's' standardization performance for the university's consideration.
- An element of this assessment will be an evaluation of the current and potential future impact of the work by the Virginia Cooperative Procurement Consortium. This consortium was established recently through the joint efforts of several Virginia public institutions of higher education, including Virginia Tech, to negotiate and execute contracts for goods and services commonly purchased by all higher education entities to maximize savings that would benefit all institutions within the Commonwealth.
 - The Consortium is continuing to leverage spend from all state institutions in the following commodities: Inbound Freight, Computer Peripherals, and Scientific and Lab Equipment. Agreements in each area will be negotiated to obtain the highest discounts possible. Most of the Commonwealth institutions are fully participating in this process. We expect to utilize resulting Consortium agreements by the end of this fiscal year.

- Management believes these two actions will address the intent of the recommendations. The university will review the results of this work with the Board for concurrence or guidance on any addition needed actions.
- The university anticipates the completion of the above action plan for procurement by August, 2016 and plans to report the final results to the Committee at its August, 2016 meeting.

7. *Consider directing institution staff to provide an annual report on all institutional purchases, including small purchases, which are exceptions to the institutional policies for standardizing purchases.*

- Virginia Tech currently provides scorecard metrics on multiple academic and administrative measures. While the university recognizes the value in initial reporting of this information, the university will work with the Board members to evaluate if additional measures regarding exceptions to institutional policies relating to purchasing should be an ongoing reporting metric.

Next steps

The university is working on the recommendations which are in progress and will continue to work with the Board and plan to bring back additional updates.



2016-17 Faculty Compensation Plan

M. Dwight Shelton, Jr.

June 6, 2016

2016-17 Faculty Compensation Plan

- Consistent with prior year plans
- University continues to follow parameters from Secretary of Education
 - Consolidated Salary Authorization for Faculty Positions in Institutions of Higher Education
 - Defines qualification criteria for T/R* and A/P* faculty
 - Provides guidance on authorized salary average for full-time T/R
 - Requires Board approval

2016-17 Faculty Compensation Plan Elements

- Authorized Salary Average
- 2016-17 pay structure
- Promotion and tenure process
- Annual evaluation and salary adjustment process
- Other salary adjustments
- Merit Review and Compensation Process

Salary Average

- University Actual Salary Average of \$97,420 for 2015-16 is estimated to be at the 35th percentile of our peer group.
- IPEDS peer data for Fall 2015 not yet available
 - SCHEV estimates an average 2% peer increase
- If the market moves as expected, the university's 2015-16 merit action should enhance our relative market position.

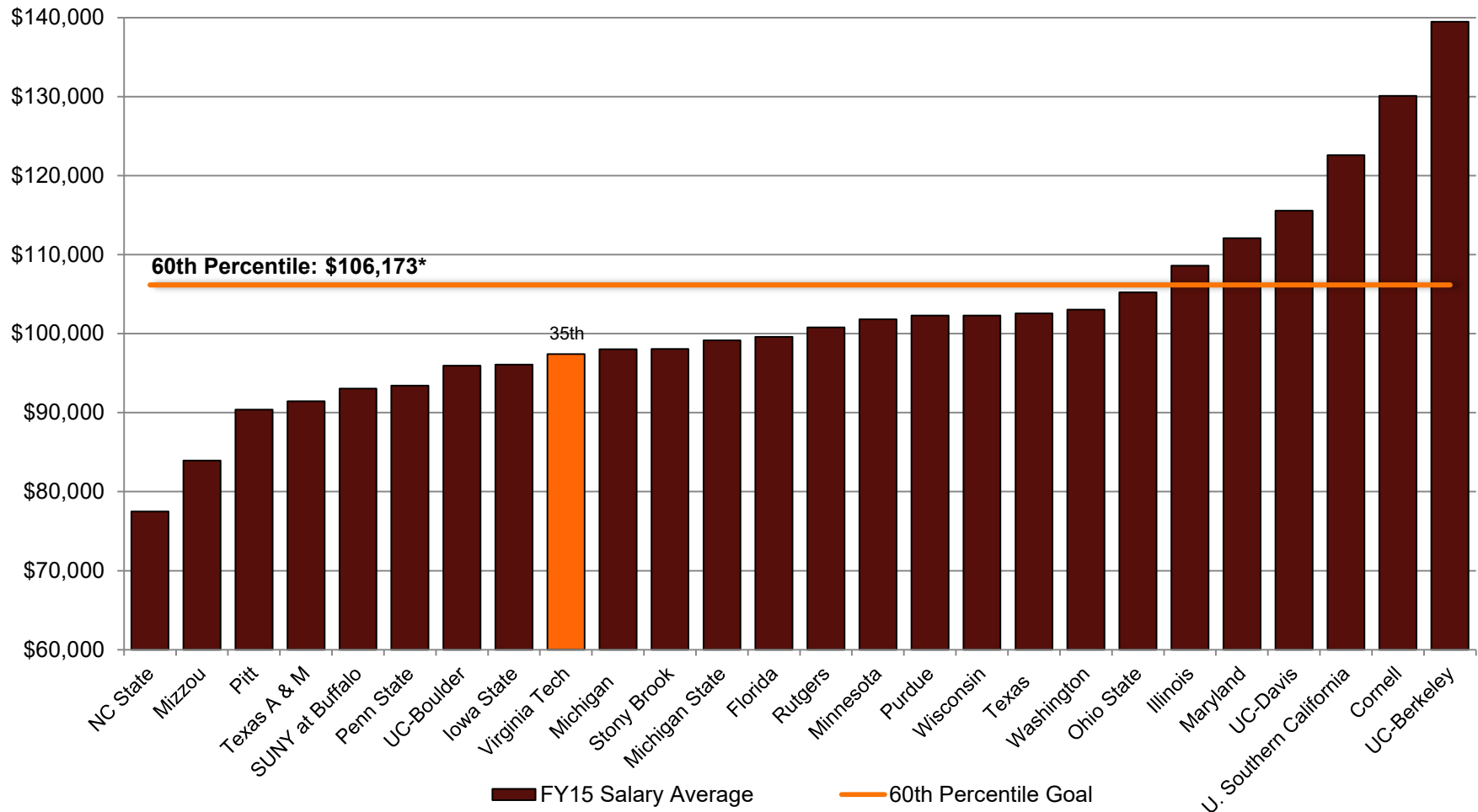
Peer Salary Benchmarking

	Fall 2014	Fall 2015*
60 th Percentile IPEDS	104,091	106,173
State Authorized Salary Average	93,104	96,362
Actual Average Salary ^(a)	94,295	97,420
Rank — Authorized	20 of 26	18 of 26
Percentile — Authorized	29 th	32 nd
Rank — Actual	18 of 26	18 of 26
Percentile — Actual	32 nd	35 th

**IPEDS peer salary data for Fall 2015 is not yet available. Estimates are based on the State Council of Higher Education's forecast of 2% salary escalation at peer institutions.*

(a) Computed in accordance with traditional consolidated salary average guidelines provided by the Secretary of Education.

National Peer Salary Benchmarking



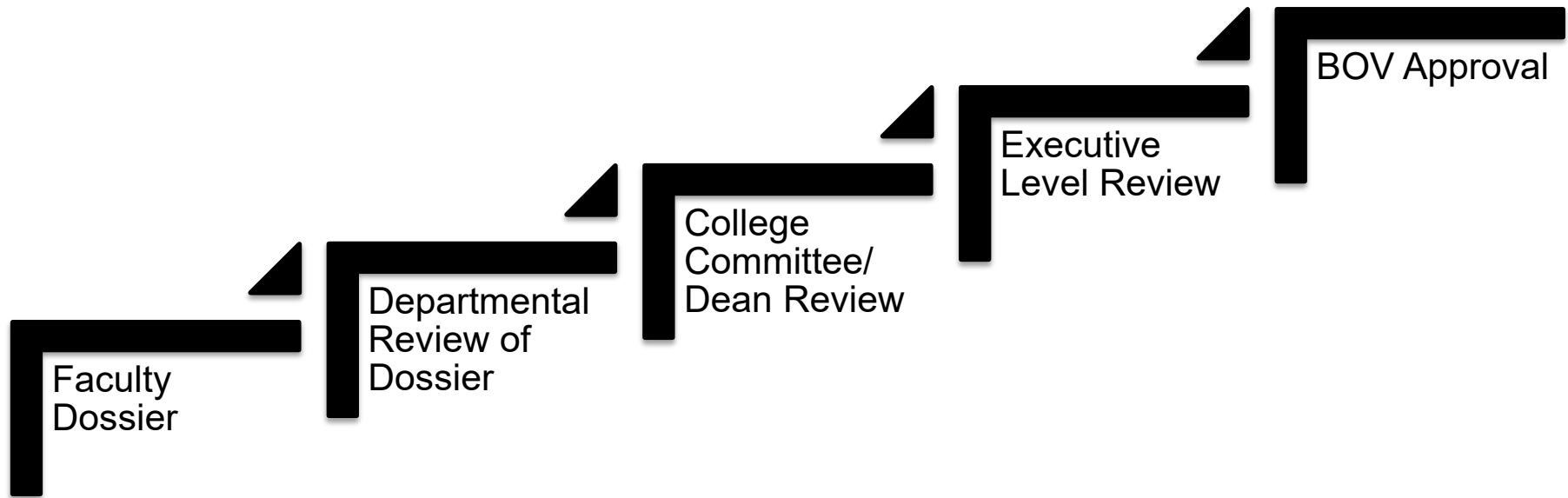
*IPEDS peer salary data for Fall 2015 is not yet available. Estimates are based on the State Council of Higher Education's forecast of 2% salary escalation at peer institutions.

2016-17 Pay Structure

- Establishes entrance salaries for each faculty rank
- Summarizes distribution of faculty across ranks

	9-Month Faculty	12-Month Faculty	Approximate Distribution of Faculty By Rank
	Entrance	Entrance	
Professor	\$88,902	\$108,429	34%
Associate Professor	67,995	82,392	30%
Assistant Professor	56,249	68,420	23%
Senior Instructor	48,242	62,772	3%
Advanced Instructor	43,011	55,798	2%
Instructor	39,422	51,292	8%

Promotion & Tenure Process



- Promotion to a higher rank and appointment with tenure may be granted to faculty members on a regular faculty appointment who have demonstrated outstanding accomplishments.
- Each candidate for promotion or tenure will be evaluated in light of the triple mission of the university: instruction, research, and outreach.

Promotion & Tenure

Faculty	Clinical Faculty	Collegiate Faculty⁽¹⁾	Professor of Practice	Cooperative Extension	Instructor	Amount⁽²⁾
Professor	Clinical Professor	Collegiate Professor	Professor of Practice			\$7,000
Associate Professor	Clinical Associate Professor	Collegiate Associate Professor	Associate Professor of Practice	Senior Agent	Senior Instructor	\$5,000
Assistant Professor	Clinical Assistant Professor	Collegiate Assistant Professor	Assistant Professor of Practice	Agent	Advanced Instructor	\$3,000

(1) New faculty rank established for 2016-17.

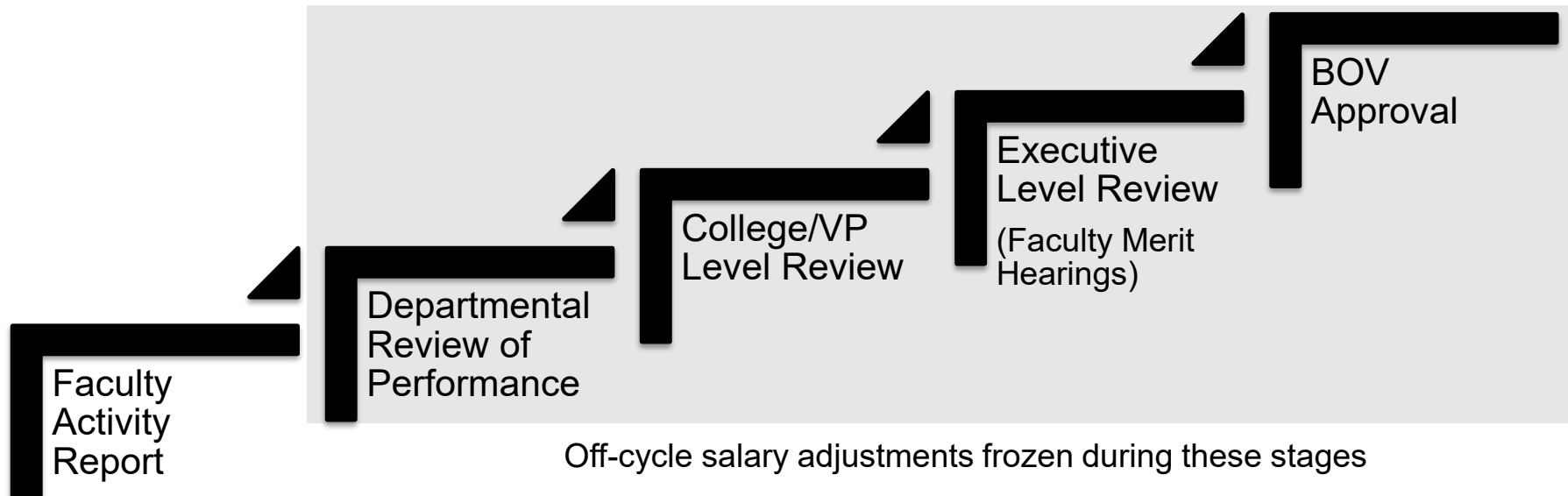
(2) No change to amounts from 2015-16 Faculty Compensation Plan.

Annual Evaluation and Salary Adjustments

- Faculty Activity Report (FAR)
 - Teaching/Research Faculty: instructional activities, creative scholarship, outreach and service contributions and other professional activities and recognitions
 - Administrative/Professional faculty: activities in support of their specific job goals as they relate to the broader mission of the university
- FAR forms the basis of faculty evaluations conducted annually by departments independent of the faculty merit process

Annual Evaluation and Salary Adjustments

Faculty Merit Process



- Salary adjustments in the faculty merit process are based on performance, not automatic.
- All merit recommendations are reviewed at three levels before presenting to Board of Visitors for approval.

Merit Review and Compensation Process

- **In accordance with the 2016 General Assembly, the university plans to implement an annual merit-based faculty salary program in 2016-17.**
- **The program:**
 - **Allows for an average 3.0% increase for all university faculty and staff.**
 - **Is contingent upon the state meeting 2016 revenue target.**
 - **State revenues will be certified by the Comptroller on July 5, 2016**
 - **Will be effective on November 10, 2016 with increases appearing in employee's December 1st paychecks.**

Other Salary Adjustments

- May happen for:
 - Changes in duties and responsibilities
 - Recognition and retention
 - National Distinction
 - Special temporary assignments
- Adjustments established through this process are submitted, as appropriate, for ratification to the Board of Visitors on a quarterly basis on the Faculty Personnel Changes Report.

Questions?



Financial Performance Report

Third Quarter 2015-16

Tim Hodge, Assistant Vice President for
Budget and Financial Planning

June 6, 2016



Overview

- The university continuously monitors financial performance
- Each quarter the university provides the Board with an update on financial performance
- The annual budget represents the university's projection of operations
 - The original budget is as reviewed with the Board in June
 - The adjusted budget is revised as new information becomes available



E&G Operating Budget

Annual Budget Change

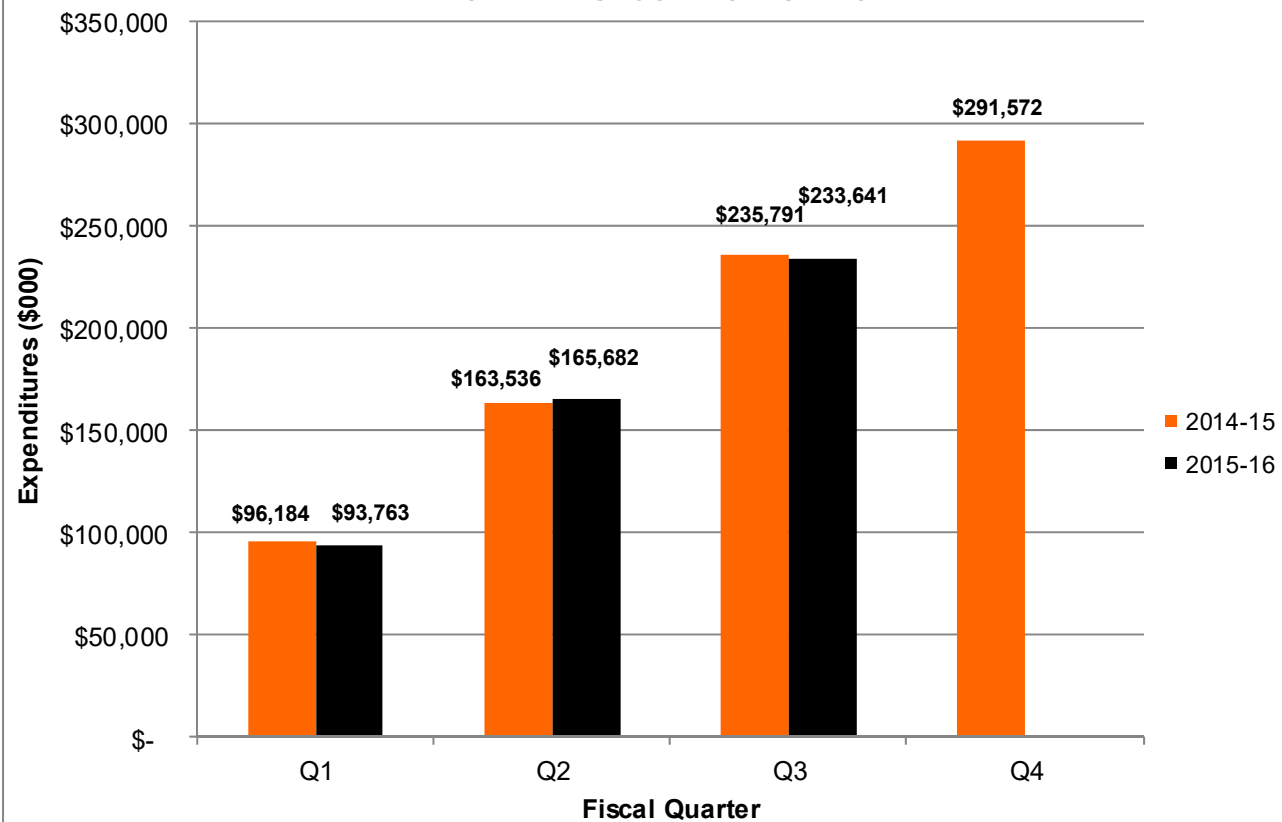
- University Division
 - Tuition and Fee: \$4.6 million increase due to winter session and higher than projected spring retention
 - Veterinary Medicine Hospital: \$450K increase due to higher than projected case loads
 - Equine Medical Center: \$100K increase due to higher than projected case loads

Performance

- University Division and Cooperative Extension/Agricultural Experiment Station (CE/AES)
 - Normal timing variations



Sponsored Programs Expenditures 2014-15 to 2015-16





Auxiliary Enterprises

Key Annual Budget Changes

- Residential: \$496K projects
- Inn at VT: \$325K increased business volume
- Telecommunications: \$1.6M connectivity projects
- Electric Services: \$2.2M decreased cost of electricity and rate adjustments
- Athletics: \$3.3M increase for football personnel transitions
- Athletics: \$2.8M increase for indoor practice field capital project activity

Performance

- Fleet Services: lower than projected business volume
- Printing Services: lower than projected business volume
- Other activities are performing well



Capital Outlay

- **Total capital program level currently authorized**
 - \$548.3 million over several years
- **Cumulative program expenses**
 - \$334.4 million inception-to-date
- **Significant total program adjustments**
 - Projects approved at the March 2016 Board meeting and added to the report:
 - ❖ Planning for O'Shaughnessy Hall Renovation
 - ❖ Planning of Student Wellness Services
 - ❖ Planning for Eastern Shore AREC Equipment Storage Building



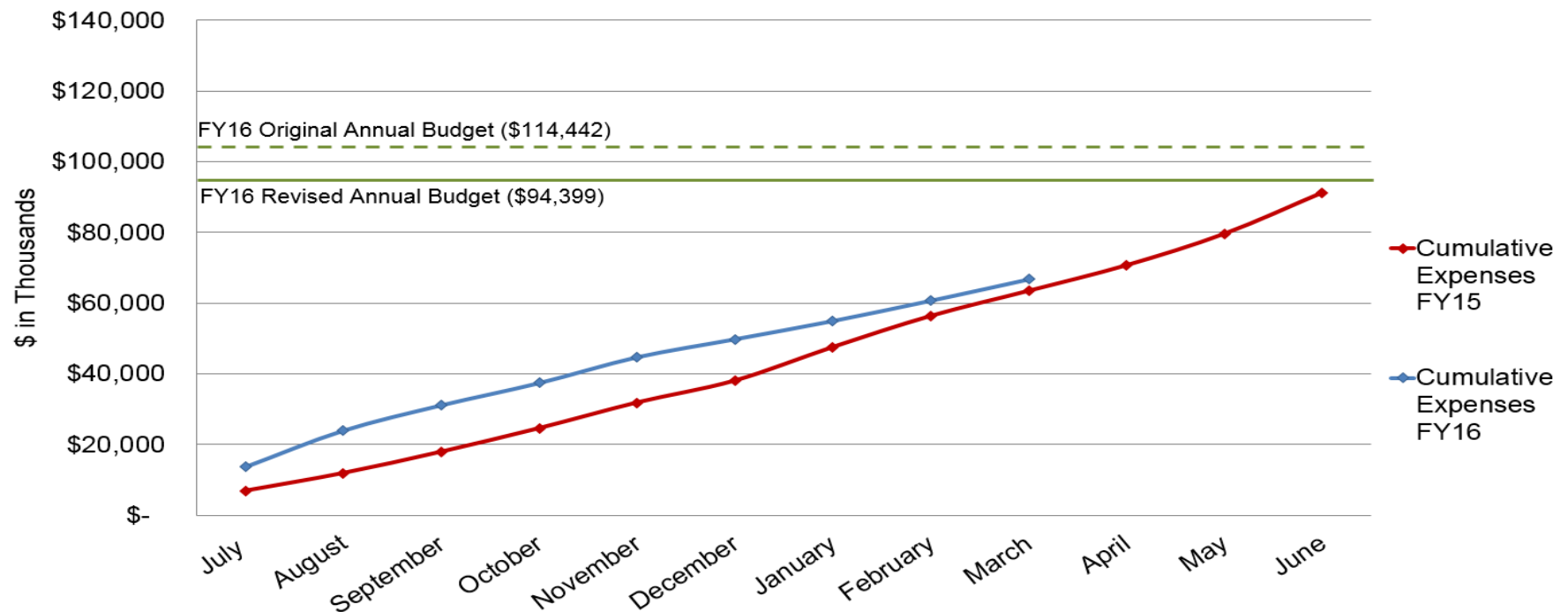
Capital Outlay

- **Annual capital budget as of third quarter**
 - \$94.3 million
- **Annual expenses as of third quarter**
 - \$66.7 million
- **Annual budget adjustments this quarter**
 - Total project budgets unchanged.
 - ❖ Upper Quad Residential Facilities \$(15.02 million)
 - ❖ VBI Data Center Expansion \$(2.50 million)
 - ❖ Residential Connectivity \$(1.05 million)
 - ❖ Lane Substation Expansion \$(1.50 million)



Capital Outlay Trends: Annual Performance

CAPITAL PROGRAM ANNUAL PERFORMANCE Cumulative Monthly Expenditures Fiscal Year 2015 and Fiscal Year 2016





Capital Outlay

- **Major Construction Underway**
 - Classroom Building
 - Fire Alarm Systems and Access
 - Upper Quad Residential Facilities
 - Residential Door Access Improvements



Questions?



Revision of 2016-2022 Six-Year Plan

June 6, 2016

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

Background

Background

- **Six-Year Plan is a requirement of the Higher Education Opportunity Act of 2011 (HEOA)**
- **Based on the Commonwealth's goals and objectives for higher education**
- **Focuses on four key areas:**
 - Financial Aid for low and middle-income families
 - Optimal year-round use of facilities
 - Instructional resource sharing program with other institutions of higher education in Virginia
 - Enrollment growth and degree completion

Components of Six-Year Plan

1. Academic plan

- Contains strategies that advance the university's strategic plan
- Provides support for the state's objectives in the HEOA

2. Financial Plan

- Estimated costs of academic strategies and other institutional cost drivers
- Identifies potential revenues and reallocations to resource the plan

3. Enrollment Plan

- SCHEV "2B" 6-year enrollment plan

Six-Year Planning Process

- Six-Year plans aid state officials in understanding institutional resource needs
 - Board approval of initial submission at June meeting
 - Due to the State on July 1st
 - Serves as starting point for Executive Budget development
- July/August review by:
 - Secretaries of Education and Finance
 - Directors of Department of Planning and Budget (DPB) and SCHEV
 - Staff of House Appropriations and Senate Finance Committees
- September/October:
 - Suggestions from State and opportunity for university response
- November:
 - If necessary, final plan may be brought to November BOV meeting

Six-Year Planning Process

- **Plans are to be approved by the Boards of Visitors**

- Requirement in Code of Virginia, § 23-38.87:17:

A. The governing board of each public institution of higher education shall develop and adopt biennially and amend or affirm annually a six-year plan for the institution and shall submit that plan to the Council, the Governor, and the Chairs of the House Committee on Appropriations and the Senate Committee on Finance no later than July 1 of each odd-numbered year, and shall submit amendments to or an affirmation of that plan no later than July 1 of each even-numbered year or at any other time permitted by the Governor or General Assembly.”

B. The Secretary of Finance, Secretary of Education, Director of the Department of Planning and Budget, Executive Director of the Council, Staff Director of the House Committee on Appropriations, and Staff Director of the Senate Committee on Finance, or their designees, shall review each institution’s plan or amendments and provide comments to the institution on that plan by September 1 of the relevant year. Each institution shall respond to any such comments by October 1 of that year.

- SCHEV has provided guidance that Board approval of plans can be done at the earliest possible Fall meeting

2016-22 Academic Plan and Financial & Operating Plan Revision

University Division

Basis of University Revisions

- Continues previous plan initiatives
- Focuses initiatives to reflect university priorities
- Reflects enrollment growth plan
- Continues the state's traditional salary competitiveness program
- Plans for increased affordability through additional student financial aid
- Operating Budgets: reflects actual 2016-17 and projected 2017-18 state cost assignments, unavoidable cost increases, and fringe benefits

University Division -

Academic Strategies

(\$ in millions)

<u>Academic Initiatives</u>	2016-17		2017-18	
	Original	Revised	Original	Revised
Increase Access for Virginia Undergraduates and Support the Production of STEM-H Degrees in the Commonwealth	\$ 6.3	\$ 7.1	\$ 12.8	\$ 12.8
Enhance Economic Development in the Commonwealth through Investment in Market-Centered Instruction and Research Clusters	3.0	3.8	6.1	7.7
Advance Strategic Research Opportunities and Enhance Entrepreneurial and Innovation Ecosystem	4.9	0.0	9.7	3.5
Support Faculty Startup Packages	1.8	4.1	3.5	6.2
Expand K-12 Pipeline Opportunities for Underserved Virginia Residents to Access a Virginia Tech Education	1.0	0.9	1.5	1.5
Ensure Access for Low and Middle-Income Families	1.0	2.8	2.0	5.6
Support Timely Degree Completion Through Enhanced Student Advising, Year-Round Academic Programs, and Instructional Sharing	1.6	1.4	2.8	2.1
Increase Graduate Enrollment in Strategic Areas	0.9	1.9	1.8	2.3
Increase Support for Unique Military Activities	0.2	0.2	0.2	0.5
Advance Institutional Efficiencies and Effectiveness	1.0	1.5	2.1	3.0
Cybersecurity Test Range for K-12 and College Students	0.0	2.0	0.0	2.0
Reallocation of Existing Resources	1.6	0.7	3.3	1.5
Subtotal Academic Initiatives*	\$ 23.3	\$ 26.4	\$ 45.8	\$ 48.7

2016-18 Financial and Operating Costs

(\$ in millions)

<u>Initiatives</u>	2016-17		2017-18	
	Original	Revised	Original	Revised
Increase Faculty Salaries	\$ 11.8	\$ 5.9	\$ 24.1	\$ 17.3
Increase Staff Salaries	2.0	1.8	4.1	4.3
Increase Number of Full-Time Faculty	1.9	1.3	3.8	2.7
Library Enhancement	0.8	0.7	1.5	0.8
O&M for New Facilities	0.9	0.6	1.2	0.9
Utility Cost Increases	0.4	0.6	0.8	1.1
Fringe/Health Insurance Increases	2.7	5.4	5.6	9.9
VRS Increases	0.7	(0.6)	1.3	(0.6)
Annualization of Prior Year Costs	0.0	1.4	0.0	1.4
Miscellaneous Operating Costs	0.0	0.2	0.0	0.2
Subtotal Financial and Operating Initiatives	\$ 21.2	\$ 17.3	\$ 42.4	\$ 38.0

University Division - Summary

(\$ in millions)

	<u>2016-17</u>		<u>2017-18</u>	
	Original	Revised	Original	Revised
Academic Initiatives*	\$ 23.3	\$ 26.4	\$ 45.8	\$ 48.7
Financial and Operating Initiatives	\$ 21.2	\$ 17.3	\$ 42.4	\$ 38.0

* Including strategic reallocations

- Available resources were first applied against significant fixed costs and state assigned fringe benefit increases.
- Remaining resources allowed progress towards the institutional goals set forth in the academic plan.

University Division - Nongeneral Fund Revenue Estimate

- Key components are tuition and fee revenue estimates by degree level and residency for first biennium of plan
- Six-Year plan does not recommend or commit to specific set of rates. Tuition and fee rates remain authority of Board of Visitors
- Tuition and Fee figures are planning placeholders that begin a discussion about how the university and commonwealth can partner to advance goals
- Rates reflect General Assembly guidance and General Fund support
- Revised plan reflects reduction from 3.9% increase in prior plan

University Division - Nongeneral Fund Revenue Estimate

<u>2016-17</u>	<u>Resident</u>		<u>Non-resident</u>	
	<u>% Tuition Rate Change</u>		<u>% Tuition Rate Change</u>	
	<u>Original</u>	<u>Actual</u>	<u>Original</u>	<u>Actual</u>
Undergraduate	3.9	2.9	3.9	2.9
Graduate	3.9	2.9	3.9	2.9
Vet Med	2.9	2.2	2.9	2.2

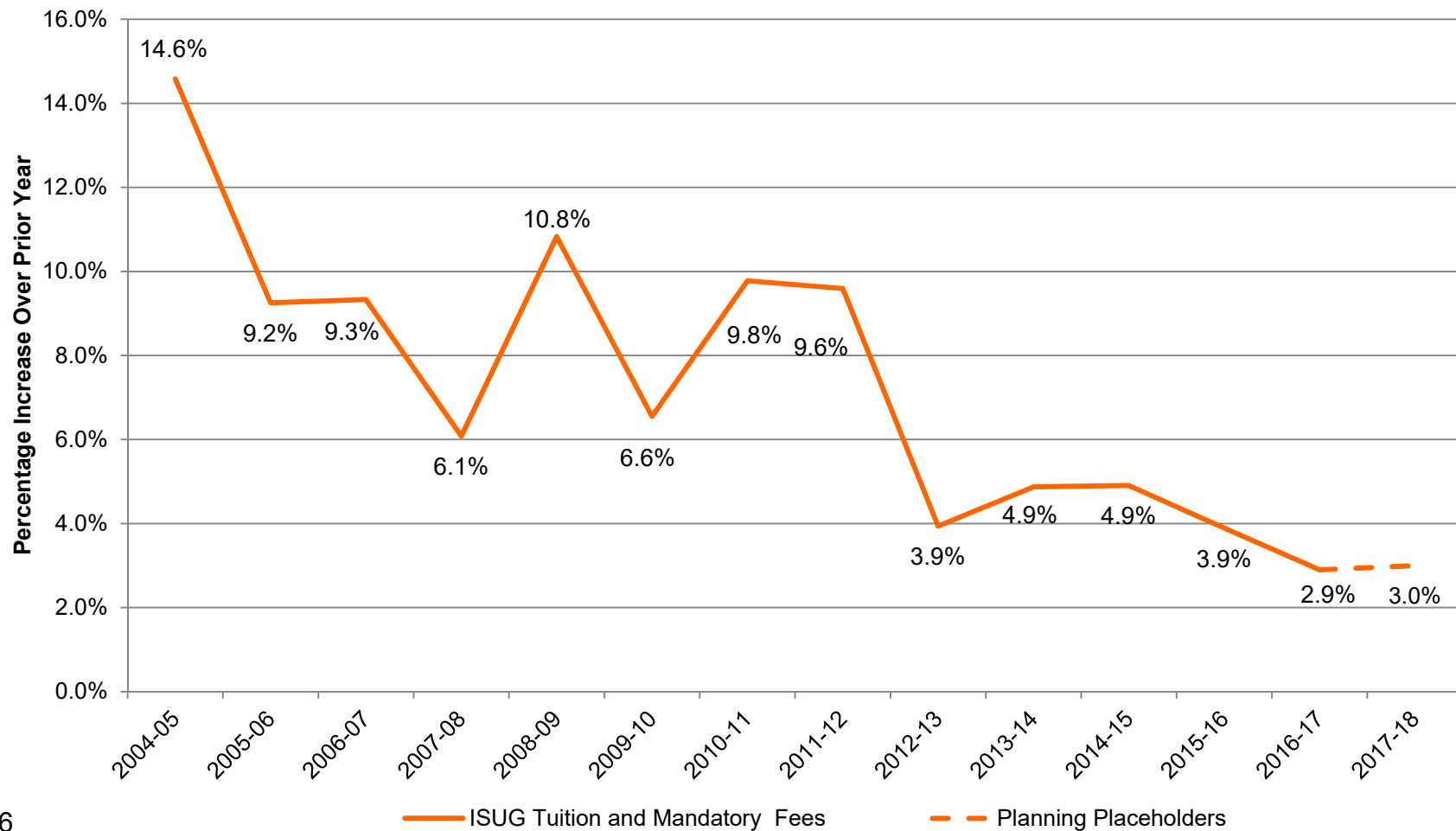
University Division - Nongeneral Fund Revenue Estimate

<u>2017-18 Placeholder</u>	<u>Resident</u>		<u>Non-resident</u>	
	<u>% Tuition Rate Change</u>		<u>% Tuition Rate Change</u>	
	<u>Original</u>	<u>Revised</u>	<u>Original</u>	<u>Revised</u>
Undergraduate	3.9	3.0	3.9	3.0
Graduate	3.9	3.0	3.9	3.0
Vet Med	2.9	3.0	2.9	3.0

* Rates are planning estimates only

Financial Plan

- In-state undergraduate Tuition and Mandatory Fee placeholders continue the trend of modest increases in recent years.



University Division Financial Plan Summary

(\$s in millions)

- Plan is not balanced
 - Projected expenses exceed projected NGF revenue.
 - State General Fund support needed to fully implement all envisioned strategies.

Uses	2017-18*
Academic Initiatives	\$48.7
Operating Need	38.0
Total	86.7
Sources	
Current 2017-18 General Fund**	9.5
NGF Revenue Estimate	50.4
Internal Reallocations	1.5
Implicit GF Request	\$25.3

**Virginia Cooperative Extension &
Virginia Agricultural Experiment Station
Division (VCE/VAES)**

Virginia Cooperative Extension & Virginia Agricultural Experiment Station Basis of University Revisions

- Major cost drivers in plan include:
 - Investing in translational bioscience/precision agriculture
 - Enhancing the compensation competitiveness of Cooperative Extension Agents
 - Reallocations to address state funding shortfall
- State General Fund support is required to fully implement any planned strategies
- Agency has limited ability to increase NGF revenues.
 - **Federal and local funding environments** will continue to be very challenging
 - **No tuition revenue** to supplant General Fund support

Virginia Cooperative Extension & Virginia Agricultural Experiment Station

Academic Strategies
(\$ in millions)

Academic Initiatives	2016-17		2017-18	
	Original	Revised	Original	Revised
Advance the Commonwealth's Capabilities for Growth in Translational Bioscience	\$ 0.8	\$ 0.0	\$ 1.5	\$ 2.5
Enhance the Compensation Competitiveness of Virginia's AES/CE Specialists	0.0	0.0	0.0	1.5
Reallocation of Resources to Address Shortfall in State Funding	0.0	0.2	0.0	0.4
Subtotal Academic Initiatives	\$ 0.8	\$ 0.2	\$ 1.5	\$ 4.4

Financial and Operating Initiatives	2016-17		2017-18	
	Original	Revised	Original	Revised
Increase Faculty Salaries	\$ 1.5	\$ 0.9	\$ 2.9	\$ 2.4
Increase Staff Salaries	0.4	0.3	0.8	0.8
Utility Cost Increases	0.3	0.0	0.5	0.3
Fringe/Health Insurance Increases	0.5	0.9	1.0	1.7
VRS Increases	0.1	(0.1)	0.3	(0.1)
Subtotal Financial and Operating Initiatives	\$ 2.8	\$ 2.0	\$ 5.5	\$ 5.1

Division

Financial Plan Summary

(\$ in millions)

- Virginia Cooperative Extension & Virginia Agricultural Experiment Station division's plan is not balanced – projected expenses exceed projected NGF revenue.
- State General Fund support needed to fully implement all envisioned strategies.

Uses

	2017-18*
Academic Initiatives	\$4.4
Operating Need	5.1
<hr/> Total	<hr/> 9.5

Sources

2017-18 General Fund**	0.0
NGF Revenue Estimate	0.0
<hr/> Internal Reallocations	<hr/> 0.4
Implicit GF Request	\$9.1

University Summary

- **Increasing access**, degrees, and research in market centered instruction/research clusters are the primary academic goals of the university.
- In order to accomplish these goals, the university will:
 - **Attract and retain the best and brightest faculty**, requiring competitive compensation that rewards performance
 - **Work with state officials to increase support for research** that enhances the economic opportunities of Virginia and leverages the capabilities of the university
 - **Identify reallocation and cost containment opportunities and operating support** to address increasing costs and academic plan implementation
 - **Enhance access and affordability**, especially for lower income Virginians

Next Steps

June

- Board Review and Approval of Revisions to the Six-Year Plan

July 1

- Plans due to the state

July/August

- State officials review plan

September/October

- Receive feedback from state
- University responds to state suggestions

November

- If necessary, plan will return to Board for review

Questions ?



2016-17 Operating and Capital Budgets

M. Dwight Shelton, Jr.

June 6, 2016

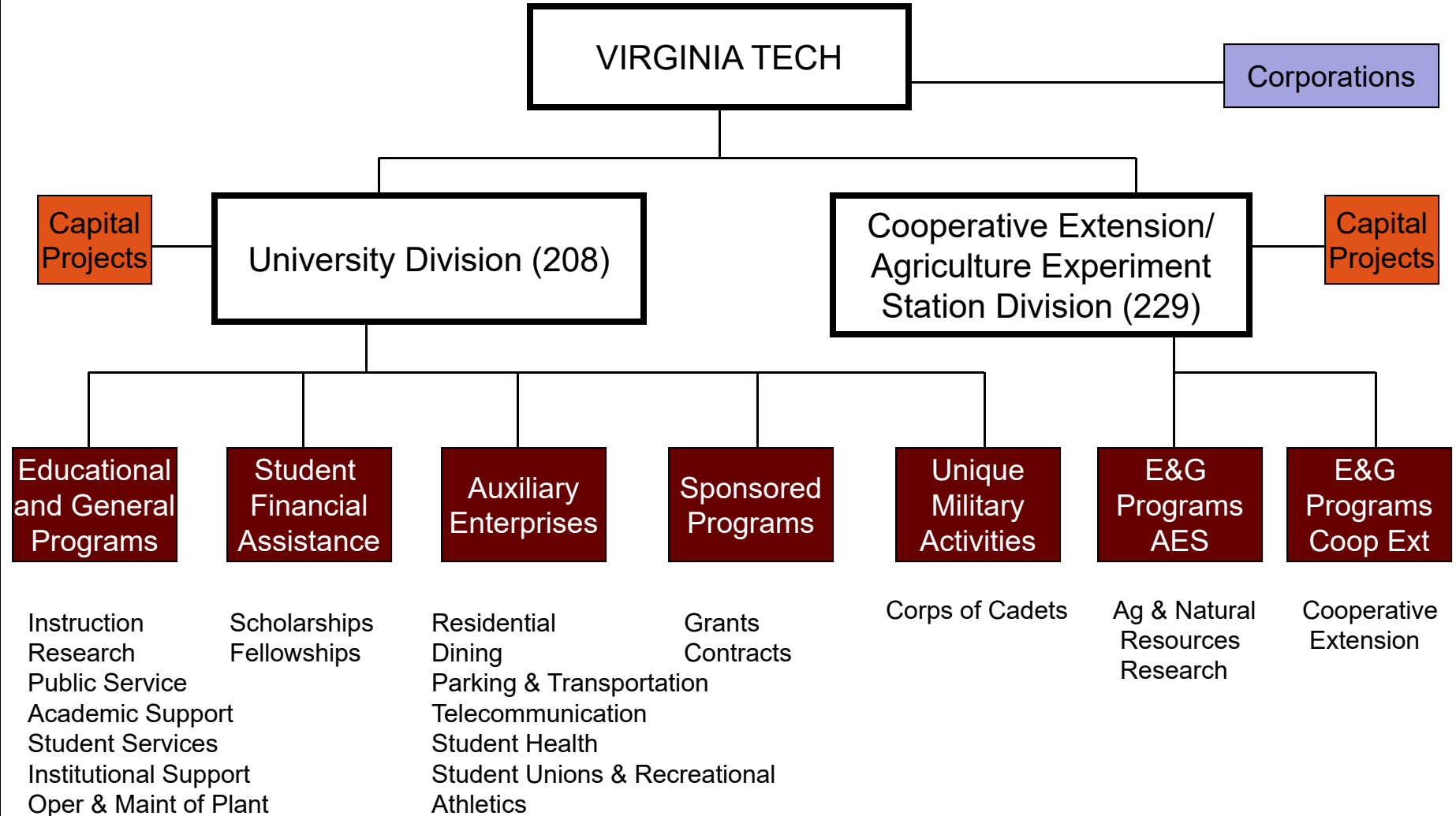
Management Accounting Overview

- ❑ Fiscal Year – July 1 to June 30
- ❑ Accounting Basis – cash
 - ❑ Same as the Commonwealth of Virginia
- ❑ Fund Accounting System - ensures the intended linkage between funding and purpose

Budget Development Timeline

- ❑ Fall/Spring – state budget process determines state support, nongeneral fund assessments & cost assignments, guidance, and costs
- ❑ Spring – BOV establishes tuition & fee rates
- ❑ May-June – finalize budget to advance strategic plan and address critical needs
- ❑ July 1 – start of new fiscal year

Program Structure



Incremental General Fund

(\$ in Millions)

University Division E&G (Agency 208)

Annualize 2015-16 Compensation Program	\$ 0.6
Access, Affordability, Quality and Increase Degrees	2.0
K-12 Pathways	0.9
Enrollment Growth of Virginia Undergraduates	2.2
2016-17 Compensation Program	2.8*
Fringe Rate Changes	1.8*
Cyber Security Range	2.0
Restoration of Interest Earnings and Credit Card Rebate	0.4*
<i>Subtotal University Division E&G</i>	<hr/> \$ 12.7
Unique Military Affairs	\$ 0.2
Financial Aid	0.5
Equipment Trust Fund	2.4
<i>Total University Division</i>	<hr/> \$ 15.8

Incremental General Fund

(\$ in Millions)

CE/AES Division (Agency 229)

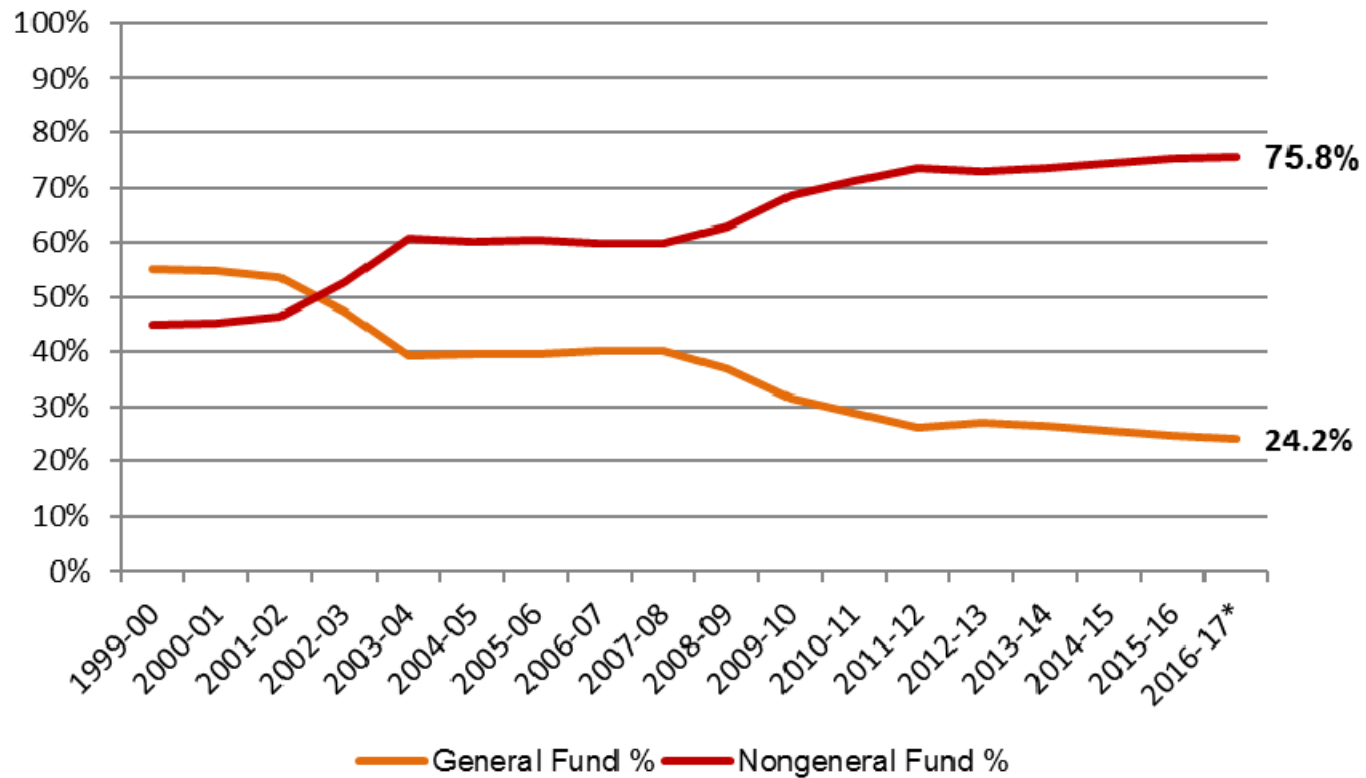
Annualize 2015-16 Compensation Program	\$ 0.2
2016-17 Compensation Program	0.7*
Fringe Rate Changes	0.8*
Extension Agent Salary & Facility Operating	0.1
<i>Subtotal CE/AES</i>	<u>\$ 1.8</u>

University Total (both agencies) \$ 17.6

*Estimate . These items are funded centrally by the state at a later date.

Fund Split

Figure 3: University Division Fund Split



*Estimated Nongeneral fund % increase of 0.47%

2016-17

General Fund Support %

(\$ in Millions)

	GF	Total	% GF
208 E&G	\$166.5	\$688.0	24.2%
229 E&G	70.3	86.9	80.9%
Auxiliary	-	320.2	0.0%
Sponsored	5.4	342.0	1.6%
SFA	20.8	21.8	95.4%
Other	2.3	9.2	25.0%
Total	\$265.3	\$1,468.1	18.1%

2016-17

Auxiliary Revenue Sources

(\$ in Millions)

	Amount	Proportion
Room Fee	\$ 48.1	15.0%
Board Fee	53.7	16.8%
Comprehensive Fee	57.9	18.1%
Self-generated	160.5	50.1%
Total	\$ 320.2	100.0%

Federal Funds

(\$ in Millions)

	<u>2015-16</u>	<u>2016-17</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<u>Direct</u>				
Agency 229	\$17.1	\$15.6	\$(1.5)	(8.8%)
Federal Work Study	1.0	0.7	(0.3)	(30.0%)
<u>Competitive Funds</u>				
Sponsored Programs	183.8	190.1	6.3	3.4%

2016-17 Operating Budget

(\$ in Millions)

	2015-16 Adjusted Budget	2016-17 Proposed Budget	Change	
			\$	%
208 E&G	\$657.2	\$688.0	\$30.8	4.7%
229 E&G	86.6	86.9	0.3	0.3%
Auxiliary	315.4	320.2	4.8	1.5%
Sponsored	338.0	342.0	4.0	1.2%
SFA	21.1	21.8	0.7	3.3%
Other	8.2	9.2	1.0	12.2%
Total	\$1,426.5	\$1,468.1	\$41.6	2.9%

2016-17 Auxiliary Budget

(\$ in Millions)

	2015-16 Adjusted Budget	2016-17 Proposed Budget	Change	
			\$	%
Dorm & Dining System	\$114.6	\$116.8	\$2.2	1.9%
Univ. Services System	43.6	46.7	3.1	7.1%
Athletics System	66.1	66.1	0.0	0.0%
Electric Service System	35.2	34.6	(0.6)	-1.7%
Other	55.9	56.0	0.1	0.2%
Total	\$315.4	\$320.2	\$4.8	1.5%

Compensation Plan

- The university plans for a 3.0% Compensation Program for:
 - T&R and A/P Faculty
 - Classified and University Staff
- Effective November 10, 2016.
- Contingency strategy based upon state funding action in July.

Other Actions

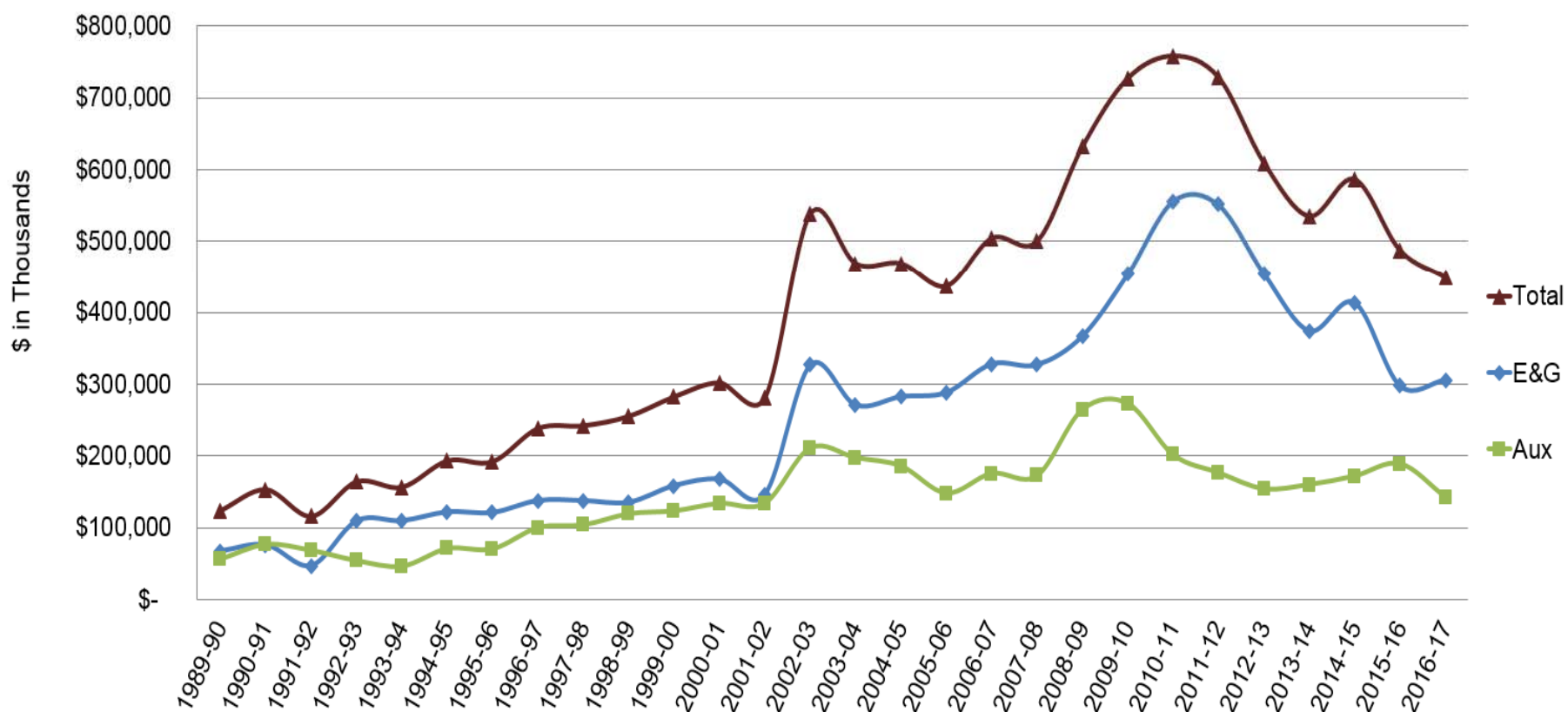
- Recognition of National Distinction effective September 10th, 2016.
- Enhance the competitiveness of salaries in pay bands 1-3 in the staff structure by \$0.50 per hour, effective May 25th, 2016.
- While not centrally controlled, recommend \$0.50 per hour increase for non-student wage employees.

Capital Budget Development

- Capital projects represent large expenditure commitments that occur in a relatively short period of time.
- Resource plans for capital projects are generally developed several years prior to implementation.
- This lead time is necessary to prepare resources for such large costs.
- Once initiated, a capital project requires approximately four years to complete.
- The annual budget reflects the projected expenditure activity for the given fiscal year.

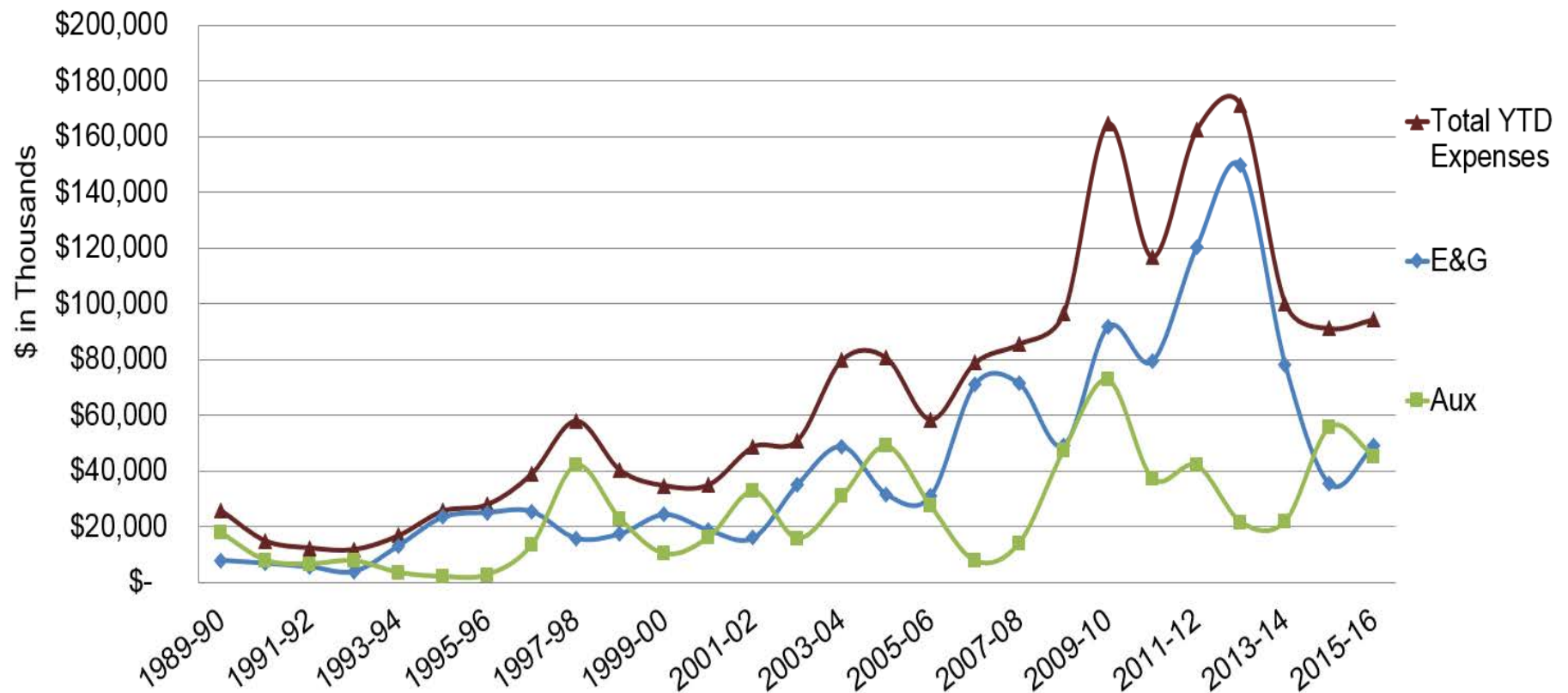
Trend of Total Capital Program Budget

CAPITAL PROGRAM TOTAL BUDGET
Total Budget Level of Active Projects
Fiscal Year 1990 - Fiscal Year 2017



Trend of Capital Program Expenses

CAPITAL PROGRAM EXPENDITURE TREND
Total Annual Expenditures for Active Capital Projects
Fiscal Year 1990 - Fiscal Year 2016



2016-17 Capital Budget

The capital outlay program for fiscal year 2017 includes 24 projects in various phases of design, construction, and close-out (\$ in thousands):

Total Capital Outlay Authorization	\$510,114
Estimated Total Capital Expenses as of 6/30/2016	<u>117,917</u>
Remaining Capital Authorization	392,198
 Estimated Capital Expenditures for FY2017	 104,890
 Projected Remaining Capital Authorization as of 6/30/2017	 287,308

2016-17 Capital Budget

The university expects to initiate the following new capital projects as listed below (\$ in Millions):

	<u>Current Project Budget</u>
■ Academic Buildings Renewal	\$ 27.4
■ Athletic Improvements	3.5
■ BI Data Center Expansion	5.9
■ Chiller Plant Phase II	40.0
■ Holden Hall Renovation	73.5
■ Improve Kentland Facilities	8.6
■ Livestock & Poultry Research Facilities I	22.5
■ O'Shaughnessy Hall Renovation	1.7
■ Student Wellness Services	3.1
■ VTC Health Sciences & Technology Expansion	67.7

Questions?