CHRISTOPHER NEWPORT UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2011

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2011, found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring Management's attention; however, we do not consider them to be material weaknesses;
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- the University did take adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

We have audited the basic financial statements of Christopher Newport University as of and for the year ended June 30, 2011, and issued our report thereon, dated June 14, 2012. Our report is included in Christopher Newport University's Annual Report that it anticipates releasing on or around June 22, 2012.

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Strengthen Controls over Capital Outlay

To make a building's roof match the others on campus, management authorized an $87,500 change order to remove and replace 5,500 square feet of newly installed roofing, which management issued after other attempts to correct the roofing. This along with other change orders totaling $180,068 caused the project to exceed its construction contingency. For a different project, management had to authorize a $300,356 change order to add an access road to the Freeman Center to comply with fire safety standards.

Proper planning reduces budget overages by reducing the number of change orders necessary to obtain the desired results. Along with proper planning, to ensure appropriate oversight management should obtain approval from the Department of General Services (DGS) and the Department of Planning and Budgeting (DPB) before authorizing change orders during construction which cause the University to exceed its original contingency funding.

Management should dedicate the required resources to ensure that the capital project manager adequately plans projects. This control will remain important as long as the University continues its efforts to improve its campus through capital enhancements.

Limit Employee Functions within Banner Finance

The Comptroller is not limiting employees' access within the Banner system's Finance module to only the privileges the employees need to perform their job functions. During our review we identified employees with access to functions critical to Finance's operations, which they did not need.

- Six employees with no responsibility for establishing business rules have the ability to modify these rules within Banner. This access allows these employees to change how the University will process financial transactions.
- Eight employees with no responsibility for entering invoices have access to the invoice entry. Improper access to this form gives the employee the ability to create a questionable transaction.

The Comptroller has already requested the removal of the unnecessary access privileges listed above. The Comptroller should determine and document the minimum access each employee will need to perform their job function. This process should also include a review to determine whether improper privileges allow employees to circumvent automated separation of duties controls.

Additionally, we identified the following access weaknesses within Banner:

- Twenty-eight employees have the ability to enter and approve transactions within Banner's journal entry screen. Several of the employees are responsible for performing or reviewing reconciliations or collecting monies from students or internal collection points. Two of the employees have signatory authority for the University's bank accounts.
- Five employees have the ability to create a vendor, process an invoice, and then interface the payment to either the Commonwealth Accounting and Reporting System (CARS) or the University's local check writing system. These employees also have the ability to enter and approve journal entries.

While the Comptroller has established manual processes to mitigate the risk from the above two weaknesses, keeping these weaknesses increases the risk of irregularities occurring. Management should implement automated system controls to prevent such a situation. Specifically, management should require the implementation of workflows and restricting access within Banner to enforce separation of duties with all transactions.

After the Comptroller properly limits employees' access, we recommend that someone from outside of the Comptroller's office evaluate and monitor employees' access. In most organizations, management and Boards rely on the Internal Auditor or the Information Security Officer to evaluate and monitor internal controls. The Board should consider instructing the Internal Auditor or the Information Security Officer to review future access changes to ensure they do not create a risk for the University. However, at a minimum, as part of management's annual review of access privileges, the review should evaluate compliance with Agency Risk Management and Internal Control Standards, ARMICS, established by the Comptroller of Virginia.

Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 14, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component unit of **Christopher Newport University** as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated June 14, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting entitled "Strengthen Controls over Capital Outlay" and "Limit Employee Functions within Banner Finance," which are described in the section titled "Internal Control Findings and Recommendations," that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on June 14, 2012.

AUDITOR OF PUBLIC ACCOUNTS

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CHRISTOPHER NEWPORT
UNIVERSITY

June 14, 2012

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

Dear Mr. Kucharski,

Christopher Newport University has reviewed the findings and recommendations provided by the Auditor of Public Accounts for fiscal year ended June 30, 2011. The University appreciates the effort that the APA auditors put into the audit this year and has the following responses to the Internal Control and Compliance Matters:

Internal Control and Compliance Matters

Strengthen Controls over Capital Outlay

Management understands the importance of maintaining adequate controls over Capital Outlay projects and has consistently ensured that all change orders are reasonable, within project scope and submitted to DGS and DPB in accordance with strict controls and authoritative reviews.

The change order for the roof replacement project was necessary because the shingles originally installed were in various stages of deterioration due to a documented product defect. Following precise procurement regulations, a contract was issued to install new shingles to match the 4-part blend that had been used on other buildings. When the work was approximately 5% complete, it was determined that due to the pitch of the roof, the blend was too dark and contrasted aesthetically with the other buildings on campus. Therefore, a change order was completed to replace 1-part of the 4-part blend. This situation took on added significance due to the fact that the building is located at the main entrance to the University.

The University ensures that all projects are consistent with the approved University's Master Plan, budgets and funding are carefully controlled and monitored, contracts are properly procured and managed within strict University guidelines. It is acknowledged that the University did not revise the HECO-2 and HECO-8 construction contingency amount and this oversight will be corrected in the future. The University will develop a process to ensure the timely completion of the HECO forms in accordance with University policy.

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Limit Employee Functions within Banner Finance

Management understands the importance of limiting employee access within Banner and will ensure that all access is in scope and relevant to each position.

Annually, the Comptroller reviews all employees' access to banner forms and makes changes as deemed necessary. Employees are grouped by classes in banner and those classes were established when banner was implemented. During the banner implementation it was not known which control accounts would be used so all, even those not utilized, were included in the classes. The classes are currently being revised to ensure that only control accounts utilized are included and all access is relevant to employees' positions.

As noted, the Comptroller has established mitigating controls to ensure no susceptibility of risk or loss due to banner access for certain employees, however, the Comptroller will explore the mechanism that exists within Banner to automate the review and consider implementation. Access control has been added to ARMICS and will be reviewed and reported on annually.

Sincerely,

William L. Brauer
Executive Vice President

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