

Committee Minutes

COMPLIANCE, AUDIT, AND RISK COMMITTEE

Solitude Room, The Inn at Virginia Tech
10:00 a.m.

March 25, 2018

Closed Session

Committee Members Present: Mr. Mehmood Kazmi (chair), Ms. Tish Long, Mr. Robert Mills Jr., Mr. Horacio Valeiras

Board Members Present: Ms. Debbie Petrine, Mr. Mike Quillen, Mr. Dennis Treacy (rector)

VPI & SU Staff: Mr. Brian Daniels, Ms. Kay Heidbreder, Ms. Sharon Kurek, Dr. Timothy Sands, Mr. M. Dwight Shelton Jr.

1. **Motion to Reconvene in Closed Session.** Motion to begin closed session.

2. **Internal Audit Report.**

The following internal audit report was issued by the Office of Audit, Risk, and Compliance (OARC) since the November 5, 2017 meeting. Where applicable, management developed action plans to effectively address the issue in the reports with a reasonable implementation timeframe. OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.

a. **Fire Safety Compliance:** The audit received a rating of improvements are recommended. An audit recommendation was issued to management related to the performance of required fire evacuation drills. Additionally, an observation for central administration was noted with respect to the perceived role and jurisdictional authority of the Virginia State Fire Marshal's Office at the university. Finally, low-priority recommendations of a less significant nature were noted with regard to the completion of required training courses and inspections.

3. **Update on Fraud, Waste, and Abuse Cases:** The Committee received an update on outstanding fraud, waste, and abuse cases.

4. **Discussion with the Executive Director of Audit, Risk, and Compliance:** The Executive Director discussed audits of specific departments and units where individual employees were identified.

Open Session

Committee Members Present: Mr. Mehmood Kazmi (chair), Ms. Tish Long, Mr. Robert Mills Jr., Dr. Hans Robinson (faculty representative), Mr. Horacio Valeiras

Board Members Present: Ms. Greta Harris, Mr. C.T. Hill, Ms. Anna James, Mr. Brett Netto (graduate student representative), Mr. Seyi Olusina (undergraduate student representative), Ms. Debbie Petrino, Mr. Mike Quillen, Mr. Dennis Treacy (rector),

VPI & SU Staff: Mr. Bill Abplanalp, Mr. Tommy Amal, Mr. Bob Broyden, Ms. Lori Buchanan, Dr. Cyril Clarke, Mr. Al Cooper, Mr. Brian Daniels, Dr. Karen DePauw, Dr. Lance Franklin, Dr. Michael Friedlander, Ms. Kay Heidbreder, Ms. Kina Kelly, Dr. Chris Kiwus, Ms. Sharon Kurek, Dr. Theresa Mayer, Ms. Erin McCann, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. April Myers, Ms. Kim O'Rourke, Mr. Mark Owczarski, Dr. Patty Perillo, Dr. Menah Pratt-Clarke, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Dr. Robert Sumichrast, Mr. Jon Clark Teglas, Mr. Steve Vantine, Ms. Tracy Vosburgh, Dr. Sherwood Wilson

1. **Motion to Reconvene in Open Session.** Motion to begin open session.
2. **Welcome and Introductory Remarks.** The chair of the Compliance, Audit, and Risk Committee welcomed committee members and guests and provided opening remarks.
3. **Consent Agenda:** The Committee approved and accepted the items listed on the Consent Agenda.
 - a. **Approval of Minutes of the November 5, 2017 Meeting:** The Committee reviewed and approved the minutes of the November 5, 2017 meeting.
 - b. **Update of Responses to Open Internal Audit Comments:** The Committee reviewed the university's update of responses to all previously issued internal audit reports. As of September 30, 2017, the university had 12 open recommendations. Three audit comments have been issued during the

second quarter of the fiscal year. As of December 31, 2017, the university has addressed nine comments, leaving six open recommendations in progress.

- c. Audit Plan Status Report:** The committee reviewed the Audit Plan Status Report. The Office of Audit, Risk, and Compliance (OARC) has completed 29 percent of its audit plan in accordance with the fiscal year 2017-18 annual audit plan.
- d. Internal Audit Reports:** The following internal audit reports were issued by OARC since the November 5, 2017 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations. The committee requested an update at the next meeting on efforts to improve lab safety training compliance as mentioned in several of the audit reports listed below.

 - i. **Biomedical Engineering and Mechanics:** 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 lab safety training oversight. Additionally, a low-priority recommendation of a less significant nature was noted with regard to cost transfers.
 - ii. **Chemistry:** 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 lab safety training oversight.
 - iii. **Research: Lab Safety:** The audit received a rating of improvements are recommended. Low-priority recommendations of a less significant nature were noted with regards to chemical registrations and communication with principal investigators.
 - iv. **College of Engineering Compliance Review:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvement were noted in the areas of fiscal responsibility, wage payroll, leave reporting, and emergency preparedness.

- v. Vice President for Research and Innovation Compliance Review: The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvement were noted in the areas of fiscal responsibility, wage payroll, leave reporting, and expenditures.
 - e. **Auditor of Public Accounts Intercollegiate Athletics Programs Report for the Year Ended June 30, 2017:** The Committee received a report on the Auditor of Public Accounts (APA) 2017 Intercollegiate Athletics review for fiscal year 2017. The APA performed certain agreed-upon procedures to evaluate whether the Schedule of Revenues and Expenses of the Intercollegiate Athletics Programs for fiscal year ended June 30, 2017, is in compliance with the National Collegiate Athletic Association (NCAA) bylaws. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts of the Schedule of Revenues and Expenses should be adjusted. This review does not constitute an audit and therefore no opinion is issued.
 - f. **Report on Audits of University Related Corporations:** The university-related corporations include Virginia Tech Foundation, Inc., Virginia Tech Services, Inc., Virginia Tech Intellectual Properties, Inc., Virginia Tech Applied Research Corporation, Virginia Tech Innovations Corporation, and Virginia Tech India Research and Education Forum. Consistent with the Board of Visitors' resolution establishing university-related corporations, each corporation 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.
 - g. **Statewide Reviews and Special Reports:** This report is related to ongoing and forthcoming statewide reviews. Virginia Tech is subject to reviews by a variety of Commonwealth agencies, including the Office of the State Inspector General and Virginia Department of Veterans Services.
4. **Enterprise Risk Management Program:** The Committee received an update on the Enterprise Risk Management (ERM) program. Since receiving the charge to develop an ERM program for Virginia Tech, OARC developed a framework and facilitated its implementation over the previous months resulting in senior

leadership's identification of key residual risks. In consideration of long-term and strategic organizational objectives, leadership assessed key risks in terms of likelihood of occurrence, significance of impact, and velocity. After consolidation of leadership's input, six thematic areas emerged as the enterprise risk landscape. The highest rated risks were graphically represented in a heat map.

5. **Internal Audit Reports:** The following internal audit reports were issued by OARC since the November 5, 2017 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
 - a. **Research: Animal Care and Use:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvement were noted related to vivaria access controls and completion of post approval monitoring tasks. Additionally, low-priority recommendations of a less significant nature were noted with regards to tracking animal use and completion of training requirements.
 - b. **Virginia Cooperative Extension – Central District:** 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 fiscal responsibility, wage payroll, leave reporting, expenditures, funds handling, key control, emergency preparedness, and record retention.
6. **Discussion of Future Topics.** The chair of the Compliance, Audit, and Risk Committee thanked committee members and guests for attendance and participation and provided closing remarks on topics to be included in future committee meetings.

There being no further business, the meeting adjourned at 11:45 a.m.

Internal Audit Report
COMPLIANCE, AUDIT, AND RISK COMMITTEE

March 9, 2018

Background

One audit project will be presented in closed session due to the presence of public safety topics. This report provides a summary of the audit rating issued this period, and the full rating system definitions.

Closed Session Report	Rating
Fire Safety Compliance	Improvements Are Recommended

Summary of Audit Ratings

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

Definitions of each assessment option

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

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

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

Unreliable – The audit identified numerous significant business risks for which management has not designed or consistently applied controls prior to the audit.

Persistent and pervasive control weaknesses have caused or could cause significant errors, omissions, or irregularities to go undetected. The weaknesses are of such magnitude that senior management must undertake immediate corrective actions to bring the situation under control and avoid (additional) damages to the organization.

RECOMMENDATION:

That the audit report reviewed above be accepted by the Compliance, Audit, and Risk Committee.

March 25, 2018

Update of Responses to Open Audit Comments

COMPLIANCE, AUDIT, AND RISK COMMITTEE

December 31, 2017

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

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

- Attachment A summarizes each audit in order of final report date with extended and on-schedule open recommendations.
- Attachment B details all open medium and high priority recommendations for each audit in order of the original target completion date, with an explanation for those having revised target dates or priority levels.
- Attachment C charts performance of implementing recommendations on schedule over the last seven years. The 100 percent on-schedule rate for fiscal year 2018 reflects closing 18 of 18 recommendations by the original target date.

The report presented at the November 5, 2017 meeting covered audit reports reviewed and accepted through September 30, 2017 and included 12 open medium and high priority recommendations. Activity for the quarter ended December 31, 2017 resulted in the following:

Open recommendations as of September 30, 2017	12
Add: medium and high priority recommendations accepted November 5, 2017	3
Subtract: recommendations addressed since September 30, 2017	9
Remaining open recommendations as of December 31, 2017	<u>6</u>

While this report is prepared as of the end of the quarter, management continues to receive updates from OARC regarding auditee progress on action plans. Through February 23, 2018, OARC has closed one of the six outstanding medium and high priority recommendations for an adjusted total of five 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 all units and provides assistance as needed to ensure action plans are completed timely.

ATTACHMENT A

Audits with Open Recommendations

COMPLIANCE, AUDIT, AND RISK COMMITTEE

December 31, 2017

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
01-Feb-17	University Scholarships and Financial Aid	17-1303	1					1	1
23-Aug-17	University Policy Review	17-1323	1					1	1
23-Aug-17	Virginia Tech Carilion Research Institute	17-1343	1					1	1
23-Aug-17	Athletics NCAA - Recruiting	17-1355	1					1	1
25-Aug-17	IT: General Controls	17-1325	6	4			1	1	2
Totals:			10	4	0	0	1	5	6

ATTACHMENT B

Open Audit Recommendations

COMPLIANCE, AUDIT, AND RISK COMMITTEE

December 31, 2017

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-Aug-17	1	17-1343	Virginia Tech Carilion Research Institute	Payments to Human Behavior Study Participants	Medium		15-Feb-18		1	
23-Aug-17	2	17-1355	Athletics NCAA - Recruiting	Communication to Outside Entities	Medium		28-Feb-18		1	
01-Feb-17	3	17-1303	University Scholarships and Financial Aid	Awarding Not Based on Fund Criteria	Medium		01-Mar-18		1	
25-Aug-17	4	17-1325	IT: General Controls - VTCRI	End-User Device Security	Medium		01-Mar-18		1	
25-Aug-17	5	17-1325	IT: General Controls - VTCRI	Security Awareness Training	High		01-Mar-18		1	
23-Aug-17	6	17-1323	University Policy Review	Policy Governance Strategy	Medium		30-Jun-18		2	

Follow Up Status

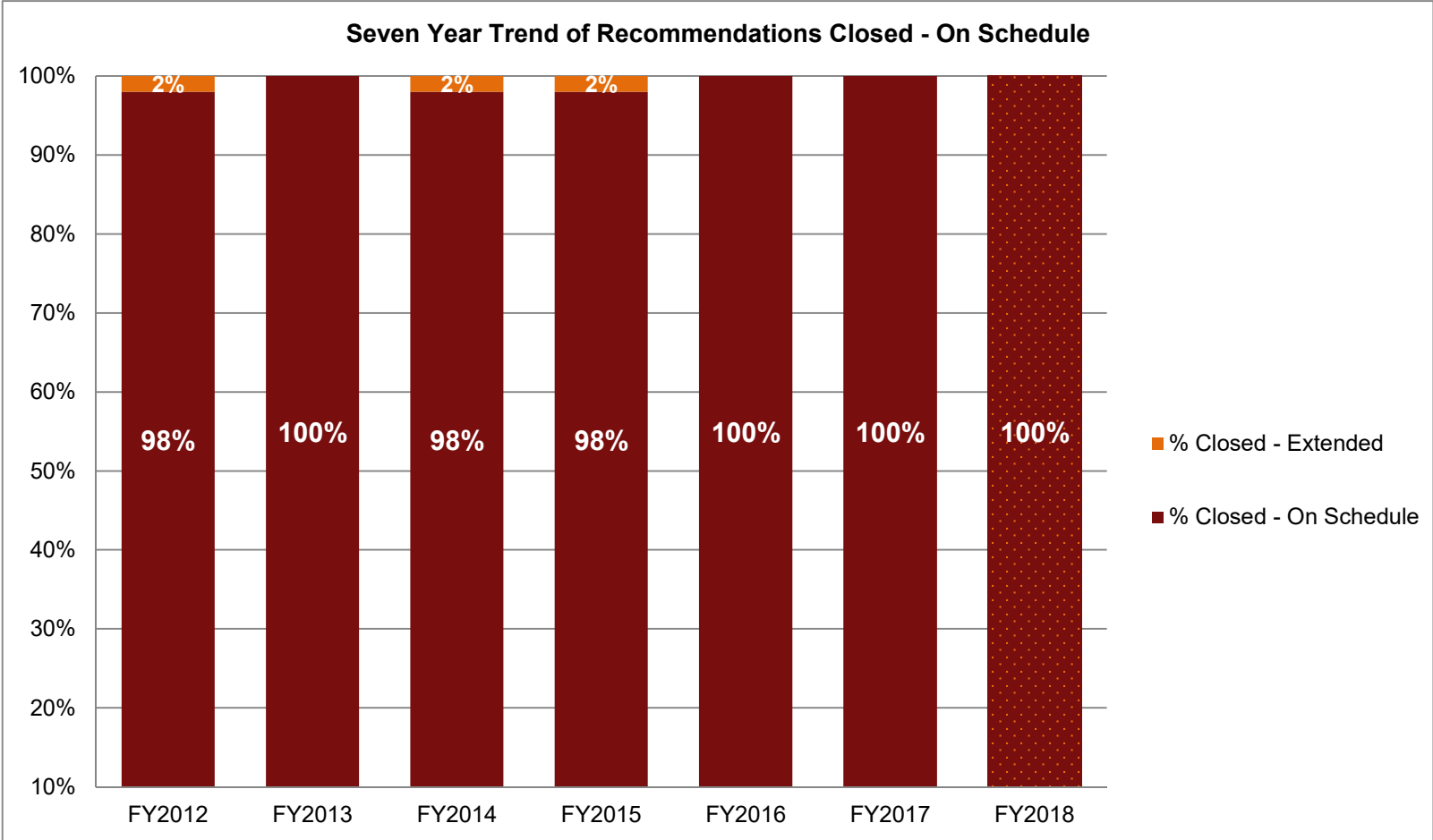
- 1 As of December 31, 2017, management confirmed during follow up discussions with the Office of Audit, Risk, and Compliance (OARC) that actions are occurring and the target date will be met. OARC will conduct testing after the due date to confirm that the management action plan is implemented in accordance with the recommendations.
- 2 Target date is beyond current calendar quarter. Management has follow-up discussions with the auditor to monitor progress, to assist with actions that may be needed to meet target dates, and to assess the feasibility of the target date.

ATTACHMENT C

**Management Performance and Trends Regarding
Office of Audit, Risk, and Compliance Recommendations**

COMPLIANCE, AUDIT, AND RISK COMMITTEE

December 31, 2017



Audit Plan Status Report

COMPLIANCE, AUDIT, AND RISK COMMITTEE

March 9, 2018

Audit Plan Update

Audits were performed in accordance with the fiscal year 2017-18 annual audit plan at a level consistent with the resources of the Office of Audit, Risk, and Compliance (OARC). Six risk-based audits and two compliance reviews have been completed since the November board meeting. Additionally, two advisory service projects, in the areas of Marketing Study Abroad and Secure Research Environment for Controlled Unclassified Information, were completed at the request of management.

Due to personnel turnover and/or management request, three risk-based audits, Biological Systems Engineering, Recreational Sports, and Services for Students with Disabilities, have been cancelled.

The following eight audit projects are underway: Biochemistry, Controller's Office: Risk Management, Endowed Professorship Utilization, Global Activities, IT: Mobile Device Security, Telecommunications Operations, University Student Financial Aid, and Vice President for Advancement compliance review. Additionally, three advisory service projects, requested by management in the areas of Club Sports, Steger Center for International Scholarship, and Virginia Tech Carilion School of Medicine, are underway.

So far in fiscal year 2017-18, OARC has completed 29 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1 FY 2017-18 Completion of Audit Plan

Audits	
Total # of Audits Planned	34
Total # of Supplemental Audits	1
Total # of Carry Forwards	7
Total # of Planned Audits Canceled and/or Deferred	4
Total Audits in Plan as Amended	38
Total Audits Completed	11
Audits - Percentage Complete	29%
Audits - Percentage Complete or Underway	58%
Note: Includes Compliance Reviews and Advisory Services	

Internal Audit Reports
COMPLIANCE, AUDIT, AND RISK COMMITTEE

March 9, 2018

Background

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

Consent Agenda Reports	Rating
Biomedical Engineering and Mechanics	Improvements are Recommended
Chemistry	Improvements are Recommended
Research: Lab Safety	Improvements are Recommended
College of Engineering Compliance Review	Improvements are Recommended
Vice President for Research and Innovation Compliance Review	Improvements are Recommended
Reports for Discussion	Rating
Research: Animal Care and Use	Improvements are Recommended
Virginia Cooperative Extension – Central District	Improvements are Recommended

Summary of Audit Ratings

The Office of Audit, Risk, and Compliance’s rating system has four tiers from which to assess the controls designed by management to reduce exposures to risk in the area being audited. The auditor can use professional judgment in constructing the exact

wording of the assessment in order to capture varying degrees of deficiency or significance.

Definitions of each assessment option

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

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

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

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

RECOMMENDATION:

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

March 25, 2018

**Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs
Report for Year Ended June 30, 2017**

**FINANCE AND RESOURCE MANAGEMENT COMMITTEE
AND
COMPLIANCE, AUDIT, AND RISK COMMITTEE**

February 9, 2018

The Auditor of Public Accounts (APA) performed certain agreed-upon procedures to evaluate whether the Schedule of Revenues and Expenses of Intercollegiate Athletics Program of the university is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. The APA did not perform an audit of the financial statements of the Intercollegiate Athletics Programs, so no opinion was issued. The APA performed procedures that addressed internal controls, affiliated and outside organizations, Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule), and separate procedures for specific revenues and expenses. During the APA review, no matters were brought to the APA's attention that would lead them to believe the amounts on the Schedule of Revenues and Expenses should be adjusted.

The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the university for the year ended June 30, 2017. Total revenues of the Intercollegiate Athletics Programs for the year ended June 30, 2017 were \$87.4 million with the majority of the revenues coming from the football and basketball programs. Expenses for the year were \$90.7 million, resulting in an operating deficit of \$3.3 million. The following attachments provide additional information regarding athletic finances:

- *Attachment A* displays the five-year trend analysis of athletic revenues and expenses. The analysis indicates an upward slope in both revenues and expenses with a deficit in fiscal years 2016 and 2017.
- *Attachment B* shows the five-year trend for the net income/deficit. The current year deficit occurred primarily due to the decision to use funds other than gifts to fund scholarships as explained below.
- *Attachment C* offers a breakout of fiscal year 2017 net operating income by athletic program, showing how the proceeds from football and men's basketball support other athletic programs.
- *Attachment D* is the report issued by the APA on Intercollegiate Athletics Programs for the year ended June 30, 2017.

As with all auxiliaries, the university requires the Athletic Department to maintain adequate fund balances or reserves necessary to protect operations from volatility of changes in athletic program revenues and to serve as a contingency fund. Any proposed use of reserve funds must be approved in advance through the budget process. In fiscal year 2017 a use of reserves was approved, in part, to cover an expected scholarship fundraising shortfall anticipated at the beginning of the fiscal year. Athletic scholarships are primarily funded by

gifts, and less than 20 percent of those gifts are from endowment income, which tend to have predictable annual distributions. Therefore, the majority of scholarships are funded by revenues generated from annual fundraising campaigns, which tend to be less predictable. In addition, such gifts tend to be received mainly in the latter part of each fiscal year (between December and March). If the fundraising campaign falls short of budgeted targets, the athletic department must use a combination of current year operating revenues or athletic department reserves to make up the shortfall.

For fiscal year 2017, athletics department approved budget authorized the use of \$4 million from other operating funds to cover scholarship expenses, since on July 1, 2016, only \$1.7 million of cash from gifts was available for scholarships. The gift resources at that time were insufficient to cover the athletic scholarship expenses for the Fall 2017 semester. However, as the year progressed, the fund raising campaign for fiscal year 2017 exceeded the budgeted target and the cash balance held by the Virginia Tech Foundation, Inc. at June 30, 2017 to fund athletic scholarships was approximately \$7.3 million. The contribution revenue for these funds will be recognized in fiscal year 2018 when the Athletic department will transfer these resources from the Foundation to fund scholarships.

See page 8 of Attachment D for the Schedule of Revenues and Expense of Intercollegiate Athletics Programs for the year ended June 30, 2017.

Additional Activities related to NCAA Reporting

House Bill 1897 passed by the 2015 General Assembly prohibits the total of school funds and student fees used to support intercollegiate athletics programs from exceeding a certain percentage of athletics revenues. The bill requires any school that violates this prohibition to submit to the General Assembly a five-year plan for coming into compliance. Virginia Tech participated in a statewide "athletic task force" as required by Section 23-1.2 Code of Virginia, to develop and implement a standardized reporting format for each higher education institution in Virginia to annually report its intercollegiate athletics revenue and expenses to the APA. This new standardized report will be utilized to assess compliance with the requirements of HB1897. These percentages are larger for smaller institutions which do not have significant ticket sales or conference distributions. The first measurement period for evaluating HB 1897 is fiscal year 2017. The university has received no further communication from the APA regarding reporting of Athletic revenues and expenses.

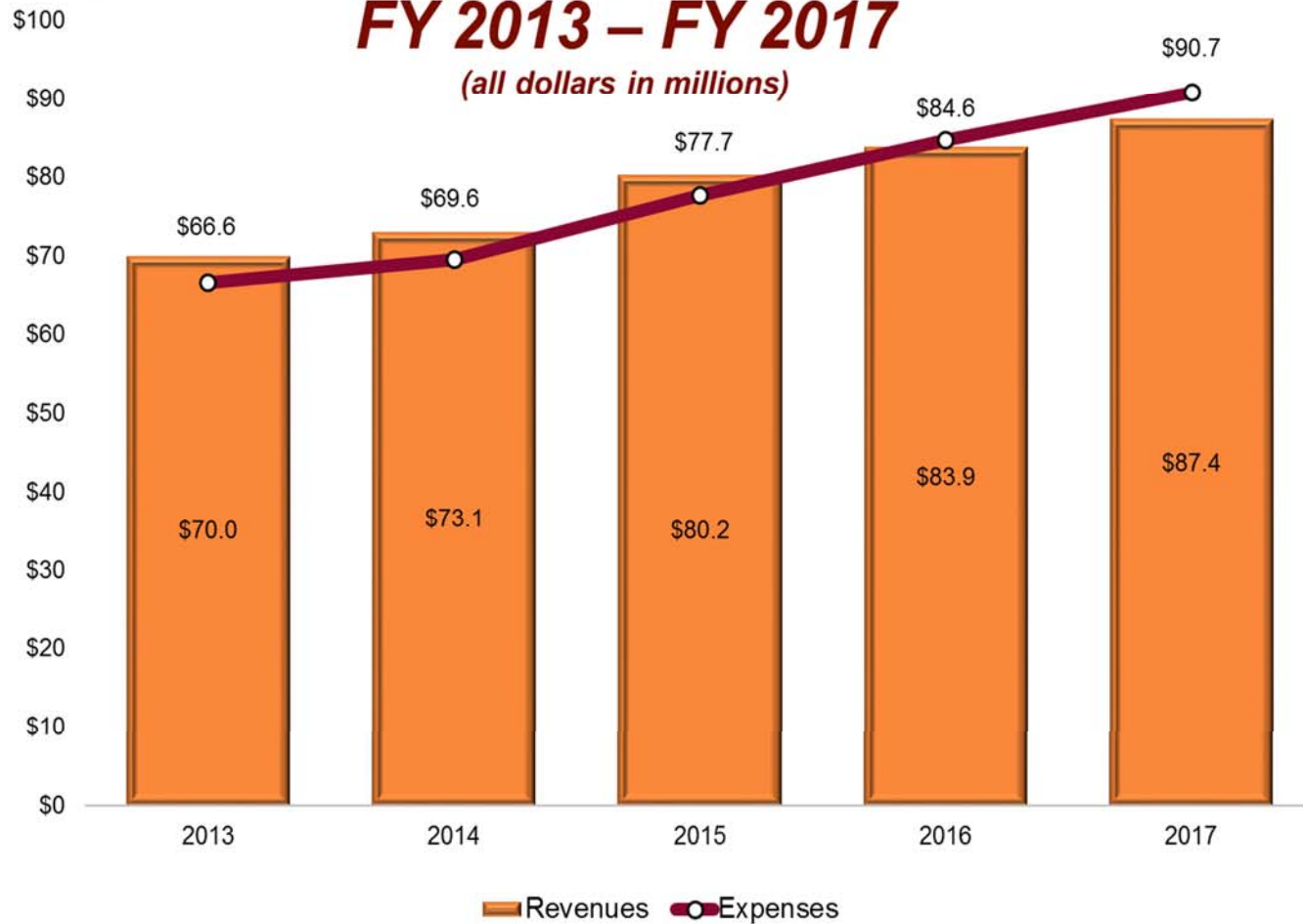
Virginia Tech does not anticipate having to make any significant changes to comply with the task force guidance. Additionally, since the university's athletic fees are the lowest in the Commonwealth, the university should not be effected by the fixed percentage of fees ceiling required by the legislation. For Virginia Tech, essentially the requirement states that student fees must remain below 20 percent of total athletic revenues. For fiscal year 2017, student fees were 10.1 percent of total revenues.

The second requirement in the legislation states that any percentage increase in student fees must be matched by a similar increase in all other revenues, as calculated on a five year rolling average. Traditionally, the university has kept athletic fee increases very low, but this new requirement must be kept in mind for future increases.

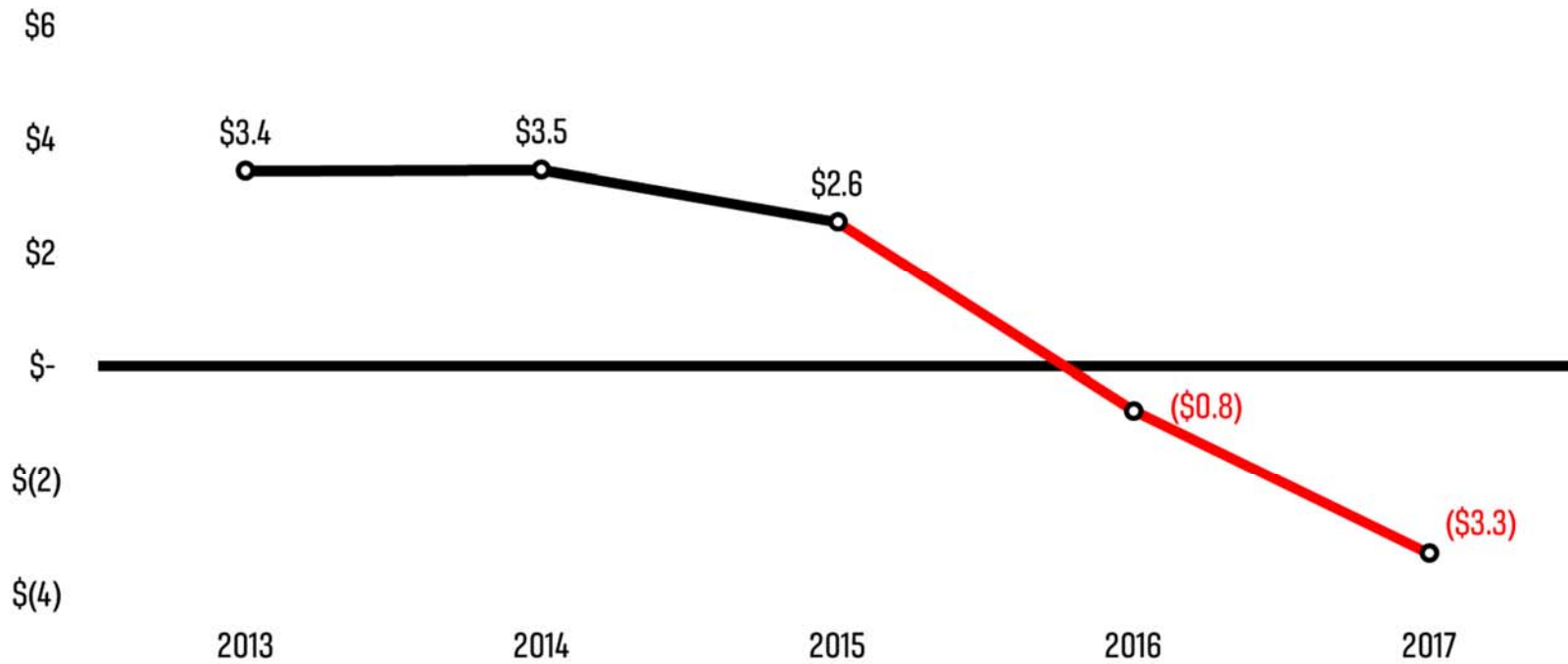
Intercollegiate Athletic Programs Revenue & Expenses

FY 2013 – FY 2017

(all dollars in millions)



**Intercollegiate Athletic Programs
Net Operating Income (Deficit)
FY 2013 – FY 2017**
(all dollars in millions)



**Intercollegiate Athletic Programs
Net Operating Income (Deficit)
FY 2017**

	Revenue	Expenses	Net Income/Deficit
Football	\$ 54,251,228	\$ 30,878,285	\$ 23,372,943
Men's Basketball	9,964,883	9,754,587	210,296
Women's Basketball	1,443,287	4,810,669	(3,367,382)
Other Sports	21,768,122	45,272,880	(23,504,758)
	\$ 87,427,520	\$ 90,716,421	\$ (3,288,901)

Other Sports is the total of Men's Other Sports, Woman's Other Sports, and Non-Program Specific activities as displayed on the "Schedule of Revenues and Expenses of Intercollegiate Athletics Programs" on the NCAA report. There are 16 other sports programs such as baseball, softball, golf, tennis, track & field, etc.



VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2017

Auditor of Public Accounts
Martha S. Mavredes, CPA
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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 16, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
And Review Commission

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

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of Virginia Polytechnic Institute and State University, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

Internal Controls

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

Affiliated and Outside Organizations

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

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2017, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate

Athletics Department’s accounting records and the amounts on the trial balance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.

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

<u>Line Item</u>	<u>Explanation</u>
Contributions	This line item decreased by \$3.57 million, or 18.6 percent, in the current year due to Athletics not fully utilizing its contributions raised for scholarship funding but rather using the operating budget for a portion of the scholarship expense. Contributions are recognized when used to support operations and unused contributions are deferred to subsequent fiscal years.

Revenues

9. We reviewed a sample of ticket sales reconciliations performed for accuracy and proper review and approval. We determined the reconciliations reviewed to be accurate and substantially in agreement with the amounts reported in the Schedule.
10. We obtained an understanding of the institution’s methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
11. We obtained the amount reported in the Schedule for direct institutional support. This amount was deemed to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and agreed selected amounts to proper posting in the accounting records and supporting documentation.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of

individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Tech Foundation, an affiliated organization, we noted no individual contribution that constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Virginia Tech Foundation, which exceeded ten percent of all contributions, and agreed them to supporting documentation.

14. We obtained the amount reported in the Schedule for in-kind contributions. This amount was deemed to be immaterial for detailed testing.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, internet, and e-commerce rights. We gained an understanding of the relevant terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
17. We obtained the amount reported in the Schedule for program sales, concessions, novelty sales, and parking. This amount was deemed to be immaterial for detailed testing.
18. We obtained the amount reported in the Schedule for royalties, licensing, advertisements, and sponsorships. This amount was deemed to be immaterial for detailed testing.
19. The Virginia Tech Foundation manages athletics-related endowment funds on behalf of the University. The University has access to request endowment income from the Foundation in accordance with certain budgetary restrictions. This amount was deemed to be immaterial for detailed testing.
20. We obtained the amount reported in the Schedule for the University's participation in a post-season bowl. This amount was deemed to be immaterial for detailed testing.
21. We obtained the amount reported in the Schedule for other revenue. This amount was deemed to be immaterial for detailed testing.

Expenses

22. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected 40 individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system with minor differences attributed to how book charges post to the accounting system.
23. We obtained the amount reported in the Schedule for game guarantee agreements for home games. This amount was deemed to be immaterial for detailed testing.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
25. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. This amount was deemed to be immaterial for detailed testing.
26. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
27. We selected a sample of disbursements for team travel, game expenses, direct overhead and administrative expenses, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
28. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We agreed all significant facility payments

included in the Schedule, including the two highest payments, to supporting documentation.

29. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness and noted proper reporting of these charges in the Schedule.

Other Reporting Items

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

Additional Procedures

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

to the amount reported in the NCAA Membership Financial Reporting System. We noted agreement of the amounts reported.

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

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

AUDITOR OF PUBLIC ACCOUNTS

JRQ/clj

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2017

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 14,599,726	\$ 2,528,127	\$ 166,414	\$ 17,800	\$ -	\$ -	\$ 17,312,067
Student fees	-	-	-	-	2,304,921	6,580,953	8,885,874
Direct institutional support	-	-	-	-	643	2,020	2,663
Guarantees	4,300,000	7,500	-	1,000	1,000	-	4,309,500
Contributions	7,874,708	744,793	687,339	601,121	2,031,737	3,681,034	15,620,732
In-Kind	40,353	52,068	7,430	4,977	8,280	33,615	146,723
Media rights	17,609,812	4,493,678	300,399	30,000	37,500	-	22,471,389
NCAA distributions	-	1,645,122	9,436	70,663	12,584	2,613,736	4,351,541
Conference distributions (non-media or bowl)	4,972,248	99,024	63,030	160,626	156,511	2,000	5,453,439
Program, novelty, parking, and concession sales	1,617,603	81,782	20,011	20,231	8,375	20,992	1,768,994
Royalties, licensing, advertisement and sponsorships	1,219,449	177,775	79,176	165,125	181,125	749,644	2,572,294
Athletics restricted endowment and investments income	725,601	135,014	110,052	665,105	848,488	137,011	2,621,271
Other operating revenue	108,580	-	-	100,000	-	519,305	727,885
Bowl revenues	<u>1,183,148</u>	-	-	-	-	-	<u>1,183,148</u>
Total operating revenues	<u>54,251,228</u>	<u>9,964,883</u>	<u>1,443,287</u>	<u>1,836,648</u>	<u>5,591,164</u>	<u>14,340,310</u>	<u>87,427,520</u>
Operating expenses:							
Athletic student aid	3,579,878	536,358	683,943	2,789,011	4,375,190	1,463,593	13,427,973
Guarantees	612,949	598,657	146,181	23,533	25,530	-	1,406,850
Coaching salaries, benefits, and bonuses paid by the University and related entities	8,826,626	3,964,395	1,584,861	2,534,261	2,381,430	-	19,291,573
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,856,546	598,449	460,545	108,292	137,381	10,023,319	13,184,532
Severance payments	53,511	334,161	58,516	42,744	13,158	76,957	579,047
Recruiting	652,455	63,588	189,242	224,442	234,369	42,091	1,406,187
Team travel	940,966	845,903	476,120	1,137,375	932,325	115	4,332,804
Sports equipment, uniforms, and supplies	998,939	375,599	109,102	472,192	434,858	235,543	2,626,233
Game expenses	1,311,179	433,906	244,183	255,041	163,566	1,788,991	4,196,866
Fundraising, marketing and promotion	190,506	159,626	29,928	54,801	63,748	698,762	1,197,371
Spirit groups	451,883	113,343	15,085	-	-	213,397	793,708
Athletic facility leases and rental fees	2,000	910	700	133,718	126,574	30	263,932
Athletic facility debt service	4,088,355	283,629	283,629	-	-	918,823	5,574,436
Direct overhead and administrative expenses	3,232,112	529,513	215,152	505,499	505,785	3,347,967	8,336,028
Indirect cost paid to the institution by athletics	92,280	-	-	-	-	4,999,761	5,092,041
Medical expenses and insurance	184,480	72,906	49,809	242,632	318,520	342,678	1,211,025
Memberships and dues	3,915	1,235	15,090	9,601	12,909	34,027	76,777
Student-Athlete Meals (non-travel)	874,797	146,533	71,299	153,392	176,018	115,132	1,537,171
Other operating expenses	1,312,307	695,876	177,284	372,102	327,471	1,684,226	4,569,266
Bowl expenses	<u>1,612,601</u>	-	-	-	-	-	<u>1,612,601</u>
Total operating expenses	<u>30,878,285</u>	<u>9,754,587</u>	<u>4,810,669</u>	<u>9,058,636</u>	<u>10,228,832</u>	<u>25,985,412</u>	<u>90,716,421</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 23,372,943</u>	<u>\$ 210,296</u>	<u>\$ (3,367,382)</u>	<u>\$ (7,221,988)</u>	<u>\$ (4,637,668)</u>	<u>\$ (11,645,102)</u>	<u>\$ (3,288,901)</u>
Other Reporting Items:							
Total athletics-related debt							\$ 74,926,000
Total institutional debt							\$ 456,772,000
Value of athletics-dedicated endowments							\$ 61,694,166
Value of institutional endowments							\$ 946,513,459
Total athletics-related capital expenditures							\$ 7,044,000

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

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletic Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletic programs of the University for the year ended June 30, 2017. The Schedule includes those intercollegiate athletics revenues and expenses made on behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$18,018,489 from the Virginia Tech Foundation, Inc. Approximately \$9,427,973 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$7,030,217 is included in the Contributions line item and \$2,397,756 is included in the Athletics Restricted Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 2001, a \$26,285,000 note was issued for the Athletic Department. This note was issued for the South End Zone addition to Lane Stadium. Part of the original debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,775,000. The remaining original debt issuance was refinanced in February 2011 with an \$11,540,000 note that will be repaid through 2027 and has an outstanding balance of \$7,625,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletic Department. This bond was issued for the West Side Expansion to Lane Stadium which was completed in 2006. The majority of this debt was refinanced in November 2012 with a \$32,365,000 note. This note has an outstanding balance of \$26,745,000 and will be repaid with private fund raising and operating revenues through 2029. The remaining original debt issuance was repaid with private fund raising and operating revenues during 2014.

In November 2009, an \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center. Part of the original debt was refinanced in November 2016 with a \$5,385,000 note that will be repaid through 2030 and has an outstanding balance of \$5,385,000. The remaining original debt issuance has an outstanding balance of \$1,160,000 which will be repaid with private fund raising and operating revenues through 2020.

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

In August 2016, a \$31,509,000 internal loan was issued for the Athletic Department. This loan was issued for improvements to the Baseball Stadium and Rector Field House. This note has an outstanding balance of \$30,726,000 and will be repaid with general operating revenues through 2034.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2017 is presented as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 3,367,326	\$ 2,281,627	\$ 5,648,953
2019	3,468,090	2,175,244	5,643,334
2020	3,905,333	2,017,228	5,922,561
2021	4,111,801	1,843,209	5,955,010
2022	4,293,470	1,655,040	5,948,510
2023 - 2027	23,376,195	5,584,575	28,960,770
2028 - 2032	24,260,675	2,124,405	26,385,080
2033 - 2035	<u>8,143,407</u>	<u>213,246</u>	<u>8,356,653</u>
Total	<u>\$74,926,297</u>	<u>\$17,894,574</u>	<u>\$92,820,871</u>

4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletic Department an administrative fee. During the fiscal year, the Department paid \$5,092,041 to the University. This amount is included on the Indirect Cost Paid to the Institution by Athletics line item, and includes \$92,280 in Football, and \$4,999,761 in the Non-Program Specific category.

5. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress (CIP) is capitalized at actual cost as expenses are incurred. All gifts of capital assets are recorded at fair market value as of the donation date.

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

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

A summary of changes in capital assets follows for the year ending June 30, 2017 (all dollars in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$171,582	\$ 794	\$ 140	\$172,236
Moveable equipment	7,340	426	256	7,510
Software	313	-	-	313
Fixed equipment	13,242	83	2,552	10,773
Infrastructure	<u>19,805</u>	<u>202</u>	<u>578</u>	<u>19,429</u>
Total depreciable capital assets, at cost	<u>212,282</u>	<u>1,505</u>	<u>3,526</u>	<u>210,261</u>
Less accumulated depreciation:				
Buildings	46,330	3,865	72	50,123
Moveable equipment	4,929	553	256	5,226
Software	225	20	-	245
Fixed equipment	5,954	515	2,550	3,919
Infrastructure	<u>16,699</u>	<u>653</u>	<u>481</u>	<u>16,871</u>
Total accumulated depreciation	<u>74,137</u>	<u>5,606</u>	<u>3,359</u>	<u>76,384</u>
Total depreciable capital assets, net of accumulated depreciation	<u>138,145</u>	<u>(4,101)</u>	<u>167</u>	<u>133,877</u>
Non-depreciable capital assets:				
Construction in progress	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total non-depreciable capital assets	<u>1,907</u>	<u>6,681</u>	<u>1,131</u>	<u>7,457</u>
Total capital assets, net of accumulated depreciation	<u>\$140,052</u>	<u>\$2,580</u>	<u>\$1,298</u>	<u>\$141,334</u>

6. OPERATING DEFICIT

As with all auxiliaries, the University requires the Athletic Department to maintain adequate fund balances or reserves necessary to protect operations from volatility of changes in athletic program revenues and to serve as a contingency fund. Any proposed use of reserve funds must be approved in advance through the budget process. In fiscal year 2017 a use of reserves was approved, in part, to cover an expected scholarship fundraising shortfall. Athletic scholarships are primarily funded by gifts, and less than 20 percent of those gifts are from endowments, which tend to have predictable annual distributions. Therefore, the majority of scholarships are funded by annual fundraising campaigns and are more volatile and such gifts tend to be received mainly in the latter part of each fiscal year (between December and March). If the fundraising campaign falls short of budgeted targets, the Athletic Department must use a combination of current year operating revenues or Athletic Department reserves to make up the shortfall. For fiscal year 2017, the approved budget authorized the use of \$4 million from other operating funds to cover scholarship expenses, because on July 1, 2016, only \$1.7 million of cash from gifts was available for scholarships. As the year progressed, the fund raising campaign for fiscal year 2017 exceeded the budgeted target and the cash balance held by the Virginia Tech Foundation, Inc. at June 30, 2017 to fund scholarships was approximately \$7.3 million. The contribution revenue for these funds will be recognized in fiscal year 2018 as they are used to fund scholarships. The operating deficit for fiscal year 2017 occurred primarily due to the decision to use funds other than gifts to fund scholarships.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

As of June 30, 2017

BOARD OF VISITORS

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Dennis H. Treacy, Vice Rector

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Montasir M. Abbas
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Alex B. Parrish
Staff Representative

Tara Reel, Gabriel Cohen
Student Representatives

Kim O'Rourke
Secretary to the Board of Visitors

UNIVERSITY OFFICIALS

Timothy D. Sands, President

Whit Babcock, Director of Intercollegiate Athletics Programs

Report on Audits of University-Related Corporations

COMPLIANCE, AUDIT, AND RISK COMMITTEE

February 1, 2018

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, 2017, 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	✓
VT Innovations Corporation	✓	5	1	3	✓
VT India Research and Education Forum ⁴	✓	1	1	3	✓

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.

³ Corporation has not been in existence for five years. Hence, the requirement in the affiliation agreement to rotate the external audit firm or the audit team after a consecutive five year team is not applicable.

⁴ The financial statement year end for VT India Research and Education Forum (VTIREF) is March 31.

⁵ The auditor's issued a management letter to VTIC regarding a "significant" corrected misstatement concerning VTIC's misclassification of long-term debt as current debt on the financial statements. The error was corrected and no management response was necessary. The auditors issued a clean audit opinion.

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

March 25, 2018

Background

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

OSIG Chemical Inventory Management

In accordance with the Code of Virginia § 2.2-309 [A](10), OSIG conducts performance audits of executive branch state agencies, including colleges and universities, to ensure state funds are spent as intended and to evaluate the efficiency and effectiveness of programs. As previously reported in the September meeting, all higher education institutions, including Virginia Tech, were originally notified that OSIG will conduct a performance audit at a sampling of Virginia's colleges and universities during fiscal year 2018. Virginia Tech, among others, was subsequently notified in February 2018 of its inclusion for the planning phase of this project centered on chemical inventory management.

Virginia Department of Veterans Services (DVS)

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

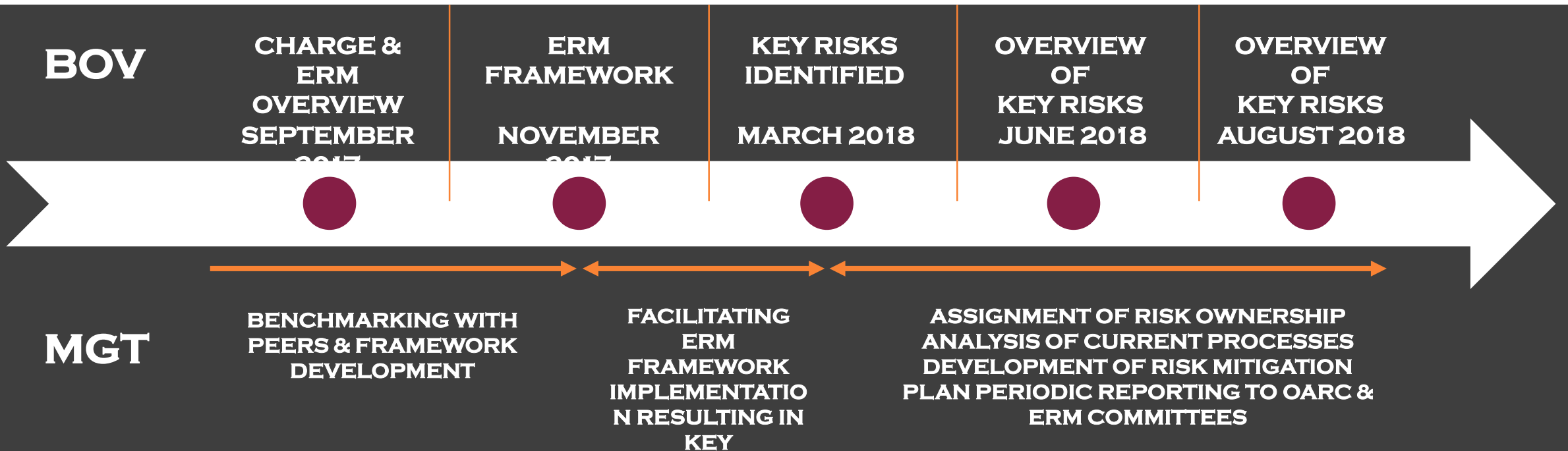
ENTERPRISE RISK MANAGEMENT (ERM) PROGRAM UPDATE

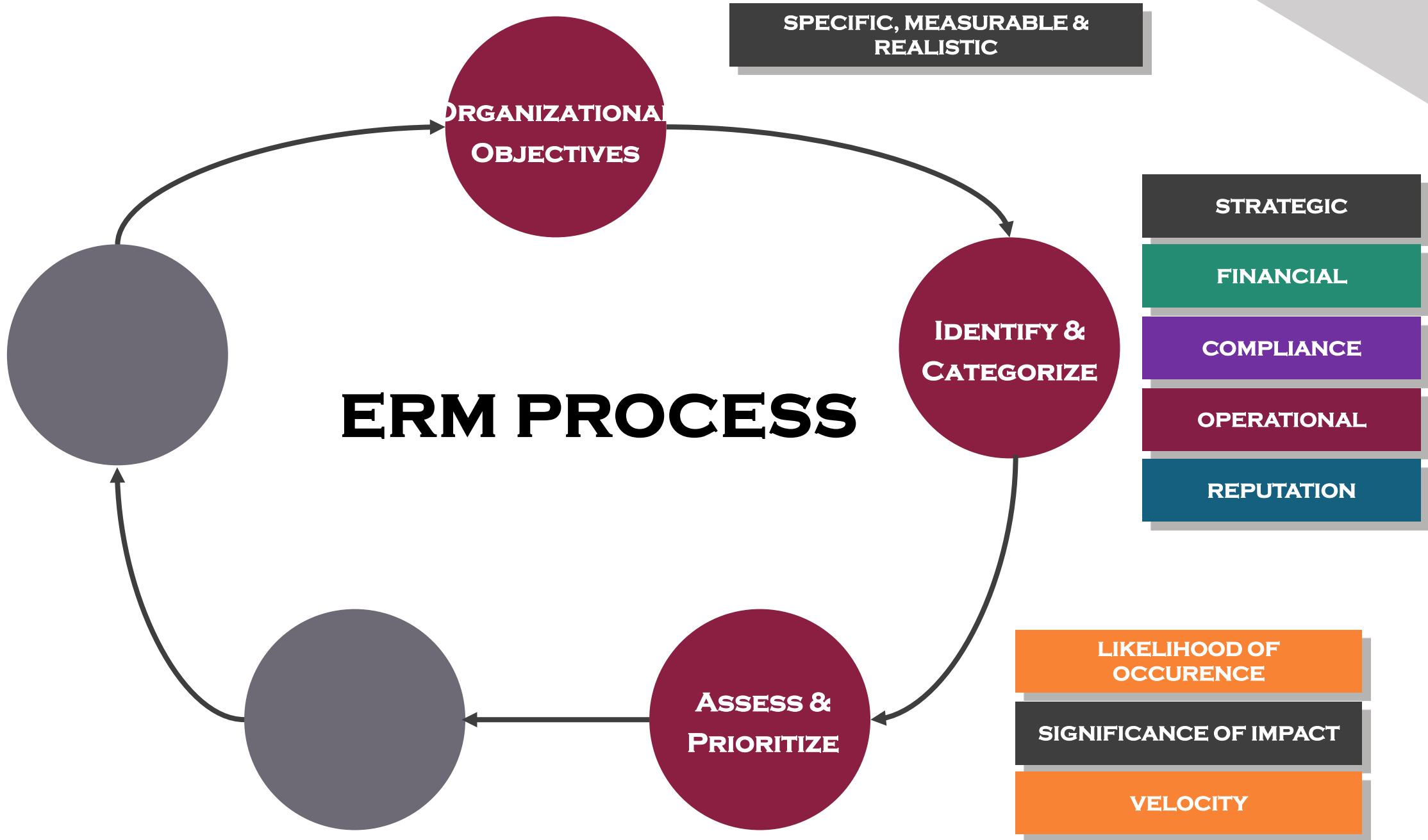
March 25, 2018

SHARON KUREK

EXECUTIVE DIRECTOR OF AUDIT, RISK, & COMPLIANCE

ERM TIMELINE





RESIDUAL RISK ASSESSMENT

Level	Risk description
1 - Insignificant	No impact on reputation No potential impact on enrollment/market share No potential impact on the retention/recruitment of faculty No potential impact on overall research funding Responsibility of junior management and staff to resolve
2 - Minor	Consequences can be absorbed under normal operating conditions Local impact on reputation Potential negative impact on image, enrollment Potential negative impact on retention/recruitment of faculty Little impact on overall research funding Responsibility of middle management to resolve
3 - Moderate	State-wide impact on reputation Enrollment of students or image will be affected in the short-term Recruitment and retention of faculty will be affected in the short-term Loss of research funding for X-X grantees Responsibility of senior and middle management to resolve
4 - Major	Adverse impact on university reputation at the regional level Accreditation is threatened Long-term reduction in enrollment Ability to retain and recruit faculty Significant loss of research funding from multiple grantees resulting in curtailment of major sponsored programs Responsibility of the Board and senior management to resolve
5 - Critical	Loss of accreditation National / Global impact on reputation Significant reduction in enrollment Ability to retain and recruit faculty Revocation of sponsored research funding across the institution Responsibility of the Board and the President to resolve

RESIDUAL (NET) RISK: THE RESULT OF AN ASSESSMENT OF THE POTENTIAL "IMPACT" AND "LIKELIHOOD" OF A RISK AFTER TAKING INTO ACCOUNT THE EFFECTIVENESS OF THE CONTROLS AND OTHER MITIGATIONS PUT INTO PLACE TO MANAGE THE RISK.

PROBABILITY (Likelihood of Occuring)

Level	Risk description	Probability
1 - Remote	Event may only occur in exceptional circumstances	0-5%
2 - Unlikely	Event could occur at some time	6-35%
3 - Moderate	Event should occur at some time	36 - 65%
4 - Likely	Event will probably occur in most circumstances	66-95%
5 - Almost certain	Event is expected to occur in most circumstances	96 - 100%

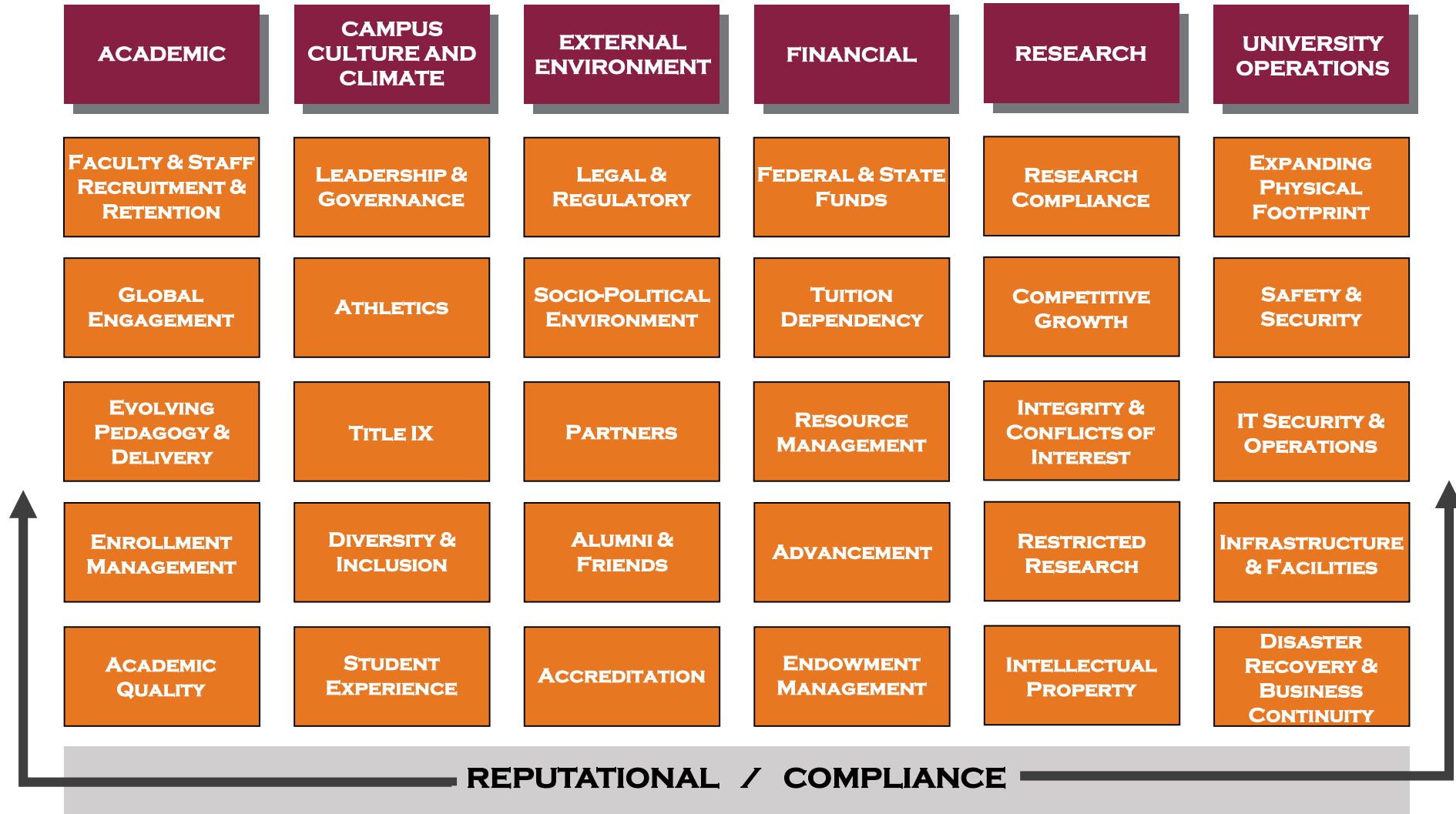
VELOCITY (Speed of Onset)

Level	Risk description
1 - Slow	Very slow onset; longer than 9 months to impact after occurrence
3 - Medium	Medium onset; between 3 to 9 months; Limited time for reaction and response planning
5 - Rapid	Very rapid onset; little or no warning, instantaneous; within 3 months after occurrence

ERM CONTEXT

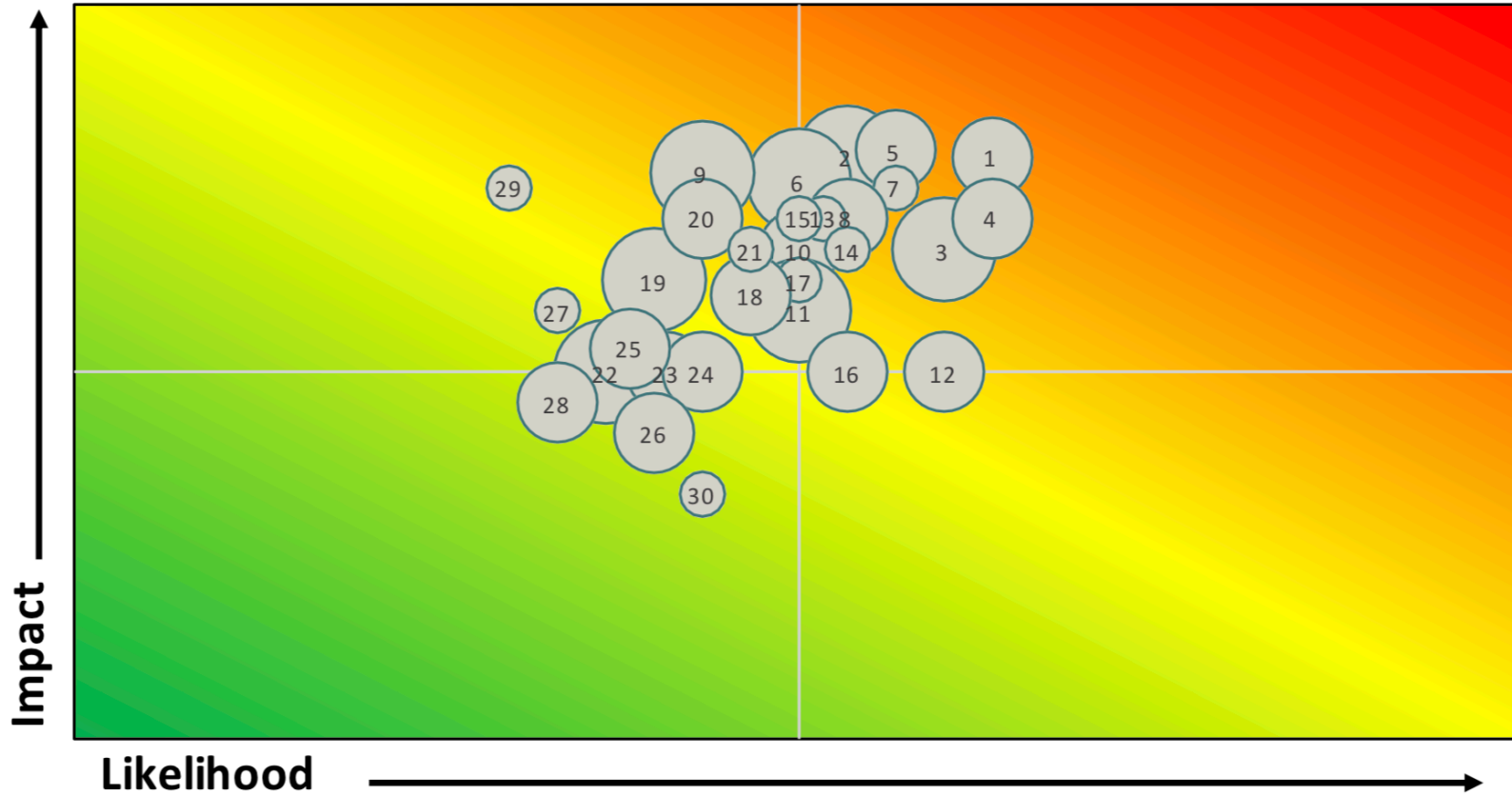
- **STRENGTHEN VIRGINIA TECH'S ROLE AS A GLOBAL LAND-GRANT INSTITUTION**
- **OUR BIGGEST RISK IS TO NOT MOVE THE UNIVERSITY FORWARD... NOT JUST SURVIVE BUT THRIVE BY ADAPTING AND ANTICIPATING THE CHANGING LANDSCAPE OF HIGHER EDUCATION**
- **SUCCESS REQUIRES THE WILLINGNESS TO TAKE MEASURED RISK, PERHAPS FAILING A TIME OR TWO, TO YIELD INNOVATIVE RESULTS**
- **EVALUATE SUB-RISKS THROUGH THE LENS OF THIS OVERARCHING PERSPECTIVE**

ENTERPRISE RISK LANDSCAPE



ENTERPRISE RISK HEAT MAP

Enterprise Risk Heat Map



Graph Legend

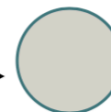
Number	Risk
1	Federal & State Funds
2	Legal & Regulatory
3	Socio-Political Environment
4	Tuition Dependency
5	Leadership & Governance
6	Athletics
7	Expanding Physical Footprint
8	Faculty & Staff Recruitment & Retention
9	Safety & Security
10	Research Compliance
11	IT Security & Operations
12	Global Engagement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

Velocity

Slow

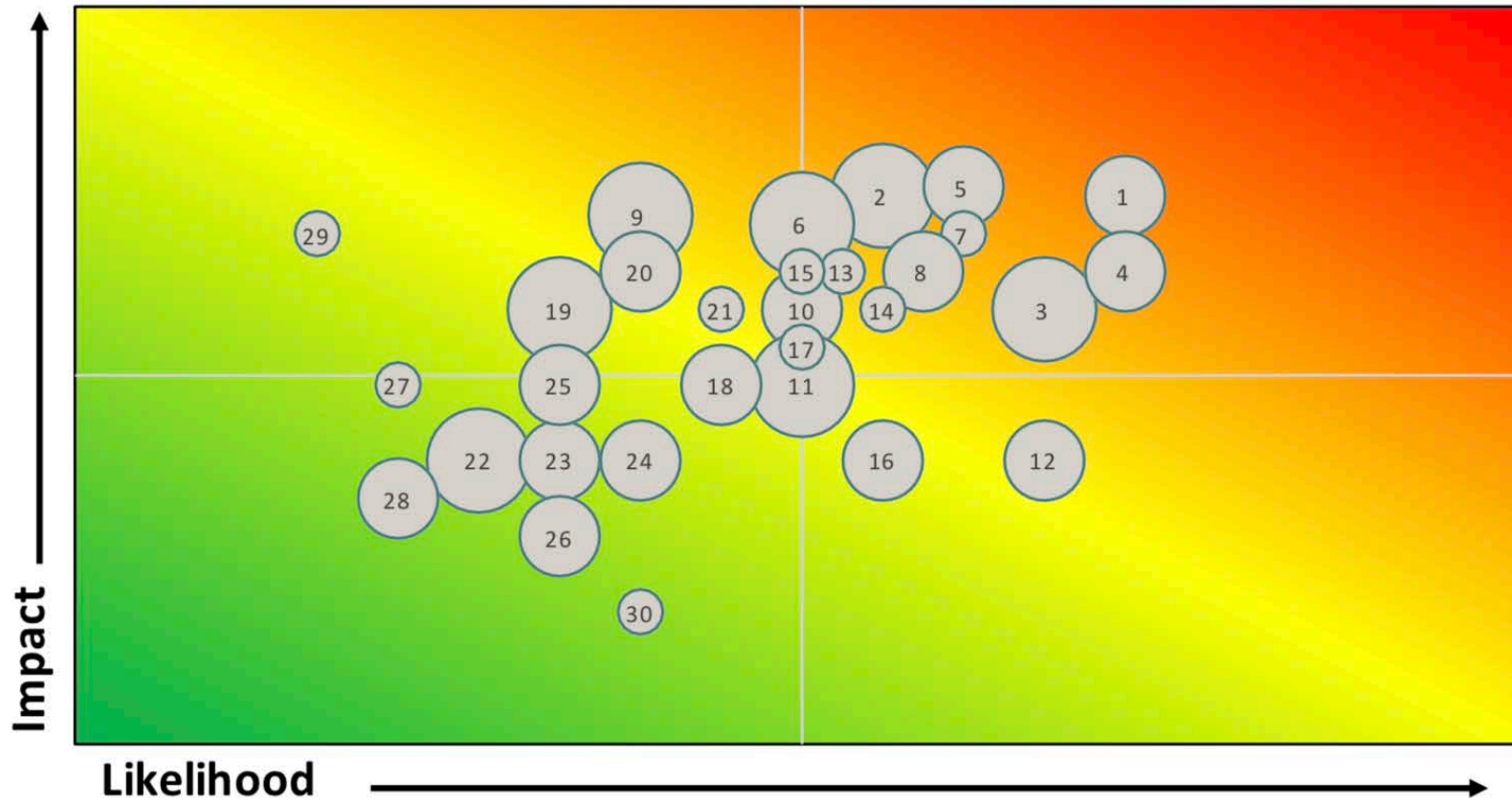
Medium

Rapid



ENTERPRISE RISK HEAT MAP

Enterprise Risk Heat Map (zoom)



Graph Legend

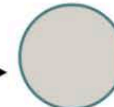
Number	Risk
1	Federal & State Funds
2	Legal & Regulatory
3	Socio-Political Environment
4	Tuition Dependency
5	Leadership & Governance
6	Athletics
7	Expanding Physical Footprint
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27	Academic Quality
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29	Accreditation
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Velocity

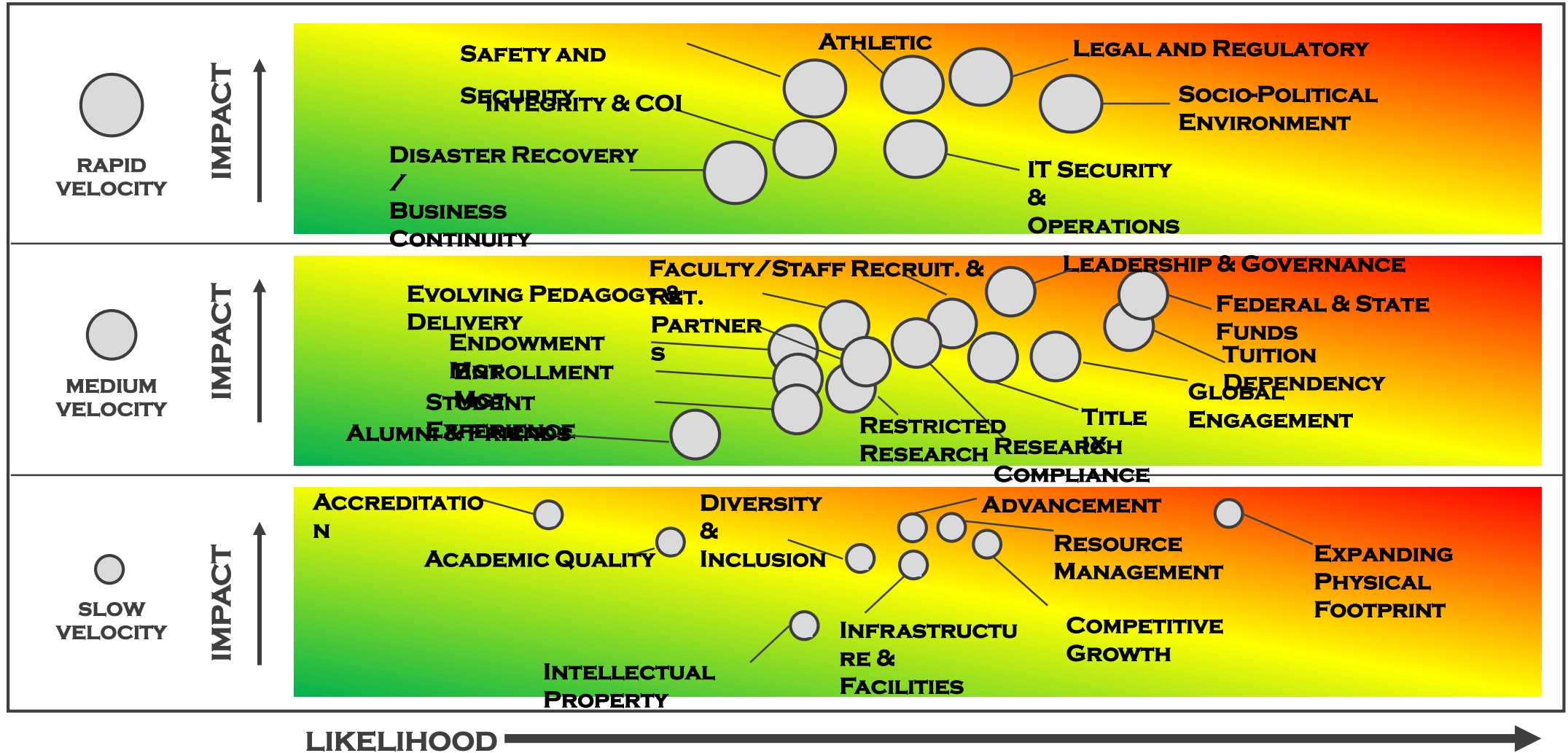
Slow

Medium

Rapid



ENTERPRISE RISK HEAT MAP - VELOCITY



TIMELY
TRANSPARENT

RISK OWNERSHIP
BUSINESS PROCESSES
INTERNAL / EXTERNAL REVIEW & ANALYSIS



QUESTIONS?