

Committee Minutes

COMPLIANCE, AUDIT, AND RISK COMMITTEE The Inn at Virginia Tech, Latham Ballroom 4:30 p.m.

August 24, 2020

Closed Session

Committee Members: Anna James, Letitia Long (Chair), Sharon Brickhouse Martin, Chris Petersen

Other Board Members: Edward Baine, Shelley Butler Barlow, Carrie Chenery, Greta Harris, Melissa Byrne Nelson, Horacio Valeiras (Rector), Preston White

VPI & SU Faculty and Staff: Charity Boyette, Cyril Clarke, Ryan Hamilton, Kay Heidbreder, Justin Noble, Kim O'Rourke, Dwayne Pinkney, Timothy Sands

Compliance, Audit, and Risk Closed Session

1. **Motion for Closed Session:** Motion to begin closed session.
2. **Internal Audit Reports:** The following confidential internal audit reports were issued by the Office of Audit, Risk, and Compliance (OARC) since the May 21, 2020 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
 - a. **Physical Security:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvements were noted in the area of facilities contractor key authorization. A low-priority recommendation of a less significant nature was noted regarding access to server rooms.
 - b. **IT: Windows Server Security:** The audit indicated that management has designed controls that are effective at reducing the departmental Windows server security's exposure to business risks, but the controls are not consistently applied. Improvements are recommended to achieve a fully

effective system of internal controls. An audit recommendation was issued to management where opportunities to provide additional guidance to the decentralized users on the application of security standards. Additionally, recommendations were issued directly to departments for identified noncompliance with university security standards. During the discussion, the Committee Chair noted a request for a briefing by the university's Information Technology Security Officer at a future meeting.

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:** As the Executive Director of Audit, Risk, and Compliance was not in attendance, the Committee dispensed with this agenda item.

Open Session

Committee Members: Anna James, Letitia Long (Chair), Sharon Brickhouse Martin, Chris Petersen

Other Board Members: Edward Baine, Shelley Butler Barlow, Carrie Chenery, Greta Harris, Melissa Byrne Nelson, Horacio Valeiras (Rector), Preston White

Representatives to the Board: Eric Kaufman

VPI & SU Faculty and Staff: Charity Boyette, Al Cooper, Corey Earles, Ryan Hamilton, Kay Heidbreder, Justin Noble, Kim O'Rourke, Dwayne Pinkney, Timothy Sands

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Welcome and Introductory Remarks:** The chair of the Compliance, Audit, and Risk Committee provided opening remarks.
3. **Consent Agenda:** The Committee considered and approved the items listed on the Consent Agenda.
 - a. **Minutes for the May 21, 2020 Meeting:** The Committee reviewed and approved the minutes of the May 21, 2020 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 March 31, 2020, the university had nine open recommendations. Five audit comments were issued during the fourth quarter of the fiscal year. As of June 30, 2020, the university has addressed six comments, leaving eight 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) had completed 88 percent of its audit plan in accordance with the fiscal year 2019-20 annual audit plan.
- d. **Internal Audit Reports:** The following internal audit reports were issued by OARC since the May 21, 2020 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
 - i. **Center for International Research, Education, and Development:** Due to extenuating circumstances related to COVID-19, the engagement focused on the effectiveness and appropriateness of policies, procedures, and processes. The limited testing prevented OARC from expressing an overall opinion. However, no issues were noted warranting management's attention.
 - ii. **Facilities: Site and Infrastructure Development:** The audit received a rating of effective. A low-priority recommendation of a less significant nature was noted in relation to post-construction stormwater management facility inspection follow-up.
 - iii. **Research: Human Research Protection Program:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvement were noted in the protocol monitoring selection process. In addition, a low-priority recommendation of a less significant nature was noted regarding Protocol Management System reporting.
 - iv. **Undergraduate Admissions:** The audit received a rating of effective. A low-priority recommendation of a less significant nature was noted regarding the recording of admission fees and expenses.

- v. Virginia Tech Transportation Institute: The audit received a rating of improvements are recommended. Audit recommendations were issued to management were opportunities for further improvement were noted regarding enhancement of database access control and authentication, software support, audit log review, and data restoration testing.
 - e. **Status Update on the Audit of the University's Financial Statements:** This report provided the current status of the audit of the university's financial statements for fiscal year 2019-20.
4. **Discussion of Future Topics:** The Committee discussed topics to be covered in future committee meetings.

There being no further business, the meeting adjourned at 5:14 p.m.

Motion to Reconvene in Open Session
COMPLIANCE, AUDIT, AND RISK COMMITTEE
August 24, 2020

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

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

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

Welcome and Introductory Remarks
COMPLIANCE, AUDIT, AND RISK COMMITTEE
August 24, 2020

The Chair of the Compliance, Audit, and Risk Committee
will offer welcoming remarks
and ask for approval of the agenda.

Consent Agenda
COMPLIANCE, AUDIT, AND RISK COMMITTEE
August 24, 2020

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

- a. Minutes from the May 21, 2020 Meeting
- b. Update of Responses to Open Internal Audit Comments
- c. Audit Plan Status Report
- d. Internal Audit Reports
 - i. Center for International Research, Education, and Development
 - ii. Facilities: Site and Infrastructure Development
 - iii. Research: Human Research Protection Program
 - iv. Undergraduate Admissions
 - v. Virginia Tech Transportation Institute
- e. Status Update of the Audit of the University's Financial Statements

Committee Minutes

COMPLIANCE, AUDIT, AND RISK COMMITTEE

3:00 p.m.

May 21, 2020

The Compliance, Audit, and Risk Committee of the Board of Visitors of Virginia Polytechnic Institute and State University met on May 20, 2020, at 3:00 p.m. On this date, the Commonwealth of Virginia was operating under a state of emergency as declared by Governor Northam due to the COVID-19 pandemic. This was an entirely electronic meeting held via Zoom videoconference to conduct regular business as permitted by legislation passed by the General Assembly on April 22, 2020, and signed into law by Governor Northam. A quorum of the Compliance, Audit, and Risk Committee was present on the videoconference.

Closed Session

Committee Members: Anna James (Chair), Letitia Long, Sharon Brickhouse Martin, Dennis Treacy, Horacio Valeiras (Rector)

Other Board Members: Chris Petersen, Preston White

Also present on the Zoom videoconference were the following: Cyril Clarke, Ryan Hamilton, Kay Heidbreder, Sharon Kurek, Justin Noble, Kim O'Rourke, Dwayne Pinkney, Timothy Sands

Compliance, Audit, and Risk Closed Session

1. **Motion for Closed Session:** Motion to begin closed session.
2. **Internal Audit Reports:** The following confidential internal audit reports were issued by the Office of Audit, Risk, and Compliance (OARC) since the March 19, 2020 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
 - a. **Parking and Transportation:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management

where opportunities for further improvements were noted in the areas of funds handling and reconciliation procedures and monthly fuel inventory leak check monitoring. Additionally, a low-priority recommendation of a less significant nature was noted regarding the oversight of drivers' licenses.

- b. **College of Science Policy Compliance:** The audit received a rating of significant improvements are needed. Audit recommendations were issued to management where opportunities for further improvement were noted in the areas of fiscal responsibility, wage payroll, leave reporting, funds handling, information technology, and emergency preparedness.
3. **Update on Fraud, Waste, and Abuse Cases:** The Committee received an update on outstanding fraud, waste, and abuse cases.
4. **Annual Performance Review of the Executive Director of Audit, Risk, and Compliance:** The Committee provided an annual performance review to the Executive Director of Audit, Risk, and Compliance.
5. **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: Anna James (Chair), Sharon Brickhouse Martin, Letitia Long, Mr. Dennis Treacy, Horacio Valeiras (Rector)

Other Board Members: Chris Petersen, Preston White

Representatives to the Board: John Ferris, Tammie Smith

Also present on the Zoom videoconference were the following: Charity Boyette, Al Cooper, Cyril Clarke, DeAnn Compton, Corey Earles, Kari Evans, Kay Heidbreder, Sharon Kurek, Ken Miller, Justin Noble, Brook Nunn (captioner), Kim O'Rourke, Dwayne Pinkney, Timothy Sands, G. Don Taylor Jr.

In addition, 60 members of the university community and public viewed a live stream of the videoconference on YouTube Live.

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Welcome and Introductory Remarks:** The chair of the Compliance, Audit, and Risk Committee provided opening remarks.
3. **Consent Agenda:** The Committee considered and approved the items listed on the Consent Agenda.
 - a. **Minutes for the March 19, 2020 Meeting:** The Committee reviewed and approved the minutes of the March 19, 2020 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 December 31, 2019, the university had six open recommendations. Four audit comments were issued during the third quarter of the fiscal year. As of March 31, 2020, the university has addressed one comment, leaving nine 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) had completed 60 percent of its audit plan in accordance with the fiscal year 2019-20 annual audit plan.
 - d. **Internal Audit Reports:** The following internal audit reports were issued by OARC since the March 19, 2020 meeting. Where applicable, management developed action plans to effectively address the issues in the report with a reasonable implementation timeframe. As noted above, OARC conducts follow-up on management's implementation of agreed upon improvements for previously issued audit recommendations.
 - i. **IT: Banner Applications:** The audit received a rating of effective. A low-priority recommendation of a less significant nature was noted regarding configuration of the Docker cluster that supports Banner 9.
 - ii. **College of Natural Resources and Environment Policy Compliance Review:** The audit received a rating of improvements are recommended. Audit recommendations were issued to management where opportunities for further improvement were noted in the areas of leave reporting, funds handling, and information technology.

- e. **ERM and ICP Program Updates:** The Committee reviewed an update on the Enterprise Risk Management (ERM) program and Institutional Compliance program (ICP). The new iteration of ERM, along with the revised enterprise risk landscape and heat map, focused on the top ten risks. As part of the ICP, distributed university-wide compliance owners have completed 80 percent of associated risk assessments, but delays have occurred due to the pandemic.
4. **Annual External Audit Scope Discussion with the Auditor of Public Accounts:** The Committee met with the Auditor of Public Accounts (APA) for a discussion of the scope of the audit of the 2019-20 financial statements and the APA's plans for conducting and completing the audit.
5. **Audit Plan for Fiscal Year 2020-21:** The Committee reviewed and approved the annual audit plan for fiscal year 2020-21. OARC 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 was created in accordance with industry standards. For fiscal year 2020-21, the audit plan includes more than 25 audit projects, with approximately 76 percent of available resources committed to the completion of planned projects.
6. **Discussion of Future Topics:** The Committee discussed topics to be covered in future committee meetings.

There being no further business, the meeting adjourned at 4:50 p.m.

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 May Board meeting, the report of open recommendations includes three attachments:

- Attachment A summarizes each audit in order of final report date with extended and on-schedule open recommendations.
- Attachment B details all open medium and high priority recommendations for each audit in order of the original target completion date, and with an explanation for those having revised target dates or revised priority levels.
- Attachment C charts performance in implementing recommendations on schedule over the last seven years. The 100 percent on-schedule rate for fiscal year 2020 reflects closing 19 of 19 recommendations by the original target date.

The report presented at the May 21, 2020 meeting covered audit reports reviewed and accepted through March 31, 2020 and included nine open medium and high priority recommendations. Activity for the quarter ending June 30, 2020 resulted in the following:

Open recommendations as of March 31, 2020	9
Add: medium and high priority recommendations accepted May 21, 2020	5
Subtract: recommendations addressed since March 31, 2020	6
Remaining open recommendations as of June 30, 2020	<u>8</u>

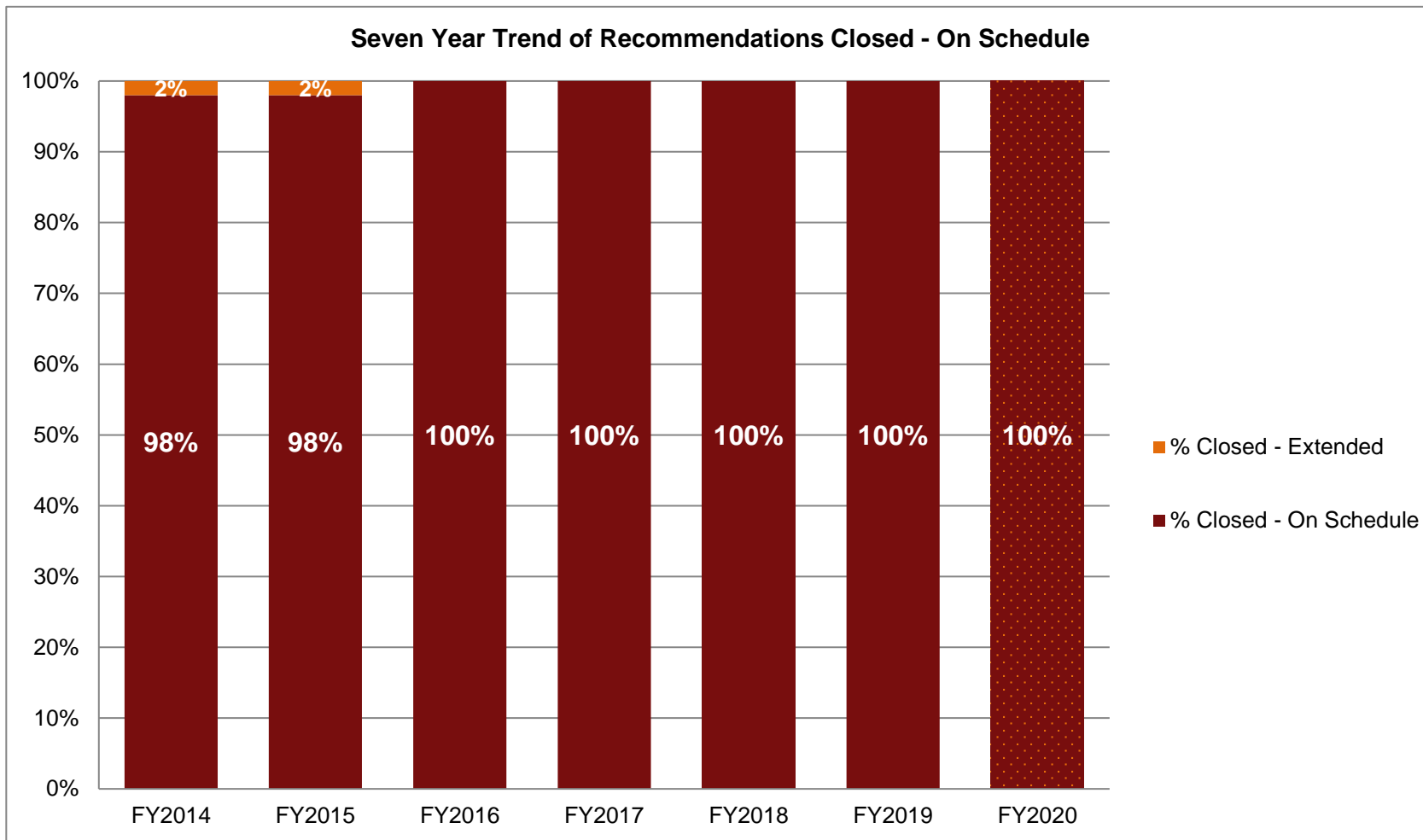
While this report is prepared as of the end of the quarter, management continues to receive updates from OARC regarding auditee progress on action plans. Through August 5, 2020, OARC has closed one of eight outstanding medium and high priority recommendations. The remaining open recommendations are progressing 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.

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				Total
					Extended		On-schedule		
					High	Medium	High	Medium	
29-Jul-19	College of Liberal Arts & Human Sciences	18-1387	3	2			1		1
04-Mar-20	Graduate Education	20-1474	1					1	1
06-Mar-20	IT: Log Management	20-1478	1					1	1
08-May-20	Parking & Transportation	20-1480	2				1	1	2
11-May-20	College of Science	20-1491	3				1	2	3
Totals:			10	2	0	0	3	5	8

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		
04-Mar-20	1	20-1474	Graduate Education	Graduate Application Fee	Medium		31-Jul-20		1	
08-May-20	2	20-1480	Parking & Transportation	Inadequate Monitoring of Fuel Inventory Leak Checks	Medium		01-Sep-20		1	
11-May-20	3	20-1491	College of Science	Leave Reporting	Medium		15-Dec-20		2	
25-Aug-19	4	18-1387	College of Liberal Arts & Human Sciences	Information Technology	High		31-Dec-20		2	
08-May-20	5	20-1480	Parking & Transportation	Funds Handling	High		31-Mar-21		2	
11-May-20	6	20-1491	College of Science	Fiscal Responsibility	High		31-Mar-21		2	
06-Mar-20	7	20-1478	IT: Log Management	Log Management	Medium		01-Apr-21		2	
11-May-20	8	20-1491	College of Science	Information Technology	Medium		01-Dec-21		2	

Follow Up Status

- 1 As of June 30, 2020, 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.



Audit Plan Status Report
COMPLIANCE, AUDIT, AND RISK COMMITTEE

August 24, 2020

Audit Plan Update

Audits were performed in accordance with the fiscal year 2019-20 annual audit plan at a level consistent with the resources of the Office of Audit, Risk, and Compliance (OARC). Seven risk-based audits have been completed since the May board meeting.

The following two audit projects are underway: Athletics and Center for the Arts. Additionally, an advisory service project related to international dependencies was underway but will be carried forward as work ceased due to the COVID-19 effects to campus units.

In fiscal year 2019-20, OARC completed 88 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1
FY 2019-20 Completion of Audit Plan

Audits	
Total # of Audits Planned	31
Total # of Supplemental Audits	0
Total # of Carry Forwards	3
Total # of Planned Audits Canceled and/or Deferred	9
Total Audits in Plan as Amended	25
Total Audits Completed	22
Audits - Percentage Complete	88%
Audits - Percentage Complete or Underway	100%
Note: Includes Policy Compliance Reviews and Advisory Services	

Internal Audit Reports
COMPLIANCE, AUDIT, AND RISK COMMITTEE

August 24, 2020

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
Center for International Research, Education, and Development	N/A
Facilities: Site and Infrastructure Development	Effective
Research: Human Research Protection Program	Improvements are Recommended
Undergraduate Admissions	Effective
Virginia Tech Transportation Institute	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.

August 24, 2020

Status Update of the Audit of the University's Financial Statements

COMPLIANCE, AUDIT, AND RISK COMMITTEE

August 24, 2020

The Auditor of Public Accounts (APA) began the audit of the university's financial statements for fiscal year 2019-20 with the entrance conference on May 14, 2020. The APA is currently in the initial stage of the audit where they review transactions and test internal controls over the university's financial processes. Through early August 2020, the audit seems to be progressing as planned, and the APA has not provided any audit comments or recommendations for improvements. At this time, we are not aware of any issues that would prevent the successful completion of the fiscal year 2019-20 audit by the targeted deadline of October 31, 2020.

Discussion of Future Topics
COMPLIANCE, AUDIT, AND RISK COMMITTEE
August 24, 2020

The Chair of the Compliance, Audit, and Risk Committee
will discuss agenda items for future meetings
and adjourn the committee meeting.