

Committee Minutes

FINANCE AND AUDIT COMMITTEE

Duck Pond Room, The Inn at Virginia Tech

March 21, 2016

Audit Closed Session

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

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

1. **Update on Fraud, Waste, and Abuse Cases:** The Committee met in closed session to receive an update on outstanding fraud, waste, and abuse cases.
2. **Washington-Alexandria Architecture Center Advisory Review:** The Committee met in closed session to receive results of the Washington-Alexandria Architecture Center advisory service review in conformance with the College of Architecture and Urban Studies' request for our services, precipitated by the receipt of a schedule of financial transactions external to the university system. The objective of the review was to assist management in gaining a better understanding of the center's financial activities following funds handling concerns brought forth by prior audits. The report was presented in closed session due to discussion of specific personnel actions.
3. **Discussion with the Director of Internal Audit:** The Committee met in closed session with the Director of Internal Audit to discuss audits of specific departments and units where individual employees were identified.

Audit Open Session

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

VPI & SU Staff: Ms. Beth Armstrong, Mr. Jared Bourne, Mr. Bob Broyden, Mr. Matt Chan, Ms. D'Elia Chandler, Mr. Al Cooper, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Dr. Guru Ghosh, Ms. Kay Heidbreder, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Courtney Hughes, Ms. Sharon Kurek, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Ms. Kim O'Rourke, Mr. Mark Owczarski, Dr. Scot Ransbottom, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Brad Sumpter, Ms. Tracy Vosburgh, Mr. Chris Yianilos

1. Opening Remarks and Approval of Minutes of the November 9, 2015 Meeting:

The Committee reviewed for approval the minutes of the November 9, 2015 meeting.

2. Review and Acceptance of University's Update of Responses to all Previously Issued Internal Audit Reports:

The Committee reviewed the university's update of responses to all previously issued internal audit reports. As of September 30, 2015, the university had 13 open recommendations. Five audit comments have been issued during the second quarter of this fiscal year. As of December 31, 2015, the university has addressed eight of the 18 recommendations, leaving ten open recommendations in progress. The Committee received a briefing at the meeting that reviewed the status of the outstanding comments, including the comments that have been addressed since December 31, 2015.

The Committee accepted the report.

3. Review of Internal Audit Department's Status Report as of December 31, 2015:

The Committee reviewed the Department of Internal Audit's Status Report as of December 31, 2015. Internal Audit has completed 38 percent of its audit plan in accordance with the fiscal year 2015-16 annual audit plan.

4. Review and Acceptance of the following Internal Audit Reports and Memos Issued: The Committee received seven internal audit reports:

- a. Contract Administration: 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 advance payments for services. Additionally, low-priority recommendations were noted with regard to assignment of the contract administrator role and delivery of contract-required performance reports.

- b. Crop and Soil Environmental Sciences: The audit received a rating of effective. A low-priority recommendation was issued to management where opportunities for improvement were identified with regard to Family Educational Rights and Privacy Act of 1974 (FERPA) training.
- c. The Inn at Virginia Tech and Skelton Conference Center: 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 inventory process accuracy, proper coding of event charges, and employee training. Additionally, low-priority recommendations of a less significant nature were identified with regard to advanced approval of purchasing card transactions and key control.
- d. Linux Server Security: The audit received a rating of immediate improvements are needed. Audit recommendations were issued to management where opportunities for further improvement were noted in the areas of operating system and network services, access and configuration, logging, and change management.
- e. Real Estate Management: The audit received a rating of effective. A low-priority recommendation was issued to management where opportunities for improvement were identified with regard to compliance with sublease requirements
- f. Center for Organizational and Technological Advancement: 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 the grant award process.
- g. Office of the President: The audit received a rating of improvements are recommended. Recommendations were issued to management where opportunities for further improvement were noted in the areas of fiscal responsibility and leave reporting.

The Committee accepted all seven reports.

- 5. Review of the Department of Internal Audit's Quality Assurance and Improvement Program Periodic Self-Assessment:** The Committee reviewed the Internal Quality Assurance Review for the university's internal audit function. The objectives of the review were to assess University Internal Audit's conformance with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the

effectiveness of the university's internal audit function in carrying out its mission, and identify opportunities to improve its management and work processes. The self-assessment process ranked University Internal Audit as "Generally Conforms" with the IIA standards and identified certain opportunities for improvement such as onboarding, policies and procedures update, and documentation of sampling methods.

The Standards require that internal audit functions implement a comprehensive Quality Assurance and Improvement Program. This program includes ongoing internal assessments, periodic self-assessments, and an independent external assessment that should be conducted at a minimum of every five years. The prescribed independent external assessment will occur during the next quarter and results of which will be presented to the Finance and Audit Committee at the August meeting.

The Committee accepted the report.

- 6. Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs Report for Year Ended June 30, 2015:** The Committee received a report on the Auditor of Public Accounts (APA) 2015 Intercollegiate Athletics Review. The APA performed certain agreed-upon procedures to the university's Intercollegiate Athletics Programs for the fiscal year ended June 30, 2015, solely to assist the university in complying with National Collegiate Athletic Association (NCAA) bylaws. The university is responsible for the Intercollegiate Athletics Programs including preparation of the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs. 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. This schedule displays an excess of revenues over expenses of \$2.5 million as of June 30, 2015.
- 7. Review of Auditor of Public Accounts Statewide Reviews and Special Reports:** The Committee received a report on the Auditor of Public Accounts Statewide Reviews and Special Reports. In addition to the annual audits of the university's financial statements and its Intercollegiate Athletics Program, the Auditor of Public Accounts (APA) has included Virginia Tech along with other agencies in program reviews designed to assess controls on a statewide basis. The report provided information regarding two recently issued APA reports on the study of Sub-Recipient Schedule of Expenditures for Federal Awards (SEFA) and the Commonwealth's Mobile Devices.

- 8. Department of Education Onsite Student Financial Aid Review:** The Committee received a report on the upcoming Department of Education onsite Student Financial Aid review. In February, 2016, the U.S Department of Education (DOE) notified Virginia Tech regarding an onsite program review of the university's Student Financial Aid programs. The review will assess the university's administration of Title IV and Higher Education Administration (HEA) program. The Student Financial Aid programs and processes are audited by multiple internal and external sources. However, this is the first time the university will host an onsite review by the DOE.

Finance Closed Session

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

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

1. **Motion for Closed Session:** Motion to begin closed session.
- * 2. **Ratification of Personnel Changes Report:** The Committee met in closed session to review and take action on the quarterly personnel changes report.

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

Finance Open Session

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

VPI & SU Staff: Ms. Beth Armstrong, Mr. Jared Bourne, Mr. Matt Chan, Mr. Al Cooper, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Dr. Guru Ghosh, Ms. Kay Heidbreder, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Courtney Hughes, Ms. Sharon Kurek, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Ms. Kim O'Rourke, Mr. Mark Owczarski, Dr. Scot Ransbottom, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Brad Sumpter, Ms. Tracy Vosburgh

1. **Motion to Reconvene in Open Session:** Motion to begin open session.
2. **Approval of Items Discussed in Closed Session:** The Committee reviewed and took action on items discussed in closed session.
3. **Opening Remarks and Approval of Minutes of the November 9, 2015 Meeting:** The Committee reviewed and approved the minutes of the November 9, 2015 meeting.
4. **Presentation of University's Annual Financial Report:** The Committee received an overview of the university's annual financial report for the fiscal year ending June 30, 2015. The financial statements have been prepared in accordance with generally accepted accounting principles, and the Auditor of Public Accounts issued an unmodified (or clean) opinion.

At June 30, 2015, the university had total net position of \$1.2 billion, a decrease of \$319.5 million or 20.8 percent since fiscal year 2014. Total unrestricted net assets decreased by \$388.6 million or 123.6 percent to negative \$74.3 million. This significant decrease is due to the implementation of GASB 68 *Accounting and Financial Reporting for Pensions*. GASB 68 required state and local government employers that participate in a state's defined benefit retirement plan to recognize their allocable portion of the state's net pension liability. In prior years, the net pension liability was reported in total for all state agencies on the Commonwealth's Comprehensive Annual Financial Report. Noncurrent liabilities increased by \$357.6 million and unrestricted net position decreased by \$392.8 million due to implementation of GASB 68. The unrestricted net position would have increased by \$4 million without the overall impact of GASB 68.

Total revenues for fiscal year 2015 were \$1.33 billion, an increase of \$2.5 million or 0.2 percent over fiscal year 2014. The majority of the increase in revenues came from student tuition and fees and auxiliary enterprises. Total operating expenses for fiscal year 2015 were \$1.26 billion, an increase of \$32.3 million or 2.6 percent. The increase was primarily due to increase in salaries, wages, and fringe benefits in the instruction and auxiliary enterprises function.

5. **Update on JLARC Study on Higher Education:** The Committee received a report on the current implementation status of JLARC recommendations to be addressed by the Board of Visitors. The reports issued by the Joint Legislative

Audit and Review Commission (JLARC) as part of the two-year study on higher education cost efficiency included recommendations to address the cost of public higher education in Virginia. The approved budget passed by the General Assembly in March 2015, included language recommending seven of the 17 JLARC recommendations which they believe should be addressed by the Board of Visitors, to the extent practicable. The university has implemented two of the seven recommendations and is making progress on the implementation of the remaining five recommendations. This report provided an update on the implementation status of the five outstanding recommendations by the General Assembly.

6. **Report on the 2016 Legislative Session:** The Committee received a report on the results of the 2016 legislative session, including the Governor's Executive Budget Amendments presented on December 17, 2015. The General Assembly session opened on January 13, 2016 and completed its work on March 12, 2016. This report presented the major elements of the Executive Budget Amendments and General Assembly actions for the 2016-2018 biennium. The budget approved by the General Assembly includes incremental General Fund support of \$5.1 million and \$7.5 million in each year of the biennium for access and affordability. An additional \$2 million was provided for cyber security test range. The Committee commended everyone involved during the legislative session for the positive outcomes from the General Assembly. The Committee also congratulated those involved in securing additional state funding for improved livestock facilities. These facilities will significantly enhance the teaching, research, and outreach capabilities of the university.
- * 7. **Review and Approval of Revisions to the Policy Governing the Investment of University Funds:** The Committee reviewed for approval the revisions to the university Investment Policy. The university's *Policy Governing the Investment of University Funds* outlines the allowable investments for the short- and intermediate-term non-general fund operating cash balances of the university. The primary objective of the investment policy is to provide the highest investment return at defined levels of risk, while providing both preservation of capital and sufficient liquidity to meet the daily cash flow needs of the university. The current policy needed two revisions - to change the target allocation between the Primary Liquidity and the Extended Duration portfolios; and to include asset-backed securities with a duration of one year as an allowable investment in the Primary Liquidity portfolio.

The Committee recommended the Revisions to the Policy Governing the Investment of University Funds to the full Board for approval.

- * 8. **Resolution for the Approval of Tuition Rates for 2016–17:** The Committee reviewed for approval the proposed tuition and fee rates for 2016-17. The 2004 General Assembly authorized “The Board of Visitors . . . of institutions of higher education may set tuition and fee charges at levels they deem to be appropriate for all resident student groups based on, but not limited to, competitive market rates...” For 2016-17, the university proposed a \$367 or 2.9 percent increase in tuition and fees for in-state undergraduate students, and an \$846 or 2.9 percent increase in tuition and fees for out-of-state undergraduate students. A 2.4 percent increase in room and board is recommended.

For on-campus graduate programs, a \$428 or 3.0 percent increase is recommended for in-state students, and a \$783 or 2.9 percent increase is recommended for out-of-state students. For off-campus graduate programs, a \$408 or 3.0 percent increase is recommended for in-state students and \$777 or 2.9 percent increase is recommended for out-of-state students.

In Veterinary Medicine, a \$523 or 2.3 percent increase is recommended for Virginia/Maryland students, and a \$1,107 or 2.2 percent increase is recommended for out-of-state students.

Upon the Board’s request, the university provided two additional tuition and mandatory fee options and its revenue impact for their consideration. The first option is a 2.9 percent across the board increase in undergraduate and graduate tuition and mandatory fees for both in-state and out-of-state students. The 2.9 percent across the board option would result in an estimated revenue reduction of \$12,455.

The second option is a 2.8 percent increase in undergraduate in-state tuition and mandatory fees and a 2.9 percent increase in undergraduate out-of-state and graduate in-state and graduate out-of-state tuition and mandatory fees. The differential impact of the 2.8 percent increase would result in a revenue reduction of \$195,356.

After discussion of the additional options, the Committee recommended the resolution for Tuition and Fees for 2016-17 with the option of a 2.9 percent across the board increase for undergraduate and graduate in-state and out-of-state tuition and mandatory fees to the full Board for approval.

- * 9. **Approval of Year-to-Date Financial Performance Report (July 1, 2015 – December 31, 2015):** The Committee reviewed the Year-to-Date Financial Performance Report for July 1, 2015 – December 31, 2015. For the second quarter, all programs of the university are on target and routine budget adjustments were made to reflect changes in revenues and expenditure budgets in academic and administrative areas.

During the second quarter, annual budget was decreased by \$66,000 for university division for adjustment to the central appropriation distribution. The Veterinary Medicine Teaching Hospital budget was increased by \$250,000 for increased caseloads. Several changes were also noted in the auxiliary budget. Intercollegiate Athletics budgets increased by a total of \$6.0 million to accommodate \$1.7 million for Independence Bowl expenses, \$3.0 million for capital project planning associated with facility improvements, \$350,000 for Cassell Coliseum arena renovation, \$141,000 for men and women's basketball payable guarantees, \$210,000 for travel, and \$291,000 for ongoing operational needs. Revenues in Resident and Dining Halls were higher than projected due to greater than anticipated self-generated revenue.

For year-to-date ending December 31, 2015, \$22 million has been expended for Educational and General capital projects, and \$27.8 million has been expended for Auxiliary Enterprises capital projects. Capital outlay expenditures for year-to-date ending December 31, 2015 totaled \$49.8 million.

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

- * 10. **Approval of 2015-2016 Compensation for Graduate Assistants:** The Committee reviewed for approval the proposed 2016-17 schedule of stipends and support for the graduate health insurance program for graduate students who work as graduate assistants (including graduate teaching assistants and graduate research assistants) while pursuing master's or doctoral degrees. To be competitive in the recruitment and retention of high quality graduate students, it is important for the university to provide compensation packages that are comparable with those offered by peer institutions. The key components of the compensation packages are competitive stipends, tuition assistance, and health insurance. The university proposed advancing the stipend scale for 2016-17 by providing a 3.0 percent increase, effective November 2016. In addition, the university proposed

the continuation of graduate assistant health insurance coverage at 90 percent, based on university's current estimate of cost increase.

The Committee recommended the 2016-17 Compensation for Graduate Assistants to the full Board for approval.

- * 11. **Approval of the Virginia Tech India Research and Education Forum:** The Committee reviewed for approval the affiliation agreement for Virginia Tech India Research and Education Forum (VTIREF). VTIREF is a not-for-profit Indian corporation created to foster scientific and technological engagement and graduate education in the areas of science, technology, mathematics, architecture and urban studies and other areas to address current and future global issues and opportunities. The corporation also seeks to establish educational and research partnerships with the private sector, universities, and research institutes. The corporation will receive oversight from a board of directors composed of both university and external directors. The corporation's relationship will be governed by an affiliation agreement presented to the Committee for review and approval. Initial capitalization of the corporation will include total university funding of up to \$700,000 for fiscal year 2015 through 2017 with VTIREF planning to generate sufficient resources through sponsored projects to be self-sufficient by July 1, 2017.

The Committee recommended the affiliation agreement for Virginia Tech India Research and Education Forum governing the corporation's relationship with the university to the full Board for approval. The Committee requested that an update on the progress of the VTIREF activities be provided to the Board (Finance and Audit Committee and Academic Affairs) in a year..

- * 12. **Resolution for Vehicle Stipends for Athletics:** The Committee reviewed for approval a resolution regarding vehicle stipends for certain members of the Athletics department. The resolution seeks authorization to provide an annual vehicle stipend of up to \$9,250, or a courtesy vehicle to certain employees of the Athletic department.

The Committee recommended the Resolution for Vehicle Stipends for Athletics to the full Board for approval.

Joint Open Session

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

VPI & SU Staff: Ms. Beth Armstrong, Mr. Mac Babb, Mr. Jared Bourne, Mr. Bob Broyden, Mr. Matt Chan, Ms. D'Elia Chandler, Mr. Al Cooper, Mr. John Cusimano, Mr. Brian Daniels, Dr. John Dooley, Dr. Guru Ghosh, Ms. Kay Heidbreder, Ms. Mary Helmick, Mr. Tim Hodge, Ms. Elizabeth Hooper, Ms. Katie Huger, Ms. Courtney Hughes, Ms. Angela Kates, Mr. Chris Kiwus, Ms. Sharon Kurek, Ms. Leigh Laclair, Ms. Nancy Meacham, Dr. Scott Midkiff, Mr. Ken Miller, Ms. Terri Mitchell, Ms. Laura Neff-Henderson, Ms. Kim O'Rourke, Mr. Mark Owczarski, Dr. Scot Ransbottom, Dr. Timothy Sands, Ms. Savita Sharma, Mr. M. Dwight Shelton Jr., Mr. Ken Smith, Mr. Jason Soileau, Mr. Brad Sumpter, Ms. Tracy Vosburgh, Dr. Sherwood Wilson, Mr. Chris Wise, Mr. Chris Yianilos

- * 1. **Approval of Resolution for Planning Authorization for O'Shaughnessy Hall Renovation:** The Committees reviewed for approval a resolution for planning authorization for O'Shaughnessy Hall renovation. O'Shaughnessy Hall was built in 1966 and is approximately 69,200 gross square feet with housing capacity for about 341 students. The facility has received few improvements since its original construction, does not meet student expectations, and carries a significant deferred maintenance backlog. Attracting high quality students in higher education is competitive, and the Housing program is often a critical factor for students because of its link to quality of life and academic support. The Board of Visitors approved the University's 2016-2022 Capital Plan on June 1, 2015, including a nongeneral fund project to renovate O'Shaughnessy Hall.

Converting O'Shaughnessy Hall into a living-learning/residential college format will modernize the program space within the building with minimal loss of beds. The programmatic changes include the creation of a faculty principal apartment, five to seven faculty/staff offices, a classroom, and common meeting rooms for student activities. The project scope includes updating the building's interior; residential rooms; bathrooms; mechanical, electrical, and plumbing systems; elevators; addressing other deferred maintenance items as needed; and installing air conditioning.

This request is for a \$1.75 million planning authorization to complete working drawing documents for the O'Shaughnessy Hall Renovation project. As with all

self-supporting projects, the university has developed a financing plan to provide assurance regarding the financial feasibility of this planning project.

The Committees recommended the Resolution for Planning Authorization for O'Shaughnessy Hall to the full Board for approval.

- * 2. **Approval of Resolution for Planning of Student Wellness Services:** The Committees reviewed for approval a resolution for planning of student wellness services. In March 2014, the Board of Visitors approved a \$200,000 planning authorization to expand and improve student health and counseling services at the Schiffert Health Center. In June 2015, the Board of Visitors approved a supplemental \$2.871 million for construction to build a 3,500 gross square foot one-story addition to the east wing of McComas Hall (Schiffert Health Center) and to renovate 1,700 square feet of interior space of the existing facility. At the time of construction approval, the project was in the preliminary design phase with an expected construction bid date of December 2015.

During design work and prior to construction, the university conducted a program review update, including considerations to accommodate enrollment growth, which showed the capacity provided by the project underway would not be sufficient to accommodate the foreseeable demand for counseling and health services. The rising demand for services within the current population and projected enrollment growth require more than double the approximately 5,200 square feet of scope in the existing project.

In consideration that the existing project does not meet foreseeable student needs, the university halted design work in November, and the project has not been bid, and alternatives are being considered. Permanent solutions for wellness services, particularly health and counseling services will likely take three to four years to implement. The university is exploring temporary solutions to meet student demand for services until a permanent solution is available.

This request is for approval to utilize the \$2.757 million available balance from the \$3.071 million authorized for the Health Center Improvements project be used to plan a new and comprehensive solution for student wellness services.

The Committees recommended the Resolution for Planning of Student Wellness Services to the full Board for approval.

- * 3. **Approval of Resolution for the Eastern Shore AREC Equipment Storage Building:** The Committees reviewed for approval a resolution for planning authorization for the Eastern Shore Agricultural Research and Extension Center (AREC) Equipment Storage Building. The Eastern Shore AREC is located in Painter, Virginia and is part of the university's Extension and Research program which is overseen by the College of Agriculture and Life Sciences. The current Eastern Shore AREC facilities include approximately 39,200 gross square feet of space distributed among 11 buildings with an average age of 50 years-old. The spaces include offices, laboratories, a small auditorium, conference rooms, storage, and workshops. The AREC's existing facilities are not adequate to appropriately store the equipment and a new structure is required. A project for the Eastern Shore Agriculture Research and Extension Center (AREC) Equipment Storage Building was included on the 2016-2022 Six-Year Capital Outlay Plan approved by the Board of Visitors.

The AREC, working with the college and the university, has developed the specifications for the necessary facilities to house and secure the equipment. The program includes an approximately 9,300 gross square foot, single story structure located on site and adjacent to the AREC's other facilities. The exterior shell of the facility would be a pre-engineered metal building standing on a concrete slab with insulation and heating, but no cooling.

The request is for a \$46,000 planning authorization to complete bid documents for the project. As with all self-supporting projects, the university has developed a funding plan to provide assurance regarding the financial feasibility of the project.

The Committees recommended the Resolution for Planning the Eastern Shore AREC Equipment and Storage Building to the full Board for approval

There being no further business, the meeting adjourned at 11:52 a.m.

***Requires full Board approval.**

Update of Responses to Open Internal Audit Comments

FINANCE AND AUDIT COMMITTEE

December 31, 2015

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

The report includes outstanding recommendations from Compliance Reviews and Audit Reports. Consistent with the report presented at the 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 high or medium priority recommendations for each audit in order of the original target completion date, and with an explanation for those having revised target dates or revised priority levels.
- Attachment C charts performance in implementing recommendations on schedule over the last seven years. The 100 percent on-schedule rate for fiscal year 2016 reflects closing 17 of 17 recommendations by the original target date.

The report presented at the November 9, 2015 meeting covered Internal Audit reports reviewed and accepted through September 30, 2015 and included 13 open medium and high priority recommendations. Activity for the quarter ended December 31, 2015 resulted in the following:

Open recommendations as of September 30, 2015	13
Add: Medium & High priority recommendations accepted November 9, 2015	5
Subtract: recommendations addressed since September 30, 2015	8
Remaining open recommendations as of December 31, 2015	<u>10</u>

The ten remaining open recommendations are progressing as expected and are on track to meet their respective target due dates. Management continues to work conjointly with the units and providing assistance as needed to ensure the action plans are completed timely.

ATTACHMENT A

Open Recommendations by Priority Level

FINANCE AND AUDIT COMMITTEE

December 31, 2015

Report Date	Audit Name	Audit Number	Total Recommendations						
			ISSUED	COMPLETED	OPEN				
					Extended		On-schedule		Total
					High	Medium	High	Medium	Open
23-Oct-14	Facilities Work Order System	14-1176	2	1				1	1
05-Mar-15	Conflicts of Interest and Commitment	14-1163	3	1			2		2
27-Jul-15	College of Science	15-1209	2	1			1		1
29-Jul-15	Environmental Health and Safety	15-1207	2	1			1		1
31-Jul-15	FERPA and HIPAA Compliance	15-1227	2				2		2
14-Oct-15	Language and Culture Institute	15-1221	1					1	1
22-Oct-15	Facilities Operations	15-1206	2				1	1	2
Totals:			14	4	0	0	7	3	10

ATTACHMENT B

Internal Audit Open Recommendations

FINANCE AND AUDIT COMMITTEE

December 31, 2015

Report Date	Item	Audit Number	Audit Name	Recommendation Name	Priority		Target Date		Follow Up Status	Status of Recommendations with Revised Priority / Target Dates
					Original	Revised	Original	Revised		
23-Oct-14	1	14-1176	Facilities Work Order System	HokieServ Process Improvements	Medium		01-Apr-16		2	
22-Oct-15	2	15-1206	Facilities Operations	Inventory Control Process	High		01-Apr-16		2	
27-Jul-15	3	15-1209	College of Science	Fiscal Responsibility	High		30-Jun-16		2	
29-Jul-15	4	15-1207	Environmental Health and Safety	Establishment and Oversight of Inspection Process	High		30-Jun-16		2	
31-Jul-15	5	15-1227	FERPA and HIPAA Compliance	HIPAA Compliance	High		30-Jun-16		2	
31-Jul-15	6	15-1227	FERPA and HIPAA Compliance	FERPA Training for Employees	High		30-Jun-16		2	
22-Oct-15	7	15-1206	Facilities Operations	Monitoring of Safety Training	Medium		31-Jul-16		2	
14-Oct-15	8	15-1221	Language and Culture Institute	Accuracy of LCI Tuition and Fee Charges	Medium		01-Sep-16		2	
05-Mar-15	9	14-1163	Conflicts of Interest and Commitment	Conflict of Interest Programmatic Enhancement	High		30-Sep-16		2	
05-Mar-15	10	14-1163	Conflicts of Interest and Commitment	Clarification of Conflict of Interest Officer Role and Disclosure Requirements	High		30-Sep-16		2	

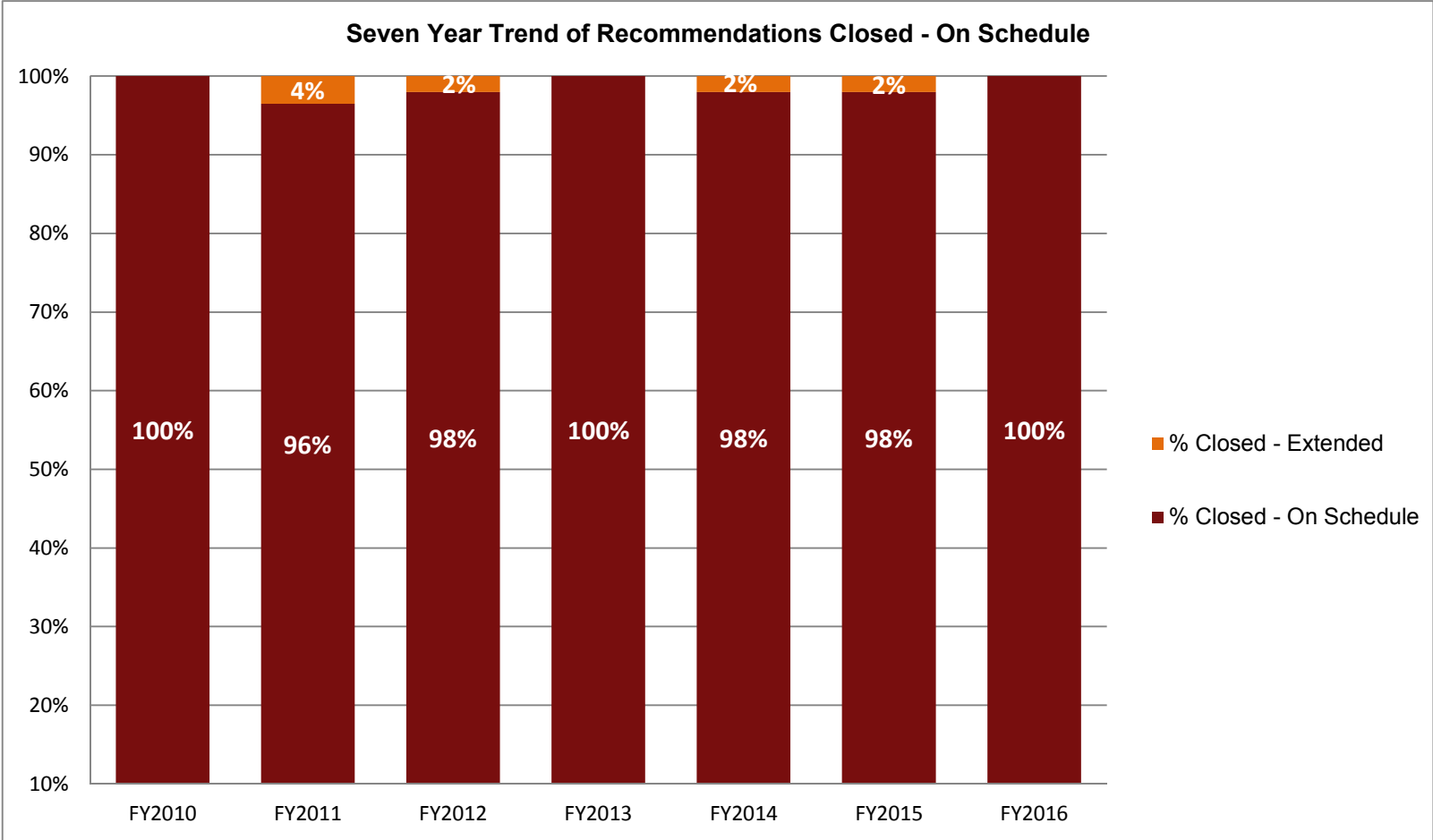
- (1) As of December 31, 2015, management confirmed during follow up discussions with Internal Audit that actions are occurring and the target date will be met. The Internal Audit department will conduct testing after the due date to confirm that the Management Action Plan is implemented in accordance with the recommendations.
- (2) Target date is beyond current calendar quarter. Management has follow-up discussions with the auditor to monitor progress, to assist with actions that may be needed to meet target dates, and to assess the feasibility of the target date.

ATTACHMENT C

Management Performance and Trends Regarding Internal Audit Recommendations

FINANCE AND AUDIT COMMITTEE

December 31, 2015



Internal Audit Status Report
FINANCE AND AUDIT COMMITTEE

February 10, 2016

Audit Plan Update

Audits were performed in accordance with the fiscal year 2015-16 annual audit plan at a level consistent with the resources of the Department of Internal Audit. Six risk-based audits and one compliance review have been completed since the November board meeting. Additionally, three projects (a review conducted confidentially at the request of University Legal Counsel, a review of the Washington-Alexandria Architecture Center conducted at the request of the College of Architecture and Urban Studies, and a review of the Future Farmers of America conducted at the request of the College of Agriculture and Life Sciences) were completed as advisory services.

The following ten audit projects are underway: Electrical and Computer Engineering, Human Resources: Leave Accounting, Physics, Research: Effort Reporting, Graduate Admissions Application System, Institute for Critical Technology and Applied Science, Student Engagement and Campus Life, Building Construction/Myers-Lawson School of Construction, Interdisciplinary Center for Applied Mathematics/Institute for Society, Culture and Environment and the University Libraries compliance review.

Four advisory service projects are also underway. These include: one conducted confidentially at the request of University Legal Counsel, one of privately-owned athletic camp and clinic activity conducted at the request of the Department of Athletics, one of the organizational structure of administrative functions within the Advancement division conducted at management's request, and one of business process efficiencies of the Veterinary Teaching Hospital conducted at the request of the Virginia-Maryland College of Veterinary Medicine. So far in fiscal year 2015-16, Internal Audit has completed 38 percent of its audit plan as depicted in Exhibit 1.

Exhibit 1
FY 2015-16 Completion of Audit Plan

Audits	
Total # of Audits Planned	28
Total # of Supplemental Audits	5
Total # of Carry Forwards	4
Total # of Planned Audits Canceled and/or Deferred	0
Total Audits in Plan as Amended	37
Total Audits Completed	14
Audits - Percentage Complete	38%
Note: Includes Compliance Reviews and Advisory Services	

Review and Acceptance of Internal Audit Reports Issued

FINANCE AND AUDIT COMMITTEE

February 23, 2016

Background

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

Ratings Issued This Period

Contract Administration	Improvements are Recommended
Crop and Soil Environmental Sciences	Effective
The Inn at Virginia Tech and Skelton Conference Center	Significant Improvements are Needed
Linux Server Security	Immediate Improvements are Needed
Real Estate Management	Effective
Center for Organizational and Technological Advancement	Improvements are Recommended
Office of the President	Improvements are Recommended

Summary of Audit Ratings

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

Definitions of each assessment option

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

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

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

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

RECOMMENDATION:

That the internal audit reports reviewed above be accepted by the Finance and Audit Committee.

Virginia Tech

Internal Quality Assessment

Quality Assurance and Improvement Program
Periodic Self-Assessment
February 29, 2016

William G. Abplanalp
Audit Manager

Brian J. Daniels, CIA, CISA, GCFA
Associate Director

Sharon M. Kurek, CPA, CFE
Director

Jonathan C. Teglas
Editor

February 29, 2016

Ms. Sharon M. Kurek
Director, University Internal Audit
Virginia Tech
300 Turner Street NW, Suite 3200
Blacksburg, VA 24061

Dear Ms. Kurek:

This memorandum is to report the outcome of our periodic self-assessment conducted as part of our ongoing Quality Assurance Improvement Program (QAIP). This self-assessment was designed to assess conformance with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the effectiveness of the university's internal audit function in carrying out its mission, and to identify strengths and opportunities for improvement of its overall management and work processes.

In my opinion, the university's internal audit function **generally conforms** with the IIA Standards. The IIA Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." According to this manual, "Generally Conforms" is the highest rating and indicates that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. In addition, University Internal Audit effectively carries out its mission as set forth in the internal audit charter.

During the assessment, opportunities were identified to enhance office processes and procedures. Those opportunities included: enhancing onboarding procedures for new staff, adjusting the timing of QAIP reviews for maximum value, completing the update of office policies and procedures, ensuring adequate documentation of sampling methodologies and sign-offs in work papers, and considering inclusion of IIA Standards references within audit reports.

I appreciate the courtesies extended during this quality assessment.

Respectfully,



William G. Abplanalp
Audit Manager

cc: James L. Chapman IV
Charles T. Hill
Deborah L.M. Petrine
Timothy D. Sands

M. Dwight Shelton Jr.
Dennis H. Treacy
Horacio A. Valeiras

OBJECTIVES

The objectives of this periodic self-assessment were to determine conformance with the IIA Standards, the IIA Definition of Internal Auditing, and the IIA Code of Ethics. Additional consideration was given to determining the effectiveness of University Internal Audit in carrying out its mission and identifying opportunities to improve its management and work processes.

METHODOLOGY

This review was based on steps outlined in the Quality Assessment Manual published by the IIA. The following steps were performed.

- Review, verify, and evaluate information provided by University Internal Audit, including:
 - The department's charter, policy manual, annual risk assessment, annual audit plan, and other relevant documents;
 - Board of Visitors (BOV) Finance and Audit Committee charter, meeting minutes, and submitted meeting materials;
 - Selected five audit engagements for conformance with standards related to engagement planning, performing the engagement, communicating results, and monitoring progress; and
 - Organizational chart, staff job descriptions, personnel files, performance evaluations, annual training plans, and the annual staff disclosures of conflicts of interests.
- Review and evaluate survey responses from audit staff as well as those provided by university personnel after engagements.
- Interview the chief audit executive.
- Review previous internal and external quality assurance review reports.

OPINION

The university's internal audit function **generally conforms** with the IIA Standards. The IIA Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." According to this manual, "Generally Conforms" is the highest rating and indicates that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. In addition, University Internal Audit effectively carries out its mission as set forth in the internal audit charter.

OPPORTUNITIES FOR IMPROVEMENT

I. Standard 1220: Due Professional Care

University Internal Audit has developed various tools and documents to assist in the onboarding process for new auditors beyond what is already provided by university human resources, including an orientation checklist, audit manual, electronic work paper documentation, arranged training with more senior audit staff, and job shadowing for new auditors in performance of engagements.

Recommendation

University Internal Audit should consider enhancing onboarding procedures through the development of a new auditor training program to increase the effectiveness of new audit staff in performing engagements in line with departmental expectations.

Management Action Plan

Concur, with specific strategies considered for inclusion related to developing supplement tools to aid in performance of audit steps and formalized training with regard to implementing procedures outlined in departmental policies and procedures.

II. Standard 1311: Internal Assessments

University Internal Audit has implemented routine QAIP reviews in accordance with the Standards since the early 1990s. The internal self-assessments have consistently been conducted in the months leading up to the full external quality assessment.

Recommendation

University Internal Audit should consider enhancing QAIP effectiveness by staggering these reviews to occur amid the IIA-required five year cycle for external quality assessment, rather than always in the months leading up to the external review.

Management Action Plan

Concur, with strategies for improvement to include initiating self-assessment reviews to occur mid cycle in a manner that will ensure that either external or internal reviews are regularly occurring every two or three years.

III. Standard 2040: Policies and Procedures

University Internal Audit policies, procedures, protocols, and other tools are stored in various locations on the shared network drive accessible by all internal audit personnel.

Recommendation

University Internal Audit should complete revision of the audit manual, work paper documentation, and other selected tools in a manner that will ensure availability and effective and consistent dissemination of departmental expectations.

Management Action Plan

Concur, with strategies for improvement to include completion of internal review and revision processes and formalizing requirements for ongoing periodic review. Additionally, University Internal Audit will continue recent efforts to better utilize the departmental SharePoint site for improved ease of use and more consistent updating as needed.

IV. Standard 2240: Engagement Work Program

The Virginia Tech Audit Manual clearly defines methods of sampling (attribute, variable, and judgmental) that should be considered when evaluating internal controls. The projects reviewed as part of this assessment appear to have a sufficient sample size to justify the conclusions made from the test work completed; however, the method of determining a sample size was not always clearly documented within the work papers.

Recommendation

University Internal Audit should ensure the work program includes methodologies used for sampling techniques to ensure reviewers can understand the audit approach.

Management Action Plan

Concur. With the increased use of data analytics targeting more informed sample selections, one specific methodology for determining a sample is typically no longer the case. Discussions occur throughout the planning phase of audit engagements with regard to scope ensuring adequate audit coverage (generally a minimum of 10 percent of total transactions are reviewed); however, University Internal Audit will ensure the work program includes the specific methodologies utilized for sampling.

V. Standard 2330: Documenting Information

University Internal Audit has robust requirements governing the documentation and the associated approval of work papers that support conclusions drawn during the reporting phase. In addition to project reviewer responsibilities, oversight of work paper sign-off is provided by the Operations Manager and Assistant to the Director in advance of report issuance as well as by the Audit Manager through utilization of a project finalization checklist.

Recommendation

University Internal Audit should explore restoration of an electronic system control that prohibits project finalization in advance of sign-off of all items that may undergo routine modification during the reporting phase of audit projects, where specific language of recommendations and management action plans are dynamic in nature leading up to final issuance. Among the audit projects selected for review, two reporting work papers in four projects had been updated after initial management sign-off to reflect final agreed upon language.

Management Action Plan

Concur. Although various processes are in place to ensure sign-off is completed for all work papers associated with engagements prior to finalization of projects, University Internal Audit will explore restoration of a software control to add another layer of management oversight. Additionally, project finalization checklist language will be reviewed to ensure clarity of guidance regarding disposition of all work paper elements.

VI. Standard 2430: Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

University Internal Audit conducts engagements in a manner deliberately designed to be in conformance with IIA Standards, and all four external assessments have validated this compliance.

Recommendation

University Internal Audit should consider adopting the language in audit reports that specifically indicates that the audit was “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” as allowed by the IIA.

Management Action Plan

Concur. Although initially this optional phrase was not included based upon a desire to keep the standard report language at a minimal length, there is value in explicitly aligning audit reports with the already-utilized IIA Standards.

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	--	--	--
1322	Disclosure of Nonconformance	X		
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program		X	
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	--	--	--
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
	The IIA’s Code of Ethics	X		



Quality Assurance and Improvement Program

Internal Quality Assessment

University Internal Audit

March 21, 2016

Objectives

The objectives of this periodic self-assessment were to:

- Determine conformance with the:
 - IIA Standards
 - IIA Definition of Internal Auditing
 - IIA Code of Ethics

- Determine the effectiveness of University Internal Audit in carrying out its mission

- Determine opportunities to improve management and work processes

IIA

STANDARDS



MAJOR STANDARDS

11

SUPPORTING STANDARDS

40

MAJOR STANDARDS -
GENERAL CONFORMANCE

11

SUPPORTING STANDARDS -
GENERAL CONFORMANCE

39

MAJOR STANDARDS -
PARTIAL CONFORMANCE

0

SUPPORTING STANDARDS -
PARTIAL CONFORMANCE

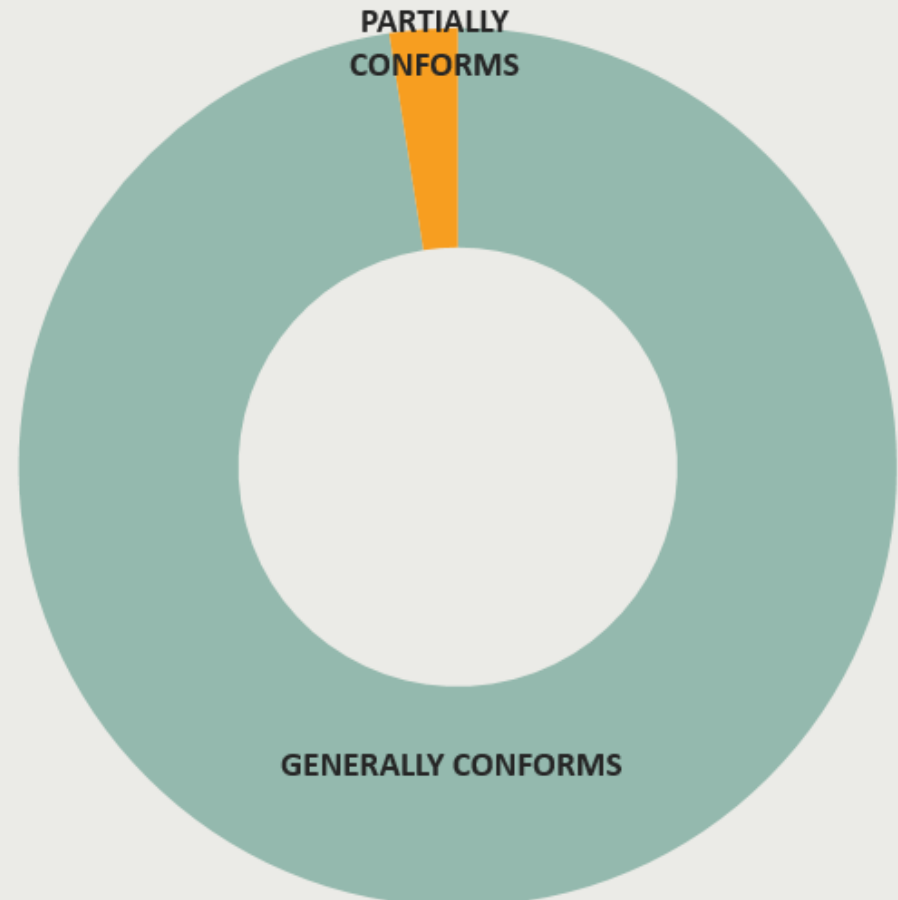
1

MAJOR STANDARDS -
NON-CONFORMANCE

0

SUPPORTING STANDARDS -
NON-CONFORMANCE

0



Opportunities for Improvement

Opportunities for improvement were in relation to identifiable **best practices** in the areas of:

- Enhanced Onboarding (Std. 1220)
- Internal Assessment Timing (Std. 1311)
- Policies and Procedures Updates (Std. 2040)
- Improved Documentation of Sampling Methods (Std. 2240 - Partial Conformance noted)
- Exploration of Software Controls for Work Papers (Std. 2330)
- Consider Usage of IIA Statement in Reports (Std. 2430)

*“This engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.”*

Personnel Involved with the Assessment

ASSESSMENT TEAM

Name	Title
William G. Abplanalp	Project Lead / Audit Manager
Carolyn E. Fulk	Senior Auditor for Special Projects
Jonathan C. Teglas	Editor / Operations Manager
Brian J. Daniels	Associate Director of Internal Audit
Sharon M. Kurek	Director of Internal Audit

Next Step: Independent External Assessment

- Conducted at a minimum of every five years
- Scheduled during the next quarter
- Hybrid Approach - incorporating Baker Tilly and qualified CAEs from peer institutions
 - Duke University
 - University of South Carolina System
 - University of Washington
- Results will be presented at the August BOV meeting

**Presentation of Auditor of Public Accounts Intercollegiate Athletics Programs
Report for Year Ended June 30, 2015**

FINANCE AND AUDIT COMMITTEE

February 9, 2016

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) Bylaw 3.2.4.15, for the year ended June 30, 2015. 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, 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, 2015. Total revenues of the Intercollegiate Athletics Programs for the year ended June 30, 2015 were \$80.2 million with the majority of the revenues coming from the football and basketball programs. Expenses for the year were \$77.7 million, and the excess of revenues over expenses were \$2.5 million.

See Attachment B for the APA report on the Schedule of Revenues and Expense of Intercollegiate Athletics Programs for the year ended June 30, 2015.

Changes in NCAA Guidelines Resulting in Changes to the Report for FY 2015

Effective FY 2015, the NCAA implemented three major changes to the required report format. These change include:

- First, the definitions for several of the largest revenue and expense line items that reported multiple types of activities were changed such that the components of these line items were reclassified or shown on separate line items. Attachment A displays the major changes in reporting line items.
- Second, a new section titled "Other Reporting Items" was included at the bottom of the report. This section displays information for total outstanding debt and the total value of endowment investments for both the Intercollegiate Athletics Programs and the entire university. This enables the reader to assess the relative impact of these programs on the university's balance sheet.
- The third and final change was the elimination of the post-season bowl game revenue and expenses (except for bonuses to employees related to bowl games) from the report. The university did not report revenues of \$1.1 million and

expenses of \$0.9 million related to post-season bowl game from the football bowl game activity to comply with these new requirements. These post-season bowl game revenues and expenses would have been reported in prior reports.

These NCAA mandated changes also resulted in some modifications to the actual procedures the APA were required to perform and, correspondingly, to the description of these procedures included in their report.

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 Auditor of Public Accounts. 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. All institutions should prepare the FY 2016 schedule using the agreed upon guidance in preparation for the reporting effective for FY 2017. The first measurement period for evaluating HB 1897 will be FY 2017.

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.

**Virginia Tech
Intercollegiate Athletic Programs
Significant Changes in NCAA Line Item Presentation
Comparison Between FY 2015 versus FY 2014**

Attachment A

(Dollars in millions)

	Grand Totals for All Sports		
	FY 2015	FY 2014	Increase or (Decrease)
<u>Revenue Classification / Presentation Changes</u>			
NCAA/Conference distributions including all tournament revenues	\$ -	\$ 19.2	\$ (19.2)
Broadcast television, radio, and internet rights	\$ -	\$ 5.1	\$ (5.1)
Media Rights	\$ 19.8	\$ -	\$ 19.8
NCAA Distributions	\$ 3.0	\$ -	\$ 3.0
Conference Distributions (Non Media or Bowl)	\$ 8.4	\$ -	\$ 8.4
Totals for Significant Revenue Presentation Changes	\$ 31.2	\$ 24.3	\$ 6.9

Expense Classification / Presentation Changes

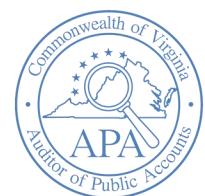
Direct facilities, maintenance, and rental	\$ -	\$ 16.5	\$ (16.5)
Athletic facilities leases and rental fees	\$ 0.3	\$ -	\$ 0.3
Athletic facility debt service	\$ 5.3	\$ -	\$ 5.3
Direct overhead and administrative expenses	\$ 7.8	\$ -	\$ 7.8
Indirect costs paid to the institution by athletics	\$ 4.2	\$ -	\$ 4.2
Totals for Significant Expense Presentation Changes	\$ 17.6	\$ 16.5	\$ 1.1



VIRGINIA POLYTECHNIC INSTITUTE
AND
STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2015

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



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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 14, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Dr. 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, for the year ended June 30, 2015. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with generally accepted government auditing standards. 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 one-half of one 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 procedures 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, 2015, 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 worksheets, and agreed the amounts in management's 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 worksheets. We discussed the nature of work sheet adjustments 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. Variations exceeding one million dollars or ten percent are explained below:

Line Item	Explanation
Ticket Sales	The University hosted an additional home football game and also experienced an increase in basketball season ticket sales.
Media Rights	This is a new line item for fiscal year 2015 due to changes in NCAA reporting guidance. Previously, the University recorded media rights revenue in other line items, including NCAA/conference distributions, resulting in a 100 percent increase in this line item for the current year.
Conference Distributions	This is a new line item for fiscal year 2015 due to changes in NCAA reporting guidance. Previously, the University recorded conference distributions in another line item resulting in a 100 percent increase in this line item for the current year.
Coaching salaries, benefits, and bonuses paid by the University and related entities	The University hired a new coaching staff for the Men’s Basketball team, which accounted for an increase of \$2,656,871.
Support Staff/Administrative Salaries, benefits, and bonuses paid by the University and related entities.	The University hired a new Athletic Director during the fiscal year resulting in an increase of \$642,009 for salary, benefits, and a signing bonus.

Revenues

9. Intercollegiate Athletics Department management provided us with tickets sold during the reporting period along with a list of complimentary tickets and unsold tickets. We compared tickets sold by day to the revenue reported in the accounting system and related attendance figures, and noted them to be substantially in agreement.

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.
11. We reviewed amounts reported in the Schedule for direct institutional support. This amount was deemed 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. This amount was deemed immaterial for detailed testing.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Virginia Tech Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. We reviewed contributions from the Foundation and agreed them to supporting documentation.
14. Intercollegiate Athletics Department management provided a list of in-kind contributions during the reporting period. This amount was deemed to be immaterial for detailed testing.
15. We obtained a summary of compensation and benefits provided by third-parties as of the end of the reporting period. This amount was deemed to be immaterial for detailed testwork.
16. 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.
17. 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.

18. We compared the amount of revenue and a selection of transactions related to program sales, concessions, novelty sales, and parking to the institution's accounting records and supporting documentation.
19. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, licensing, advertisements, and sponsorships. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
20. We obtained and inspected endowment agreements to gain an understanding of the relevant terms and conditions of the agreement. 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. We confirmed the amount of athletics restricted endowment and investments income used for operations during the fiscal year with Foundation management and agreed it to the amount reported in the Schedule.
21. We compared the amount of revenue related to other revenue to the amount reported in the Schedule. We found the other revenue line item to be less than one percent of total revenues and, therefore, we did not perform detailed testwork.

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 ten percent of individual student-athletes across all sports and agreed amounts from the listing to their award letter. We agreed each student's information to ensure accurate reporting in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
23. Intercollegiate Athletics Department management provided us with a listing of settlement reports and game guarantee agreements for home 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.
24. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid

during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.

25. We reviewed amounts reported in the Schedule for Coaching salaries, benefits and bonuses paid by a third party as well as Support staff/administrative compensation, benefits and bonuses paid by a third party. The amount for Coaching salaries, benefits and bonuses paid by a third party was deemed immaterial for detailed testing. There was no amount for the Support staff/administrative compensation, benefits and bonuses paid by a third party.
26. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed selected severance payments and found that each selected payment agreed to the related termination letter or employment contract and was properly recorded in the accounting system.
27. 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.
28. We selected a sample of disbursements for equipment, uniforms, and supplies, game expenses, fundraising, marketing, and promotion, sports camps, spirit groups, direct overhead and administration, medical expenses and medical insurance, memberships and dues, 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.
29. We obtained a listing of debt service payments, lease payments, and rental fees for athletics facilities for the reporting year. We selected a sample of facility payments, including the two highest facility payments, and agreed them to supporting documentation.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression on 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 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 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

ZLB/clj

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2015

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$14,637,959	\$2,210,901	\$130,453	\$46,468	\$ -	\$ -	\$17,025,780
Student fees	-	-	-	-	2,188,949	5,933,234	8,122,183
Direct institutional support	-	-	-	-	-	5,117	5,117
Guarantees	350,000	-	-	6,000	7,400	-	363,400
Contributions	7,888,242	901,558	509,048	2,247,821	3,050,864	1,770,079	16,367,612
In-Kind	125,500	99,650	30,950	11,100	26,300	87,783	381,283
Compensation and benefits provided by a third party	185,000	-	-	25,000	-	-	210,000
Media rights	15,546,587	3,927,365	257,873	-	-	105,000	19,836,825
NCAA distributions	-	1,100,488	-	39,256	52,992	1,778,161	2,970,897
Conference distributions (Non Media or Bowl)	7,579,695	526,175	49,542	133,659	95,437	-	8,384,508
Program, novelty, parking, and concession sales	1,295,575	140,231	25,861	45,906	35,982	48,977	1,592,533
Royalties, licensing, advertisement and sponsorships	1,115,117	171,143	87,844	171,500	188,500	466,124	2,200,228
Athletics restricted Endowment and investments income	641,698	77,307	111,956	572,728	825,799	39,547	2,269,035
Other Operating Revenue	7,025	-	-	51,603	51,603	390,463	500,694
Total operating revenues	<u>49,372,398</u>	<u>9,154,818</u>	<u>1,203,527</u>	<u>3,351,041</u>	<u>6,523,826</u>	<u>10,624,485</u>	<u>80,230,095</u>
Operating expenses:							
Athletic student aid	3,500,593	612,931	540,979	2,474,847	3,652,296	1,022,891	11,804,538
Guarantees	1,108,985	693,580	103,496	15,323	13,623	-	1,935,007
Coaching salaries, benefits, and bonuses paid by the University and related entities	7,355,480	3,347,574	924,159	1,956,006	1,974,434	-	15,557,653
Coaching salaries, benefits and bonuses paid by a third party	185,000	-	-	25,000	-	-	210,000
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	1,708,377	652,018	199,845	95,996	96,734	9,686,104	12,439,075
Severance payments	35,328	786,467	47,906	12,835	19,418	706,586	1,608,539
Recruiting	478,270	497,598	150,192	226,986	253,540	38,846	1,645,431
Team travel	947,492	571,756	509,263	1,033,541	1,097,216	92,570	4,251,837
Sports equipment, uniforms, and supplies	211,794	121,255	81,945	410,850	378,963	108,706	1,313,511
Game expenses	1,993,023	414,864	244,267	275,773	250,374	296,820	3,475,121
Fundraising, marketing and promotion	319,613	339,638	93,850	64,529	50,440	506,629	1,374,701
Spirit groups	158,837	35,305	15,536	-	-	174,726	384,405
Athletic facility leases and rental fees	-	1,000	-	147,661	136,473	-	285,134
Athletic facility debt service	4,107,343	340,719	340,719	-	-	529,000	5,317,780
Direct overhead and administrative expenses	2,605,921	460,399	125,252	159,311	133,208	4,268,915	7,753,006
Indirect cost paid to the institution by athletics	96,436	-	-	-	-	4,067,416	4,163,852
Medical expenses and insurance	212,119	21,042	26,487	108,351	109,034	477,438	954,471
Memberships and dues	3,820	1,527	967	3,867	4,996	31,184	46,361
Other operating expenses	1,125,011	341,198	97,095	325,823	201,930	1,068,233	3,159,290
Total operating expenses	<u>26,153,442</u>	<u>9,238,871</u>	<u>3,501,958</u>	<u>7,336,699</u>	<u>8,372,679</u>	<u>23,076,064</u>	<u>77,679,712</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 23,218,956</u>	<u>\$ (84,053)</u>	<u>\$ (2,298,431)</u>	<u>\$ (3,985,658)</u>	<u>\$ (1,848,853)</u>	<u>\$ (12,451,579)</u>	<u>\$ 2,550,383</u>
Other Reporting Items:							
Total athletics-related debt							\$ 49,740,000
Total institutional debt							\$ 491,497,000
Value of athletics-dedicated endowments							\$ 58,636,107
Value of institutional endowments							\$ 817,759,471

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, 2015

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics 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 athletics programs of the University for the year ended June 30, 2015. The Schedule includes those intercollegiate athletics revenues and expenses made in 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 \$18,575,166 from the Virginia Tech Foundation, Inc. Approximately \$11,555,428 of these funds were used for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$9,347,875 is included in the Contributions line item and \$2,207,553 is included in the Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletic Department. This bond was issued for athletic facility improvements. The majority of this debt was refinanced in May 2004 with a \$4,155,000 revenue bond. This bond has an outstanding balance of \$500,000 and will be repaid with general operating revenues through 2016.

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 \$2,795,000. 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 \$9,285,000.

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 substantially 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 \$29,900,000 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, a \$8,705,000 note was issued for the Athletic Department. This note was issued for the Hahn Hurst Basketball Practice Center which was substantially complete in 2009. This note has an outstanding balance of \$7,260,000 and will be repaid with private fund raising and operating revenues through 2030.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2015, is presented as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$3,195,000	\$2,108,850	\$5,303,850
2017	2,825,000	1,945,925	4,770,925
2018	2,955,000	1,804,781	4,759,781
2019	3,095,000	1,659,162	4,754,162
2020	3,250,000	1,507,675	4,757,675
2021-2025	18,505,000	4,973,144	23,478,144
2026-2030	<u>15,915,000</u>	<u>1,156,619</u>	<u>17,071,619</u>
Total	<u>\$49,740,000</u>	<u>\$15,156,156</u>	<u>\$64,896,156</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 \$4,163,852 to the University. This amount is included on line 36, Indirect Institutional Support, and includes \$96,436 in Football, and \$4,067,416 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 \$50,000. 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, 2015, (all dollars in thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets				
Building	\$145,560	\$570	\$ -	\$146,130
Moveable equipment	6,768	174	70	6,872
Software	313	-	-	313
Fixed equipment	11,553	1,293	-	12,826
Infrastructure	<u>19,584</u>	<u>80</u>	<u>-</u>	<u>19,664</u>
Total depreciable capital assets, at cost	<u>183,758</u>	<u>2,117</u>	<u>70</u>	<u>185,805</u>
Less accumulated depreciation				
Building	39,188	3,308	-	42,496
Moveable equipment	4,042	557	43	4,556
Software	130	75	-	205
Fixed equipment	4,931	505	-	5,436
Infrastructure	<u>15,165</u>	<u>841</u>	<u>-</u>	<u>16,006</u>
Total accumulated depreciation	<u>63,456</u>	<u>5,286</u>	<u>43</u>	<u>68,699</u>
Total depreciable capital assets, Net of accumulated depreciation	<u>120,302</u>	<u>(3,169)</u>	<u>27</u>	<u>117,106</u>
Non-depreciable capital assets				
Construction in progress	<u>1,399</u>	<u>21,462</u>	<u>-</u>	<u>22,861</u>
Total non-depreciable capital assets	<u>1,399</u>	<u>21,462</u>	<u>-</u>	<u>22,861</u>
Total capital assets, net of accumulated depreciation	<u>\$121,701</u>	<u>\$18,293</u>	<u>\$27</u>	<u>\$139,967</u>

VIRGINIA POLYTECHNIC AND STATE UNIVERSITY

Blacksburg, Virginia

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Auditor of Public Accounts Statewide Reviews and Special Reports

FINANCE AND AUDIT COMMITTEE

February 1, 2016

Background

In addition to the annual audits of the university's financial statements and its Intercollegiate Athletics program, the Auditor of Public Accounts (APA) has included Virginia Tech along with other agencies in program reviews designed to assess controls on a statewide basis. These special reviews are included as a part of the APA's annual audit 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 the reviews. The following report provides an analysis of the APA's statewide audit activities consistent with the university's planned approach to manage and report on these audit activities.

Recent Audit Activity

Since our last report in March 2015, the APA has issued two reports that reference or might affect Virginia Tech. These APA reports are summarized below:

Study of the Usage of Sub-Recipient Schedule of Expenditures of Federal Awards ("SEFA")
(APA June 2015):

The Commonwealth of Virginia expends approximately \$13.5 billion dollars in federal funds annually. Of this amount, the Commonwealth passes approximately \$2.5 billion, or five percent of all state expenditures, through to non-state entities. These non-state entities are comprised of over 1,000 counties, cities, towns, authorities, foundations, non-profit organizations, corporations, or similar organizations which are not units of state government. The act of passing through federal funds to a non-state entity creates a sub-recipient relationship, meaning that then non-state entities are receiving the federal funds from an entity other than the federal government.

This APA study focused on the monitoring activities that are required to be performed by the Commonwealth and its agencies under the federal regulations after the funds have been passed through to a sub-recipient. This process called sub-recipient monitoring has been part of the federal regulations for many years. The APA's Statewide Single Audit reviews state agencies' compliance with the federal regulations, including sub-recipient monitoring on an ongoing basis. However, this review was an in-depth analysis targeted specifically on state agencies' compliance with this subset of federal regulations related to sub-recipient monitoring.

The APA selected 15 of the 37 Commonwealth agencies which reported disbursements to sub-recipients during state fiscal year 2012. Virginia Tech, with \$32.1 million in total pass through expenditures for fiscal year 2012, was among the 15 agencies selected for review.

The APA's utilized a two phased approach in their testwork. The first phase was for the APA to review each of the selected agency's policies and procedures related to monitoring sub-recipients and to conduct interviews with agency management. In the second phase, the APA

used publicly available audit submission data in the Federal Audit Clearinghouse to perform a statewide analysis of pass-through expenditures. APA reported the following findings based on the results of their testwork:

- a. The APA found three of the 15 agencies reviewed did not have appropriate policies and procedures acknowledging their responsibilities as a pass-through entity.
 - Virginia Tech was among the 12 agencies whose policies and procedures were considered adequate in this regard.
- b. The APA found 12 of the 15 agencies were not comparing their amount of disbursed federal funds to their sub-recipients' audited SEFA to confirm that the funds were subject to audit.
 - Virginia Tech does not perform this comparison because the university believes the APA's interpretation of the federal regulations exceeds the actual requirements stated in the regulations. Preliminary conclusions of a state-wide working group formed to review the APA recommendations in this report support the university's position that this is not required. The Assistant Vice President for Sponsored Programs is representing the university in this working group.
- c. The APA identified 20 non-state sub-recipients which did not have a Single Audit reporting package loaded to the Federal Audit Clearinghouse. This occurred either because the non-state sub-recipients were for-profit entities and were not required to complete a Single Audit or because they were not-for-profit entities and failed to upload the required reporting package. In addition, the APA noted that 24 of the 430 data collection forms submitted to the Federal Audit Clearinghouse were not submitted timely.

Based on these findings the APA issued the following key recommendations:

- a. The Department of Accounts (DOA) should work with the state agencies to develop uniform policies and procedures for sub-recipient monitoring to improve the Commonwealth's compliance with federal regulations.
 - The university is concerned with a "one-size-fits-all" approach in the development of the uniform policies and procedures. There are vast differences in the types of federal grants and contracts received by the different state agencies. The university proposed that a risk-based approach with general guidance could be more efficient and cost effective.
- b. The DOA should determine if payments from all state agencies to sub-recipients collectively exceeded the \$500,000 federal reporting and audit threshold to ensure monitoring procedures were performed even if a given state agency only paid the sub-recipient amounts less than \$500,000.
 - The university is concerned with this recommendation because payment information is not available in the Commonwealth's accounting system (CARS or Cardinal) for decentralized agencies. In addition, federal funding the sub-recipient may have received from other entities cannot be determined from any of the Commonwealth's accounting records.

- c. The state agencies should check the federal clearinghouse to ensure the required sub-recipient reports were filed by the required federal deadline.
 - The university concurs with this recommendation.

- d. The final APA recommendation required using the federal identifying CFDA (Catalog of Federal Domestic Assistance) number in the Commonwealth’s accounting system (Cardinal).
 - While this is a great idea, the university is not supportive of providing this level of detail into the Commonwealth’s system. The use of this identifying CFDA number is a key component of the university’s grants and contracts accounting module and has been for decades. It is used for all of our detailed reporting and interactions with the federal government and for providing the required summary reporting to the Commonwealth and the APA for the required annual audit processes related to federal funding. The university is very concerned that any centralized detailed reporting related to this would be very inefficient and expensive and would be redundant information that would have limited value at a state-wide level.

As mentioned above, the State Department of Accounts has convened a workgroup to review and assess the recommendations made by the APA in its report for feasibility of implementation.

Review of the Commonwealth’s Mobile Devices (APA September 2015).

The overall objective of this special project was to gain an understanding of statewide mobile devices policies and processes, nature and extent of mobile device expenses at state agencies, and to identify areas for improvements or efficiencies. The review covered mobile devices expenditures for calendar years 2012 and 2013.

The report identified Virginia Tech among six of the 24 state agencies surveyed, whose policies and procedures were deemed to be adequate by the APA. The report stated that the remaining 18 out of 24 agencies and institutions of higher education surveyed did not have internal policies and procedures over mobile devices that adequately address the requirements in Chapter 806 of the 2013 Virginia Acts of Assembly or that comply with the standards in Virginia Information Technologies Agency’s (VITA’s) “Mobile Communications Use Technical Topic Report” (Tech Topic).

The APA also reported that during 2013, the Commonwealth incurred a total of \$558,435 in mobile phone overage charges, with the top five agencies with overages listed in the table shown below:

Agency	Overage
Department of Transportation – Staunton	\$45,230
Department of Corrections	42,602
Department of Health	27,662
Central Virginia Training Center	25,143
Virginia Tech	21,344

Over 75 percent of all agencies and institutions with mobile devices had overages ranging from \$0.23 to \$45,230 for the year. The APA concluded that VITA's current billing review, verification, and distribution processes are inefficient which contributed to the problem of recurring overcharges. In response to this finding, VITA has engaged a vendor to implement an expense management and customer billing solution. The target date for the implementation is 2016.

The university concurs with the APA's finding for the university and that the current information available from VITA presents challenges for conducting an analysis. The university receives billings from VITA and independently from AT&T, Verizon, etc. A comprehensive review of overages would need to include numerous vendors who provide information in varying formats. The university plans to conduct an analysis of the overages after receiving the new reports from VITA and the reports from other vendors and determine a cost effective way to monitor overages. Given the diversity of users and their needs for mobile devices at the university, and the numerous vendors involved, we believe further analysis is needed, after receiving more useful data from the pending new process from VITA, to determine a cost effective way to monitor overages.

APA 2016 Work Plan (APA June 2015)

The APA's work plan for 2015 included 11 special audits with potential impact on the university. With the exception of the two reports mentioned above, the university is not aware of progress in other audits. Most of these special audits were carried forward into the APA's 2016 work plan and eight new risk based audits were added. However, as of February 1, 2016, the university had not been contacted to provide any additional information on any of these topics.

Detail of APA 2016 Planned Special Projects

Progress Report on Selected Systems Development Projects in the Commonwealth. Provide a periodic summary report of ongoing monitoring activities over the systems development process for major systems to determine if the projects are on schedule, on budget, and provide required functionality. This report will include systems development projects for the various departments, agencies, and higher education institutions.

In early February 2014 the university provided a list of all Information Technology system projects (current and planned) with budgets in excess of \$250,000. The APA has not requested additional information or begun testing for this project.

Statewide Review of Travel – Part 2. This study is a continuation of APA's review of state travel expenditures. The goals of this review are as follows:

- Perform additional analysis of statewide travel expenses to further understand the nature of expenses and look for any trends
- Analyze organizational models for travel processing, including contracting options, to identify opportunities for efficiencies and savings
- Survey agencies to determine different technologies that agencies are using to minimize travel.

Comparative Report for Higher Education. Provide financial comparison and analysis of the various public institutions of higher education in Virginia, considering the size and type of

institution, and utilizing techniques such as ratio analysis to further analyze and compare financial information. Transition this information into an annual report to aid decision makers and improve transparency and comparability for citizen-users of financial information.

Statewide Analysis of Cardinal. Assess the Cardinal (state accounting system) team's progress in addressing internal control items identified during a post implementation audit of the system.

Review of Integration Challenges between Virginia's Procurement and Financial Systems – Part 2. Examine eVA functionality and its usage by agencies, assess integration concerns, and evaluate the ease of use and auditability of transactions from procurement through payment. Report on the Commonwealth's efforts to integrate eVA into the new financial accounting system, Cardinal.

Other new projects:

Develop a standard reporting format for NCAA revenues and expenses in consultation with SCHEV, DOA, Department of Planning and Budget (DPB), and institutions of Higher Education.

Department of Education Onsite Student Financial Aid Review

FINANCE AND AUDIT COMMITTEE

March 1, 2016

In February, 2016, the U.S Department of Education (DOE) notified Virginia Tech regarding an on-site program review of the university's Student Financial Aid programs. The review will assess the university's administration of Title IV and Higher Education Administration (HEA) program. The Student Financial Aid programs and processes are audited by multiple internal and external sources. However, this is the first time the university will host an onsite review by the U.S. Department of Education. The audit team is expected to be on campus for three days.

Beth Armstrong, Director of University Scholarships and Financial Aid will coordinate the audit for the university. The audit is expected to cover multiple academic and administrative areas of the campus. As requested by DOE, the university has provided extensive documents in preparation for the review.

The university will provide full support to DOE during the course of the review and will provide periodic updates to the Board as additional information is available.

Presentation of the University's Annual Financial Report

FINANCE AND AUDIT COMMITTEE

February 9, 2016

Fiscal year 2015 represented a transitional period for Virginia Tech. In spite of a continual challenging financial environment, an unprecedented enrollment growth, employment of cost containment and income enhancement techniques have enabled the university to successfully grow the programs of core missions. The university's overall financial position remains strong. Despite the challenges, we had a successful year on several fronts. While continuing to move forward and expand our academic programs, we have managed operations with structurally balanced budgets while increasing capital assets.

Summary of Audit Results

- Unmodified audit opinion (*Previously called an Unqualified audit opinion*)
- No material weakness in internal controls
- No instances of noncompliance or other matters required to be reported under Government Auditing Standards
- No written audit recommendations involving internal control
- Successful implementation of GASB 68 *Accounting and Financial Reporting for Pension Plans*

Assets, Liabilities and Net Position at June 30, 2015 & 2014

(all dollars in millions)

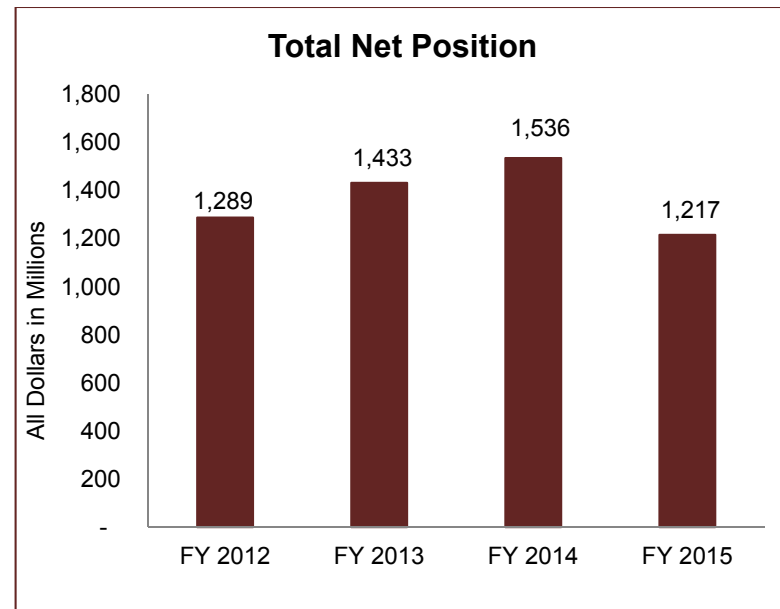
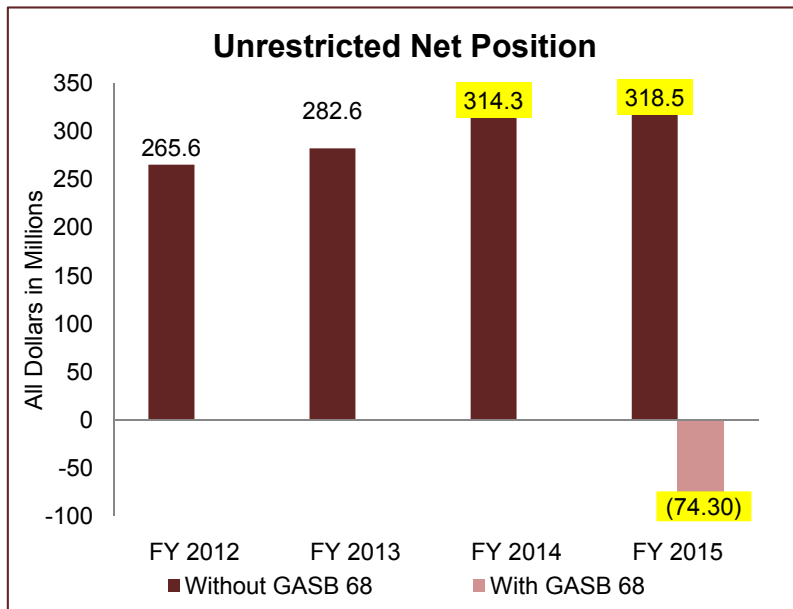
	2015	2014 (Restated)	Change	
			Amount	Percent
Current assets	\$ 411.8	\$ 413.7	\$ (1.9)	(0.5%)
Noncurrent cash and cash equivalents	83.4	59.6	23.8	40.0%
Capital assets, net	1,625.1	1,559.3	65.8	4.2%
Other assets	248.9	251.5	(2.6)	(1.0%)
Total assets	2,369.2	2,284.1	85.1	3.7%
Deferred outflows of resources	42.3	6.1	36.2	593.4%
Current liabilities	278.1	238.9	39.2	16.4%
Noncurrent liabilities	852.0	513.8	338.2	65.8%
Total liabilities	1,130.1	752.7	377.4	50.1%
Deferred inflows of resources	64.7	1.3	63.4	4,876.9%
Invested in capital assets, net	1,112.1	1,056.9	55.2	5.2%
Restricted	178.9	165.0	13.9	8.4%
Unrestricted	(74.3)	314.3	(388.6)	(123.6%)
Total net position	\$ 1,216.7	\$ 1,536.2	\$ (319.5)	(20.8%)

The balance sheet shows mixed results for fiscal year 2015 with the key indicators as follows:

- Assets increased by \$85.1 million or 3.7%, with the largest growth occurring in noncurrent assets (capital assets and long-term investments). The increase in capital assets, net (\$65.8 million) reflects the ongoing construction of university research and instructional facilities and the capitalization of completed facilities.
- The implementation of GASB Statement 68, *Accounting and Financial Reporting of Pensions*, requiring state and local government employers that participate in a state's defined benefit retirement plan to recognize their allocable portion of the state's net pension liability (unfunded accrued liability), had a significant impact on the university's financial statements. Total Non-current liabilities increased by \$ 338.2 million. As shown on page 5, this increase was mainly due to an increase in Net Pension liability by \$357.6 million for GASB 68 implementation. The increase was offset by changes in long-term debt and other non-current liabilities. Total unrestricted net assets decreased by \$388.6 million. As shown on page 4, implementation of GASB 68 eroded the unrestricted net position by \$392.8 million. This decrease was offset by an increase of \$4 million due to positive results from operations.

Trends in Net Position
For the years ended June 30, 2012-2015
(all dollars in millions)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capital assets, net of related debt	\$ 867.3	992.2	\$ 1,056.9	\$ 1,112.1
Restricted, nonexpendable	0.4	0.4	0.4	0.4
Restricted, expendable				
Capital projects	20.3	11.0	2.9	6.0
Other	135.3	146.9	161.7	172.5
Unrestricted*	265.6	282.6	314.3	(74.3)
Total Net Position	\$ 1,288.9	\$ 1,433.1	\$ 1,536.2	\$ 1,216.7

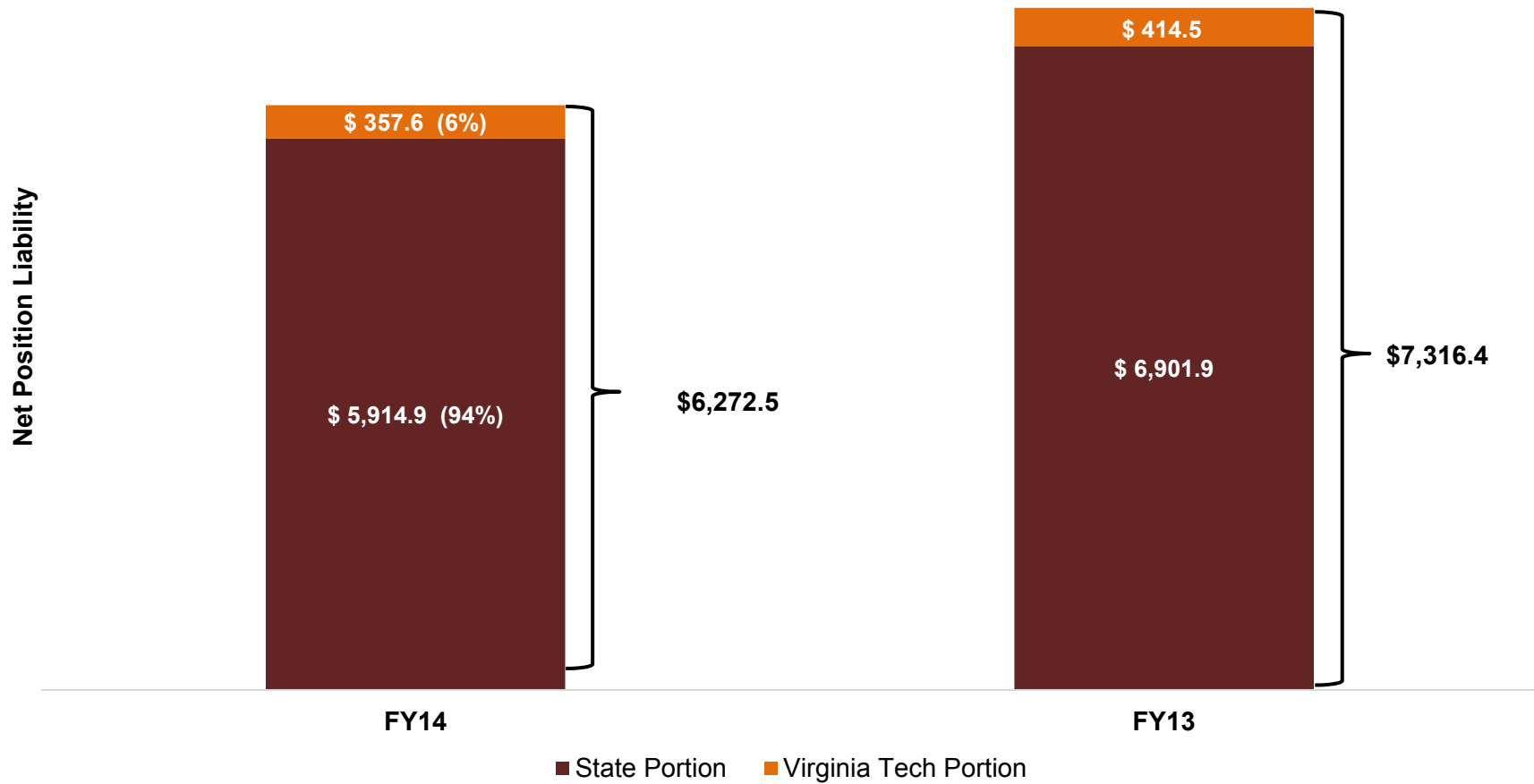


*The implementation of GASB 68 reduced unrestricted net position by \$392.8 million.

Virginia Tech
Impact of the Implementation of GASB 68 for Defined Benefit Pension Plans
(Dollars in Thousands)

	Unrestricted Net Position	
Unrestricted Net Position at July 1, 2014 (before adjustments)	\$	314,303
 <u>Adjustments for Implementation of GASB 68 for Defined Benefit Pension Plans</u>		
Adjustment for GASB 68 - State Employees Retirement Plan	\$	(387,762)
Adjustment for GASB 68 - VaLORS (police, etc.) Retirement Plan	\$	(5,006)
Total GASB 68 Adjustments	\$	(392,768)
 Unrestricted Net Position at July 1, 2014 (after adjustments)	 \$	 (78,465)
 Net result of operations for FY 2015	 \$	 4,165
 Unrestricted Net Position at June 30, 2015	 \$	 (74,300)

Impact of the Implementation of GASB 68 for Defined Benefit Pension Plans Dollars in Millions



- Net pension liability for these plans decreased by \$1.0 billion for the Commonwealth, and correspondingly by \$56.8 million for the university during the most recent year.
- Percent **funded** for the Commonwealth improved from 67.93% in FY13 to 73.41% in FY14.

Impact of the Implementation of GASB 68 for Defined Benefit Pension Plans

Commonwealth strategies implemented to reduce Net Pension Liability for VRS Defined Benefit Retirement Plans:

- Reinstated the requirement for employees to pay five percent of their salary towards retirement
- Increased the contribution rate for participating agencies each of the last several years
- Implemented Plan 2 for employees hired after July 1, 2010 which has a slightly reduced benefit
- Implemented a hybrid plan for employees hired after January 1, 2014 which has elements of defined benefit and defined contribution plans

Summary of Composition of Investments at June 30, 2015

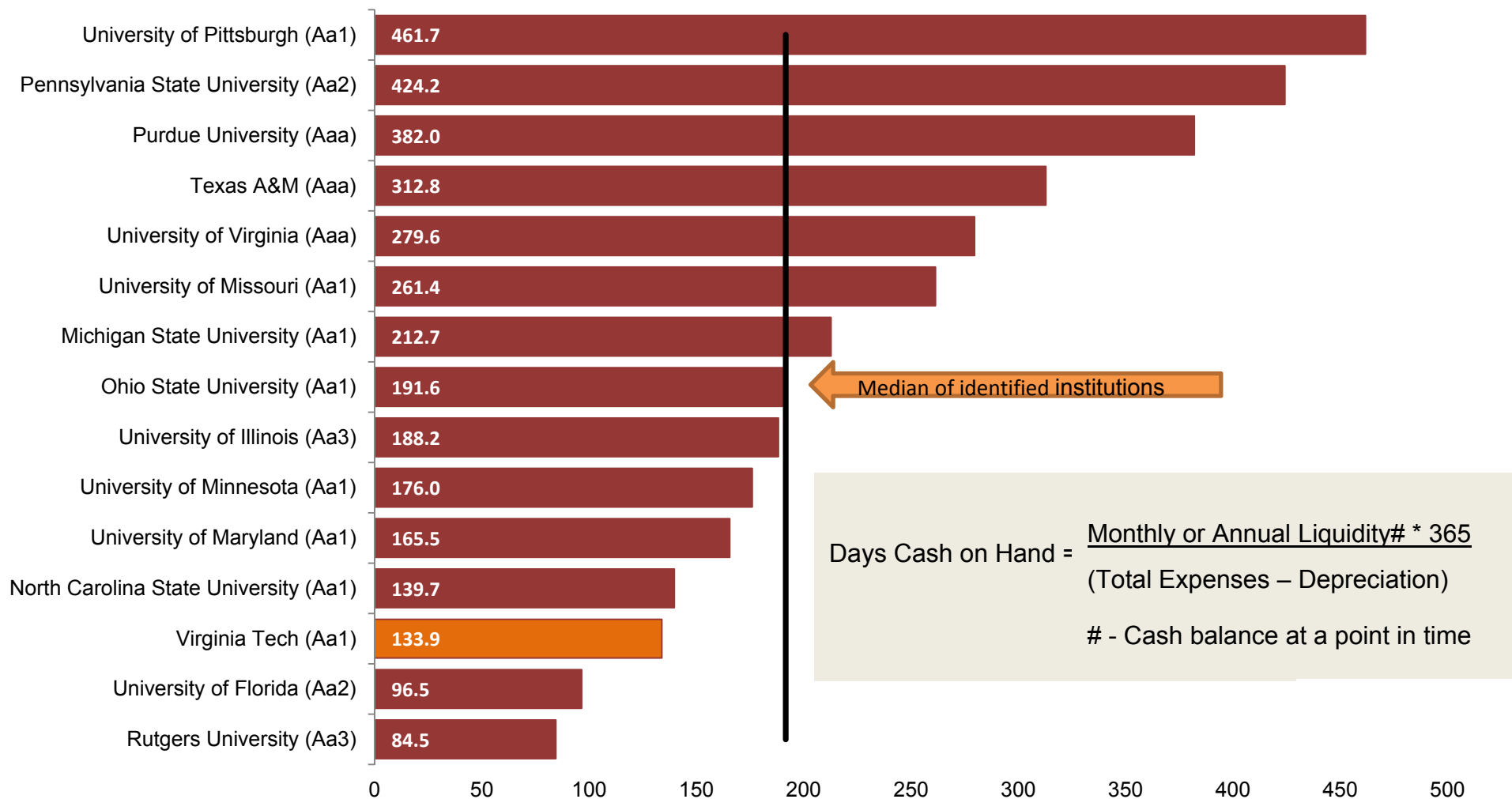
(all dollars in millions)

Description and Credit Rating	Cash Equivalents	Short-Term Investments	Long-Term Investments	Total
	<i><90 days</i>	<i>90 days to 1 year</i>	<i>>1 year</i>	
U.S. Treasury Securities (N/A)	\$ -	\$ -	\$ 24.7	\$ 24.7
Debt Securities (A1 to A3)	-	-	59.3	59.3
Repurchase Agreements (N/A)	5.1	-	-	5.1
Federal Agency Securities (AAA to Aaa)	254.0	-	40.5	294.5
Snap Funds (AAAm)*	7.7	-	-	7.7
Investments with VTF (N/A)	1.9	-	96.1	98.0
Other Investments (AAA to BBB+)	8.3	1.7	0.1	10.1
June 30, 2015 Balance	\$ 277.0	\$ 1.7	\$ 220.7	\$ 499.4
June 30, 2014 Balance	320.3	3.7	221.5	545.5
Change in Investment Balances	\$ (43.3)	\$ (2.0)	\$ (0.8)	\$ (46.1)

* SNAP funds are non-arbitrage safe harbor investments for unspent tax exempt bond proceeds.

Note: Total Cash, Cash Equivalents and Investments at June 30, 2015 was \$617.3 million, an increase of \$35.9 million over the prior year.

Monthly Days Cash on Hand



Source: Moody's Investors Service, September 17, 2015; FY2013-14 Data, Cash on Hand (x)

Monthly Days Cash on Hand is used by the bond rating agencies as a key measure of liquidity and reflects how many days liquid cash and investments could operate the university.

Ongoing Investments in Capital Assets
Summary Changes in Capital Assets for the year ending June 30, 2015
(all dollars in millions)

	Beginning Balance (Restated)	Additions	Retirements	Ending Balance
Depreciable capital assets				
Buildings (includes capital leases)	\$ 1,641.8	\$ 48.7	\$ 2.5	\$ 1,688.1
Moveable equipment	474.1	44.3	17.9	500.5
Software and intangible assets	10.7	0.8	0.2	11.4
Fixed equipment	128.7	4.9	0.1	133.5
Infrastructure	120.4	0.7	0.0	121.2
Library books	76.1	0.9	0.7	76.3
Total depreciable capital assets, at cost	2,451.9	100.4	21.5	2,530.9
Less accumulated depreciation				
Total accumulated depreciation	1,000.4	95.2	19.0	1,076.5
Total depreciable capital assets, net	1,451.5	5.3	2.4	1,454.3
Non-depreciable capital assets				
Land	46.2	-	0.0	46.2
Livestock	1.0	0.2	-	1.2
Construction in progress	54.0	93.7	31.6	116.1
Equipment in process	4.1	3.1	3.6	3.6
Software in development	2.4	1.3	-	3.7
Total non-depreciable capital assets	107.8	98.2	35.2	170.8
Total capital assets, net	\$ 1,559.3	\$ 103.5	\$ 37.6	\$ 1,625.1

Major buildings additions completed & capitalized: Completion of Goodwin Hall (\$11.4 million) and Moss Arts Center (\$4.5 million), as well as the recording of capital leases for the Kentland Dairy complex (\$14.6 million) and jet propulsion facility (\$3.4 million).

Major projects contributing to "Construction in Progress": Upper Quad residential facilities (\$41.5 million), Indoor Practice Facility (\$19.8 million), a new classroom building (\$10.3 million), the Marching Virginians Center (\$4.5 million), and on-going capital renovations throughout the university (\$21.4 million).

Summary of Revenues, Expenses, and Changes in Net Position
For the years ending June 30, 2015 and 2014
(all dollars in millions)

	2015	2014 (Restated)	Change	
			Amount	Percent
Operating revenues	\$ 965.0	\$ 937.5	\$ 27.5	2.9%
Operating expenses	1,259.5	1,227.2	32.3	2.6%
Operating loss	(294.5)	(289.7)	(4.8)	1.7%
State appropriations	242.8	243.6	(0.8)	(0.3%)
Other non-operating revenues and expenses	73.2	74.9	(1.7)	(2.3%)
Non-operating revenue	316.0	318.5	(2.5)	(0.8%)
Income before other revenues & expenses	21.5	28.8	(7.3)	(25.3%)
Other revenues, expenses, gains or losses	51.8	74.3	(22.5)	(30.3%)
Increase in net position	73.3	103.1	(29.8)	(28.9%)
Net position - beginning of year	1,143.4	1,433.1	(289.7)	(20.2%)
Net position - end of year	\$ 1,216.7	\$ 1,536.2	\$ (319.5)	(20.8%)

Operating loss: Under GASB reporting, public universities will always show an operating loss because state appropriations, gifts and investment income are all considered non-operating revenues.

Income before other revenues and expenses: Because of the cash basis budgeting controls established by the university, generally a positive number for this line item is expected.

GASB 68 Impact: The university's beginning net position was adjusted by \$392.8 million due to the implementation of GASB 68 *Accounting and Financial Reporting for Pensions*. Prior year balances were not restated.

Increase (Decrease) in Revenues
For the years ending June 30, 2015 and 2014
(all dollars in millions)

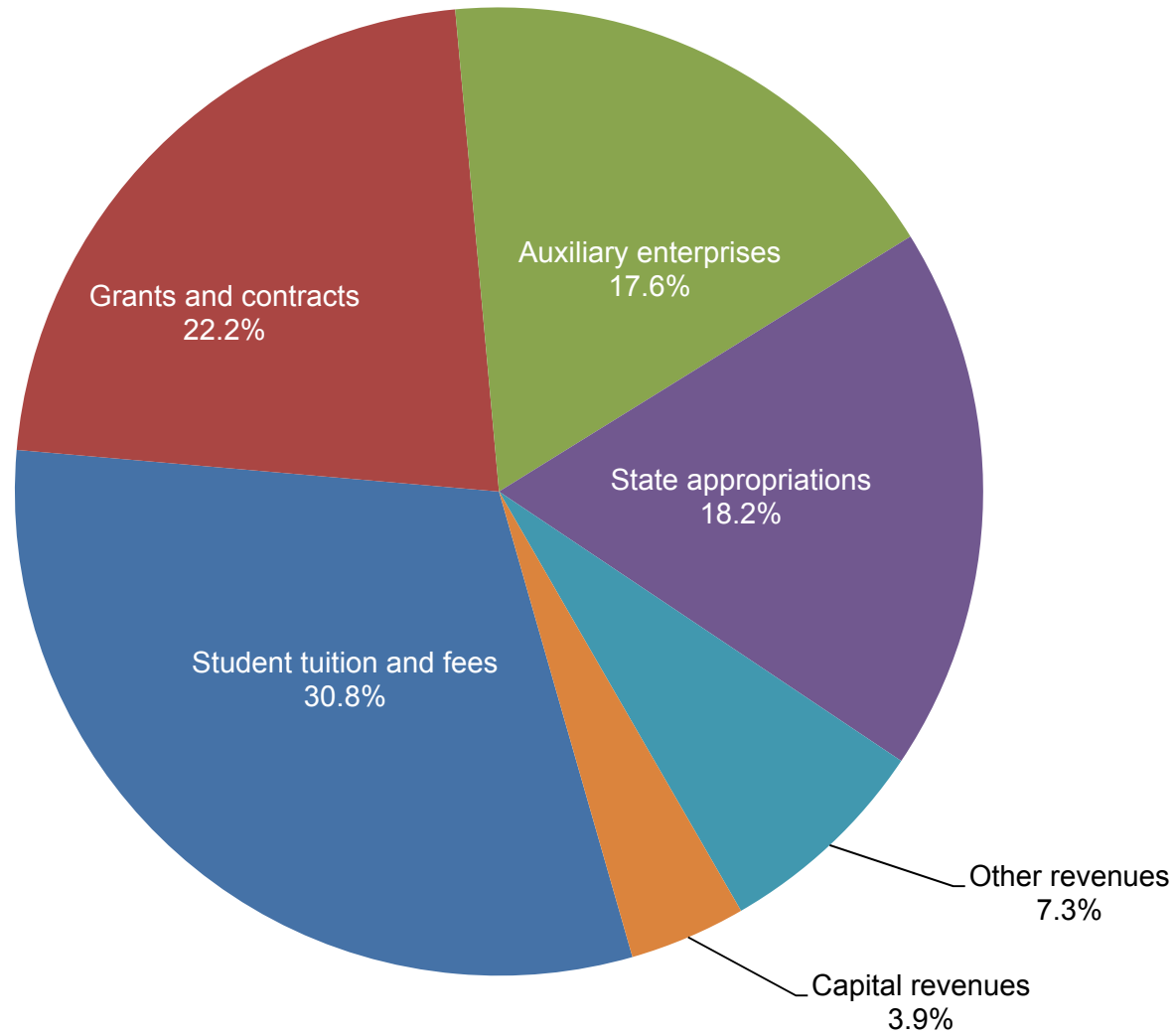
	2015	2014 (Restated)	Change	
			Amount	Percent
Operating revenue				
Student tuition and fees, net	\$ 411.2	\$ 383.6	\$ 27.6	7.2%
Grants and contracts	295.5	303.8	(8.3)	(2.7%)
Auxiliary enterprises	234.6	223.2	11.4	5.1%
Other operating revenue	23.7	26.9	(3.2)	(11.9%)
Total operating revenue	965.0	937.5	27.5	2.9%
Non-operating revenue				
State appropriations	242.8	243.6	(0.8)	(0.3%)
Other non-operating revenue	73.2	74.9	(1.7)	(2.3%)
Total non-operating revenue	316.0	318.5	(2.5)	(0.8%)
Other revenue				
Capital grants and gifts	52.8	75.9	(23.1)	(30.4%)
Loss on disposal of capital assets	(1.0)	(1.6)	0.6	37.5%
Total capital revenue, gains	51.8	74.3	(22.5)	(30.3%)
Total revenue	\$ 1,332.8	\$ 1,330.3	\$ 2.5	0.2%

Operating revenues increased by 2.9 percent. This growth came primarily from two categories: Student tuition & fees and auxiliary enterprises.

Non-operating revenues decreased by \$2.5 million. This decrease was primarily related to lower returns on investments (\$9.6 million) with small decreases in state appropriations (\$0.8) million, and in gifts from donors (\$0.2). These decreases were offset by the increase of \$8.2 million in other non-operating revenue due largely to the receipt of the student insurance lawsuit settlement.

Other revenues declined by \$22.5 million. The completion of several major capital projects under construction, funded in part from the 21st Century bond program, resulted in a significant decrease in this revenue stream (\$26.3 million). This decrease was partially offset by additional funding for capital assets from private sources.

Revenue by Source for Fiscal Year 2015



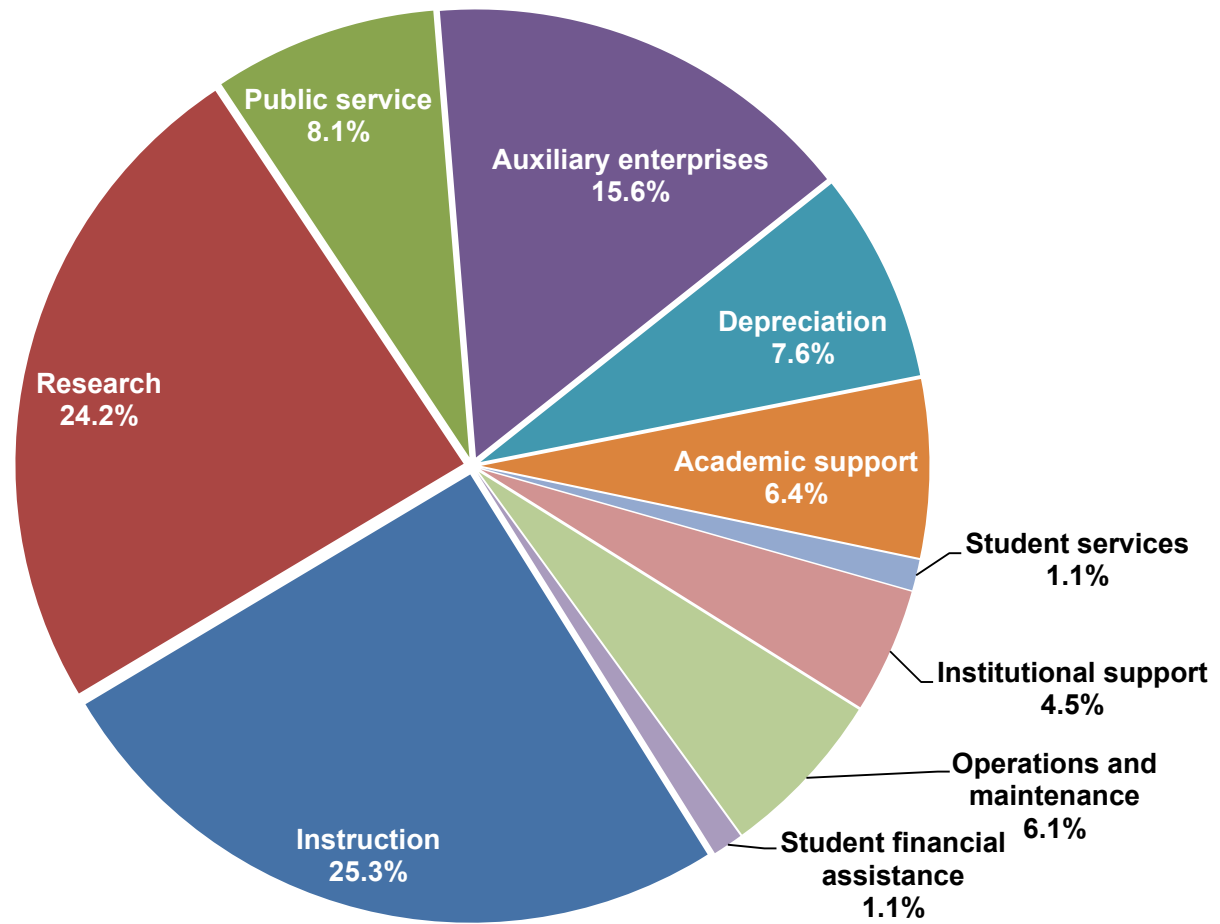
Changes in Operating Expenses by Function
For the years ending June 30, 2015 and 2014
(all dollars in millions)

	2015	2014 (Restated)	Change	
			Amount	Percent
Instruction	\$ 318.7	\$ 298.8	\$ 19.9	6.7%
Research	304.6	308.3	(3.7)	(1.2%)
Public service	101.4	102.7	(1.3)	(1.3%)
Auxiliary enterprises	196.2	181.5	14.7	8.1%
Subtotal	920.9	891.3	29.6	3.3%
<u>Support, maintenance, and other expenses</u>				
Academic support	80.9	79.4	1.5	1.9%
Student services	14.6	14.9	(0.3)	(2.0%)
Institutional support	56.9	58.2	(1.3)	(2.2%)
Operations and maintenance of plant	77.5	79.5	(2.0)	(2.5%)
Student financial assistance*	13.5	12.3	1.2	9.8%
Depreciation and amortization	95.2	91.6	3.6	3.9%
Total support, maintenance, and other expenses	338.6	335.9	2.7	0.8%
Total operating expenses	\$ 1,259.5	\$ 1,227.2	\$ 32.3	2.6%

*Includes loan administrative fees and collection costs.

- Moderate increase occurred in the instruction (\$19.9 million) and auxiliary enterprises (\$14.7 million) categories.
 - Majority of the growth to instruction resulted from the compensation and benefits category which reflects the university's commitment to retaining an outstanding faculty.
 - The rise in auxiliary expenses was spread across several categories including compensation and benefits (\$6.1 million), contractual services (\$5.1 million), and other operating expenses (\$4.0 million).
- Student financial assistance had the largest growth percentage at 9.8%. The net student financial assistance expense represents the amount of institutional resources refunded to the student in excess of student tuition and fees, not the gross amount of financial aid provided by the university. This does not reflect the increase in waivers and scholarships provided to students, indicated by the \$3.4 million growth in scholarship discounts and allowances.

Operating Expenses by Function For the year ending June 30, 2015



Changes in Expenses by Natural Classification

For the years ending June 30, 2015 and 2014

(all dollars in millions)

	2015	2014	Change	
			Amount	Percent
Compensation and benefits	\$ 787.6	\$ 750.4	\$ 37.2	5.0%
Contractual services	97.0	96.3	0.7	0.7%
Supplies and materials	100.8	110.0	(9.2)	(8.4%)
Travel	41.8	43.0	(1.2)	(2.8%)
Other operating expenses	64.0	54.9	9.1	16.6%
Scholarships and fellowships	34.9	33.0	1.9	5.8%
Sponsored program subcontracts	38.2	48.0	(9.8)	(20.4%)
Depreciation and amortization	95.2	91.6	3.6	3.9%
Total operating expenses	\$ 1,259.5	\$ 1,227.2	\$ 32.3	2.6%

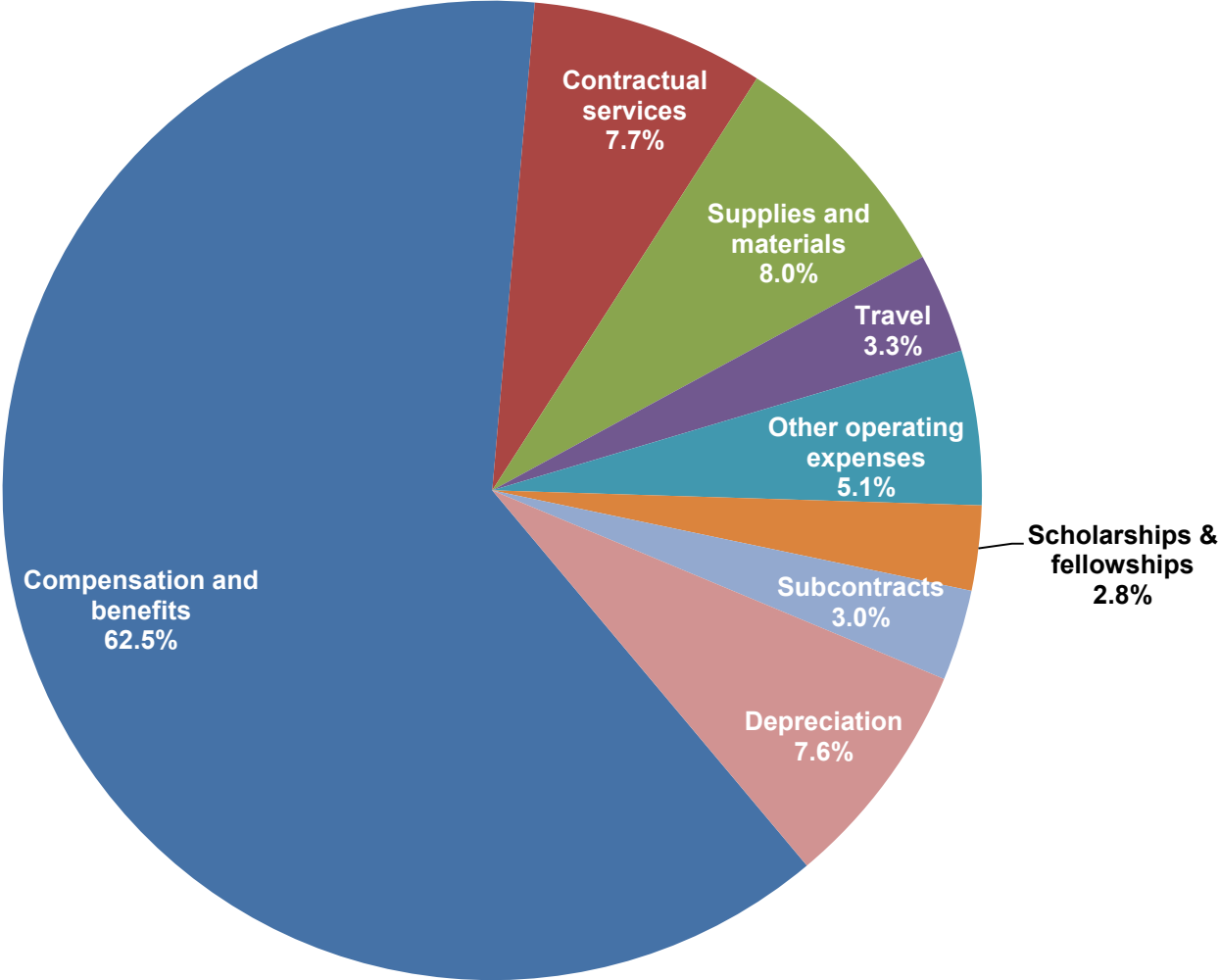
Compensation and benefits comprises \$787.6 million or 62.5% of the university's total operating expenses. This category increased by \$37.2 million (5.0%) from the previous year. The increase in compensation includes a general salary increase funded by the commonwealth, along with the in-band adjustment process and growth in personnel.

Other operating expenses increased by \$9.1 million. Growth in building and equipment leases, as well as utility costs, contributed to the rise in this category.

Sponsored program subcontracts declined by \$9.8 million primarily due to a decrease in federally sponsored grants and contracts.

Expenses by Natural Classification

For the year ending June 30, 2015



Long-term Debt Payable Activity
as of June 30, 2015
(all dollars in millions)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable					
Section 9(c) general obligation revenue bonds	\$ 162.0	\$ 14.3	\$ 21.5	\$ 154.8	\$ 8.7
Section 9(d) revenue bonds	12.6	-	4.8	7.8	5.1
Notes payable	264.8	19.5	33.9	250.3	14.1
Capital lease and installment purchase obligations	66.7	18.0	6.1	78.6	3.9
Total long-term debt payable	<u>\$ 506.1</u>	<u>\$ 51.8</u>	<u>\$ 66.4</u>	<u>\$ 491.5</u>	<u>\$ 31.8</u>
Current year debt defeasance		(33.8)	(31.0)		
Total additions/retirements, net of current year defeasance		<u>\$ 18.0</u>	<u>\$ 35.4</u>		

Significant changes in longer term debt were as follows:

- The Commonwealth, on behalf of the university, defeased or refinanced approximately \$31 million of outstanding long term debt during 2015
- Issuance of capital leases payable to the Virginia Tech Foundation for the Kentland Dairy complex (\$14.6 million) and the jet propulsion facility (\$3.4 million)

Sponsored Programs

For the years ending June 30, 2011 - 2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of awards received	2,400	2,589	2,272	2,443	2,189
Value of awards received	\$ 274.0	\$ 294.1	\$ 271.1	\$ 303.6	\$ 296.6
Research expenditures reported to NSF	\$ 450.1	\$ 454.4	\$ 496.2	\$ 513.1	\$ 504.3
NSF Rank	41	40	38	39	N/A*

*Data for items marked as "N/A" was not available when this presentation was prepared.

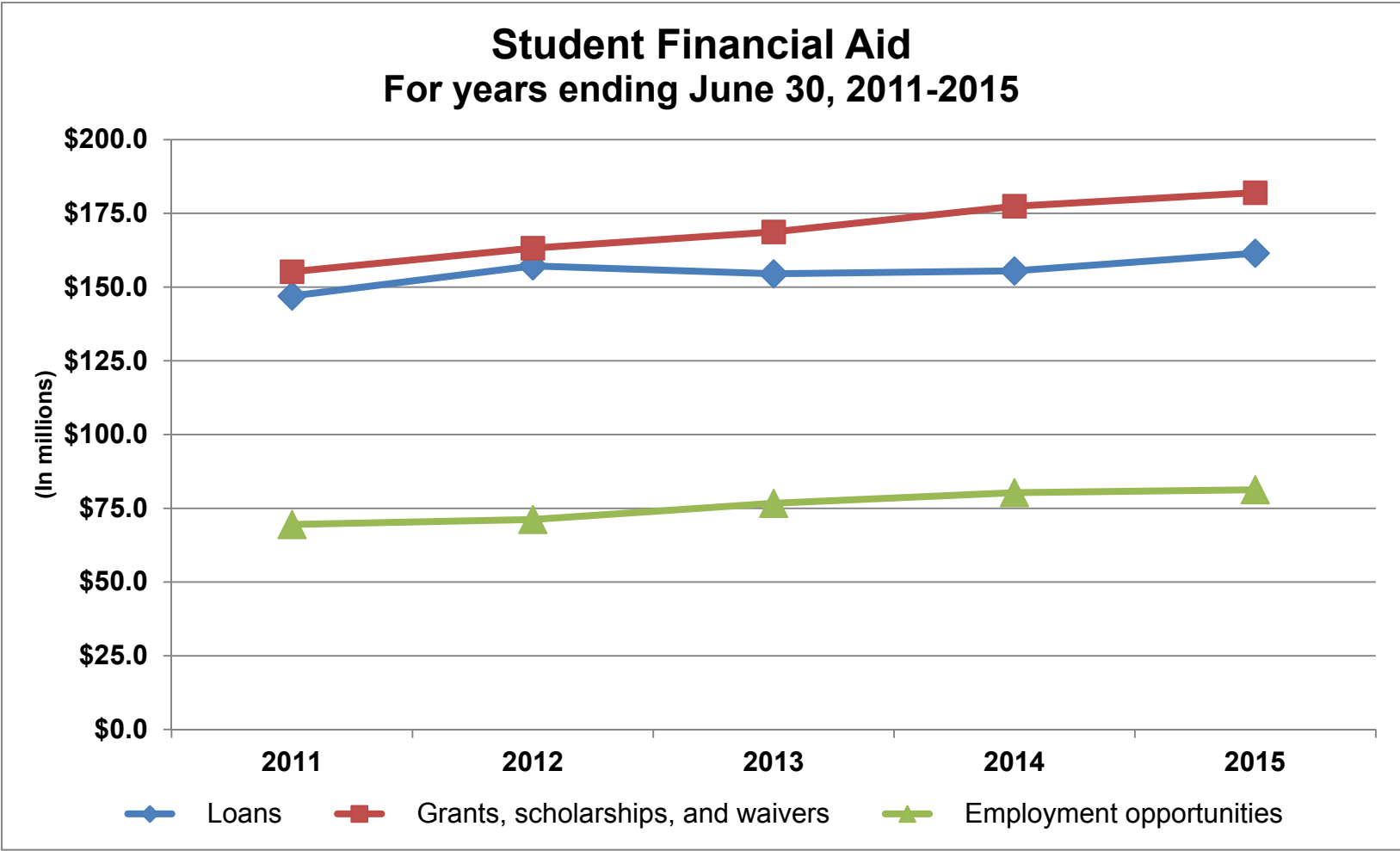
Student Financial Aid

For the years ending June 30, 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Number of students receiving selected types of financial aid					
Loans	13,133	13,081	12,506	12,279	12,253
Grants, scholarships, and waivers* **	27,469	18,115	18,353	18,305	18,242
Employment opportunities	9,007	9,331	9,935	10,329	10,437
Total amounts by major category, (all dollars in millions)					
Loans	\$ 147.0	\$ 157.2	\$ 154.5	\$ 155.5	\$ 161.5
Grants, scholarships, and waivers**	155.2	163.2	168.7	177.4	182.0
Employment opportunities	<u>69.5</u>	<u>71.2</u>	<u>76.7</u>	<u>80.3</u>	<u>81.3</u>
Total Financial Aid	<u>\$ 371.7</u>	<u>\$ 391.6</u>	<u>\$ 399.9</u>	<u>\$ 413.2</u>	<u>\$ 424.8</u>

*Grants, scholarships, and waivers for FY2011 include undergraduate Virginia residents who received Recovery Act (ARRA) tuition mitigation grants.

**Prior period totals have been restated to remove prepaid awards from the scholarships total.



Virginia Tech students have lower debt than the national average. Fifty-three percent of the undergraduate Virginia Tech Class of 2014 borrowed an average of \$27,865, while nationally 69 percent of the students who graduated from all four year colleges in 2014 borrowed an average of \$28,950 in student loans.

Conclusion:

Despite a challenging financial landscape, the university continues to make progress on several fronts including the following:

- Continued investment in facilities supporting the university's strategic plan with the prudent use of debt financing.
- Continued growth in liquidity (as measured by cash and investments, not unrestricted net position) to adequately support the growth in debt since FY2002. The implementation of GASB 68 changed the metrics for liquidity.
- Unrestricted net position decreased by \$392.8 million due to the implementation of GASB 68 resulting in a deficit of \$74.3 million in the unrestricted net position at June 30, 2015. However, the results of operations would have increased unrestricted net position by \$4.2 million absent this implementation.
- Strong student demand – the university continues to have growth in applications and the successive improvements of overall quality of each entering class.
- Moderation in tuition rate increases has enabled the university to maintain its competitive advantage over peer institutions. With a total cost (including room and board) of \$19,941 per year for Virginia undergraduates, Virginia Tech ranked 18th out of a group of 24 SCHEV public peer institutions in 2014-15.
- Virginia Tech's NSF research ranking was 39th in 2014.

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

FINANCE AND AUDIT COMMITTEE

March 9, 2016

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

Background

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

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

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

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

General Assembly Actions

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

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

Status of Institutional Actions on the Outstanding Recommendations by General Assembly

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

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

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

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

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

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

- Virginia Tech established a cross-functional team comprised of Human Resources, IT, and Finance personnel to evaluate the current status of organizational structure, data availability, collection, and assessment, and review of existing span of control studies, etc.
 - The data elements that need to be collected in preparation for an organizational structure and span of control study for salaried employees were identified. These data, which were initially sourced from multiple, disparate university systems, have now been centralized in the university's Enterprise Resource Planning (ERP) system creating a consistent platform for reporting moving forward. The cross functional team has been focused on iteratively improving the initial data quality and will deliver a preliminary report to senior management in March, 2016. The next step in the project plan requires all university departments to review and validate the preliminary data for their respective areas to make certain that the span of control study will be conducted on current and accurate reporting structures. The group will make a recommendation for any necessary process and/or technology changes to ensure that the accuracy of these data are maintained on an ongoing basis.
- Concurrent with the work to compile the required data, the university is evaluating the scope and methodology for conducting the study on the organizational structure including the review of span of control. Based on the results of the assessment, a recommended course of action and an implementation plan that meets the intent of this recommendation will be presented for consideration by the Board.

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

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

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

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

Standardization of Purchases of commonly procured goods and use of institution-wide contracts **Status: *In Progress***

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

- After completing an internal evaluation of the status of its procurement processes regarding standardization of purchases and the use of institution-wide contracts, the university has decided to engage a consultant to conduct an independent assessment of the current state of standardized purchasing. This assessment will include a review of the current state of standardized purchasing including a review of policies and procedures and current utilization of contracts, and benchmarking university practices with peer institution and entities outside higher education. Based on the evaluation of the current practices and the procurement environment, the consultant will present recommendations and actions plans to close any gaps that may exist in the university's' standardization performance for the university's consideration.
- An element of this assessment will be an evaluation of the current and potential future impact of the work by the Virginia Cooperative Procurement Consortium. This consortium was established recently through the joint efforts of several Virginia public institutions of higher education, including Virginia Tech, to negotiate and execute contracts for goods and services commonly purchased by all higher education entities to maximize savings that would benefit all institutions within the Commonwealth.
 - The Consortium is continuing to leverage spend from all state institutions in the following commodities: Inbound Freight, Computer Peripherals, and Scientific and Lab Equipment. Agreements in each area will be negotiated to obtain the highest discounts possible. Most of the Commonwealth institutions are fully participating in this process. We expect to utilize resulting Consortium agreements by the end of this fiscal year.
- Management believes these two actions will address the intent of the recommendations. The university will review the results of this work with the Board for concurrence or guidance on any addition needed actions.
- The university anticipates the completion of the above action plan for procurement by August, 2016 and plans to report the final results to the Committee at its August, 2016 meeting.

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

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

Next steps

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

**2016-18 Appropriation Request
And Review of Executive Budget Amendments and Legislative Session**

FINANCE AND AUDIT COMMITTEE

March 11, 2016

Overview of the Appropriations Process

2016-18 Biennial Budget

On September 18, 2015, the university submitted budget requests, referred to as decision packages, based on its approved Six-Year plan, to the Department of Planning and Budget. The decision packages were considered by the Executive Branch and used to inform the development of the Governor's 2016-18 Executive Budget proposal. Governor McAuliffe then presented the Executive Budget for the upcoming biennium on Thursday, December 17, 2015. The General Assembly session opened on January 13, 2016 and completed its work on March 12, 2016.

Traditionally, during the legislative session each chamber of the General Assembly will review the Executive Budget, introduce amendments as necessary, and pass an amended biennial budget proposal to be reviewed by the opposite chamber. As the two chambers' budgets often differ from each other, the budget proposals are taken up by a Conference Committee. The Committee, which is composed of members of each chamber, then produces a compromise budget for final approval by the House and Senate. Once approved, the Governor has 30 days to review the General Assembly's budget and propose any vetoes for consideration at the reconvened session in April. After final General Assembly approval, the budget becomes a chapter within the current year's Acts of Assembly, and is thereafter referred to as the Appropriation Act.

This report presents the major elements of the Executive Budget and General Assembly actions for the upcoming biennium.

Decision Package Summary

In August 2015, the Department of Planning and Budget solicited the submission of agency decision packages. The Office of the Governor instructed agencies to work with their respective Cabinet Secretary to limit submissions of decision packages to those that supported the Governor's goals, primarily advancing the health of the commonwealth's economy.

The university shared the institution's budget priorities with the Office of the Secretary of Education, and with the Secretary's approval, submitted several budget decision packages to the Department of Planning and Budget in September. Specifically, these requests covered eight items totaling \$10.6 million in General Fund (GF) support in the first year of the upcoming biennium for the University Division. A request for two items

totaling \$1.1 million GF in the first year was submitted for the Cooperative Extension and Agricultural Experiment Station Division (CE/AES). The university's budget requests included the following items for 2016-17:

<u>University Division (\$ in millions)</u>	<u>FY17</u>
1) Advance Strategic Research Opportunities and Enhance Entrepreneurial and Innovation Ecosystem	\$4.9
2) Increase Access for Virginia Undergraduates (200 additional residents)	2.2
3) Expand and Enhance STEM-H Degree Production, Health Sciences, Neuroscience, Creative Technologies, and Computational Thinking	1.2
4) Support Faculty Startup Packages, Particularly for New Faculty in the STEM-H fields, Including Equipment and Lab Renovation	0.7
5) K-12 Pathways: Expand Access to Underserved Virginians	1.0
6) Support Timely Degree Completion Through Enhanced Student Advising, Year-Round Academic Programs, and Instructional Resource Sharing	0.5
7) Increase Support for Unique Military Activities	0.2
8) Transfer Funding for Health Insurance to Agency 229 (technical)	(0.1)
<i>Subtotal</i>	<u>10.6</u>
<u>CE/AES Division</u>	
1) Advance the Commonwealth's Capabilities for Growth in Translational Agricultural Biosciences	0.8
2) Correct Shortfall in State Support for Health Insurance	0.3
<i>Subtotal</i>	<u>1.1</u>
Total Request	\$11.7

Governor McAuliffe's proposed biennial budget included support for a portion of the above mentioned university requests, as well as several other items that would impact the university's budget and operating processes. These items and impacts are summarized in Attachment 1.

2016 General Assembly Session

The General Assembly session opened on January 13th. The 2016-18 Executive Budget is one of the major legislative proposals being considered by the General Assembly. House and Senate members submitted amendments to the Executive Budget Bill on January 15, 2016 for consideration by the respective body's financial committee. Through that process, the university submitted targeted requests for additional funding in support of:

<u>University Division (\$ in millions)</u>	<u>FY17</u>
1) Increase Access for Virginia Undergraduates (200 additional residents)	\$2.2
2) K-12 Pathways-Expand Access to Underserved Virginian's:	1.0
3) Increase Support for Unique Military Activities	0.2
4) Rolls Royce Match	1.0
Total Request	<u>\$4.4</u>

In addition, the university advocated on behalf of a statewide approach to research support that would leverage public funding to attract new faculty and enhance research space and equipment in emerging areas of competitive funding.

CE/AES Division

The university submitted a language amendment to codify the state's historical intent to fund the CE/AES division at 95 percent for state funding calculations.

Capital

On behalf of the university's capital priorities, one amendment was submitted requesting the addition of the Undergraduate Science Laboratory building to the 2016 Session Capital Construction Pool.

General Assembly

The House Appropriations and Senate Finance Committees published their proposed changes to the 2016-18 Executive Budget amendments on February 23. The Conference Committee produced a compromise operating budget on March 9 that was sent to the General Assembly for review. The General Assembly approved the budget and adjourned on March 11, 2016, sending the compromise budget to the Governor for final approval. Additional details of the amendments to the Executive Budget presented in the Conference budget that impact Virginia Tech are summarized in Attachment 1.

Legislation with Potential Impact

As of January 27, 2,920 pieces of legislation had been filed for consideration by the 2016 General Assembly. The university has followed this legislation, particularly that which may impact the university, and advocated or influenced legislation impacting higher education, when appropriate.

Legislation was proposed for a wide range of higher education-related topics including restricting universities' ability to manage tuition increases, requiring enrollment ratios by residency, and creating a new program and authority to refinance student loans. Ultimately, these initiatives were not successful.

The following represent a sample of finance-related items that may have an impact on the university, and their final status:

- **HB 1343**: GO Virginia - establishes the Virginia Growth and Oppportunity Board to vet regional applications for state investment in public-private collaborations that support regional and state economic development priorities. This bill was approved by the House and the Senate.
- **HB 400**: Creates the Virginia Student Loan Refinancing Authority to allow Virginia students who incurred debt at a Virginia institution to receive a loan to refinance all or a part of his or her qualified student loans. This bill has been continued into the 2017 session for further study.

- HB 847: States that 'no public institution of higher education shall use any proceeds from state debt or revenues generated from state taxes and fees that offers any form of tuition assistance to any non-Virginia student. This bill failed to pass.
- HB 863: Would require that at least 75 percent of undergraduates admitted to the university be Virginia undergraduates by June 30, 2021. This bill failed to pass.
- SB 501: Limits in-state tuition and fee increases to two times the rate of inflation of the preceding year. This bill failed to pass.
- HB 503: Requires the boards of four-year institutions to annually establish an in-state tuition increase cap that will not be exceeded for the following four years of that incoming class. This bill failed to pass.

Future Actions

Governor McAuliffe will have approximately 30 days to sign the budget as it is or make changes before the scheduled reconvened session in April.

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND CONFERENCE COMMITTEE
as of March 11, 2016
(\$ in thousands)

	Incremental General Fund Support			
	Executive Budget		Conference Budget	
	2016-17	2017-18	2016-17	2017-18
Operating Budget				
University Division				
Access, Affordability, Quality and Increased Degrees	\$ 2,762	\$ 2,762	\$ 5,133	\$ 7,488
Cyber Security Test Range	2,000	2,000	2,000	2,000
Restoration of Interest Earnings and Credit Card Rebate			400	400
Technical Adjustments (fringe rate changes, annualization of prior year costs, etc.)	7,332	7,342	7,332	7,342
<i>Subtotal University Division Operating</i>	12,094	12,104	14,865	17,230
Research				
Unmanned Aircraft Test Range Equipment (one-time allocation)	950	0	0	0
<i>Subtotal Research</i>	950	0	0	0
Student Financial Aid				
Virginia Undergraduate Financial Aid	590	590	590	0
Graduate Financial Aid			405	587
Cyber Security Core Curriculum, collaboration with JMU	750	1,700	0	0
<i>Subtotal Student Financial Aid</i>	1,340	2,290	995	587
Unique Military Activities				
	0	0	200	200
Higher Education Equipment Trust Fund				
Traditional Allocation	481	481	481	481
Research Allocation	962	962	962	962
Unmanned Aircraft Test Range Equipment (one-time allocation)			950	0
<i>Subtotal Equipment Trust Fund</i>	1,443	1,443	2,393	1,443
Subtotal University Division	15,827	15,837	18,453	19,460
Virginia Cooperative Extension/AES Division (VCE/VAES)				
Pay Equity for Extension Agents			50	50
Operations and Maintenance for New Facilities Coming On-line			70	200
Technical Adjustments (fringe rate changes, annualization of prior year costs, etc.)	2,995	2,996	2,995	2,996
Subtotal VCE/VAES	2,995	2,996	3,115	3,246
Total Operating Budget State Support	\$ 18,822	\$ 18,833	\$ 21,568	\$ 22,706

(a) Estimated interest earnings.

(b) Amounts represent incremental change to existing 2015-16 Equipment Trust Fund appropriation (new purchasing power). New total amounts are \$10,331,639 in traditional allocation and \$5,240,458 in research allocation.

PROPOSED APPROPRIATIONS FROM THE EXECUTIVE BUDGET AND THE CONFERENCE COMMITTEE

as of March 11, 2016
(\$ in thousands)

Capital Budget

	Executive Budget		Conference Budget		
	State	NGF	State	NGF	
Maintenance Reserve FY2017	\$ 9,038	\$ -	\$ 9,038	\$ -	(a)
Maintenance Reserve FY2018	9,719		9,719		(a)
University Division					
Construction					
Renovate Holden Hall	61,000	12,500	61,000	12,500	(b)
Construct Chiller Plant, Phase II	35,200	4,800	35,200	4,800	(b)
Construct VTC Health Sciences and Technology Expansion	46,700	21,000	46,700	21,000	(b)
Planning Authorization					
Undergraduate Science Laboratories	-		3,740		(c)
NGF/Debt Authorization for projects in Construction					
Renovate Student Health Center	-	3,071	-	3,071	
Virginia Cooperative Extension/AES Division (VCE/VAES)					
Construction					
Livestock and Poultry Research Facilities, Phase I	22,500	-	22,500	-	(b)
Total	\$184,157	\$41,371	\$187,897	\$41,371	

Notes:

(a) University submits a proposal and the state subsequently identifies the amounts listed.

(b) Conference Report reflects that full project authorization has been provided. Detailed amounts are not yet known; thus, this schedule assumes that the university's full request is included in the state authorization.

(c) Planning authorization effective July 1, 2017. Because actual amounts are not provided in the Conference Report, this schedule assumes that the traditional detail planning allocation of five percent of the project's budget will be provided.

2016 GENERAL ASSEMBLY BUDGET
As of March 11, 2016

Each column reflects proposed policy or language adjustments in the proposed budget. Any funding associated with these proposals is summarized in Attachment 1. Actions are incremental adjustments to the 2016-18 biennial budget.

COMPENSATION

	Executive	Conference
Faculty and Staff Salary Increase	<p><u>2016-17</u>: No salary increase is proposed.</p> <p><u>2017-18</u>: Contingent upon meeting state revenue targets, a 2% salary increase effective July 1, 2017 is proposed.</p> <p>Institutions may use merit as basis of awards for all employee classes, "as long as the increases do not exceed the <u>two percent increase</u> on average."</p>	<p><u>2016-17</u>: Contingent upon no need for a revision to the 2016-18 revenue projection, a 3% salary program will be effective November 10, 2016.</p> <p>Institutions may use merit as basis of awards for all employee classes, "as long as the increases do not exceed the <u>three percent increase</u> on average."</p> <p><u>2017-18</u>: No compensation program is included in the proposed budget.</p>

UNIVERSITY OPERATING BUDGET

	Executive	Conference
Cybersecurity: Cyber Range/Testbed/Accelerator	Proposes the creation of programmatic platform for cyber security training by students in Virginia's public high schools, community colleges, and four-year institutions. Funding support is proposed. (see Attachment 1)	No change to the Executive Budget proposal.
Cybersecurity Curriculum	Proposes the creation of a collaboration between VT and JMU to develop experiential learning and apprenticeships in cybersecurity. Funding support is proposed for each institution.	Eliminated.

FRINGE/HEALTH

	Executive	Conference
Health Insurance	Projects an 8% increase in health insurance premiums in each year of the biennium. However, the proposal includes funding both the employer and employee shares of projected health insurance rate increases in the first year of the biennium. Under this proposal, employees would not see an out-of-pocket increase until FY18.	Projects a 9.6% increase in health insurance premiums FY17 and an 8.7% increase in FY18. Funding for employee share of increase is eliminated in lieu of a salary increase.
Virginia Retirement System (VRS)	Employer contributions to retirement are proposed to rise to the full actuarial rate. Contributions in the current fiscal year are ninety percent of the actuarial rate. The state's share of this contribution is provided, and the university will be required to fund the remainder.	Several changes are made for the upcoming biennium: 1. Includes a lump sum payment of \$177.7M GF in FY16 to expedite the repayment to VRS of the 2010-12 deferred contributions. 2. Per HB30, recommends funding VRS retirement at 100% beginning in FY17. 3. As rate no longer includes repayment of deferred contributions, the contribution rate for the state employee plan will decrease from 14.22% (FY16 rate) to 13.49%.

LANGUAGE IMPACTING OPERATIONS

	Executive	Conference
Tuition Authority	N/A	"It is the expression of the General Assembly that the institution seek to minimize tuition and fee increases for in-state undergraduate students. This language shall be in effect for the 2016-18 biennium only. The Board of Visitors shall set the tuition rates for the institution, and forward their action to the State Council of Higher Education for Virginia within three business days of such action. The Council shall analyze the Board's actions and report such analysis to the Chairmen of the House Appropriations and Senate Finance Committees within three business days of receipt, at which point, the Board's action shall be considered final. The Director of the Council shall report the final Board actions to the Chairmen by August 1, 2016 and August 1, 2017."

	Executive	Conference
Virginia Tech Carilion School of Medicine	N/A	Provides language encouraging pursuit of further developments in the partnership and allows the establishment of the VTCSOM within Virginia Tech. Full text included in Appendix 1 at the end of this schedule.
Review of Alternative Tuition and Fee Structures	Recommends that the Joint Subcommittee on Higher Education review alternative tuition and fee structures, including discounted tuition, flat tuition rates, discounted fees, student services flexibility, to any first time incoming freshmen.	“As part of its deliberations, the Joint Subcommittee shall review alternative tuition and fee structures and programs that could result in lower costs to in-state undergraduate students.”
Review of Statewide Student Financial Aid Model	Recommends that the Joint Subcommittee on Higher Education review Statewide Student Financial Aid model. Second year of incremental GF for SFA is withheld for development of new model.	Recommends that the Joint Subcommittee on Higher Education produce recommendations to reform the statewide allocation of student financial aid. \$24 million GF is withheld by SCHEV in the second year in order to fund this new model.
Capital Procurement Language	N/A	Language has been added that requires the university to develop a process and report on its procurement methods for capital construction.
JLARC Recommendations/Study	N/A	<ol style="list-style-type: none"> 1. Proposes that institutional Boards of Visitors shall “participate in national faculty teaching load assessments by discipline and faculty type.” 2. Proposes that SCHEV “include factors such as discipline, faculty rank, cost of living, and regional comparisons in developing faculty salary goals.” 3. Proposes that SCHEV “identify instructional technology best practices that directly or indirectly lower student cost while maintaining or enhancing learning.”

STATE COUNCIL ON HIGHER EDUCATION FOR VIRGINIA (SCHEV) PROGRAMS

	Executive	Conference
Cybersecurity Scholarships	Proposes \$1.5 million GF in each year for SCHEV to create scholarships for students who choose cybersecurity as a major and commit to working in Virginia upon graduation.	Eliminated.
Cybersecurity Centers for Excellent Grant	Proposes a \$1 million GF pool in each year to support institutions' efforts to qualify as federal cybersecurity centers of excellence.	Eliminated.
Innovation Fund to Expand Student Pathways	Competitive innovation fund is proposed that would provide \$2.5 million GF in each year to stimulate collaboration among public school divisions and colleges and universities to create and expand affordable student pathways.	Provides \$500k GF in each year for SCHEV to create a fund for excellence and innovation, designed to create and expand affordable student pathways and pursue shared services and other efficiency initiatives that lead to measurable cost reductions.
Study to Establish Entity to Investigate Sexual Assaults on College Campuses	Funding is proposed for SCHEV in the amount of \$100,000 GF in the first year to study the possible creation of a Virginia higher education regional center for investigation and adjudication of criminal incidents of sexual and gender-based violence on college campuses.	No change to the Executive Budget proposal.

CAPITAL PROJECTS

	Executive	Conference
Holden Hall Renovation	Included in \$1 billion Capital Construction Pool for higher education.	Included in \$1.33 billion Capital Construction Pool for higher education.
Central Chiller Plant, Phase II		
VTC Health Sciences and Technology Expansion		
229: Livestock and Poultry Research Facilities, Phase I		
Undergraduate Science Laboratory	N/A	Included in Detailed Planning support pool.
Maintenance Reserve	Fiscal Year 2017: \$9.038M Fiscal Year 2018: \$9.719M	Fiscal Year 2017: \$9.038M Fiscal Year 2018: \$9.719M

CENTRAL APPROPRIATIONS

	Executive	Conference
Higher Education Research Initiative	Proposes a pool of \$20 million GF in each year to be administered by the HERI to offer incentive packages to high performing researchers who successfully commercialize their research. \$100 million of debt financing has been provided for projects approved for the Higher Education Research Initiative for lab enhancements and research equipment.	Proposes a pool of \$8 million GF in the first year and \$14 million GF in the second year to attract high performing researchers. Bonds for equipment and lab renovation reduced to \$29 million in the first year, none in the second year.
Biotechnology Spinoff Growth	Proposes the creation of \$30 million GF in each year of the biennium for a funding pool that would be used to incentivize the transfer of research to the private sector and the creation of spin-off companies. Under this proposal, funding would be provided on a competitive grant basis. Requests for funding would be reviewed and evaluated by the Major Employment and Investment (MEI) Project Approval Commission before being funded.	Funding proposed by the Executive Budget is eliminated.

	Executive	Conference
Global Genomics and Bioinformation Research Institute (INOVA)	Four public institutions in the commonwealth (expected to include Virginia Tech) would receive \$4 million GF per year to further research and collaboration with the Global Genomics and Bioinformation Research Institute. This is tied to a proposal to expand Medicaid.	Funding proposed by the Executive Budget that is tied to Medicaid expansion is eliminated. New language provides \$8 million GF in the first year to offer one-time incentive packages to attract high performing researchers. \$20 million in the first year is available for lab renovations and equipment at the Institute for GMU, ODU, UVa, VT, and CWM.
GO Virginia	A pool of at least \$38M GF is proposed to support initiatives, targeted at competitive collaborations of higher education, private industry, and local and regional governments to support economic development initiatives. A portion of this is funded through savings related to Medicaid expansion.	After eliminating the portion tied to Medicaid expansion, the budget provides \$5.5 million GF in the first year and \$30 million in the second year to support the Go Virginia initiative.

Appendix 1

Virginia Tech Carilion School of Medicine

The Conference Committee Budget included the following language:

“The General Assembly is supportive of the increasing commitment by both Virginia Tech and the Carilion Clinic to the success of the programs at the Virginia Tech/Carilion School of Medicine and the Virginia Tech/Carilion Research Institute, and encourages these two institutions to pursue further developments in their partnership. Therefore, notwithstanding § 4-5.03 c. of the Appropriation Act, if through the efforts of these institutions to further strengthen the partnership, Virginia Tech acquires the Virginia Tech Carilion School of Medicine during the current biennium, the General Assembly approves the creation and establishment of the Virginia Tech/Carilion School of Medicine within the institution notwithstanding §23-9.6:1 Code of Virginia. No additional funds are required to implement establishment of the Virginia Tech/Carilion School of Medicine within the institution.”



Financial Performance Report

Second Quarter 2015-16

Tim Hodge, Assistant Vice President for
Budget and Financial Planning

March 21, 2016



Overview

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



E&G Operating Budget

Annual Budget Change

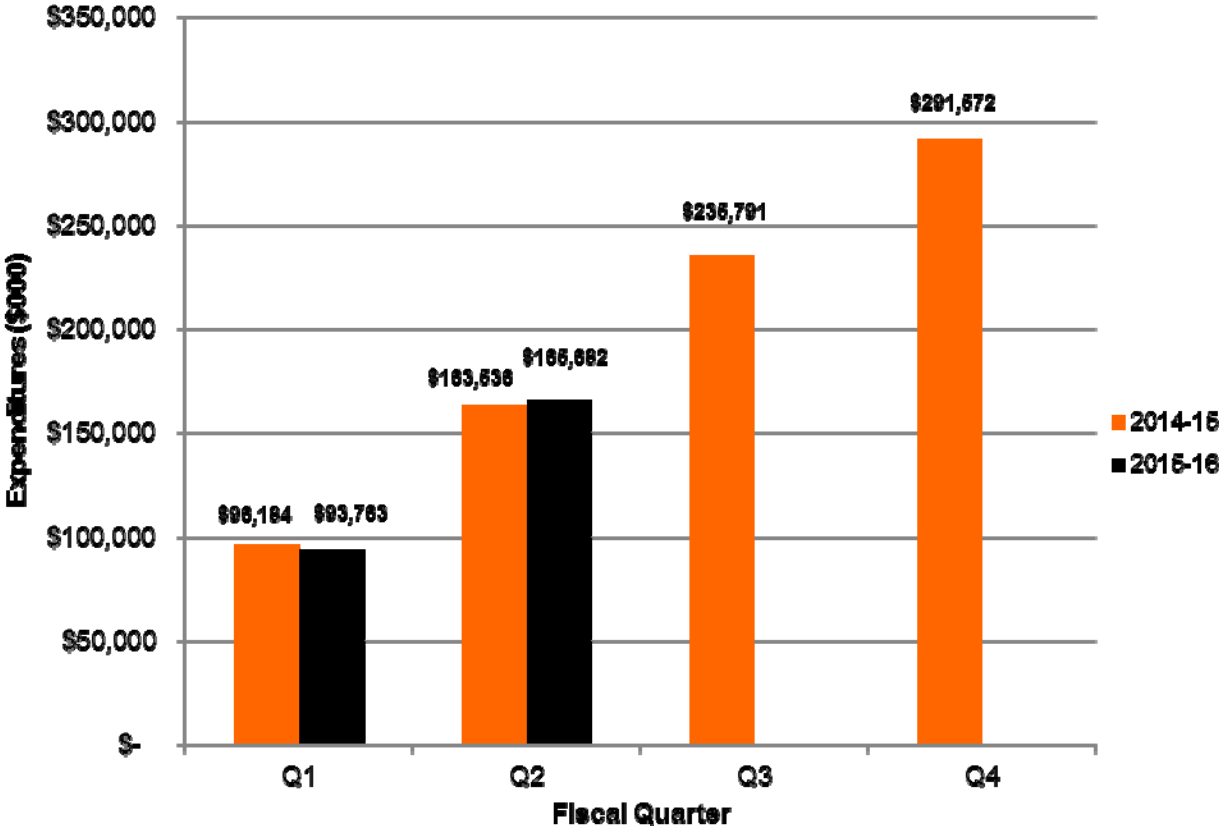
- University Division
 - General Fund: \$66k decrease from actual central appropriation distributions and \$31k increase for the Virtual Library of Virginia
 - Veterinary Medicine Teaching Hospital: \$250k budget increase for increased case loads
 - Child Development Lab: \$16k increase due to higher than projected participation
- Cooperative Extension/Agricultural Experiment Station (CE/AES)
 - General Fund: \$67k decrease from actual central appropriation distributions

Performance

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



Sponsored Programs Expenditures 2014-15 to 2015-16





Auxiliary Enterprises

Key Annual Budget Changes :

- Residential: \$7.7 million Electronic Door Access project
- Athletics: \$3.0 million capital project planning; Athletic Facility Improvements
- Athletics: \$1.7 million bowl adjustment
- Dining: \$230k for dining master plan

Performance

- Dining Services: strong self-generated sales
- Electric Service: lower than forecasted total cost of purchased electricity
- Fleet Services: lower than projected business volume
- Other activities are performing well



Capital Outlay

- **Total capital program level currently authorized**
 - \$546.5 million over several years
- **Cumulative program expenses**
 - \$317.5 million inception-to-date
- **Significant total program adjustments**
 - Projects approved at the November 2015 Board meeting and added to the report:
 - ❖ Planning for Corps Leadership & Military Science Building
 - ❖ Planning Supplement for Athletic Facilities Improvements
 - ❖ Residential Door Access Improvements



Capital Outlay

- **Annual capital budget as of second quarter**
 - \$115.3 million
- **Annual budget adjustments this quarter**
 - No significant annual budget adjustments this quarter.
- **Annual expenses as of second quarter**
 - \$49.8 million

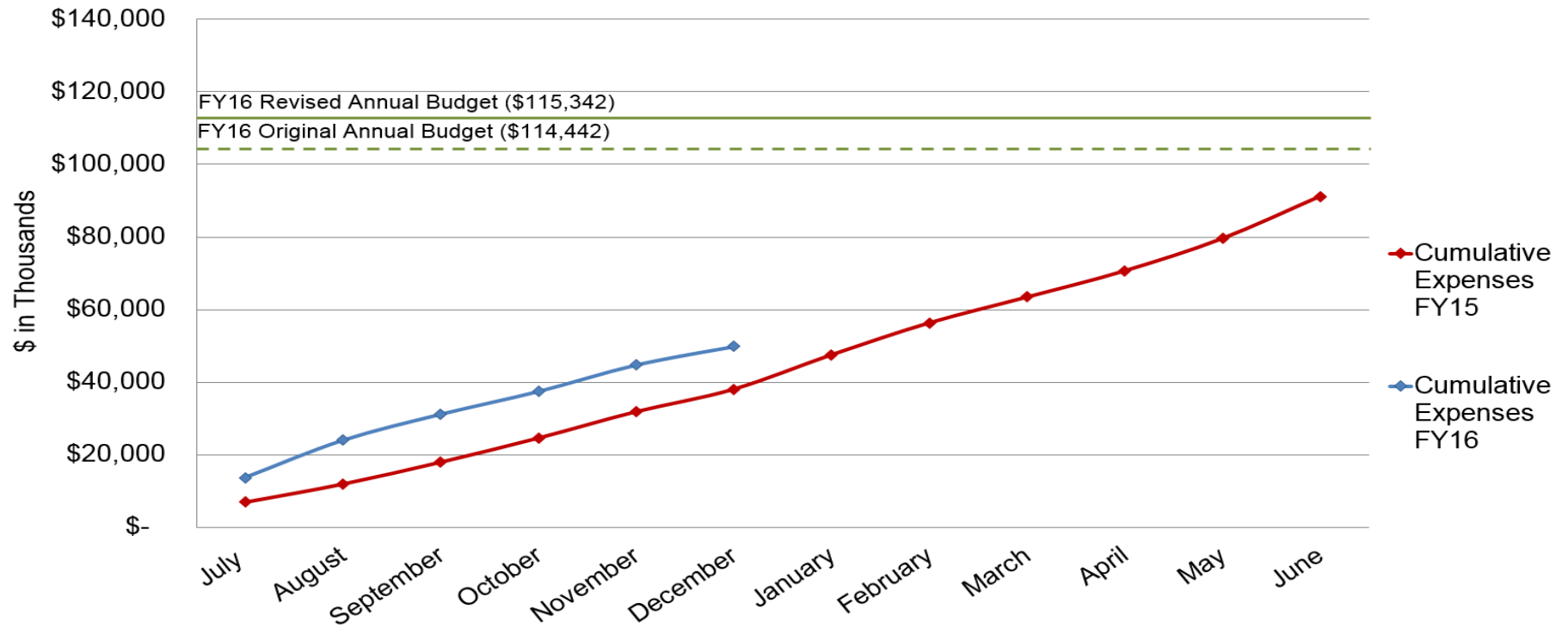


Capital Outlay Trends: Annual Performance

CAPITAL PROGRAM ANNUAL PERFORMANCE

Cumulative Monthly Expenditures

Fiscal Year 2015 and Fiscal Year 2016





Capital Outlay

- **Major Construction Underway**
 - Classroom Building
 - Fire Alarm Systems and Access
 - Upper Quad Residential Facilities
 - Airport Hangar
 - Residential Connectivity



Questions?