

Wright State Applied Research Corporation

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016



Dave Yost • Auditor of State

Board of Directors
Wright State Applied Research Corporation
4035 Colonel Glenn Hwy
Beavercreek, Ohio 45431

We have reviewed the *Independent Auditor's Report* of the Wright State Applied Research Corporation, Greene County, prepared by BKD, LLP, for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Wright State Applied Research Corporation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 1, 2017

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Wright State Applied Research Corporation
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Wright State Applied Research Corporation ("WSARC"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright State Applied Research Corporation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2016 financial statements were audited by other auditors and their report thereon, dated October 14, 2016, expressed an unmodified opinion.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017, on our consideration of Wright State Applied Research Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wright State Applied Research Corporation's internal control over financial reporting and compliance.

BKD, LLP

Cincinnati, Ohio
November 6, 2017

Wright State Applied Research Corporation
Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 12,025,250	\$ 8,706,781
Billed accounts receivable	2,117,596	3,229,636
Unbilled accounts receivable	2,178,473	1,127,062
Other accounts receivable	28,190	1,248
Prepaid expenses and other	56,112	1,184,661
Due from Wright State University	1,011,637	-
Note receivable	1,303,000	-
Investment	-	202,500
Other assets	300,000	300,000
Property and equipment, net	4,483,023	5,050,671
	<hr/>	<hr/>
Total assets	<u>\$ 23,503,281</u>	<u>\$ 19,802,559</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 4,112,897	\$ 1,367,489
Other payables	-	32,788
Due to Wright State University	2,954,955	5,019,168
Deferred revenue	11,413,365	7,503,496
	<hr/>	<hr/>
Total liabilities	18,481,217	13,922,941
Unrestricted Net Assets	<hr/>	<hr/>
	5,022,064	5,879,618
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 23,503,281</u>	<u>\$ 19,802,559</u>

Wright State Applied Research Corporation
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Revenue		
Contract and grant revenue	\$ 20,048,161	\$ 15,191,206
Commercial revenue	409,001	-
Rental income	821,646	115,390
Interest income	57,449	7,473
Total revenue	21,336,257	15,314,069
Expenses		
Program services		
Direct labor	2,966,706	5,886,830
Travel	130,891	96,796
Subcontract costs	13,676,409	4,136,382
Other direct costs	498,508	409,553
Total program services expenses	17,272,514	10,529,561
Support services		
Overhead	3,452,355	3,873,415
General and administration	1,346,190	2,774,982
Other	122,752	270,732
Total support services	4,921,297	6,919,129
Total expenses	22,193,811	17,448,690
Change in net assets before contributions	(857,554)	(2,134,621)
Contributions	-	1,194,444
Forgiveness of amounts due to Wright State University	-	4,384,460
Change in net assets	(857,554)	3,444,283
Net assets		
Beginning of year	5,879,618	2,435,335
End of year	\$ 5,022,064	\$ 5,879,618

Wright State Applied Research Corporation
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ (857,554)	\$ 3,444,283
Items not requiring (providing) operating activities cash flows		
Depreciation expense	691,834	602,749
Gain on disposal of property and equipment	(25,129)	-
Net realized loss on investment	102,500	-
Changes in		
Billed accounts receivable	1,112,040	(365,529)
Unbilled accounts receivable	(2,455,530)	(986,189)
Other accounts receivable	(26,942)	167,113
Prepaid expenses and other	1,128,549	(1,062,804)
Due from Wright State University	(1,011,637)	1,718,742
Accounts payable and accrued expenses	2,745,408	660,018
Other payables	(32,788)	(1)
Due to Wright State University	(2,064,213)	(2,107,439)
Deferred revenue	3,909,869	4,863,066
Net cash provided by operating activities	3,216,407	6,934,009
Investing Activities		
Proceeds from disposition of investment	100,000	-
Principal payments received on note receivable	101,119	-
Purchases of property and equipment	(99,057)	(1,518,162)
Net cash provided by (used in) investing activities	102,062	(1,518,162)
Increase in Cash and Cash Equivalents	3,318,469	5,415,847
Cash and Cash Equivalents, Beginning of Year	8,706,781	3,290,934
Cash and Cash Equivalents, End of Year	\$ 12,025,250	\$ 8,706,781
Supplemental Cash Flows Information		
Advances forgiven by Wright State University	\$ -	\$ 4,384,460
Conversion of unbilled accounts receivable to note receivable	1,404,119	-

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Nature of Operations

Wright State Applied Research Corporation (“WSARC”) was incorporated on July 26, 2004, as Wright Center of Innovation for Advanced Data Management and Analysis, Inc. (“WCI”) to deliver solutions that improve the performance and decision making of individuals and teams by integrating human factors design with innovative visualization and computing technologies. On March 30, 2011, WCI changed its name to Wright State Applied Research Corporation. WSARC is the contracting entity for the Wright State Research Institute, a department of Wright State University (the “University”). WSARC was also granted tax-exempt status according to the provisions of Section 501(c)(3) of the Internal Revenue Service on July 26, 2004.

WSARC is governed by a board of directors (the “Board”). The Board includes the University president (or his/her designee), two individuals appointed by the University president, a representative of the University’s board of trustees and a maximum of nine elected directors who are independent and unrelated to the University.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of WSARC have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Contract and Grant Revenue and Accounts and Notes Receivable

WSARC’s principal revenue is derived from sponsored research contracts, which are primarily cost plus fixed fee in nature. Sponsored research contracts are agreements for specific research, which is performed for a sponsor. WSARC recognizes sponsored research contract revenue prorated based upon the costs incurred on each sponsored research contract. The prorated revenue closely approximates the percentage of work completed for each contract. Contract and grant revenue consists primarily of government funding for 2017 and 2016.

Accounts receivable are reflected for both billed and unbilled amounts based upon the work completed for a particular grant or contract. WSARC uses the allowance method to estimate uncollectible accounts and notes receivable in these two categories. The allowances, if any, are based on prior experience and management’s analysis of specific contracts. Interest is not charged on any past due balances. As of June 30, 2017 and 2016, there were no allowances recorded.

Cash and Cash Equivalents

WSARC considers all demand deposits, certificates of deposit, and money market funds with an original maturity of three months or less to be cash and cash equivalents. WSARC maintains cash balances at banks and the accounts are insured by the Federal Deposit Insurance Corporation up to

Wright State Applied Research Corporation
Notes to Financial Statements
June 30, 2017 and 2016

\$250,000. As of June 30, 2017 and 2016, WSARC had uninsured deposits of approximately \$12,055,000 and \$8,457,000, respectively.

Property and Equipment

Property and equipment with an original purchase price or donated value of \$5,000 or greater is capitalized at cost for purchased assets and at fair value for donated assets. The straight-line method of depreciation is used over the assets' estimated useful lives (three to seven years for most assets, up to 40 years for buildings and improvements).

Impairment of Long-Lived Assets

WSARC continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision. In evaluating whether these long-lived assets are recoverable, WSARC estimates the sum of the expected future cash flows, undiscounted and without interest charge derived from such assets over their remaining useful life. Management believes that there was no impairment of long-lived assets for the years ended June 30, 2017 and 2016.

Deferred Revenue

Cash received in advance of being earned is recorded as deferred revenue. In the subsequent period, when the revenue recognition criteria are met, revenue is recognized and the deferred revenue is reduced accordingly. The state of Ohio appropriated funds to WSARC for projects and activities that commenced in 2016. At June 30, 2017 and 2016, the balance of deferred revenue relating to the state appropriation is \$11,413,365 and \$7,503,496, respectively.

Net Assets

Under accounting principles generally accepted in the United States of America, WSARC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Net assets and revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations or are designated for use by WSARC's Board of Directors.
- Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met either by actions of WSARC and/or the passage of time.
- Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by WSARC.

As of June 30, 2017 and 2016, there are no donor restrictions on any of the net assets of WSARC and therefore, all net assets are reflected as unrestricted.

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2017 and 2016

University Support of WSARC

University employees provide operational, technical and administrative functions for WSARC. These services are recorded as expenses as incurred by WSARC.

Income Tax

WSARC has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 (the "Code"), as an organization described in Sections 501(c)(3) and 170(b)(1)(A)(ii) of the Code. However, WSARC is subject to federal income tax on any unrelated business taxable income.

WSARC files tax returns in the U.S. federal jurisdiction.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires WSARC's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Contingencies

WSARC receives significant assistance from numerous federal and state agencies in the form of grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the sponsor. Any disallowed claims resulting from such audits could become a liability. Management believes that any potential disallowance of claims would not have a material effect on the financial statements.

WSARC is periodically involved as a defendant or codefendant in various matters of litigation. Management believes that the ultimate disposition of any current matters would not have a material adverse effect upon the financial statements. In addition, WSARC is a participant in an ongoing federal investigation of the University. The expected time of completion and the potential impacts of the investigation on WSARC are unknown at this time.

Functional Allocation of Expenses

The costs of supporting the various programs and activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and support services categories based on estimated time spent by personnel and other methods.

Wright State Applied Research Corporation
Notes to Financial Statements
June 30, 2017 and 2016

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 3: Property and Equipment

Property, plant and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 751,085	\$ 751,085
Software for projects	552,259	453,201
Computers and hardware	2,162,905	2,162,905
Buildings and building improvements	2,167,474	2,167,474
Furniture and fixtures	1,155,637	1,155,637
Truck trailer	520,904	520,904
Equipment	<u>972,670</u>	<u>972,670</u>
	8,282,934	8,183,876
Less accumulated depreciation	<u>3,799,911</u>	<u>3,133,205</u>
	<u>\$ 4,483,023</u>	<u>\$ 5,050,671</u>

During 2017, WSARC identified \$3,842,660 of fully-depreciated property and equipment that had been previously disposed but not removed from its books and records. Such amounts have been removed and presented as such on a retrospective basis.

Note 4: Other Assets

On June 26, 2015, WSARC converted a \$300,000 note receivable from the Miami Valley Research Foundation into an option to purchase a proportionate share of approximately 125 acres of land located in Greene County, Ohio. The option expires on June 9, 2019. If the option is not exercised, the \$300,000 consideration paid will be returned to WSARC.

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2017 and 2016

Note 5: Related Parties

WSARC is responsible for reimbursing the University for subsequent direct and certain indirect costs incurred by the University related to sponsored research contracts managed by WSARC. Total expenses recorded related to the University were \$7,479,282 and \$11,030,735 for the years ended June 30, 2017 and 2016, respectively. In addition, WSARC recognizes revenue for space leased to the University in WSARC's building on a month-to-month basis and reimbursement of WSARC expenses incurred on University grants. Total revenue recorded from the University was \$3,008,751 and \$906,503 for the years ended June 30, 2017 and 2016, respectively. The balances owed to and due from the University at June 30, 2017 and 2016, respectively, are stated below.

	<u>2017</u>	<u>2016</u>
Due to Wright State University - accrued wages	\$ 2,954,955	\$ 5,019,168
Due from Wright State University		
Rent	\$ 777,697	\$ -
Other	233,940	-
Total due from Wright State University	<u>\$ 1,011,637</u>	<u>\$ -</u>

During the year ended June 30, 2016, Wright State University forgave \$4,384,460 of the amount due from WSARC. This amount represents costs incurred by the University to cover short falls in operational costs incurred by WSARC. The shortfalls in operations were a result of indirect cost rates not fully covering operational costs. Indirect cost rates have been renegotiated in recent years.

In addition, during the year ended June 30, 2016, WSARC received contributions of equipment in the amount of \$1,194,444. These contributions were received from capital appropriations from the State of Ohio through Wright State University.

Note 6: Debt Guaranty

During fiscal year 2014, a donor made a bequest to the University of an office building in the donor's name. The donor has a mortgage on the building of approximately \$2,700,000. During fiscal year 2014, WSARC entered into an agreement with the lender guarantying the debt service payments of the mortgage. As of June 30, 2017 and 2016, no amounts were recognized as a liability under the financial guaranty in WSARC's statements of financial position.

Wright State Applied Research Corporation

Notes to Financial Statements

June 30, 2017 and 2016

Note 7: Note Receivable

WSARC issued a note receivable to Advanced Technical Intelligence Center for Human Capital Development (ATIC) on December 1, 2016, for \$1,404,119. The note is secured by a fourth mortgage interest in real property owned by ATIC (property) located in Greene County, Ohio. The note bears interest at a per annum rate of 1.29%. Monthly installment payments of \$2,500 are due until the earlier of December 31, 2021, or the date ATIC sells the property, at which time the entire then-remaining principal balance and accrued and unpaid interest are due in full.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Wright State Applied Research Corporation
Dayton, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Wright State Applied Research Corporation ("WSARC"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2017.

Internal Control Over Financial Reporting

Management of WSARC is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered WSARC's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WSARC's internal control. Accordingly, we do not express an opinion on the effectiveness of WSARC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of WSARC's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-002 and 2017-003 to be significant deficiencies.

Compliance and Other Matters

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

WSARC's Response to Findings

WSARC's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. WSARC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to WSARC's management in a separate letter dated November 6, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WSARC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Cincinnati, Ohio
November 6, 2017

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-001	<p><i>Criteria or specific requirement</i> – Management is responsible for establishing and maintaining effective control over financial reporting, including preparing annual financial statements in accordance with generally accepted accounting principles.</p> <p><i>Condition</i> – Management had not implemented effective internal controls over financial reporting.</p> <p><i>Context</i> – During our audit, we identified the following items:</p> <p><i>Unrecorded Bank Accounts</i></p> <p>Management did not include the bank account for WSARC’s wholly-owned subsidiary, DaytaOhio Holdings, Inc., in its financial statements, nor had a reconciliation of this bank account been completed, as the accounting department was not aware of its existence.</p> <p><i>Consolidations and Business Combinations</i></p> <p>Management does not have a control in place to evaluate the criteria for consolidation of affiliated entities in accordance with generally accepted accounting principles.</p> <p><i>Transactions with Miami Valley Research Foundation</i></p> <p>Management was not aware of, nor could they produce, executed contracts or agreements with Miami Valley Research Foundation with respect to the conversion of a note receivable into an option to purchase land.</p> <p><i>Evaluating Collectability of Notes Receivable</i></p> <p>Management does not have an established process or control in place to evaluate the collectability and potential need to establish allowances on its note receivable with the Advanced Technical Intelligence Center for Human Capital Development (ATIC).</p> <p><i>Evaluation of Guarantees</i></p> <p>Management does not have an established process or control in place to evaluate the potential need to establish and record a liability with respect to a guaranty that WSARC has issued.</p>

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
	<p style="text-align: center;"><i>Amounts Due to Wright State University</i></p> <p>During our audit, we noted WSARC’s amount due to Wright State University was understated by \$478,041 compared to the amount recorded and confirmed by the University.</p> <p>Effect – The financial statements could have been materially misstated due to lack of establishing and maintaining effective control over financial reporting.</p> <p>Cause – WSARC has experienced recent turnover in its business office.</p> <p>Recommendation – We recommend management implement processes and controls to:</p> <ul style="list-style-type: none"> • Identify and reconcile all bank accounts and appropriately include them in the financial statements. • Identify and document its consolidation evaluations at least annually. • Identify, document and properly record unusual transactions timely, including obtaining executed contracts and agreements. • Review all receivables for collectability and determine the need for an allowance. • Evaluate and record guaranty liabilities. • Ensure receivables/payables are reconciled and reviewed with related parties in a timely manner. <p>Views of responsible officials and planned corrective actions –</p> <ul style="list-style-type: none"> • WSARC has no cash accounts that are not represented in its balance sheet effective FY18. WSARC reduced the number of these accounts to two (2) as of the period ending October 31, 2017. Cash accounts are now reconciled monthly; with management review beginning in FY18. WSARC anticipates no future issues regarding missing or reconciliation of bank accounts not represented in its financial statements going forward. This will also be reviewed as a part of all future WSARC Finance Committee meetings. • The unrecorded bank account from DaytaOhio Holdings, Inc. was an aberration and will not occur in the future and has been corrected. WSARC management is updating its policies to ensure that any future transactions regarding a business combination, or additional affiliates, other than WSU are properly recorded. The policy updates will be submitted to the next WSARC Board of Directors for review and approval.

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
	<ul style="list-style-type: none"> • Beginning in FY18, WSARC management introduced criteria to evaluate and/or confirm current financial statement representation of all outstanding notes and guarantees. WSARC also established a process to report to the WSARC Finance/Audit Committee and later to the full WSARC Board of Directors review and approval. As for future unusual transactions, WSARC will ensure the WSARC Board of Directors is brought into consultation and review of all transactions. Now that WSARC and WSU have a formalized affiliation agreement, as of October 23, 2017 we will enhance and strengthen our disclosure and review of these unusual transactions. • WSARC will establish a process to report and review the evaluation collectability of notes receivable with the WSARC Finance/Audit Committee on at least a quarterly basis. We will then present to the full WSARC Board of Directors for review and approval. This will be implemented at our December 2017 WSARC Board meeting and will be a regular part of future WSARC Board and Committee meetings. • WSARC will establish a process to report and review the evaluation of guarantees with the WSARC Finance/Audit Committee on at least a quarterly basis. We will then take it to the full WSARC Board of Directors for review and approval. This will be implemented at our December 2017 WSARC Board meeting and will be a regular part of future WSARC Board and Committee meetings. • It was previous practice to record on WSARC books any outstanding liabilities with WSU (unbilled amounts due on WSU’s Banner financial system) at time of the annual audit versus being a part of the normal accrual process. The same practice occurred in FY17 with the exception that BKD brought the amounts in an “Unbilled Status due to WSU” to the attention of the WSARC accounting personnel and was resolved. <p>WSARC has put in place as a result, a process to identify WSARC due to University by means of directly obtaining this information from WSU’s Banner Financial System. Beginning monthly in FY18, WSARC is identifying from WSU’s Banner financial system amounts pending billing (Unbilled) to WSARC after WSU closes their accounting period (5th business day after end of month). WSARC will then in turn accrue these costs on its books to the appropriate objective with an offset to accrued expenses due to WSU. WSARC will then review subsequent WSU invoices in relation to previous accruals to eliminate potential errors of over or understating costs on WSARC Books, and the amount due WSU. Beginning in FY18 WSARC is also working with WSU financial staff to formalize a balance confirmation process on Due To/From transactions between the two entities.</p>

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
2017-002	<ul style="list-style-type: none"> • During the financial period audited by BKD, WSARC’s fiscal leadership was managed through two individuals that have since departed WSU. As a result WSRI has a posted a new CFO level position, requiring 15+ years of CFO or controller level experience. In addition the new CFO is required to have experience in the Costpoint or similar financial reporting systems to correct the discrepancies identified in this audit report. Our intent is to have this position filled by December 31, 2017. <p>Criteria or specific requirement – Management is responsible for establishing and maintaining accounting policies and procedures to ensure effective control over financial reporting.</p> <p>Condition – We noted a check was issued without proper approval in accordance with WSARC’s policies.</p> <p>Context – WSARC has a policy to obtain executive committee approval for all checks in excess of \$150,000.</p> <p>Effect – Fraudulent cash disbursements could go undetected if accounting policies and procedures are not followed.</p> <p>Cause – Established policies were not followed.</p> <p>Recommendation – We recommend management implement a process and control to ensure all checks are approved in accordance with policy.</p> <p>Views of responsible officials and planned corrective actions –</p> <p>WSARC has a complete signing limits procedure, similar to WSU’s however, it was not followed in this case. The corrective action is to ensure the signing limits process is always followed. WSARC is also identifying additional checks and balances that are being evaluated for implementation to ensure full compliance and the proper segregation of duties on all check signing. This includes oversight by WSARC Treasurer or Secretary to provide board members with notification and obtain all necessary approvals before checks are signed.</p> <p>WSARC management has implemented a process to ensure that policies regarding cash disbursement are adhered to on a regular monthly schedule. A refined process introduced in FY18 now includes an additional review step where a pre-disbursement edit report is approved and instructions for approval levels are coordinated up front, before check printing.</p>

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
2017-003	<p><i>Criteria or specific requirement</i> – Management is responsible for establishing and maintaining effective Information Technology General Controls (ITGC).</p> <p><i>Condition</i> – Management had not implemented effective internal controls over certain ITGCs.</p> <p><i>Context</i> – During our audit, we identified the following items:</p> <p><i>Segregation of Duties – CostPoint</i></p> <p>Accounting personnel have the ability to provision their own access for the accounting system, CostPoint. This could lead to unauthorized access to the application, resulting in opportunities for error or fraud.</p> <p><i>Access Reviews – CostPoint</i></p> <p>We noted WSARC performs periodic access reviews annually for the Active Directory, however, the reviews are not formalized and documented. In addition, no periodic access review is performed for CostPoint. Without a formal periodic access review process, users may have unauthorized access to/within applications which may go undetected. The lack of any monitoring process in place allows for the risk of unauthorized access being retained by a user(s).</p> <p><i>Configuration Management – CostPoint</i></p> <p>Accounting personnel are responsible for managing the configurations for the CostPoint application. The configurations could include adding/deleting general ledger accounts, mapping of accounts to the general ledger, and configuration of workflow approvals. Unauthorized configurations could result in opportunities for error or fraud that impact the financial statements.</p> <p><i>Vendor Management – CostPoint</i></p> <p>The CostPoint vendor, Deltek, is responsible for developing changes to this cloud-based application, as WSARC does not have source code access. Management does not have a process in place to obtain and review the Deltek SOC 1 Type II report on a periodic basis.</p> <p><i>System Migration – CostPoint</i></p> <p>The migration from GCS Premier to CostPoint took place on July 1, 2016. There were issues with the data migration from GCS Premier to CostPoint in which the beginning general ledger balances in the CostPoint implementation were not accurate. Neither the vendor, Deltek, nor WSARC’s management, was able to resolve this issue. System migration errors could lead to financial data that is incomplete and/or inaccurate. Management hired a third-party consultant to remediate the data migration issues by manually updating the beginning general ledger balances.</p>

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
	<p><i>Effect</i> – The network and financially significant systems could be manipulated and not detected.</p> <p><i>Cause</i> – Recent conversion of accounting system and lack of resources.</p> <p><i>Recommendation</i> –</p> <ul style="list-style-type: none"> • We recommend the ability to provision access be separated from those who input data and process transactions within the application. • We recommend management formalize and document the periodic access review of Active Directory. Further, we recommend management implement a formal, documented periodic user access review of CostPoint users for each functional area. Periodically (at least annually), system generated user listings should be provided to authorizing agents and reviewed for appropriate user access/roles with documented revisions/approvals. • We recommend management segregate the ability to manage application configurations and the ability to process transactions within CostPoint. • We recommend management review the SOC 1 Type II report from Deltek and ensure the vendor has appropriate controls over change management. • Management should consider leveraging its internal IT resources for future system implementations to help ensure success. <p><i>Views of responsible officials and planned corrective actions</i> –</p> <ul style="list-style-type: none"> • WSARC will move Costpoint Applications access provisioning to the WSARC IT department immediately. This assumes the WSARC IT department has full access to the Costpoint application, so we need to evaluate the proper process in working with Costpoint to ensure that the IT department will not have access to input data or process transactions. We need to ensure we have complete separations of duties and roles. This effort will include the appropriate training to external personnel in the use of the Costpoint Administrator functions. • Migration of the Costpoint Applications Active Directory administrative responsibilities to the WSARC IT department creates a streamlined approach to the management of all WSARC IT access controls including annual audits of user accesses. WSARC IT will conduct Costpoint Applications Active Directory reviews during their annual Microsoft Active Directory review ensuring an accounting for Costpoint user access by function/application including the electronic approval of accounting transactions.

Wright State Applied Research Corporation
Schedule of Findings and Responses
Year Ended June 30, 2017

Reference Number	Finding
	<ul style="list-style-type: none"> • WSARC already has implemented segregation of duties regarding accounting transactions, i.e. those who enter an accounting transaction cannot then approve their own transaction, and other accounting posting activities are computed and posted by the application without the ability to adjust these automated calculations. Currently there is a lack of documentation of these processes and configurations which will be evaluated and completed over the next quarter. <p>In addition, the WSARC CEO recently performed a 100% check of all transactions in the accounts to ensure that there were no anomalies. We will continue to review all checkbook activity on at least a quarterly basis. WSARC is also identifying additional checks and balances that are being evaluated for implementation to ensure full compliance and the proper segregation of duties.</p> <ul style="list-style-type: none"> • Management will evaluate, document and begin a process of reviewing the SOC 1 Type II report from Deltek and ensure the vendor has appropriate controls over change management. • WSARC management will consider leveraging our own internal resources for future system implementations, however, the migration challenge wasn't in IT support, they were rather in processes and procedures in how Deltek accomplished our data migration. As an aside, there are currently no financial system implementations that are planned for the foreseeable future.

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Dave Yost • Auditor of State

WRIGHT STATE APPLIED RESEARCH CORPORATION

GREENE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 14, 2017**