

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
AUDIT AND COMPLIANCE COMMITTEE
September 11, 2006**

AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Monday, September 11, 2006
5:00 - 5:30 p.m.
Byrd Seminar Room, Room 318
Harrison Institute

Committee Members:

Georgia M. Willis Fauber, Chair

G. Slaughter Fitz-Hugh, Jr. Don R. Pippin

Vincent J. Mastracco, Jr. Warren M. Thompson

Thomas F. Farrell, II, Ex Officio

AGENDA

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2006

COMMITTEE: Audit and Compliance

AGENDA ITEM: A. Committee Goals and Work Plan

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will discuss the status of the Audit and Compliance Committee's 2006 - 2007 Goals and Work Plan as of July 31, 2006. This does not require formal action, but is information of which the Board should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2006

COMMITTEE: Audit and Compliance

AGENDA ITEM: B. Audit Department Accomplishments

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will inform the Board of the accomplishments of the Audit Department for the last Fiscal Year. This does not require formal action, but is information of which the Board should be made aware.

University of Virginia
Internal Audit

Status of Fiscal Year 2005 - 2006 Audit Projects
as of June 30, 2006

Scheduled Audit Projects

	University	Health System	Information Technology	TOTAL
Scheduled*	12	12	6	30
Completed	12	12	6	30
% Completed	100%	100%	100%	100%
In Process	0	0	0	0
% In Process	0	0	0	0
% Completed or In Process	100%	100%	100%	100%

*Comments: For two of the teams, we deferred and did not replace three audits primarily due to extended maternity and disability leaves.

Non-Scheduled Projects

	University	Health System	Information Technology	TOTAL
Carryforwards	5	8	0	13
New	30	15	7	51
Total	35	23	7	64
Completed	25	20	6	49
% Completed	71%	87%	86%	77%
In Process	10	3	1	15
% In Process	28%	13%	14%	23%
% Completed or In Process	100%	100%	100%	100%

University of Virginia
Internal Audit

Department Accomplishments for 2005-2006

The Audit Department was extremely successful in completing most of its goals and critical functions during fiscal year 2005-06. In terms of regular projects, we completed 100% of the audit schedule. We had set a goal of an 85% completion rate and exceeded that goal by 15%. This is the best accomplishment rate for the entire department in 23 years. Deferrals in regularly-scheduled projects only occurred because of unexpected medical leaves, due to pregnancies. The two additional resources we received last year allowed us to keep up with the special projects the department continues to be requested to perform, and be able to devote regular auditors to scheduled projects. The audit staff has received required professional training in a variety of applicable areas. We also made use of another internal audit "best practice" in that we outsourced a construction audit by contracting with the firm of Clifton Gunderson. This was a new endeavor for us in which we obtained resources from a more experienced firm for an audit topic where we did not already possess the expertise ourselves. In addition to completing our regular audits and special request projects, the department has had quite a few other significant accomplishments this year.

Implementation of Auto Audit

The department made a major change to its audit process this year by implementing "Auto Audit," a software package for documenting, managing and archiving the audits. This was a major undertaking and required an evaluation of the entire audit process in addition to the installation of the package on all the department's computers. Decisions were made on issues such as what documents to standardize, what documents would need to be scanned (versus being kept in hard copy), and what access would be allowed to each type of document. Additionally, the entire staff had to be trained in using the software.

Even though there was a large learning curve, we are pleased to report that the process is now running fairly smoothly. There are still situations encountered which require new decisions to be made and there are still skills to be obtained so that we all use the package efficiently, but we do believe this package streamlined our audit process and makes documents readily accessible to those who need them.

University of Virginia
Internal Audit

Department Accomplishments for 2005-06

Sarbanes-Oxley Assessment

As one of the goals of the Audit and Compliance Committee, the Audit Department undertook an extensive evaluation of its practices in comparison to recommended practices of Sarbanes-Oxley, as well as other similar best practices proposed by NACUBO and a Sarbanes-Oxley type document developed by the state, "ARMICS." Even though Sarbanes-Oxley does not yet apply to institutions of higher education, it does define basic good business practices that a university should ensure it has in place.

It was determined that the University is in compliance with the majority of the relevant requirements in Sarbanes-Oxley. As confirmed by the Auditor of Public Accounts, the University will not want to implement Sarbanes-Oxley in its entirety until required to do so because of the cost in comparison to the benefits received.

Many of the practices recommended by Sarbanes-Oxley had already been in existence at UVA for many years and continued to be recognized as valuable by management even in times of reduced funding. This Sarbanes-Oxley analysis was presented to the Audit and Compliance Committee at their May 2006 meeting.

Information Technology Resources

In August 2005, we filled the position of an IT staff auditor. This completed our IT team. With full resources, the IT team accomplished its entire schedule and made valuable recommendations in several areas including surplus property and evaluating IT operations at the College at Wise. This function continues to make a name for itself at the University and is becoming integrated into many task forces and committees.

University of Virginia
Internal Audit

Department Accomplishments for 2005-06

Pornography Investigations

Pornography continued to be a subject of interest by University employees and therefore created several special projects for our IT team. We have been successful in providing management with the appropriate information they needed to take disciplinary action when necessary. Three terminations have occurred.

The IT team will be working with the Police Department to possibly develop a forensic unit that can be relied upon to provide testimony in court. This will require specialized training for some of the IT staff.

Continuing Education and Professional Development

In May 2006, the Audit Department hosted the College and University Auditors of Virginia conference in downtown Charlottesville. Over the course of two and one half days, 20 hours of continuing professional education was provided, from speakers such as Larry Sabato, political commentator; Bill Cole, Deputy Auditor of Public Accounts; Tom Daley, Assistant Director of SCHEV; as well as many other UVA personnel. The conference received high ratings on its educational content.

The Audit Department also hosted a two-day "Quick Response Auditing" class in March 2006, which was held at the Darden School. This class was made available to internal auditors throughout the Commonwealth and increased the skill set of our own audit staff. We have already begun to scope new projects as to whether a "quick response" can be done or determine if more extensive work is necessary.

Our senior IT auditor obtained his "Certified Information Systems Auditor" designation. He also has started pursuing an advanced degree in information technology through James Madison University. One of our Health System team senior auditors, who is already a CPA, found out in July 2005, that she had passed the examination to become a "Certified Internal Auditor." Two other audit staff persons became a "Certified Internal Controls Auditor."

University of Virginia
Internal Audit

Department Accomplishments for 2005-06

We have other audit staff who are pursuing certifications such as "Certified Public Accountants" and as "Certified Internal Auditors." Our Assistant Director for IT Audits completed an inaugural Leadership course developed by the Human Resources Department.

Professional Expertise Sharing

Our departmental staff continues to share their audit expertise with outside groups throughout the year. As reported in previous years, our Assistant Director for University Audits teaches nationally for the Institute of Internal Auditors (IIA). This is a "win-win" situation for the department because her teaching enables the department to earn credits for other IIA classes for which we would otherwise have to pay for our employees. This year she was designated as a "Distinguished Faculty Member" for the Institute of Internal Auditors, based on the high quality of her teaching. She has taught an "Auditor in Charge" class in Chicago and a "Tools and Techniques" class in San Francisco this past fiscal year. She has also spoken at a James Madison University graduate class on "What Makes A Good Fraud Auditor?"

Our Assistant Director for Information Technology Audits teaches the Certified Information Systems Auditor review course in Richmond on the Saturdays prior to that exam. He also has been a leader in sharing IT audit information through the state's VASCAN program. Other higher education audit departments, with no or diminished IT audit resources, can access information, such as audit programs and check lists, through VASCAN to assist them in completing audits of unfamiliar areas. This information sharing benefits the entire Commonwealth.

As a result of her expertise in internal controls and finance, one of our Senior Health System auditors has been approved to serve a second term on the UVA Credit Union Supervisory Committee.

University of Virginia
Internal Audit

Department Accomplishments for 2005-06

We continue to be asked to serve on search committees, such as for the hiring of two detectives for the Police Department and other miscellaneous committees, such as one for the development of a single "Electronic Access Agreement" to be used by the entire institution, including the Health Services Foundation. The Director was asked to chair a sub-committee for the NCAA recertification process.

Team-Building Activities

In September, most of the audit staff participated in the annual "Day of Caring" which resulted in many improvements at the Red Hill Elementary School. We painted several areas in brighter colors, added a painted tree to the cafeteria wall, and put paw prints on the sidewalk for the children to use in counting to 100. The students were very appreciative of our efforts to brighten their environment and sent us a large card with all of their signatures.

In January, we had a one-day Audit department retreat. The retreat was held in Staunton and helped to get the staff to know one another better outside of the regular work environment. We worked with the Leadership Development Center to coordinate this experience for our staff.

Of significant note is that there was no turnover in the Audit Department this fiscal year. Obviously, this won't happen every year but it does appear that our staff is basically happy with their jobs.

Other Miscellaneous Note

We replaced all of the carpet in the Audit Department which disrupted our operation for several weeks. Many hours were lost at a critical time during the year (calendar year-end when we needed to have 33% of our projects complete) because of the need to pack up offices and then move back in. Additionally, the vendor damaged much of our furniture and partitions, which was ultimately resolved, but which did create additional disruption in accommodating the repairs. It should be noted that we were still able to complete our audit schedule. We are very happy with our new carpet even though it did disrupt our rhythm.

Estimated Opportunities for Cost Savings & Recoveries
Recommended During the Period of July 2005 - June 2006

Quantifiable Cost Recommendations

McIntire School of Commerce - Revenue Deposits	\$1,000,000
Outpatient Charge Capture - Lost Revenues	26,800
Radiology Clinical Services - Lost Revenues	24,000
Bookstore - Refunds	4,097
2003 W-2 Audit - Operational Efficiencies	3,053
University Development - Operational Efficiencies	1,700
Cardiology- Expenditure Reimbursements	1,141
Adult Psychiatric Medicine Clinic - Cash Receipts	1,028
Systems & Information Engineering - Reimbursement of Unnecessary Fees	114
Psychiatric Medicine - Expenditure Reduction	481
Total	\$1,062,414

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2006

COMMITTEE: Audit and Compliance

AGENDA ITEM: C. Compliance Training

ACTION REQUIRED: None

BACKGROUND: Mr. Hudson will provide information on aspects of research compliance at the University. This is a follow-up to his presentation in May 2006. This does not require formal action, but is information of which the Audit & Compliance Committee should be made aware.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2006

COMMITTEE: Audit and Compliance

AGENDA ITEM: D. Compliance Pilot Effectiveness

ACTION REQUIRED: None

BACKGROUND: Mr. Traylor will present information on our participation in a Compliance Pilot Effectiveness program. This does not require formal action, but is information of which the Board should be made aware.