

October 3, 2008

MEMORANDUM

TO: The Audit and Compliance Committee:

Austin Ligon, Chair
Helen E. Dragas
Robert D. Hardie
Vincent J. Mastracco, Jr.
Don R. Pippin
Warren M. Thompson
W. Heywood Fralin, Ex Officio

and

The Remaining Members of the Board:

Daniel R. Abramson	Glynn D. Key
A. Macdonald Caputo	Lewis F. Payne
Alan A. Diamonstein	E. Darracott Vaughan, Jr., M.D.
Susan Y. Dorsey	John O. Wynne
Thomas F. Farrell, II	Adom Getachew

FROM: Alexander G. Gilliam, Jr.

SUBJECT: Minutes of the Meeting of the Audit and Compliance
Committee on October 3, 2008

The Audit and Compliance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 3:15 p.m., Friday, October 3, 2008, in the Board Room of the Rotunda; Austin Ligon, Chair, presided.

Ms. Helen E. Dragas, Robert D. Hardie, Vincent J. Mastracco, Jr., Don R. Pippin, and W. Heywood Fralin, Rector, were present.

Also present were The Hon. Alan A. Diamonstein, Thomas F. Farrell, II, Ms. Glynn D. Key, and E. Darracott Vaughan, Jr., M.D.

Present too were John T. Casteen, III, Leonard W. Sandridge, Alexander G. Gilliam, Jr., Paul J. Forch, Ms. Barbara Deily, Ms. Susan A. Carkeek, James L. Hilton, R. Edward Howell, Ms. Yoke San L. Reynolds, Ms. Colette Sheehy, Robert D. Sweeney, David J. Prior, Ms. Lori Strauss, and Ms. Jeanne Flippo Bailes.

BECAUSE OF A FAILURE IN THE RECORDING SYSTEM, A PORTION OF THESE MINUTES ARE A RECONSTRUCTION

The Chair opened the meeting and asked Ms. Deily, Chief Audit Executive, to present the Agenda.

ACTION ITEM: Approval of the Audit Charter

Ms. Deily reminded the Committee that it was decided several years ago that rather than approve the Audit Charter every year, the Board would review and approve the Charter every time there was a change in the Audit Committee Chair.

Accordingly, the Charter is being brought to the Committee and to the full Board for approval.

(The Charter is appended to these Minutes as an Attachment.)

On motion, the Committee adopted the following resolution and recommended it to the full Board for approval:

APPROVAL OF THE AUDIT CHARTER

RESOLVED, the Audit Charter is approved as recommended by the Audit and Compliance Committee.

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COMMENTS BY THE CHIEF AUDIT EXECUTIVE

Ms. Deily deferred to Mr. Sandridge, who introduced Ms. Lori Strauss, the Interim Corporate Compliance and Privacy Officer.

Ms. Deily then noted, for the Committee, accomplishments of the Audit Department during the Fiscal Year which ended on June 30th: all scheduled audit projects of Fiscal Year 2007-08 have been completed. All non-scheduled projects during the same period either are in process or have been completed.

Finally, Ms. Deily presented a summary of findings on the following audit reports: The Medical Center's Human Resource Management System; UVa Clinical Staff & Graduate Medical Education; University of Virginia Art Museum; Compliance Audits; FY 2008 Inventories.

No action by the Board on the summary was required.

EXECUTIVE SESSION

After adopting the following motion, the Committee went into Executive Session at 3:25 p.m.:

That the Audit and Compliance Committee of the Board of Visitors of the University of Virginia go into Closed Session to discuss the audit of University operations and to consult with University legal counsel as the audit concerns the performance and discipline of specific University managers and personnel; the safety and security of computer systems and access to library facilities, and certain proprietary information of the Medical Center relating to its imaging, management and storage of medical records and the security of its charge capture process; where disclosure of such information would adversely affect the competitive position of the Medical Center. The foregoing is authorized by Section 2.2-3711 (A) (1),(7), (19), and (22) of the Code of Virginia.

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At 3:30 p.m., the Committee resumed its meeting in Open Session and adopted the following resolution certifying that its discussions in Executive Session had been conducted in accordance with the exemptions permitted by the Virginia Freedom of Information Act:

That we vote on and record our certification that, to the best of each Board member's knowledge, only public business matters lawfully exempted from open meeting requirements and which were identified in the motion(s) authorizing the closed session, were heard, discussed or considered in closed session.

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ACTION ITEM: Approval of Summary of Audit Findings

On motion, the Committee adopted the following resolution approving the Summary of Audit Findings for the period May 1, 2008 through July 31, 2008, and recommended it to the full Board for approval:

APPROVAL OF THE SUMMARY OF AUDIT FINDINGS

RESOLVED, the Summary of Audit Findings for the period May 1, 2008 through July 31, 2008, as presented by the Chief Audit Executive, is approved as recommended by the Audit and Compliance Committee.

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On further motion, the meeting was adjourned at 3:35 p.m.

AGG:lah

These minutes have been posted to the University of Virginia's Board of Visitors website.

<http://www.virginia.edu/bov/auditminutes.html>

AUDIT CHARTER

It is the policy of the University to establish and support the Audit Department for the purpose of assisting management in the effective discharge of its responsibilities for the control of University resources.

The mission and objectives of the Audit Department are as follows:

To perform financial audits for the purpose of ensuring that:

- (a) Cash, accounts receivable, and other assets of the University are promptly and completely recorded, accounted for, authorized and adequately safeguarded against losses and misappropriation.
- (b) Liabilities of the University have been properly incurred and are properly recorded and discharged. Audits directed to financial accountability will include a review of records, source data, fiscal procedures and internal controls.

To perform operational audits for the purpose of ensuring that University operations are conducted efficiently, effectively, and in accordance with appropriate and adequately documented policies, plans, and procedures. Operational audits will encompass a review of the policies, plans, procedures, organizational structure, staffing, and output of the audited unit. These audits will also include evaluating the accomplishment of established objectives and goals for operations and programs.

To provide the Board of Visitors and senior management with an independent, fair and objective appraisal of the effectiveness of the University's financial accountability systems and operational

performance in accordance with the priorities established by the Chief Audit Executive in coordination with the Board of Visitors, the President and the Executive Vice President and Chief Operating Officer and approved by the President and the Board of Visitors.

To provide management with constructive criticism and positive recommendations designed to strengthen and improve performance results and cost effectiveness of their operations.

To inform the Board of Visitors and Senior University management of any financial irregularities, investigations, or other risks to the institution that the auditors discover during the course of their work.

The work of the Audit Department will be conducted in accordance with the Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Other professional standards, such as the Government Accounting Office "Yellow Book," shall be utilized when appropriate.

The following policies identify the responsibilities of the Audit Department and provide guidelines for its interaction with all University departments and activities.

Organizational Responsibilities

The Chief Audit Executive shall be responsible to the Board of Visitors but shall maintain a dual reporting relationship to both the Board and the President. The Chief Audit Executive will seek input on the department's activities from the Board of Visitors, the President, and the Executive Vice President and Chief Operating Officer. The Chief Audit Executive will have unrestricted access to the President and the Board of Visitors. The Chief Audit Executive is responsible for the direction of the audit function and for seeing that the results of examinations and actions taken are communicated to appropriate levels of University management and, as appropriate, the President and the Board of Visitors.

The Chief Audit Executive will draft an annual audit plan and will solicit input on this plan from the Board of Visitors, the President, the Executive Vice President and Chief Operating Officer and other senior management of the institution. The plan will be submitted to the Board of Visitors for approval.

Nothing herein shall be construed as preventing the Chief Audit Executive from consulting with the President and the Executive Vice President and Chief Operating Officer on activities of the department, its findings, or significant issues. Nor shall the President and the Executive Vice President and Chief Operating Officer be prevented from consulting with the Chief Audit Executive as may be necessary to the execution of their duties.

The Audit Department will give full consideration to scheduling special audit requests made by any department or activity. All requests should be in writing to the Chief Audit Executive and state the purpose and scope of the audit.

Independence

The Audit Department will be organizationally and functionally independent from all University operations and will have no responsibility for the departments and activities being audited while being responsive to their needs and requirements. Because the Audit Department must be independent in carrying out its responsibility to monitor and evaluate control procedures instituted by management, the extent of audit work to be performed with respect to those procedures is limited to the assessment of such procedures.

The Audit Department normally performs tests of underlying records and documentary support for transactions. Accordingly, objectivity would be lost if the Audit Department participated in accumulating data or reconstructing records.

Authorities and Limitations

The Audit Department personnel will have complete, free and unrestricted access to all University departments, activities, records, properties and personnel, and is not to be restricted in their activities. Where appropriate, special arrangements will be made for the examination of confidential information.

Systems Planning and Development

The Audit Department will participate in the planning, development, implementation, and modification of major computer-based and manual systems to ensure that:

- (a) adequate controls are incorporated in the system;
- (b) thorough system testing is performed at appropriate stages;
- (c) system documentation is complete and accurate; and
- (d) the resultant system is a complete and accurate implementation of the system specifications.

The Audit Department will conduct post-installation evaluations of major information technology systems to ensure that these systems meet their intended purpose and objectives. The department also will review computer operations supporting such systems to ensure that generally accepted standards for systems integrity and security, as well as system-specific controls, are being observed.

Security Investigations

The Audit, Risk Management and University Police Departments are to be notified if assets have been lost through defalcation or other security breaches. The Audit Department will perform sufficient tests and investigations to identify the weaknesses in procedures, which permitted the defalcation to occur. However, the investigation of the specific event with the objective of recovery and/or prosecution is the responsibility of the University Police Department, with the decision to prosecute being the responsibility of the appropriate Commonwealth's Attorney.

Coordination with External Auditing Agencies

The Chief Audit Executive will coordinate the department's audit efforts with those of the University's independent public accountants or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary and their combined efforts provide comprehensive, cost-effective audit coverage for the University. Duplication of work will be avoided as much as possible.

Reporting

Prior to the completion of a formal report, an exit conference will be conducted with the department or activity head. The conference will be a review of all findings, conclusions, and recommendations. A formal report will be issued at the conclusion of every audit, which will present a concise, clear and factual review of the conditions found, together with recommendations for improvement. A formal written response shall be issued to the Chief Audit Executive within 30 days addressing each finding, recommendation, and exception included in the audit report. This response will include the department's or activity's plan for implementing the recommendations or a presentation of significant disagreement with the findings and/or recommendations.

A follow-up review of significant audit recommendations will be made by the Audit Department to establish that agreed-to recommendations have been adopted. A memorandum will be issued on the follow-up review to the President and the Executive Vice President and Chief Operating Officer.

Distribution of Reports

Audit reports will be issued to the Vice President responsible for the department or activity involved. In addition, copies of all such reports will be distributed to the President, the Executive Vice President and Chief Operating Officer, and the senior fiscal administrator having a functional interest in the subject matter.

All audit reports will be available for review by the Board of Visitors.

A summary of significant audit findings will be prepared for each Board meeting and submitted to the Board of Visitors, the President, and the Executive Vice President and Chief Operating Officer.