

**UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
AUDIT AND COMPLIANCE
COMMITTEE
OCTOBER 3, 2008**

AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Friday, October 3, 2008
3:15 - 3:45 p.m.
Board Room, The Rotunda

Committee Members:

Austin Ligon, Chair

Helen E. Dragas

Robert D. Hardie

Vincent J. Mastracco, Jr.

Don R. Pippin

Warren M. Thompson

W. Heywood Fralin, Ex-officio

AGENDA

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: October 3, 2008

COMMITTEE: Audit and Compliance

AGENDA ITEM: I. Audit Charter Approval

BACKGROUND: Ms. Deily, Chief Audit Executive, will present the Audit Charter for approval. As a result of the Audit Department's Quality Assessment Review in 2004, it was agreed that the Board would review and approve the Audit Charter every time there was a change in the Audit Committee Chair, instead of re-approving it annually. There have been no changes to the Charter since its approval in October 2007.

ACTION REQUIRED: Approval by the Audit and Compliance Committee and by the Board of Visitors

APPROVAL OF THE AUDIT CHARTER

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

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BOARD OF VISITORS AGENDA ITEM SUMMARY

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

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BOARD OF VISITORS AGENDA ITEM SUMMARY

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.

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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.

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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.

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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.

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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.

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BOARD MEETING: October 3, 2008

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.A. Introduction of the Interim Corporate
Compliance and Privacy Officer

ACTION REQUIRED: None

BACKGROUND: Mr. Sandridge will introduce Ms. Lori
Strauss, the Interim Corporate Compliance and Privacy
Officer.

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BOARD MEETING: October 3, 2008

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.B. 2007-08 Audit 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.

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BOARD OF VISITORS AGENDA ITEM SUMMARY

Status of Fiscal Year 2007-08 Audit Projects
as of June 30, 2008

Scheduled Audit Projects

	University	Health System	IT	TOTAL
Scheduled*	10	12	7	19
Completed	10	12	7	19
% Completed	100%	100%	100%	100%
In Process	0	0	0	0
% In Process	0%	0	0	0
% Complete or In Process	100%	100%	100%	100%

*Comments: Chronic Wound Clinic deferred due to vacancies in the Audit Department.

Non-Scheduled Projects

	University	Health System	IT	TOTAL
Carryforward	10	1	2	13
New	14	27	15	56
Total	24	28	17	69
Completed	19	22	16	57
% Completed	79%	79%	94%	83%
In Process	5	6	1	12
% In Process	21%	21%	6%	17%
% Complete or In Process	100%	100%	100%	100%

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Department Accomplishments for 2007-2008

- Completed 100% of the Audit schedule when the goal was 90%.
- Assisted with the ARMICS (Agency Risk Management and Internal Control Standards) by performing a majority of the key controls testing thus enabling the institution to meet the Commonwealth Department of Accounts deadline.
- Compared best practices with another "Universitas 21" institution.
- Completed a self assessment in anticipation of a formal quality assessment to be done in the Fall of 2009.
- Assisted with Enterprise Risk Management efforts by management.
- Reorganized the Audit Department to better cover our regular projects and to create career opportunities for our Senior Auditors.
- Hosted a three day "Interviewing and Interrogation" class in March 2008, based on the "Reid" methodology.
- Had one Senior Auditor complete his MBA, had an Audit Manager start her Master's degree in information technology at the McIntire School, and had a Staff IT Auditor obtain CISCO Certified Network Administrator (CCNA) certification.
- Our University Director continues to teach classes for the Institute of Internal Auditors which earns credits for our staff to attend these and similar courses.
- Our IT Director has made several presentations to professional organizations and is a leader in sharing IT audit best practices.
- The CAE and Directors have taught at the "New Supervisor" and the "Introduction to University Business Administration" courses.
- Continued to serve on search committees and other institutional committees such as process simplification and the new student system implementation.

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- Participated in the annual "Day of Caring" by making improvements at the Camp Holiday trails facility.

Estimated Opportunities for Cost Savings and Recoveries
Recommended During the Period of July 2007 - June 2008

Quantifiable Cost Recommendations

School of Engineering - Accurate support payments	\$ 83,000
Outpatient Charge Capture - Eye Clinic - Lost Revenue	15,000
Division of Gastroenterology - Improper payments	14,700
SOM Employee Reimbursements - Improper payments	775
Total	\$113,475

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BOARD MEETING: October 3, 2008

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.C. Summary of Findings

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will present 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. The summary does not require formal action, but is information of which the Board should be made aware.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

Review of the Medical Center's HRMS

July 1, 2008

BACKGROUND

The Audit Department has completed a review of individuals with active positions in the Medical Center's Human Resources Management System (HRMS) as of April 9, 2008. As of that date, there were 6,702 individuals listed in the HRMS with at least one active position.

AUDIT OBJECTIVE

The objective of the review was to determine whether these individuals were actively working in those positions at the Medical Center and to validate that "ghost" employees had not been established in the HRMS.

RESULTS OF THE REVIEW

All but one of 321 individuals in a population of employees associated with similar bank account numbers were confirmed to be active employees; the one individual had terminated employment, however, the unit had not submitted a Personnel Action Form (PAF) to Health System Human Resources (HSHR) to update the HRMS to reflect the termination. The gross amount by which the individual was overpaid was \$429. Opportunities for improvement were identified with respect to the timeliness of terminating employees' positions, the clocking of administrative time by nursing personnel, and the accuracy of department location information within the HRMS.

CRITICAL AREA NOTED FOR IMPROVEMENT

- 1) Employees' positions were not always being terminated in the HRMS in a timely manner. Eight (11.3%) of 71 positions in a sample were found not to have been terminated in a timely manner, as they were still active at the time of the review.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

Review of the Medical Center's HRMS

July 1, 2008

NON-CRITICAL AREAS NOTED FOR IMPROVEMENT

- 1) It appeared as though not all nurses who held Non-Patient Care Nurse positions were appropriately clocking their administrative time using this position.
- 2) In a sample of 321 employees from 88 different departments/units within the Medical Center, it was noted that four (4.5%) of these department/units contained inaccurate information in the HRMS with respect to their location.

MANAGEMENT'S RESPONSE

Management concurs and has agreed to correct the identified condition.

FINANCIAL IMPACT

Improvements in the timely submission of paperwork associated with employee terminations to Health System Human Resources will decrease the likelihood of individuals being overpaid.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

UVA Clinical Staff and GME Database Review

July 1, 2008

BACKGROUND

In May 2008, the Audit Department conducted a review of the UVA Clinical Staff and Graduate Medical Education (GME) department's physician database. This database houses the credential information of University physicians including Drug Enforcement Administration (DEA)-assigned numbers. All physicians who administer, prescribe, or dispense controlled substances are required to register with the DEA. The DEA assigns the physician a unique number consisting of 2 letters and 7 digits (the last being the algorithm check digit). As part of our review, we tested all active clinical staff members' DEA numbers against the validating algorithm to determine if the numbers were valid.

In addition to this analysis, all physicians in the clinical staff database were compared to the Office of Inspector General's (OIG's) List of Excluded Individuals/Entities (LEIE). The OIG's LEIE identifies physicians who have convictions of fraud, patient abuse, licensing board actions, or loan defaults.

AUDIT OBJECTIVES

The objectives of this review were to confirm the validity of DEA numbers assigned to Medical Center physicians and to confirm that no currently employed physicians are on the OIG's LEIE.

RESULTS OF THE REVIEW

The 755 DEA numbers obtained from Clinical Staff & GME were tested against the validating algorithm, of which four (.53%) did not meet the validation criteria. After further review by Clinical Staff & GME personnel, these four numbers were found to have been inaccurately entered into the database. The original physician-provided numbers were validated and the Clinical Staff database was subsequently updated.

This same list of physicians was compared to the OIG's LEIE list. No current Medical Center physicians were identified on the OIG's LEIE.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

UVA Clinical Staff and GME Database Review

July 1, 2008

CRITICAL AREAS NOTED FOR IMPROVEMENT

No areas for improvement were noted during this review.

FINANCIAL IMPACT

In an effort to avoid fines and penalties associated with employing physicians on an exclusion list or who have an invalid DEA number, the Clinical Staff and GME department should continue their current credentialing process.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

The University of Virginia Art Museum

July 1, 2008

BACKGROUND

Per their mission statement, the University of Virginia Art Museum "...is dedicated to creating an environment in which the largest possible share of its diverse constituencies, including members of the University community and the general public, can study and learn from the direct experience of works of art. The Museum promotes visual literacy as part of a broader, comprehensive education for all and seeks to enhance its visitors' perceptions and understanding of world cultures throughout history and of art as an enduring human endeavor. To this end, the Museum shall acquire, preserve, study, exhibit, and interpret works of art of the highest quality in a variety of media that represents the world's culture from earliest times to the present." The Museum maintains a collection of over 10,000 objects in support of their mission. A series of temporary exhibitions complements the permanent collection. The construction of a new Art Museum will be included in the current Arts Gateway to the University project. The Museum had expenditures of approximately \$983,000 for fiscal year 2007, of which about \$717,000 (73%) was for personal services.

AUDIT OBJECTIVES

At the request of the management of the University of Virginia Art Museum, the Audit Department has completed a limited scope audit of the Museum for the fiscal year to date period ending February 29, 2008. Some of the testing involved transactions processed by the Alumni Association. The objectives of the audit were to determine whether the Museum was complying with University policies and procedures related to procurement and to determine whether the reporting process between the Museum and the Alumni Association was accurate.

OPINION ON AUDIT OBJECTIVES

Based on the testing performed, the University of Virginia Art Museum substantially complied with procurement policies and procedures. There were a few minor procurement issues noted during the audit which were reported to the Museum's Chief Operating Officer. No issues were noted with the reporting process. The management of the Museum is in the

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

The University of Virginia Art Museum

July 1, 2008

process of decreasing their reliance on the Alumni Association for procurement activities. This includes migrating procurement activity from the Alumni Association to the University and acquiring additional training from Procurement Services. The Audit Department supports these efforts.

FINANCIAL IMPACT

Implementation of the suggested actions will enhance internal controls and increase efficiency over operations, and improve compliance with University policies.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

FY 2008 Compliance Audits

August 28, 2008

BACKGROUND

The Audit Department completed 17 compliance audits of various departments across the institution, between July 1, 2006 and February 14, 2008.

AUDIT OBJECTIVES

The objective of a compliance audit is to ensure that departments are complying with policies and procedures in the following areas: petty cash, project reconciliations, timekeeping, University purchasing card (P-card), purchasing, cash receipts, and various other general security areas.

OPINION ON AUDIT OBJECTIVES

Based on the audits completed, departments were generally in compliance with University policies and procedures, with the exception of the areas noted below.

CRITICAL AREAS NOTED FOR IMPROVEMENT

- Four of 17 departments (23.53%) did not conduct a supervisory review of monthly project reconciliations. Additionally, one department did not conduct reconciliations at all, and six departments did not conduct them in a timely manner.
- Eight of 17 departments (47.06%) did not conduct a supervisory review of purchasing card transactions, and six of 17 departments (43.75%) did not complete monthly cardholder reviews of purchases.
- Three of 17 departments (17.60%) did not review and verify timesheet detail after entry into the Integrated System. Additionally, one department did not conduct a supervisory review of timesheet detail prior to entry into the Integrated System.

NON-CRITICAL AREAS NOTED FOR IMPROVEMENT

- Six of 17 departments (35.29%) did not comply with the Small, Women-Owned and Minority-Owned Vendor quote requirements associated with P-card purchases.
- Five of 17 departments (29.41%) classified procurement transactions with an incorrect expenditure type.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

FY 2008 Compliance Audits

August 28, 2008

FINANCIAL IMPACT

When reconciliations are not conducted in a timely manner, this increases the possibility that errors and irregularities can occur and not be detected. In addition, inaccurate tracking of purchases can impact reporting to the Commonwealth, which may result in the improper imposition of fees.

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

FY 2008 Inventories

August 26, 2008

BACKGROUND

As part of the University's annual financial reporting process, all departments and divisions at the University that hold significant amounts of inventory must provide the Office of the Comptroller with a value for that inventory as of June 30th. On a departmental level, this responsibility typically includes organizing and scheduling the inventory, performing the physical count, and performing the accounting necessary to arrive at a final inventory valuation. As a control check on this process, the Audit Department (Audit) performs observations and test count work which is subsequently reviewed by the Auditor of Public Accounts (APA) to assist in their evaluation of the reasonableness of the inventory balance reported in the University's annual report. Typically, Audit's test work is limited to those departments whose inventories are greater than or equal to the materiality threshold established by the APA for the year (e.g. two million dollars for FY 2008). This year, however, an inventory balance below that level was included for testing and review (Curry School) as it was the first time the Curry School had performed a physical count.

AUDIT OBJECTIVES AND PROCEDURES

The objectives of our test work were to ascertain the physical existence and reasonableness of the material inventory balances reported by management and to provide reasonable assurance as to the system of internal controls over the physical inventory process. Major procedures performed by Audit included: observing the physical inventory counts, performing test counts, and performing various analyses between the current year and the prior year figures.

OPINION ON AUDIT OBJECTIVES

Based on the testing performed, no issues came to our attention that would make us conclude that the final inventory valuations provided to us by management were unreasonable. In addition, the explanations provided by

AUDIT DEPARTMENT
EXECUTIVE SUMMARY

FY 2008 Inventories

August 26, 2008

management for significant inventory variances from the prioryear were deemed to be reasonable. The inventory values for the University as of June 30, 2008 were approximately:

1.*	Surgical Supply	\$7,500,000
2.*	University Bookstore/ Cavalier Computers	\$6,400,000
3.*	Pharmacy	\$4,300,000
4.	Hospital Storeroom	\$1,400,000
5.	Heat Plant	\$1,000,000
6.	Outpatient Surgery	\$ 700,000
7.	University of Virginia Press	\$ 600,000
8.*	Curry School	\$ 350,000
9.	UVA-Wise Bookstore	\$ 300,000
10.	Printing and Copying Services	\$ 300,000

* *Inventory observed by Audit*

FINANCIAL IMPACT

Inventory values stated above are preliminary, and subject to review and revision by the APA prior to inclusion in the University's June 30, 2008 financial statements.

