

**UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS  
MEETING OF THE  
AUDIT AND COMPLIANCE  
COMMITTEE**

**SEPTEMBER 11, 2009**

AUDIT AND COMPLIANCE COMMITTEE  
(Open Session)

Friday, September 11, 2009  
8:30 - 9:00 a.m.  
Board Room, The Rotunda

Committee Members:

W. Heywood Fralin, Chair

Helen E. Dragas

Austin Ligon

Vincent J. Mastracco, Jr.

Don R. Pippin

Warren M. Thompson

John O. Wynne, Ex-officio

AGENDA

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BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2009

COMMITTEE: Audit and Compliance

AGENDA ITEM: I. Audit Charter

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. There are only minor revisions to recognize changed reporting practices as well as an update regarding the Internal Audit standards.

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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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 also will 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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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 International 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

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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.

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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, or the Audit Director issuing the report, 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, the Executive Vice President and Chief Operating Officer, and the Executive Vice President and Provost as appropriate.

Distribution of Reports

Audit reports will be issued to the Executive Vice President or Vice President, most directly 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, and the Executive Vice President and Provost as appropriate.

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BOARD MEETING: September 11, 2009

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.A. 2008-09 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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Status of Fiscal Year 2008-09 Audit Projects  
as of June 30, 2009

Scheduled Audit Projects

	University	Health System	IT	TOTAL
Scheduled*	12	11	6	29
Completed	11	11	6	28
% Completed	92%	100%	100%	97%
In Process	0	0	0	0
% In Process	0%	0%	0%	0%
% Complete or In Process	92%	100%	100%	97%

\*Comments: An extra project had been inadvertently added to the University team audit schedule because of an oversight in accounting for the supervisory hours required for the Compliance audits. 100% of the projects that reasonably could be expected to be completed were, but in the interest of full disclosure, not all projects that were on the schedule approved in June 2008 were performed.

Non-Scheduled Projects

	University	Health System	IT	TOTAL
Carryforward	6	6	1	13
New	17	18	15	50
Total	23	24	16	63
Completed	12	20	16	48
% Completed	52%	83%	100%	76%
In Process	11	4	0	15
% In Process	48%	17%	0%	24%
% Complete or In Process	100%	100%	100%	100%

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Department Accomplishments for 2008-2009

- Completed 97% 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.
- Instituted telecommuting policies in support of the Governor's directives.
- Assisted with Enterprise Risk Management efforts by management.
- Worked with the Police to successfully convict or charge several persons this year.
- Hosted a two and a half day conference for the "College and University Auditors of Virginia" attended by 65 higher education internal auditors.
- Hosted audio conferences for our own staff as well as other relevant individuals at the institution.
- Had an Audit Manager complete her M.S. degree from the McIntire School of Commerce with an emphasis in information technology.
- Had a Senior Auditor become a Certified Fraud Examiner (CFE) and another one become a Certified Information Systems Auditor (CISA).
- The Chief Audit Executive (CAE) was a co-presenter with the UVA Associate Provost for Institutional Effectiveness at the 2008 Annual Meeting of the SACS Committee on Colleges. Their topic was "Substantive Change Compliance".

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Department Accomplishments for 2008-2009, con't

- 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 Director for Information Technology made presentations at the national "Academic Medical Centers" annual conference in North Carolina and at VA SCAN's annual conference.
- Our IT Audit Manager presented with one of our Police detectives at VA SCAN.
- The CAE and Directors have taught at the "New Supervisor" and the "Introduction to University Business Administration" courses.
- Our staff continued to serve on various search committees and other institutional committees such as process simplification and the new student system implementation.
- The department participated in the annual "Day of Caring" by making improvements at the Gallstar Equine Center which provides therapeutic experiences with animals for children who have suffered abuse.
- We upgraded Auto Audit, our automated work paper system, to increase speed of document retrieval and improve security of saved documents.

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Estimated Opportunities for Cost Savings and Recoveries  
Recommended During the Period of July 2008 - June 2009

Quantifiable Cost Recommendations

Pulmonary Improper Payments	\$42,093
University HR System - IRS Overpayments	\$16,000
Institute for Advanced Technology in the Humanities (IATH) - Improper Payments	\$11,231
Public Health Services Timekeeping Improvements	\$ 2,801
Curry School Expenditures	\$ 1,108
Digestive Health Center Clinic - Cash Receipts	\$ 805
Medical Center HR System - Employee Overpayment	<u>\$ 429</u>
	\$74,467

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BOARD MEETING: September 11, 2009

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.B. Summary of Audit Findings

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will present a summary of audit findings on the following audit reports: Various Compliance Audits and FY 2009 Inventories.

AUDIT DEPARTMENT  
EXECUTIVE SUMMARY

FY 2009 Inventories

August 14, 2009

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 30<sup>th</sup>. 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 2009).

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 management for significant inventory variances from the prior year were deemed to be reasonable. The inventory values for the University as of June 30, 2009 were:

1. \*Surgical Supply - \$7,214,767
2. \*University Bookstore/ Cavalier Computers - \$5,166,124
3. \*Pharmacy - \$4,526,434
4. Hospital Storeroom - \$1,019,001
5. Heat Plant - \$770,532
6. Outpatient Surgery - \$766,606

AUDIT DEPARTMENT  
EXECUTIVE SUMMARY

FY 2009 Inventories

August 14, 2009

7. University of Virginia Press - \$560,561
8. UVA-Wise Bookstore - \$247,526
9. Printing and Copying Services - \$231,162
10. Curry School - \$212,987

\* *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, 2009 financial statements.

AUDIT DEPARTMENT  
EXECUTIVE SUMMARY

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FY 2009 Compliance Audits

August 14, 2009

BACKGROUND

The Audit Department completed 12 compliance audits of various departments across the institution, between March 1, 2008 and May 31, 2009.

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

- Two of 12 departments (16.7%) did not conduct a supervisory review of monthly project reconciliations. Additionally, three departments did not conduct them in a timely manner.
  
- Four of 12 departments (33.3%) did not conduct a supervisory review of purchasing card transactions, and five of 12 departments (41.6%) did not complete monthly cardholder reviews of purchases.
  
- Two of 12 departments (16.7%) did not conduct a supervisory review of timesheet detail prior to entry into the Integrated System. Additionally, one department did not review and verify timesheet detail after entry into the Integrated System.

AUDIT DEPARTMENT  
EXECUTIVE SUMMARY

FY 2009 Compliance Audits

August 14, 2009

NON-CRITICAL AREAS NOTED FOR IMPROVEMENT

Four of 12 departments (33.3%) did not comply with the Small, Women-Owned and Minority-Owned Vendor quote requirements associated with P-card purchases.

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. It may also impact the University's ability to comply with ARMICS. In addition, inaccurate tracking of purchases can impact reporting to the Commonwealth, which may result in the improper imposition of fees.

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EXECUTIVE SUMMARY

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NCAA Compliance - Financial Aid

July 15, 2009

BACKGROUND

The National Collegiate Athletic Association (NCAA) is the major national governing association for intercollegiate athletics. The University of Virginia is a Division I member of the NCAA, whose membership now exceeds 1,200 institutions. As a member, the University is required to conduct an audit to ensure compliance with applicable NCAA regulations. These regulations are outlined in the NCAA Division I Manual.

AUDIT OBJECTIVES

The objectives of the audit were to determine whether the University: (1) was in compliance with NCAA bylaws governing student-athlete financial aid, and (2) maintained proper documentation to support this compliance. Departments affected by the audit included the Athletics Department and the Office of Student Financial Services.

OPINION ON AUDIT OBJECTIVES

Our opinion, based on the audit procedures performed, is that the University's system of internal controls and processes for governing and monitoring student-athlete financial aid appear to be working as intended. Specifically, no issues of non-compliance with NCAA regulations were noted during the audit.

MANAGEMENT'S RESPONSE

Management concurs and has agreed to correct the identified condition.

FINANCIAL IMPACT

Non-compliance with NCAA rules and regulations could result in sanctions by the NCAA.

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BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 11, 2009

COMMITTEE: Audit and Compliance

AGENDA ITEM: IV. Approval of the Summary of Audit Findings

BACKGROUND: The resolution reflects discussion by the Committee, in Executive Session, of a summary of recent audits conducted by the Audit Department.

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

APPROVAL OF THE SUMMARY OF AUDIT FINDINGS

RESOLVED, the Summary of Audit Findings for the period May 1, 2009, through June 30, 2009, as presented by the Chief Audit Executive, is approved as recommended by the Audit and Compliance Committee.