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

NOVEMBER 11, 2011
Committee Members:
W. Heywood Fralin, Chair
Hunter E. Craig
The Hon. Alan A. Diamonstein
Glynn D. Key
Randal J. Kirk
George Keith Martin
Vincent J. Mastracco Jr.
Helen E. Dragas, Ex-officio

AGENDA

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UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 11, 2011

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.

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

APPROVAL OF THE AUDIT CHARTER

RESOLVED, the attached Audit Charter, updated on November 11, 2011, is approved as recommended by the Audit and Compliance Committee.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 11, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.A. Enterprise Risk Management

ACTION REQUIRED: None

BACKGROUND: Mr. Michael Strine, Executive Vice President and Chief Operating Officer, will give a report on Enterprise Risk Management (ERM). As reported at the June 2008 meeting, the University engaged KPMG to conduct an initial assessment of the University’s current framework for assessing and managing the University’s strategic and high-level operational risks.

There are two phases to the ERM project. At the February 2009 board meeting, the Vice President and Chief Financial Officer summarized the work completed in Phase I, during which the University explored the feasibility and desirability of developing a framework that could link the different risk management programs that are already in place, including the use of common vocabulary and metrics.

In Phase II, KPMG conducted interviews with selected University officials and members of the Board of Visitors to develop the University’s portfolio of top risks. The product of Phase II is a set of risk registers. The Vice President and Chief Financial Officer sorted the identified risks in the registers into four categories: compliance risks, safety and security risks, operational risks, and strategic risks.

At the November 15, 2010 meeting of the Finance Committee, President Sullivan reported that the consolidated risk register had been reviewed by the vice presidents, who identified the most significant risks in their areas. The Health System was excluded from the original work on the risk register, but the President said it will be included in the future.

DISCUSSION: Since November, the President has tasked the vice presidents with developing plans to handle the high-priority risks in their areas.
At the same time, the President and vice presidents, with General Counsel and the Athletics Director, are now in the process of examining prioritized institutional risks across all divisions, and determining appropriate action steps and oversight. A progress report will be provided to the Audit Committee at an upcoming meeting. 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: November 11, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.B. Medical Center Billings and Controls Coverage

ACTION REQUIRED: None

BACKGROUND: Mr. Michael Strine, Executive Vice President and Chief Operating Officer, and Ms. Barbara Deily, Chief Audit Executive, will give an overview of the risks inherent in medical center billings and the current approach and internal controls to mitigate those risks. Questions on various aspects of this topic were raised at both the Audit and Compliance Committee meeting and the Medical Center Operating Board meeting in September 2011.

There are two major inherent risks in Medical Center billings. The first is ensuring that our operations are aligned with the UVA Physicians Group (UPG) so as to ensure consistency in coding, where appropriate, when we are reviewed by outside agencies. The second is to ensure that our revenue streams are not unnecessarily impeded by inaccuracies in submitted bills. The specific areas of most concern would include billings for: 1) inpatient and outpatient observation services; 2) charge corrections; 3) procedures; and 4) clinical research.

While there are many ways that these risks are mitigated, not all are immediately evident or well-known. One way to monitor and control the consistency of our operations is through our governance structure. Other risk mitigation strategies include setting aside reserves for possible disallowances and hiring consultants to ensure that our billing practices are optimized. The use of common systems and data is one very substantial way to ensure consistency in billings. With the implementation of EPIC, the hospital and physicians group will use the same documentation to generate bills. There is already consistency in that both parties use the same system for basic patient data in admissions, scheduling, and registration to document patient financial status.
DISCUSSION: There are challenges in coordinating billings between UVA and the UPG. However, there are also many recent improvements as well as future opportunities. As mentioned previously, simply using the same documentation and databases to identify the proper coding for charges will assist each entity in ensuring that billings are appropriate. There are possibilities for better sharing of information and even consideration of a joint audit between the entities. Understanding the Board’s concerns, UVA management will work towards better communication with the UPG so as to maximize the alignment between the agencies. A more detailed presentation will be provided to the Board at the February 2012 Audit and Compliance Committee meeting.
BOARD MEETING: November 11, 2011

COMMITTEE: Audit and Compliance

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

BACKGROUND: This 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 FOR THE PERIOD JULY 1, 2011 THROUGH AUGUST 31, 2011

RESOLVED, the Summary of Audit Findings for the period July 1, 2011 through August 31, 2011, as presented by the Chief Audit Executive, is approved as recommended by the Audit and Compliance Committee.
ATTACHMENT
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 to add value to the organization and improve institutional operations through a variety of methods including:

Evaluating and advising on improving the effectiveness of institutional processes and programs for governance, control and institutional risk management.

Performing 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.

Performing 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.
Providing 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 Presidents and Chief Operating Officer and approved by the President and the Board of Visitors.

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

Informing 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 Presidents 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 Presidents 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 Presidents and Chief Operating Officer on activities of the department, its findings, or significant issues. Nor shall the President and the Executive Vice Presidents 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 routinely 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, 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.

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.