UNIVERSITY OF VIRGINIA
BOARD OF VISITORS
MEETING OF THE
AUDIT AND COMPLIANCE
COMMITTEE
SEPTEMBER 16, 2011
AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Friday, September 16, 2011
8:30 – 8:50 a.m.
Board Room, The Rotunda

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

I. INFORMATION ITEMS (Ms. Deily)
   A. Auditor of Public Accounts Presentation
      (Ms. Deily will introduce Mr. Joe Stepp, Mr. Stepp to report) 1
   B. Compliance Office Accomplishments, 2010-2011
      (Ms. Deily will introduce Ms. Lori Strauss, Ms. Strauss to report) 2
   C. Audit Department Accomplishments, 2010-2011
      (Ms. Deily) 5
   D. Summary of Audit Findings (Ms. Deily) 10

II. EXECUTIVE SESSION – LIST OF ITEMS

III. ACTION ITEM:
   • Approval of Summary of Audit & Compliance Findings 17
BOARD MEETING: September 16, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.A. Auditor of Public Accounts

ACTION REQUIRED: None

BACKGROUND: Mr. Joe Stepp will discuss his agency’s upcoming work in reviewing the financial statements and internal controls of the University and Hospital. This does not require formal action, but is information of which the Board should be made aware. Attachment I contains information about the audit process.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 16, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.B. 2010-11 Compliance Office Accomplishments

ACTION REQUIRED: None

BACKGROUND: Ms. Strauss will inform the Board of the accomplishments of the Compliance Office for the last fiscal year. This does not require formal action, but is information of which the Board should be made aware.
Compliance Office Accomplishments for 2010-11

- Completed 85 percent of the scheduled projects this fiscal year. The end stage renal disease dialysis project was deferred to next fiscal year due to additional hours required for privacy investigations and other special projects.
- Updated the “Protected Health Information and Recycling Disposal Guide” with input from Environmental Services, Health System Computing Services, and General Counsel.
- Previewed and updated the Privacy Office website with particular attention to the guidelines on safeguarding protected health information.
- Offered guidance on compliance and privacy issues at several committees (e.g., Joint Commission Steering Committee, Health Information Management Committee, and Grievance Committee).
- Served on several ad hoc committees to offer guidance on compliance and privacy issues.
- Participated as scribes for The Joint Commission mock survey.
- Provided guidance for bedside reporting in the neonatal intensive care unit.
- Reviewed and provided feedback on several Medical Center policies and procedures.
- Conducted several privacy presentations for seven departments at management’s request.
- Provided a Health Insurance Portability and Accountability Act (HIPAA) presentation for a class of medical assistant students at the National Business College.
- The Chief Corporate Compliance and Privacy Officer presented patient confidentiality material to the Medical Center Managers’ Group on three occasions and prepared documents for the LINK, the Medical Center employee newsletter.
Compliance Office Accomplishments for 2010-11

- The Chief Corporate Compliance and Privacy Officer, in conjunction with Media Services, provided two interviews to the editor of the *Report on Patient Privacy* for HIPAA-related events.
- The Administrative Specialist position was filled in January, 2011 with an employee from the Health System.
- The Compliance & Privacy Analyst obtained her credential as a certified coding specialist through the American Health Information Management Association.
- All compliance staff participated in InterQual training arranged by Medical Center Utilization Management, several EPIC training classes, and compliance and privacy webinars.
- The Chief Corporate Compliance & Privacy Officer completed the Leadership Charlottesville Program with the Chamber of Commerce.
BOARD MEETING: September 16, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.C. 2010-11 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.
Status of Fiscal Year 2010-11 Audit Projects
as of June 30, 2011

Scheduled Audit Projects

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<thead>
<tr>
<th></th>
<th>University</th>
<th>Health System</th>
<th>IT</th>
<th>TOTAL</th>
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<tr>
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<tr>
<td>Completed</td>
<td>11</td>
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<td>100%</td>
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<td>0</td>
</tr>
<tr>
<td>% In Process</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% Complete or In Process</td>
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<td>100%</td>
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<td>100%</td>
</tr>
</tbody>
</table>

*Comments: University: Originally had 10 projects scheduled, we deferred one and added two.
Health System: One audit was deferred due to the January 2011 Audit Department reorganization and a vacancy on the Health System team.

Non-Scheduled Projects

<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Health System</th>
<th>IT</th>
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<tr>
<td>Carryforward</td>
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<td>6</td>
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<tr>
<td>New</td>
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<td>3</td>
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<td>% Complete or In Process</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>


Audit Department Accomplishments for 2010-11

- Completed 100 percent of the audit schedule, after adjustments for vacancies, when the goal was 90 percent.
- Completed 26 special projects and are still responding to three requests.
- Assisted with the annual ARMICS project (Agency Risk Management and Internal Control Standards) by performing a majority of the key controls testing thus enabling the institution to maintain compliance with the Commonwealth’s directives.
- Monitored and influenced proposed legislation for the creation of a state inspector general’s office.
- Assisted state and federal investigative agencies in obtaining information for their work.
- Reorganized the department to meet the needs of the institution and the department.
- Upgraded AutoAudit and trained staff on the new features.
- Provided guidance to the new Chief Audit Executive at the State Corporation Commission.
- Assisted on the search for the Director of Process Simplification.
- The Chief Audit Executive made a presentation on “How Low Risk Areas Become High Risk Projects” at the annual College and University Auditors of Virginia, (CUAV) conference.
- The Chief Audit Executive and the Director of Internal Control Compliance taught business administration classes for the Comptroller’s Office.
- Our Director and Associate Director for IT Audits made presentations on “Audit’s Up Front Involvement in Business Processes” and “Auditing the Procurement of Outsourced Systems” for VASCAN.
Audit Department Accomplishments for 2010-11

- Our Director for IT and Hospital Audits led a panel and presented for two security and privacy sessions at the 7th Academic Medical Center Conference.
- 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 at no cost. Courses taught this past fiscal year included "Skills for the New Auditor in Charge" and "Leadership Skills for New Auditors."
- Our Chief of Staff and Director of Internal Control Compliance taught an Auditing class this summer for the School of Continuing and Professional Studies and published an article in a major compliance publication.
- Our Hospital Audit Manager completed the "Hoos Managing the UVA Way" program offered by University Human Resources.
- Audit staff continued to serve on special committees such as the Epic (electronic medical record), the Recon@UVA (electronic reconciliation system), the Cash Deficit Task Force, Effort Reporting, and the Policy Review Committee.
- The Chief Audit Executive made a presentation on risk to a class at the McIntire School of Commerce.
- All staff members met their training requirements for the year.
- The department hosted an intern from the McIntire School of Commerce.
- The department hosted the CUAV Directors' meeting in fall 2010.
Audit Department Accomplishments for 2010-11

- The department participated in the annual "Day of Caring" by making improvements at the Gallastar Equine Center which provides therapeutic experiences with animals for children who have suffered various forms of abuse. This was our fourth year at this facility.
- The department collected two tons of food for the local food bank over the course of two years.
- Our Director of Internal Control Compliance and the Hospital Audit Manager served on the Supervisory Committee of the University of Virginia Community Credit Union.

Estimated Opportunities for Cost Savings and Recoveries Recommended During the Period of July 2010 - June 2011

Quantifiable Cost Recommendations

- Assisted law enforcement in preventing the loss of $1 million.
- Obtained a recovery of $25,000 and stopped future time and travel reimbursement abuses.
- Identified other small over-reimbursements.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 16, 2011

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.D. Summary of Audit Findings

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will present a summary of audit findings on the following audit reports: Presidential Travel & Entertainment Expenses, Institutional Assessment and Studies, various Compliance Audits and FY 2011 Inventories.
EXECUTIVE SUMMARY

President Teresa Sullivan requested an annual audit of her travel and entertainment expenses with the results to be reported to the Board of Visitors. During the 2011 fiscal year, the President was involved in 52 University-funded trips including visits to state and federal government officials, various development events, and other official activities related to higher education and healthcare delivery. The related travel expenses totaled $89,898. Of this total, $1,834 was paid with state funds.

The President’s entertainment expenses were incurred for dinners, receptions, athletic events, and other official activities related to the University. For fiscal year 2011, entertainment expenses totaled $307,610, which was $84,740 below the established budget and below the expenses in this category for the previous three fiscal years. No state funds were used to support entertainment expenses.

AUDIT OBJECTIVES

The objectives of the audit were to determine whether the President’s travel and entertainment expenses for fiscal year 2011 were reasonable and transacted in accordance with established policies and sound internal control principles.

OPINION ON AUDIT OBJECTIVES

The President’s travel and entertainment expenses for fiscal year 2011 were reasonable and the transactions were conducted in compliance with applicable policies and strong internal control principles. It was apparent that the President’s administrative staff managed travel and entertainment activities very meticulously using multiple reviews and specialized spreadsheets to control expenses and to meet budget targets.

AREAS NOTED FOR IMPROVEMENT

We have no recommendations for improvement at this time.

FINANCIAL IMPACT

Strong internal controls such as budget management, second-level reviews, and close monitoring help achieve operational efficiencies in the expenditure of travel and entertainment funds.
BACKGROUND

With a limited staff, the Institutional Studies staff provided a diverse array of University information to a wide range of clients, and the University Assessment staff provided extensive support and oversight to ensure that academic program levels are maintained and improved through the use of assessment.

As IAS's website states, "The Office of Institutional Assessment and Studies (IAS) conducts institutional research and supports assessment at the University of Virginia. The office provides the University community with data and analysis needed for decision-makers to maintain and improve institutional effectiveness. IAS staff gather, analyze, interpret, and disseminate data, employing the highest professional standards of accuracy, objectivity, and timeliness.

Institutional Studies provides management information to decision-makers in University departments and units, satisfies governmental agency reporting requirements, and responds to other external requests, including those from higher education institutions and college information guides.

University Assessment conducts, supports, and coordinates research to maintain and improve academic programs and student services. The Assessment team implements and supports useful and feasible assessment approaches in order to foster the University's unique learning and research environment."

AUDIT OBJECTIVES

The objectives of the audit were to determine whether (1) IAS' processing of historical/census files to facilitate the University's completion of the Integrated Post Secondary Education Data System (IPEDS) and State Council of Higher Education for Virginia (SCHEV) reports was effective and efficient, (2) adequate progress was being made related to student learning assessments to ensure compliance with the Southern Association of Colleges and Schools (SACS) 3.3.1.1 requirement, and (3) accurate University information was supplied to US News and World Report.
OPINION ON AUDIT OBJECTIVES

IAS’ processes for completing reports were effective and efficient, adequate progress was being made related to student learning assessment, and IAS was accurately communicating University information to US News and World Report.

AREA NOTED FOR IMPROVEMENT

The process for completing the reports and reporting to rating guides like US News and World Report was only partially documented.

MANAGEMENT’S RESPONSE

Management concurs and has agreed to correct the identified condition.

FINANCIAL IMPACT

The inability of the University to accurately complete the Federal, State and rating guide reports could result in negative publicity and potential withholding of financial aid.
BACKGROUND

The Audit Department completed seven compliance audits of various departments across the University between June 1, 2010 and June 30, 2011.

AUDIT OBJECTIVES

The objective of a compliance audit is to ensure that departments were complying with policies and procedures in the following areas: petty cash, project reconciliations, timekeeping, University purchasing cards, purchasing, cash receipts, and 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

1) Five of seven departments (71 percent) did not conduct timely monthly project reconciliations of expenditures and cash receipts.
2) Three of seven departments (43 percent) did not complete timely monthly cardholder reviews of purchasing card transactions.

AREAS NOTED FOR IMPROVEMENT

1) One of seven departments (14 percent) did not accurately complete travel reimbursements.
2) One of seven departments (14 percent) did not deposit cash items timely, did not segregate cash receipts responsibilities, and did not replenish a petty cash fund timely.
BACKGROUND

As part of the University’s annual financial reporting process, departments and divisions must provide the Office of the Comptroller with inventory values as of June 30th. On a departmental level, the inventory valuation processes include organizing and scheduling the inventory, conducting physical counts, and recording the accounting necessary to arrive at a final inventory valuation. As a control check, the Audit Department (Audit) performs observations and test count work which is subsequently reviewed by the Auditor of Public Accounts (APA) to assist the APA in their evaluation of the inventory balance reported in the University’s annual report. Typically, Audit’s test work is limited to those departments whose inventories equal or exceed the materiality threshold ($2 million for FY2011) established by the APA.

AUDIT OBJECTIVES AND PROCEDURES

The objectives of our test work were to: (1) ascertain the physical existence of inventoried items; (2) assess the reasonableness of inventory balances reported by management; and (3) 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, conducting test counts, and performing various analyses between the current year and the prior year inventory figures.

OPINION ON AUDIT OBJECTIVES

Based on the test work performed, no issues came to our attention that would make us conclude that the final inventory valuations reported by management were unreasonable. In addition, the explanations provided by management for inventory variances greater than 5 percent from the prior year were deemed to be reasonable. The inventory values for the University as of June 30, 2011 were:

1. Surgical Supply - $6,056,120 *
2. Pharmacy Services - $5,793,623 *
3. University Bookstore/ Cavalier Computers - $4,817,769 *
4. Medical Center Storeroom - $1,619,484
5. Heat Plant - $1,027,639
6. Outpatient Surgery Center - $733,672
7. University of Virginia Press - $527,631
8. UVA-Wise Bookstore - $244,531
9. Printing and Copying Services - $163,830
10. Curry School - $119,236

*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, 2011 financial statements.
BOARD MEETING: September 16, 2011

COMMITTEE: Audit and Compliance

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

BACKGROUND: The resolution reflects discussion by the Committee, in Executive Session, of a summary of recent audits conducted by the Audit Department and compliance projects by the Office of Corporate Compliance.

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

APPROVAL OF THE SUMMARY OF AUDIT AND COMPLIANCE FINDINGS

RESOLVED, the Summary of Audit Findings for the period May 1, 2011, through June 30, 2011, as presented by the Chief Audit Executive, and Compliance Projects for the period of January 1, 2011 through June 30, 2011, as presented by the Corporate Compliance Officer, is approved as recommended by the Audit and Compliance Committee.