

September 16, 2011

MEMORANDUM

TO: The Audit and Compliance Committee:

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

and

The Remaining Members of the Board:

A. Macdonald Caputo	Stephen P. Long, M.D.
Allison Cryor DiNardo	Mark J. Kington
Marvin W. Gilliam Jr.	John L. Nau III
Robert D. Hardie	Timothy B. Robertson
Jonathan B. Overdevest	
Edward D. Miller, M.D., Ex Officio	

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Audit and Compliance  
Committee on September 16, 2011

The Audit and Compliance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 8:30 a.m., on Friday, September 16, 2011, in the Board Room of the Rotunda; W. Heywood Fralin, Chair, presided.

Present were Hunter E. Craig, The Hon. Alan A. Diamonstein, Ms. Glynn D. Key, Randal J. Kirk, George Keith Martin, Vincent J. Mastracco Jr., and Ms. Helen E. Dragas, Rector.

Also present were A. Macdonald Caputo, Marvin W. Gilliam Jr., Robert D. Hardie, Mark J. Kington, Stephen P. Long, M.D., John L. Nau III, Timothy B. Robertson, Edward D. Miller, M.D., and Jonathan B. Overdevest.

Present, too, were Ms. Teresa A. Sullivan, Michael Strine, Ms. Susan G. Harris, J. Milton Adams, Ms. Susan A. Carkeek, Paul J. Forch, R. Edward Howell, Ms. Patricia M. Lampkin, Marcus L. Martin, M.D., David J. Prior, Ms. Yoke San L. Reynolds, Ms. Colette Sheehy, Thomas C. Skalak, Ms. Barbara J. Deily, Ms. Lori J. Strauss, Joseph H. Stepp, Ms. Debra D. Rinker, and Ms. Jeanne Flippo Bailes.

The Chair introduced Mr. Joseph Stepp, the Project Manager for the Auditor of Public Accounts. Mr. Stepp discussed his agency's work reviewing the financial statements and internal controls of the University and Medical Center. He said the main objective in performing the audit is to be able to issue an opinion on the University's financial statements. His office will finish the audit of the Medical Center by October, and the University by December. They do a stand-alone report on the Medical Center financial statements, and an NCAA-required audit of the intercollegiate athletics programs. The University has been very active in ensuring compliance with ARMICS, an initiative of the state. Mr Stepp briefly reviewed the required communications with the Board of Visitors; a document describing these communications is attached to these Minutes.

In response to a question from Mr. Kirk, Mr. Stepp explained the differences between generally accepted accounting procedures (GAAP) and governmental accounting--those standards from the Governmental Accounting Standards Board (GASB). Both operate on the business-type activity model. A difference is in where the University ends and the Commonwealth begins. He used pensions as an example: many faculty participate in retirement programs other than the state's. For individuals covered by VRS, the unfunded liability is not in the University's financial statements, however, the amounts the University is required to fund are reflected on the financial statements. The huge operating loss on the financial statements is because grants and gifts and other revenue are shown as non-operating revenue.

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Ms. Deily introduced Ms. Strauss, who presented the accomplishments of the Compliance Office for the 2010-2011 Fiscal Year. The office accomplished 85% of its scheduled projects.

Ms. Deily presented the Audit Department accomplishments for the last fiscal year and the public session audit report. At President Sullivan's request, the department will annually review the President's travel and entertainment expenditures. This year's review showed all expenses and policies to be in order.

Executive Session

The committee adopted the following motion and went into Executive Session at 8:40 a.m.:

That the Audit and Compliance Committee of the Board of Visitors go into Executive Session to discuss the audits and compliance reviews of University and Medical Center operations as they concern the security of University computer facilities and evaluation of performance of specific University and Medical Center managers with regard to their adherence to appropriate business practices, personnel practices and financial processes relating to revenue collections and records access, as permitted by Section 2.2-3711 (A) (1) and (19), and where, in the case of the Medical Center, disclosure at this time would adversely affect the Medical Center's competitive position as permitted by Section 2.2-3711 (A) 22) of the Code of Virginia.

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The committee resumed its meeting in Open Session at 8:45 a.m. and adopted the following resolution certifying that its discussions in Executive Session had been held 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.

Open Session

The Chair asked for a motion to approve the Summary of Audit and Compliance Findings discussed in Executive Session. The following resolution was adopted and recommended to the full Board for approval:

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.

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On further motion, the committee adjourned at 9:05 a.m.

SGH:lah

These minutes have been posted to the University of Virginia's Board of Visitors website. <http://www.virginia.edu/bov/auditminutes.html>

**Required Communications with the Board**  
**by the Auditor of Public Accounts**

**1. Responsibilities and Roles:**

- a. The auditor's responsibility under generally accepted auditing standards
- An audit is designed to obtain reasonable, rather than absolute, assurance, about whether the financial statements are free of material misstatement
  - The audit does not relieve management or the Board of their responsibilities
  - The auditor has limited responsibility for other information with audited financial statements
- b. Roles during audit process
- Audit Committee – Communicate with APA about audit scope, communicate with management and internal audit regarding progress, and receive reports and findings from management, internal audit, and external audit.
  - APA – Independent external auditors
    - Opinion on University financial statements
    - Review internal controls and compliance as a part of auditing financial statements
    - Report on internal control and compliance findings
    - Review CAFR submissions
    - NCAA Agreed Upon Procedures
  - Internal audit – Provide audit results and input on risks to external audit and liaison with Audit Committee
  - Management – Assess internal control risks, prepare financial statements, prepare CAFR submissions, and respond to findings

**2. Planned scope of the audit:**

- a. Approach to internal control – We review internal controls to identify those areas where we can replace substantive testing with transactional testing. We look for management to have written formal policies and procedures and check for the implementation of those procedures. Our work is similar to the requirements of ARMICS and Sarbanes-Oxley.
- b. Concept of materiality – We do not review all transactions or accounts in detail. We use materiality to focus our work on those financial statement line items and those transactions that are material or significant to the University.
- c. Relationship to internal audit – We meet with the Internal Audit Director as part of the planning process and review the results of internal audit work for the past year. We look for trends of findings to identify areas of increased risk. We follow-up on fraud cases. During the year, we coordinate in overlapping areas to rely on each other's work.

**3. Identification of potential fraud risks:**

- a. Approach to fraud – Most of our audit is focused on our opinion on the financial statements and materiality. Our primary interest related to fraud would be in how it may affect the financial statements and those controls that the financial statements rely upon. However, we review policies and procedures for fraud risk and may direct our test work towards addressing fraud risk.
- b. Responsibility for identifying fraud risks and fraud – SAS 99 requires us to assess fraud risk, interview management and staff about their knowledge of fraud and fraud risk, and review exceptions for indications of possible fraudulent transactions. Auditors should be looking for red flag fraud indicators. Even though government entities are not always profit oriented, the auditors remain vigilant about financial statement fraud.
- c. University's responsibility for assessing fraud risks – In reviewing internal controls for ARMICS, the University should be open to identifying and correcting any possible fraud risks