AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Friday, February 24, 2012
8:00 – 8:15 a.m.
Board Room, The Rotunda

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

AGENDA

<table>
<thead>
<tr>
<th>I. INFORMATION REPORT (Ms. Deily)</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Auditor of Public Accounts (APA) Audit and Management Letter (Ms. Deily to introduce Mr. Walter Kucharski, Auditor of Public Accounts of the Commonwealth; Mr. Kucharski to report)</td>
<td>1</td>
</tr>
<tr>
<td>B. Corporate Compliance and Privacy Office Status Report for Fiscal Year 2011 – 2012 (Ms. Strauss to report)</td>
<td>2</td>
</tr>
<tr>
<td>C. Audit Department Status Report for Fiscal Year 2011 – 2012</td>
<td>4</td>
</tr>
<tr>
<td>D. Summary of Audit Findings</td>
<td>6</td>
</tr>
</tbody>
</table>

II. EXECUTIVE SESSION – LIST OF ITEMS

III. APPROVAL OF THE SUMMARY OF AUDIT DEPARTMENT AND CORPORATE COMPLIANCE AND PRIVACY OFFICE FINDINGS (resolution) | 11    |
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 24, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.A. Auditor of Public Accounts (APA)
Audit and Management Letter

ACTION REQUIRED: None

BACKGROUND: The Auditor of Public Accounts of the Commonwealth conducts an annual audit of the University and the Medical Center and reports to the Board on his findings. Ms. Deily will introduce the Auditor, Mr. Walter Kucharski, who will report. University management will respond to the Auditor’s Audit and Management letter.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 24, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.B. Corporate Compliance and Privacy Office
Status Report for Fiscal Year 2011 – 2012

ACTION REQUIRED: None

BACKGROUND: Ms. Strauss will inform the Board of the status of compliance projects of the Corporate Compliance and Privacy Office for the current fiscal year. This report does not require formal action, but is information of which the Board should be made aware.
Corporate Compliance & Privacy Office Scheduled Projects 2011-12

<table>
<thead>
<tr>
<th>Projects</th>
<th>Scheduled</th>
<th>In Process/ (%)</th>
<th>Completed/ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outpatient Department Coding, Billing, and Documentation</td>
<td>2</td>
<td>1 (50%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Privacy Monitoring and Auditing</td>
<td>12</td>
<td>1 (8%)</td>
<td>6 (50%)</td>
</tr>
<tr>
<td>Inpatient Medicare Severity Diagnosis Related Groups</td>
<td>3</td>
<td>1 (33%)</td>
<td>1 (33%)</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>3 (18%)</td>
<td>7 (41%)</td>
</tr>
</tbody>
</table>

Of 17 scheduled projects, seven (41%) projects are complete and three (18%) scheduled projects are in progress. We are on schedule to complete the project schedule for this fiscal year.
BOARD MEETING: February 24, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.C. Audit Department Status Report for Fiscal Year 2011 – 2012

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will inform the Board of the status of audit projects of the Audit Department for the current fiscal year. This report does not require formal action, but is information of which the Board should be made aware.
# UNIVERSITY OF VIRGINIA
## AUDIT DEPARTMENT

**Status of Fiscal Year 2011-12 Audit Projects**
**as of December 31, 2011**

### Scheduled Audit Projects

<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Hospital &amp; IT</th>
<th>Internal Control Compliance</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled</td>
<td>12</td>
<td>13</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>Completed</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>% Completed</td>
<td>33%</td>
<td>39%</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>In Process</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>% In Process</td>
<td>17%</td>
<td>39%</td>
<td>50%</td>
<td>31%</td>
</tr>
<tr>
<td>% Complete or In Process</td>
<td>50%</td>
<td>78%</td>
<td>75%</td>
<td>66%</td>
</tr>
</tbody>
</table>

### Non-Scheduled Projects

<table>
<thead>
<tr>
<th></th>
<th>University</th>
<th>Hospital &amp; IT</th>
<th>Internal Control Compliance</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carry-forward</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>New</td>
<td>11</td>
<td>3</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>3</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td>Completed</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>% Completed</td>
<td>43%</td>
<td>100%</td>
<td>100%</td>
<td>56%</td>
</tr>
<tr>
<td>In Process</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>% In Process</td>
<td>57%</td>
<td>0</td>
<td>0</td>
<td>44%</td>
</tr>
<tr>
<td>% Complete or In Process</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
BOARD MEETING: February 24, 2012

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 audits: External Interfaces Review and Research Compliance.
BACKGROUND

The University of Virginia and Health System have a myriad of electronic interfaces to external entities. Some of these interfaces were designed in cooperation with the University or Health System, while others were designed solely by the external party. Security over these interfaces makes up only a part of a multilayer defense. Other controls such as network defenses (i.e. firewalls), applications, and database security were not reviewed at this time, but have been reviewed in the past or will be in the future.

AUDIT OBJECTIVES

The Audit Department has completed an audit of external interfaces for fiscal year 2011. The objective of this audit was to ensure that transmission of personally identifiable and financial data to outside entities of the University and Health System was authorized, reliable, and secure. The External Interfaces audit program was designed using the 27002 information security standard from the International Organization for Standardization (ISO) as a basis for test work.

OPINION ON AUDIT OBJECTIVES

An inventory of external interfaces was obtained from the University and Health System. From this inventory a sample of high risk interfaces were tested. With the exception of one interface tested, all interfaces were authorized, reliable, and secure. The one interface that required improvement was a feed to the Commonwealth of Virginia.

CRITICAL AREAS NOTED FOR IMPROVEMENT

The Commonwealth of Virginia required an interface to the Commonwealth’s Accounting Reporting System using an unencrypted protocol. Social Security numbers and other personally identifiable information were transmitted in clear text. The appropriate Commonwealth agency will be notified of this issue in order to ask for guidance.

MANAGEMENT’S RESPONSE

Management concurs and has agreed to attempt to correct the identified conditions with the appropriate Commonwealth agency.
IMPACT TO THE UNIVERSITY

The impact of security is always important in the University environment because of the following concerns:

- Public relations issues;
- FERPA/PCI non-compliance;
- Monetary loss as a result of server down time and man hours spent in repair/recovery.
BACKGROUND

The Research Compliance activity within the Office of the Vice President for Research is a component of the University’s overall funded research compliance program. The Research Compliance activity is responsible for these areas:

- Institutional Review Boards for Health Science and Social and Behavioral Sciences, which ensures human subject protection in research;
- Institutional Animal Care and Use Committee, which ensures animal welfare in research;
- Institutional BioSafety Committee, which ensures proper use of biological agents;
- Development of research conflict of interest policies; and
- Investigation of research misconduct allegations.

AUDIT OBJECTIVES

The objectives for this audit were to determine whether 1) the components of funded research compliance for which Research Compliance was responsible were appropriately set-up to ensure compliance with federal, state, and local regulations and rules; 2) the appropriate compliance committee reviewed and approved research that utilized human subjects, animals or biological agents; and 3) investigations of research misconduct followed federal regulations.

OPINION ON AUDIT OBJECTIVES

The Research Compliance activity was an integral component of the University’s comprehensive system to ensure compliance with funded research regulations. The components of Research Compliance appeared to have been designed to ensure compliance with federal, state, and local laws, regulations, policies, and principles related to funded research. The various Research Compliance sections appeared to be supported, well-designed, proactive, trained, active in national organizations, and staffed by experienced personnel. The appropriate compliance committee had reviewed and approved all research that utilized human subjects, animals, or biological agents for a sample of research projects selected. In addition, the investigation of research misconduct allegations followed the prescribed federal guidelines.
MANAGEMENT’S RESPONSE

No management response is necessary.

FINANCIAL IMPACT

Sanctions in any of these areas would negatively impact the research endeavor at the University.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: February 24, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: III. Approval of the Summary of Audit Department and Corporate Compliance and Privacy Office Findings

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

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

RESOLVED, the Summary of Audit Findings for the period September 30, 2011 through December 31, 2011, as presented by the Chief Audit Executive, and the Summary of Compliance Projects for the period July 1, 2011 through December 31, 2011, as presented by the Chief Corporate Compliance and Privacy Officer, are approved.
<table>
<thead>
<tr>
<th>Area</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditor’s Opinion</td>
<td>We have issued an unqualified opinion on the University’s financial statements for the year ended June 30, 2011. Our opinion is included in the University’s fiscal year 2011 Financial Statement Report.</td>
</tr>
<tr>
<td>Scope of Internal Control Work</td>
<td>We have also issued a separate report on Internal Controls and Compliance that was distributed to the Board of Visitors. We obtained a sufficient understanding of internal control to plan our audit and to determine the nature, timing, and extent of testing performed. Our audit did not identify any matters that we consider to be material weaknesses.</td>
</tr>
<tr>
<td>Compliance Testing</td>
<td>We found no instances of noncompliance that are required to be reported.</td>
</tr>
<tr>
<td>Fraud and Illegal Acts</td>
<td>We found no indications of fraudulent transactions or illegal acts</td>
</tr>
<tr>
<td>Significant Audit Adjustments</td>
<td>All audit adjustments were reviewed with management and recorded in the audited financial statements.</td>
</tr>
</tbody>
</table>
| Accounting Policies, Principles, Methods, and Estimates | • We concur with management’s application of accounting principles.  
• We reviewed the basis for accounting estimates and these estimates appear to be reasonable based on available information and consistent with prior periods.  
• There were no material changes to accounting and reporting policies and standards during the year.  
• There were no material alternative accounting treatments identified as a result of the audit.  
• There were no unusual transactions or significant accounting policies in controversial or emerging issues.  
• There were no disagreements with management about auditing, accounting, or disclosure matters. |
NCAA Agreed-Upon Procedures

We also performed an agreed-upon engagement to assist the University in complying with NCAA Bylaw 3.2.4.16.1. All adjustments that we identified were properly corrected in the Schedule. Our separate report on this Agreed-upon Procedures engagement has been distributed to the Board of Visitors. We noted one matter requiring management’s attention titled “Deposit Receipts Timely,” which is disclosed in our separate report.