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

September 14, 2012
AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Friday, September 14, 2012
3:15 - 3:45 p.m.
Small Auditorium, Harrison Institute

Committee Members:
George Keith Martin, Chair
Frank B. Atkinson               Victoria D. Harker
A. Macdonald Caputo           Randal J. Kirk
The Hon. Alan A. Diamonstein  Edward D. Miller, M.D.
Helen E. Dragas, Ex-officio

AGENDA

I. INFORMATION ITEMS (Ms. Deily)
   A. Compliance Office Accomplishments, 2011-2012   1
      (Ms. Deily will introduce Ms. Lori Strauss,
      Ms. Strauss to report)
   B. Audit Department Accomplishments, 2011-2012   4
   C. Summary of Audit Findings                     9

II. WRITTEN REPORT BY THE CHIEF AUDIT EXECUTIVE
    (Ms. Deily)
    • Enterprise Risk Management                    14

III. EXECUTIVE SESSION - LIST OF ITEMS

IV. ACTION ITEM:
    • Approval of Summary of Audit and Compliance Findings  18
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 14, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.A. Compliance Office Accomplishments, 2011-2012

ACTION REQUIRED: None

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

Lori J. Strauss is the Chief Corporate Compliance and Privacy Officer for the University of Virginia’s Health System-Medical Center. She has been with the Compliance Office since 2001, serving first as the Program Manager, then as the Interim Chief Corporate Compliance and Privacy Officer in 2008 until she was selected for the permanent position in 2009. She is a registered nurse, with a Master’s degree in health care administration, who has been involved in multiple health care settings over the past 32 years. Her prior experiences included medical-surgical and critical care nursing, managing clinical departments and a hospital education department, and serving as the manager for accreditation.
Corporate Compliance and Privacy Office Accomplishments
for 2011-12

- Completed 100% of the scheduled projects this fiscal year including inpatient, outpatient, and procedure area documentation, coding, and billing reviews; and privacy auditing and monitoring.

- Completed and participated in 15 special compliance or privacy projects including such things as following up with management on the implementation of some of the recommendations of prior projects, completing carryover projects from last fiscal year, and implementing a privacy software tool that allows for proactive auditing and monitoring of electronic medical records.

- Offered guidance on compliance and privacy issues at several committees (e.g., Payor Audit, Health Information Management, Information Security Oversight, Patient Representatives, Grievance, and Ethics).

- Served on ad hoc committees to offer guidance on compliance and privacy issues (e.g., EPIC).

- Participated as scribes and escorts during The Joint Commission survey.

- Reviewed and provided feedback on several Medical Center policies and procedures (e.g., Photography, Interactions with Law Enforcement, Employee and Vendor Background Screening, Compliance Code of Conduct, and Confidentiality of Patient Information).

- Conducted privacy presentations for 11 departments at Management’s request.

- Developed, reviewed, revised, and provided the annual retraining module on compliance, privacy, electronic security, and ethics, and the new hire training modules on corporate compliance, health insurance portability and accountability (HIPAA) privacy, and electronic security.

- Provided guidance to clinical research staff on various privacy issues surrounding consents, accounting of disclosures, and use of devices with protected health information.
• Provided guidance to Health Information Services on medical record access by non-UVA employees, students, and observers regarding access and training.
• Provided guidance to consultants on the Medical Center’s compliance and privacy program and how to report concerns.
• Prepared written ‘privacy reminders’ for the Medical Center Management Group.
• Presented ‘Patient Confidentiality, Privacy, Common Sense and You’ for Medical Center Managers and Leaders.
• The Office staffed a booth during the employee resource fair in recognition of Compliance and Ethics Week to increase awareness of the Medical Center’s Compliance and Privacy Program.
• The Corporate Compliance and Privacy Analyst attended the Health Care Compliance Association (HCCA) Privacy Institute where she received certification in health care privacy.
• A new analyst position was filled with an outside candidate in late 2011. The new analyst attended the HCCA Academy for new compliance professionals and obtained compliance certification and she attended a coding course in preparation for obtaining coding certification.
• The Corporate Compliance and Privacy Program Manager attended the HCCA Compliance Institute and a workshop by the Society for Corporate Compliance and Ethics on Effective Internal Investigations, and completed four college courses in pursuit of a bachelor’s degree in health care administration.
• The Chief Corporate Compliance and Privacy Officer was elected a Board member for the HCCA, attended compliance and privacy conferences, participated in a workgroup for compliance officers offered by Palmetto, the Medical Center’s Medicare Administrative Contractor, participated in Leadership Charlottesville events as a 2011 graduate, and published privacy articles for professional journals.
BOARD MEETING: September 14, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.B. Audit Department Accomplishments, 2011-2012

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.

Ms. Deily is the institution's Chief Audit Executive with responsibility for both the academic division and the Hospital, as well as the College at Wise. She has been with the UVA Audit Department for almost 30 years and has been in her current position for over 21 of those years. She received her Master's degree in Accounting from UVA in 1993.
Status of Fiscal Year 2011-12 Audit Projects as of June 30, 2012

### Scheduled Audit Projects

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<tr>
<th></th>
<th>University</th>
<th>Health System</th>
<th>IT</th>
<th>Compliance</th>
<th>TOTAL</th>
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<tr>
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</tr>
<tr>
<td>% Complete or In Process</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Comments: Compliance: Three executive turnover audits were performed.

### Non-Scheduled Projects

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</tbody>
</table>
Department Accomplishments for 2011-12

Project Related

- Completed 100% of the audit schedule when the goal was 90%.
- Completed 26 special projects and are still responding to four requests.
- Suggested travel planning enhancements that will result in reduced travel costs of at least $8,000.
- Recommended charge corrections that will enhance revenue by at least $5,000.
- Assisted with the annual ARMICS (Agency Risk Management and Internal Control Standards) project by performing a majority of the key controls testing, thus enabling the institution to maintain compliance with the Commonwealth's directives.
- Clarified veteran status on the Equal Opportunity Program training.
- Continued to serve on special committees such as the automated travel reservation system committee, the Recon@UVA (electronic reconciliation system) committee, and the Policy Review Committee.
- Advised management and the online travel vendor, Travelectra, of needed controls to ensure that only authorized individuals had access to the program. In addition, we identified several deficiencies in the Travelectra software that would have led to inefficient or ineffective use of University resources and funds.
- Assisted state and federal investigative agency personnel in obtaining information for their work.
- Assisted the University Police, General Counsel, and Human Resources on projects requiring computer forensic expertise.
Non-Project Related

• The Chief Audit Executive made a presentation at the June 2012 ISPRO conference on “Audit Myths Dispelled.”

• The Chief Audit Executive and the Director of Internal Control Compliance made presentations on Internal Audit for Supervisory Essentials class participants.

• The Director of Hospital and IT Audits presented “Assessing Security Posture of Third-Party Service Providers” for VASCAN; he also presented “Risk Analysis Methods for HIPAA and Meaningful Use” at the 8th Academic Medical Center Conference.

• The 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 Auditor in Charge” and “Leadership Skills for New Auditors.”

• The Associate Director for IT Audits became a Certified Internal Auditor (CIA).

• The Director of Internal Control Compliance taught a Fraud Examination class this summer for the School of Continuing and Professional Studies.

• The University Audit Manager completed the “Hoos Managing the UVA Way” program offered by University Human Resources.

• We conducted a one-day retreat to emphasize the mission of the department with our staff and integrate several new staff members into the office.

• We completed a major physical renovation to the department to provide hard-wall offices for the audit managers. This process also included a major record destruction effort.

• All staff members met their training requirements for the year.
The department served as a beta tester for new institutional "Conflict of Interest" training.

We provided 40 hours of training to an IT auditor for the Auditor of Public Accounts.

The department participated in the annual "Day of Caring" by making improvements at Scottsville Elementary School.

We upgraded our "Auto Audit" workpaper software package.

We provided another 1,038 pounds of food to area food banks.

The Director of Internal Control Compliance and the Hospital Audit Manager served on the Supervisory Committee of the University of Virginia Community Credit Union.
BOARD MEETING: September 14, 2012
COMMITTEE: Audit and Compliance
AGENDA ITEM: I.C. Summary of Audit Findings
ACTION REQUIRED: None

BACKGROUND: Ms. Deily will present a summary of audit findings on the following audit reports: Presidential Travel and Entertainment Expenses, various Compliance Audits, and FY 2012 Inventories.
BACKGROUND

President Teresa Sullivan requested annual audits of her travel and entertainment expenses with the results to be reported to the Board of Visitors. Presidential travel expenses during the 2012 fiscal year represented travel for 61 University-funded trips including visits to state and federal government officials, various development events, and other official activities related to higher education and healthcare management. The travel expenses totaled $198,439. Of this amount, $1,722 was paid with state funds.

The President’s entertainment expenses were incurred for dinners, receptions, athletic events and other official duties related to the University. For fiscal year 2012, entertainment expenses totaled $249,869, which was $111,806 below the established budget. 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 2012 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 2012 were reasonable and the transactions were conducted in compliance with applicable policies and strong internal control principles. The President’s administrative staff continued to manage travel and entertainment activities very carefully 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

The Audit Department completed three separate compliance audits and three compliance audits that were part of other projects covering various departments across the University between July 1, 2011 and June 30, 2012.

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 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.

AREAS NOTED FOR IMPROVEMENT

- One of six departments (17%) did not accurately complete travel reimbursements.
- One of six departments (17%) did not complete timely monthly cardholder reviews of purchasing card transactions.
- Three of six departments (50%) did not conduct timely monthly project reconciliations of expenditures.
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 FY 2012) 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 five percent from the prior year were deemed to be reasonable. The inventory values for the University as of June 30, 2012 were:

1. Pharmacy Services - $8,109,312 *
2. Surgical Supply - $6,407,016 *
3. University Bookstore/ Cavalier Computers - $5,070,672 *
4. Medical Center Storeroom - $1,667,424
5. Heat Plant - $911,515
6. Outpatient Surgery Center - $812,459
7. University of Virginia Press - $499,147
FY 2012 Inventories

8. UVA-Wise Bookstore - $328,987
9. Printing and Copying Services - $140,467
10. Curry School - $105,834

* 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, 2012 financial statements.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 14, 2012

COMMITTEE: Audit and Compliance

AGENDA ITEM: II. Enterprise Risk Management (ERM) Status Report

ACTION REQUIRED: None

BACKGROUND: 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 were two phases to the ERM project. At the February 2009 board meeting the Vice President and Chief Financial Officer presented a report to summarize 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 through the use of common vocabulary and metrics.

As part of Phase II, KMPG conducted interviews with selected University officials and members of the Board of Visitors to begin developing the University’s portfolio of top risks. The product of Phase II was a set of risk registers that have been finalized. 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.

The President 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, examined the prioritized institutional risks across all divisions. A working group consisting of the vice presidents and General Counsel determined appropriate action steps and oversight and achieved consensus on the top five risks facing the institution.
At the Audit and Compliance Committee meeting on November 11, 2011, the Executive Vice President and Chief Operating Officer reported on the top five institutional risks. Also mentioned was the need for a coordinating body for compliance and risk management.

DISCUSSION: Four of the top five institutional risks are related to financial resources, strategic planning and academic priorities:

1. The University may lack resources to maintain core programs and pursue strategic objectives.
2. The University’s process for allocating financial resources may not be consistent with the University’s strategic objectives.
3. Foundations, schools, and departments may utilize available funding to promote individual interests rather than align their goals with University goals.
4. Investments in academic programs may not yield the desired returns: large investments in sciences having lower return than small investments in humanities and social sciences.

The University is in the process of creating a new internal financial model designed to address several of the institutional risks associated with funding. With the implementation of this new model, the University will seek ways to incentivize revenue growth and to fund shared institutional priorities. This model will allow resources to become aligned with institutional and school priorities. Although the new model will not directly answer the problem of inadequate resources, it will create incentives for innovation, entrepreneurship, and resource allocation aligned with strategic priorities.

At the same time, in cooperation with the Board of Visitors, the University is undertaking a strategic planning effort intended to help us identify strengths and opportunities, especially in our academic planning. Deans and others engaged in this process will fully consider these top institutional risks and will incorporate them in their planning effort.

The fifth institutional risk relates to safety: 5. Incidents (racial, sexual assault, etc.) may occur; this includes student and visitor safety in general. While we cannot guarantee the safety of every person on University Grounds, we can and do take steps to minimize risk and mitigate harm. We accomplish this through both training and education and through physical measures.
Steps to train and educate students, staff and faculty include the following:

- Orientation programs on personal safety and property security for new students
- Tips, suggestions and resources listed permanently on the University Police web page.
- Timely warnings (Clery Act) to the community of incidents or situations that may pose an immediate threat
- Threat Assessment Team comprising cross-institutional professionals meets weekly as needed

Physical measures to promote safety include the following:

- Emergency Notification Alert System coupled with emails, text messages, voice messages, pages, LED messages, LCD messages, desktop messages, and messages across the UVA web page provide a full array of redundant messaging.
- More than 400 blue emergency phones and lighted pathways across Grounds, and the installation of seven new phones in dense student neighborhoods in the City of Charlottesville.
- A review of institution-wide access control and surveillance programs has been conducted by a national consultant; recommendations will be prioritized with the intention to begin to roll out in the coming year.
- Police officers trained in Crime Prevention through Environmental Design conduct security assessments of our buildings.

Over the past year, the Executive Vice President and Chief Operating Officer established several workgroups to begin addressing institutional risk in a more formalized and in-depth manner. The Safety workgroup discusses concerns of possible physical risks to students, faculty and staff. The Compliance and Risk workgroup strives to assign all areas of institutional compliance to a responsible individual and to implement appropriate educational programs on issues of concern.

Finally, there are plans in progress to form an Enterprise Risk Management Committee to continually address institutional risks. The committee would include representation from the Provost’s area, the VP/CFO area, the VP for Research area, Student Affairs and the Medical Center. Advice would be sought from institutional personnel with ERM expertise and consultants would be hired if that is deemed necessary. This committee would be charged with evaluating institutional risk for the enterprise as a whole, as well as
providing linkages between Vice Presidential areas when risks are shared jointly. Such a committee would also raise awareness of strategic risks both among the members and within their designated areas of responsibility.
BOARD MEETING: September 14, 2012

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, 2012 through August 15, 2012, as presented by the Chief Audit Executive, and Compliance Projects for the period of January 1, 2012 through June 30, 2012, as presented by the Corporate Compliance Officer, is approved as recommended by the Audit and Compliance Committee.