AUDIT AND COMPLIANCE COMMITTEE
(Open Session)

Friday, September 20, 2013
9:15 a.m. – 9:45 a.m.
President’s Reception Room, The Rotunda

Committee Members:
Hunter E. Craig, Chair
Frank B. Atkinson          John L. Nau III
Kevin J. Fay              Linwood H. Rose
Frank E. Genovese          George Keith Martin, Ex-officio
Victoria D. Harker         Adelaide Wilcox King, Faculty
Bobbie G. Kilberg         Consulting Member

AGENDA

I. INFORMATION ITEMS (Ms. Deily)
   A. Introduction of Mr. Gary S. Nimax, the
      University’s Chief Compliance Officer
         (Ms. Deily will introduce Mr. Pat Hogan,
          Mr. Hogan to report)
   B. Compliance Office Accomplishments, FY 2013
         (Ms. Deily will introduce Ms. Lori Strauss,
          Ms. Strauss to report)
   C. Audit Department Accomplishments, FY 2013
   D. Summary of Audit Findings

II. EXECUTIVE SESSION – LIST OF ITEMS

III. ACTION ITEM
   • Approval of Summary of Audit and
      Compliance Findings
BOARD MEETING: September 20, 2013

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.B. Compliance Office Accomplishments, FY 2013

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; she is certified in health care compliance, privacy, and in both physician and hospital coding. Lori has been involved in multiple health care settings over the past 33 years including bedside nursing, critical care and accreditation management, and education and clinical department administration.
Compliance & Privacy Office Scheduled Projects FY 2013

<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>1</td>
<td>0</td>
<td>1 (100%)</td>
</tr>
<tr>
<td>Privacy Monitoring and Auditing</td>
<td>36</td>
<td>0</td>
<td>36 (100%)</td>
</tr>
<tr>
<td>Inpatient Medicare Severity Diagnosis Related Groups</td>
<td>1</td>
<td>0</td>
<td>1 (100%)</td>
</tr>
<tr>
<td>Inpatient/Observation Billing Review with University Physicians Group</td>
<td>1</td>
<td>0</td>
<td>1 (100%)</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>0</td>
<td>39 (100%)</td>
</tr>
</tbody>
</table>
Compliance and Privacy Office Accomplishments for FY 2013

- Completed 100% of the revised 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 numerous special compliance and privacy projects including such things as following up with Management on the implementation of some of the recommendations of prior projects, completing carry over projects from last fiscal year, implementing a privacy software tool that allows for proactive auditing and monitoring of electronic medical records, conducting risk assessments to determine privacy breaches, providing written notification to patients about privacy breaches, revising policies and procedures and the Notice of Privacy Practices to be in compliance with the Omnibus Final Rule, participating in a program to assess the Medical Center’s compliance with the Privacy and Security Rules, and responding to governmental compliance and privacy inquiries.

- Offered guidance on compliance and privacy issues at several standing 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., ICD-10).

- Participated as scribes during The Joint Commission and Virginia Department of Health surveys.

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

- Conducted several privacy presentations for nine 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 and 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 a University department on compliance and privacy programs.

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.

Prepared written “privacy reminders” for the Medical Center Management Group highlighting topics from the Office for Civil Rights, audit trends, or policy changes.

Assisted state and federal investigative agency personnel in obtaining information for their work.

Assisted and provided information to the Police, General Counsel, and Human Resources in obtaining information for their work or investigations.

One Corporate Compliance & Privacy Analyst position was vacant for the first six months of the fiscal year. A Senior Analyst replacement began employment in the Office in December 2012 and attended the HCCA Academy for an overview of compliance programs for health care organizations. She has been a certified professional coder for several years.

Another analyst attended a Medicare Boot Camp on hospital billing and successfully became certified as an apprentice professional coder. She accepted another position and left the organization in May 2013.
• The Corporate Compliance & Privacy Program Coordinator attended the HIPAA Summit to keep abreast of the changes in the Privacy Rule and a 340B Pharmacy Program conference to prepare to conduct a compliance review for the Medical Center. The Program Coordinator also completed the University’s “Best Practices in Management Series” and successfully completed two college courses this fiscal year in pursuit of a bachelor’s degree in health care administration. She also served as a witness at two grievance hearings and co-authored a social media article in a national compliance journal.

• The Chief Corporate Compliance & Privacy Officer is serving a three-year appointment as a board member for the Health Care Compliance Association (HCCA). She also attends HCCA national meetings and participates in a workgroup for Compliance Officers held by the Medical Center’s Medicare Administrative Contractor, Palmetto. She authors the privacy column for the Journal of Health Care Compliance.

• All members of the Office participated in various compliance and privacy related webinars and in-house educational offerings. Many of the webinars are available at no additional cost if they are provided by the HCCA due to the Chief Compliance and Privacy Officer’s Board appointment.
UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 20, 2013

COMMITTEE: Audit and Compliance

AGENDA ITEM: I.C. Audit Department Accomplishments, FY 2013

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 over 30 years and has been in her current position for over 22 of those years. She received her Master's degree in Accounting from UVA in 1993, and is a CPA and a CISA (Certified Information Systems Auditor). She has taught and made presentations on auditing both nationally and internationally.
Status of Fiscal Year 2013 Audit Projects  
as of June 30, 2013

Scheduled Audit Projects

<table>
<thead>
<tr>
<th>Scheduled*</th>
<th>University</th>
<th>Health System</th>
<th>IT</th>
<th>Compliance</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>29</td>
</tr>
<tr>
<td>% Completed</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>In Process</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>% In Process</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</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: Two executive turnover audits were performed.

Non-Scheduled Projects

<table>
<thead>
<tr>
<th>Carryforward</th>
<th>University</th>
<th>Health System</th>
<th>IT</th>
<th>Compliance</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>20</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>33</td>
</tr>
<tr>
<td>Completed</td>
<td>14</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>23</td>
</tr>
<tr>
<td>% Completed</td>
<td>58%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>70%</td>
</tr>
<tr>
<td>In Process</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>% In Process</td>
<td>42%</td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>30%</td>
</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>
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

Audit Department Accomplishments for FY 2013

Project Related

• Completed 100% of the audit schedule when the goal was 90%.
• Completed 23 special projects and are still responding to ten requests.
• Conducted an overtime audit that identified possible savings of almost $300,000.
• Recommended charge corrections that will enhance revenue by at least $10,000.
• Identified an outstanding unpaid travel advance that allowed for the recovery of $12,000.
• Informed executive management at the Medical Center of the volume of paper medical records still being created despite the installation of an electronic medical record system.
• 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.
• Participated in the Job Family project with University Human Resources to help simplify job classifications.
• Continued to serve on special committees such as the Recon@UVA (electronic reconciliation system) committee and the Policy Review Committee.
• 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 co-authored an on-line article for the National Association of College and University Business Officers (NACUBO) entitled "Management of Business Operations."
- The Chief Audit Executive and Director of University Audits made a presentation on risk identification for our national organization, the Association of College and University Auditors.
- The Director of Hospital and IT Audits presented "IT Special Investigations" to VITA; he also presented "Security Information and Event Management" at the 9th Academic Medical Center Conference.
- The Director of Hospital and IT Audits and the Associate Director of IT Audits made presentations on "Using IT Security Scanning for Defense in Depth" for VASCAN, and on "How to Survive an IT Audit" for the University's local support partners.
- 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. The course "Communication Skills for Auditors" was taught twice this past fiscal year.
- The Director of University Audits obtained the Certification in Risk Management Assurance (CRMA) designation.
- The Senior IT Auditor became a GIAC Certified Forensic Examiner (GCFE).
- The Hospital Audit Manager and Senior Hospital Auditor participated in the Medical Center's "Fridays Before Five" quality rounding program.
- The Director of Internal Control Compliance made presentations on Internal Audit for Supervisory Essentials class participants.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

• “Process Simplification” training was provided to the entire staff to enhance their ability to identify cost savings and to improve organizational excellence.

• All staff members met their regular training requirements for the year.

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

• The department provided another 1,032 pounds of food to area food banks. This continued the trend of meeting our “one ton in two years” goal.

• 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 20, 2013

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 and Entertainment Expenses, Athletics Equipment Room Operations, Athletics Governance, various Compliance Audits, FY 2013 Follow-Up Audits, and FY 2013 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 paid during the 2013 fiscal year represented travel for 51 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 $133,604. Of this amount, $1,498 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 2013, entertainment expenses totaled $253,355, which was $108,145 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 2013 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 2013 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 University’s Department of Athletics supports 25 intercollegiate sports that provide competition opportunities for approximately 700 student-athletes (athletes). Within the Department is the Equipment Room Operations (Equipment Room). The mission of the Equipment Room is to procure and maintain the equipment and apparel used by athletes, coaches and staff while providing prompt and courteous service. The Equipment Room ensures that the equipment and apparel provided to the athletes is in compliance with the rules and regulations of the NCAA, ACC, and University policies and procedures. The Equipment Room is responsible for three equipment rooms, which are staffed by seven employees, and had an annual operating budget for FY12 of approximately $450,000. At the time of the audit, the athletic equipment inventory maintained by the Equipment Room had a value of approximately $850,000.

AUDIT OBJECTIVES

The objectives of the audit were to determine whether: 1) inventory control processes were efficient and effective and allowed for the proper accounting and safeguarding of the equipment; 2) departmental expenditures were made in accordance with University policies and procedures, as well as State laws and regulations; and 3) equipment room operations were in compliance with NCAA Bylaws and University policies and procedures with regard to the equipment/apparel issued and used by student-athletes and the surplus of such items.

OPINION ON AUDIT OBJECTIVES

The Equipment Room needed to enhance the effectiveness of its inventory processes to allow for a proper accounting and control of athletic equipment and apparel. Inventory processes that needed to be enhanced were: ordering and receiving of inventory; issuing inventory to the athletes and staff; receiving inventory returned by the athletes and staff; and disposing, donating, and gifting of inventory. The Equipment Room expenditures reviewed were made in accordance with University policies and procedures, as well as State laws and regulations. Also, the Equipment Room was in compliance with NCAA Bylaws and University policies and procedures with regard to the equipment and apparel issued and used by the athletes and the surplus of such items, except for one issue associated with the date of when apparel/equipment was actually given to the athletes.
MANAGEMENT’S RESPONSE

Management concurs and has agreed to correct the identified conditions.

FINANCIAL IMPACT

The Equipment Room purchased approximately $1.5 million of equipment and apparel in FY12. Control of equipment and apparel is necessary to reduce the risk of misappropriation of assets and to lessen the risk of violating NCAA Bylaws that could lead to sanctions levied against the University.
BACKGROUND

Responsible, well-coordinated governance of athletics at the campus level is of central concern to the NCAA and its member institutions. The day to day operation of athletics programs is the responsibility of athletics directors and coaches. A century of experience has shown that many strong forces from both within and outside of athletics departments make athletics governance uniquely difficult in a university setting. For this reason, the engagement in athletics governance of the three major participants in campus governance (the administration, the governing board, and the faculty) is essential to the effective management of athletics. In this regard, presidents must take a leading executive role, governing boards must provide oversight and support in accord with their ultimate responsibility for the institution, and faculty must engage their academic perspective to help ensure that the institutional investment in athletics remains in the interest of the primary academic mission of the institution. All three participants in campus governance must work in coordination to support athletics directors and coaches in ensuring the proper role of athletics on campus.

AUDIT OBJECTIVE

The objective of the audit was to determine the appropriateness of the existing structure for athletics governance within the University. The assessment was made based upon the athletics governance guidelines published by various collegiate organizations, e.g., Coalition on Intercollegiate Athletics, Association of Governing Boards of Universities and Colleges, etc.

OPINION ON AUDIT OBJECTIVE

Our overall opinion, based on the work performed in support of the audit objective is that the University’s structure for athletics governance appears to be appropriate. The current structure shows a high level of commitment by the University in regard to athletics governance. Our audit did not identify any issues that needed to be brought to the attention of management. As with all governance and control situations, the procedures are only effective as long as the persons responsible for them perform in the required manner. We found nothing during the course of our work that would indicate anything to the contrary.
FINANCIAL IMPACT

The University’s current athletics governance structure helps reduce the risk of being assessed potential fines or penalties for inappropriate activity pertaining to its athletics program.
BACKGROUND

The Audit Department completed six separate compliance audits of various departments across the University and two compliance audits that were part of other projects between July 1, 2012 and June 30, 2013.

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 eight departments (13%) did not accurately process petty cash transactions.
- One of eight departments (13%) did not complete timely monthly cardholder reviews of purchasing card transactions.
- Five of eight departments (63%) did not always conduct timely monthly project reconciliations of expenditures.
BACKGROUND

During fiscal year 2013, the Audit Department performed follow-up audits of the issues cited in four University-division audit reports. The four reports had a total of seven issues for which test work was performed to assess the appropriateness of the actions implemented by management to resolve the issues. The following areas were associated with the follow-up audits: Athletics Business Operations (one issue); Department of Biochemistry and Molecular Genetics (three issues); Development Office (two issues); and Facilities Management – Department of Energy and Utilities (one issue).

AUDIT OBJECTIVES AND PROCEDURES

The primary objectives of a follow-up audit are to ensure that the suggested actions are addressed on a timely basis and that management implemented corrective action to satisfactorily resolve the issues.

OPINION ON AUDIT OBJECTIVES

Based on the test work performed, five of the seven issues were found to have corrective action implemented to satisfactorily resolve the issues. Our test work found two issues from the Department of Biochemistry and Molecular Genetics that still need additional corrective action to be implemented to satisfactorily resolve the issues. For each issue, management provided a response that described the action that will be taken to ensure the issues are satisfactorily resolved.

AREAS NOTED FOR IMPROVEMENT

The University’s training procedures were not always implemented and practiced in the labs associated with the Department of Biochemistry and Molecular Genetics. Also, the monthly statements detailing the purchases made using the University issued purchasing cards were not always properly approved.

MANAGEMENT’S RESPONSE

Management has agreed to take action to address the areas noted for improvement.
FINANCIAL IMPACT

Suggested actions made by the Audit Department help to improve the safety of employees working in labs, and also ensure the appropriateness of the purchases made using the University issued purchasing cards.
FY 2013 Inventories

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 FY2013) 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.

FINANCIAL IMPACT

Inventory values stated on the following page are preliminary, and are subject to review and revision by the APA prior to inclusion in the University’s June 30, 2013 financial statements. The total reported value of all University inventories is $24,018,147.
The inventory values for the University as of June 30, 2013 were:

1. Pharmacy Services - $7,455,383*
2. Surgical Supply - $6,600,526 *
3. University Bookstore/ Cavalier Computers - $5,837,436 *
4. Outpatient Surgery Center - $952,450
5. Heat Plant - $816,159
6. Medical Center Storeroom - $604,105
7. University of Virginia Press - $460,979
8. UVA-Wise Bookstore - $438,412
9. HOPE Augusta Pharmacy - $429,274
10. HOPE Pantops Pharmacy - $225,438
11. Printing and Copying Services - $154,724
12. Curry School (PALS) - $43,261

* Inventory observed by Audit
FY 2013 Inventories

BOARD MEETING: September 20, 2013

COMMITTEE: Audit and Compliance

AGENDA ITEM: III. 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 February 1, 2013 through August 15, 2013, as presented by the Chief Audit Executive, and Compliance Projects for the period of January 1, 2013 through June 30, 2013, as presented by the Corporate Compliance Officer, is approved as recommended by the Audit and Compliance Committee.