MEMORANDUM

TO: The Audit and Compliance Committee:

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


and

The Remaining Members of the Board and Senior Advisor:

Allison Cryor DiNardo       Stephen P. Long, M.D.
Helen E. Dragas           Edward D. Miller, M.D.
Marvin W. Gilliam Jr.    Timothy B. Robertson
William H. Goodwin Jr.    Blake E. Blaze
John A. Griffin          Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Audit and Compliance Committee on November 15, 2013

The Audit and Compliance Committee of the Board of Visitors of the University of Virginia met, in Open Session, at 10:00 a.m., on Friday, November 15, 2013, in the President’s Reception Room of the Rotunda; Hunter E. Craig, Chair, presided.

Present were Frank B. Atkinson, Kevin J. Fay, Frank E. Genovese, Victoria D. Harker, Bobbie G. Kilberg, and Linwood H. Rose.

Adelaide Wilcox King, Faculty Consulting Member, was present as well.
Present, too, were Paul J. Forch, Susan G. Harris, Teresa A. Sullivan, Susan A. Carkeek, Patrick D. Hogan, R. Edward Howell, Colette Sheehy, Anthony de Bruyn, Barbara J. Deily, Karen Helderman, Gary S. Nimax, and Nancy A. Rivers.

Mr. Craig began by welcoming the committee back and introducing the three guests, Ms. Deily, Ms. Helderman, and Mr. Nimax.

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Action Item: Audit Charter

Ms. Deily began the committee presentations with the Audit Charter re-approval. It has become standard practice to approve this document every year. This year, they added the Executive Vice President for Health Affairs as a part of the report issuance structure. This change recognizes the addition of this key executive position and includes it for audit report distribution, along with the Provost and the Chief Operating Officer, as needed.

On motion, the committee approved the following resolution and recommended it for full Board approval:

**APPROVAL OF THE AUDIT CHARTER**

RESOLVED, the attached Audit Charter, updated on November 15, 2013, is approved as recommended by the Audit and Compliance Committee.

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Auditor of Public Accounts (APA) Audit and Management Report

Following Ms. Deily’s report, Ms. Helderman, an audit director with the Office of the Auditor of Public Accounts, provided a preliminary financial and management report regarding the University’s fiscal year 2013 financial statement audit. Ms. Helderman will return in February to provide the customary full report and to meet privately with the Board.

Ms. Helderman discussed the fiscal year 2013 audit status. Both the University of Virginia and the University of Virginia Medical Center audit fieldwork was completed by November 1, 2013. Both entities received an unqualified opinion. She and her team will provide these to management and they will be included in the annual reports.

Ms. Helderman also noted the APA is required under Government Auditing Standards to provide two additional reports: Report on Internal Controls and Report on Compliance. They are still meeting
with management to resolve any internal control or compliance concerns identified during the audit, and this may result in concerns being dropped, deemed insignificant, or reported. She anticipated having this process completed by later this month and will coordinate the release of our two reports to coincide with the University’s release of its annual report, if possible.

In looking ahead, the Board that sets accounting standards for governments, GASB, passed two new statements that significantly change the accounting and financial reporting of pensions. Ms. Helderman said the rules for pension plans (Virginia Retirement System or VRS) are effective fiscal year 2014, and for the employers, which includes the universities, they take effect for fiscal year 2015.

Currently, most pension information is provided in the notes to the financial statements. The actuary calculates the annual required contribution, and as long as that is paid, there is no liability in the financial statements. The annual expense is shown as the required contribution calculated by the actuary.

Under the new standards, the theory is that as an employee performs his services, the retirement benefits are earned and so the obligation to pay those benefits arises. As a result, the net pension liability will be reported in the employers’ financial statements. The GASB believes this more clearly depicts the government agency’s financial position.

Ms. Helderman explained that for the University this means the pension liability for University employees under VRS, in excess of the assets that have been accumulated, will be recorded in the financial statements, which will lower the Net Position reported on the Statement of Net Position. The actuary will calculate this liability annually and the difference from one year to the next will be recorded as an expense of the University.

Ms. Helderman noted that under the new standards, some information that previously was only reported in the notes to the VRS financial statements and referenced by the University in its notes will now be included in the University’s note disclosures. This includes the description of the plans and benefits, significant assumptions used by the actuary for his calculations, and 10-year schedules of Required Supplementary Information.

Ms. Helderman’s office will be auditing the Virginia Retirement System as well as information from their actuary that is distributed to employers.
Next spring (2014), Ms. Helderman’s office is going to do a "dry run" with VRS to go through the process and ensure every issue has been anticipated.

Ms. Helderman noted the new standards generally do not change how the University accounts for its defined contribution plans (TIAA/CREF and Fidelity). She shared a rough estimate of what the liability would have been at June 30, 2012: approximately $500 million for the academic division, $91 million for the Medical Center, and $16 million for UVA Wise.

Ms. Helderman said the new accounting standards are moving government institutions closer to following the rules that apply to private universities. The rating agencies are aware of this liability, so they have probably already factored it in. She does not believe this change in financial reporting will have a significant impact on any of the higher education institutions in Virginia that have individual bond ratings.

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Report from the Assistant Vice President for Compliance and Enterprise Risk Management (ERM)

Mr. Nimax updated the committee on the enterprise risk management (ERM) efforts at the University. He said ERM was organized as the framework of the overarching risk structure and should be treated as an ongoing process—effective risk management is continuous, achieved by involving individuals at every level of the organization and communicating to the university community as we define strategy. He said the program was developed to provide reasonable assurance to an organization’s management and board that risk is considered and evaluated in an appropriate manner.

When researching ERM programs at other institutions, Mr. Nimax found that many of peers initiated an ERM program in response to a specific negative incident at their institution. The University did not; the ERM program was initiated proactively to prevent incidents from occurring and to confirm that proper safeguards are in place. He presented several findings from his research, and he said he would continue to conduct best practices research and participate in professional development programs to confirm that the University has appropriate ERM practices in place.

Mr. Nimax discussed the various types of risk: strategic risks, financial risks, operational risks, legal and regulatory risks, and reputational risks. In 2010, the University worked with KPMG to conduct an initial assessment of the current framework for assessing
and managing the University’s strategic and high-level operational risks. Regular reports have been provided to the Board since that time. Mr. Nimax said three years have passed since the initial list of top risks was identified, and the University will be updating its risk register given the turnover in senior administration and board members, the new strategic plan and internal financial model, and changes in the higher education landscape.

Mr. Nimax concluded his presentation with next steps. He said his team will reenergize earlier ERM efforts, which assessed strategic and high-level operational risks; they will review top institutional risks identified by initial effort to reconfirm that they remain our top risks, and document mitigation steps taken; they will obtain feedback from senior university leaders and Board members and develop tools to assist the University in discussing and evaluating risks in key initiatives; they will align ERM principles with the strategic plan in order to identify and mitigate related risks; and they will involve the right individuals, including the Faculty Consulting Member, Adelaide King, and Paul Simko, a Darden professor with experience in ERM, and continue working with Committee Chair, Hunter Craig.

EXECUTIVE SESSION

After adopting the following motion, the voting members present plus Mr. Forch, Ms. Harris, Ms. Sullivan, Ms. Carkeek, Mr. Hogan, Mr. Howell, Ms. Sheehy, and Ms. Rivers, participated in Executive Session at 10:45 a.m.:

That the Audit and Compliance Committee of the Board of Visitors convene in Closed Session to consider and discuss audits evaluating the performance of specific University departments as they concern the performance of specific employees and managers responsible for information security and the administration of fundraising activities, as well as audits of the Medical Center’s information security, regulatory compliance, and billing practices where disclosure would adversely affect the competitive position of the Medical Center, as permitted by Sections 2.2-3711(A) (1),(8),(19), and (22) of the Code of Virginia.

At 11:00 a.m. the Committee left closed session and, on motion, adopted the following resolution certifying that the deliberations in closed session had been conducted in accordance with the exemptions permitted by the Virginia Freedom of Information Act:
Audit and Compliance Committee November 15, 2013

That we vote on and record our certification that, to the best of each Member’s knowledge, only public business matters lawfully exempted from open meeting requirements and which were identified in the motion authorizing the closed session, were heard, discussed or considered in closed session.

Action Item: Summary of Audit Findings

On motion, the committee approved the following resolution and recommended it for full Board approval:


RESOLVED, the Summary of Audit Findings for the period August 15, 2013 through September 30, 2013, as presented by the Chief Audit Executive, is approved as recommended by the Audit and Compliance Committee.

On further motion, the committee adjourned at 11:00 a.m.

SGH:dr

These minutes have been posted to the University of Virginia’s Board of Visitors website. http://www.virginia.edu/bov/auditminutes.html
ATTACHMENT
AUDIT CHARTER

It is the policy of the University to establish and support the Audit Department for the purpose of assisting management in the effective discharge of its responsibilities for the control of University resources.

The mission and objectives of the Audit Department are to add value to the organization and improve institutional operations through a variety of methods including:

Evaluating and advising on improving the effectiveness of institutional processes and programs for governance, control and enterprise risk management.

Performing financial audits for the purpose of ensuring that:

(a) Cash, accounts receivable, and other assets of the University are promptly and completely recorded, accounted for, authorized, and adequately safeguarded against losses and misappropriation.

(b) Liabilities of the University have been properly incurred and are properly recorded and discharged. Audits directed to financial accountability will include a review of records, source data, fiscal procedures, and internal controls.

Performing operational audits for the purpose of ensuring that University operations are conducted efficiently, effectively, and in accordance with appropriate and adequately documented policies, plans, and procedures. Operational audits will encompass a review of the policies, plans, procedures, organizational structure, staffing, and output of the audited unit. These audits also will include evaluating the accomplishment of established objectives and goals for operations and programs.
Providing the Board of Visitors and senior management with an independent, fair, and objective appraisal of the effectiveness of the University’s financial accountability systems and operational performance in accordance with the priorities established by the Chief Audit Executive in coordination with the Board of Visitors, the President, and the Executive Vice Presidents and approved by the President and the Board of Visitors.

Providing management with constructive criticism and positive recommendations designed to strengthen and improve performance results and cost effectiveness of their operations.

Informing the Board of Visitors and Senior University management of any financial irregularities, investigations, or other risks to the institution that the auditors discover during the course of their work.

The work of the Audit Department will be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Other professional standards, such as the Government Accounting Office “Yellow Book,” shall be utilized when appropriate.

The following policies identify the responsibilities of the Audit Department and provide guidelines for its interaction with all University departments and activities.

Organizational Responsibilities

The Chief Audit Executive shall be responsible to the Board of Visitors but shall maintain a dual reporting relationship to both the Board and the President. The Chief Audit Executive will seek input on the department’s activities from the Board of Visitors, the President, and the Executive Vice Presidents. The Chief Audit Executive will have unrestricted access to the President and the Board of Visitors. The Chief Audit Executive is responsible for the direction of the audit function and for seeing that the results of examinations
and actions taken are communicated to appropriate levels of University management and, as appropriate, the President and the Board of Visitors.

The Chief Audit Executive will draft an annual audit plan and will solicit input on this plan from the Board of Visitors, the President, the Executive Vice Presidents, and other senior management of the institution. The plan will be submitted to the Board of Visitors for approval.

Nothing herein shall be construed as preventing the Chief Audit Executive from consulting with the President and the Executive Vice Presidents on activities of the department, its findings, or significant issues. Nor shall the President and the Executive Vice Presidents be prevented from consulting with the Chief Audit Executive as may be necessary to the execution of their duties.

The Audit Department will give full consideration to scheduling special audit requests made by any department or activity. All requests should be in writing to the Chief Audit Executive and state the purpose and scope of the audit.

Independence

The Audit Department will be organizationally and functionally independent from all University operations and will have no responsibility for the departments and activities being audited while being responsive to their needs and requirements. Because the Audit Department must be independent in carrying out its responsibility to monitor and evaluate control procedures instituted by management, the extent of audit work to be performed with respect to those procedures is limited to the assessment of such procedures.

The Audit Department normally performs tests of underlying records and documentary support for transactions. Accordingly, objectivity would be lost if the Audit Department routinely participated in accumulating data or reconstructing records.
Authorities and Limitations

The Audit Department personnel will have complete, free, and unrestricted access to all University departments, activities, records, properties, and personnel, and is not to be restricted in their activities. Where appropriate, special arrangements will be made for the examination of confidential information.

Systems Planning and Development

The Audit Department will participate in the planning, development, implementation, and modification of major computer-based and manual systems to ensure that:

(a) adequate controls are incorporated in the system;
(b) thorough system testing is performed at appropriate stages;
(c) system documentation is complete and accurate; and
(d) the resultant system is a complete and accurate implementation of the system specifications.

The Audit Department will conduct post-installation evaluations of major information technology systems to ensure that these systems meet their intended purpose and objectives. The department will also review computer operations supporting such systems to ensure that generally accepted standards for systems integrity and security, as well as system-specific controls, are being observed.

Security Investigations

The Audit, Risk Management and University Police Departments are to be notified if assets have been lost through defalcation or other security breaches. The Audit Department will perform sufficient tests and investigations to identify the weaknesses in procedures, which permitted the defalcation to occur. However, the
investigation of the specific event with the objective of recovery and/or prosecution is the responsibility of the University Police Department, with the decision to prosecute being the responsibility of the appropriate Commonwealth’s Attorney.

Coordination with External Auditing Agencies

The Chief Audit Executive will coordinate the department’s audit efforts with those of the University’s independent public accountants or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary and their combined efforts provide comprehensive, cost-effective audit coverage for the University. Duplication of work will be avoided as much as possible.

Reporting

Prior to the completion of a formal report, an exit conference will be conducted with the department or activity head. The conference will be a review of all findings, conclusions, and recommendations. A formal report will be issued at the conclusion of every audit, which will present a concise, clear and factual review of the conditions found, together with recommendations for improvement. A formal written response shall be issued to the Chief Audit Executive, or the Audit Director issuing the report, within 30 days addressing each finding, recommendation, and exception included in the audit report. This response will include the department’s or activity’s plan for implementing the recommendations or a presentation of significant disagreement with the findings and/or recommendations.

A follow-up review of significant audit recommendations will be made by the Audit Department to establish that agreed-to recommendations have been adopted. A memorandum will be issued on the follow-up review to the President, the Executive Vice President and Chief Operating Officer, the Executive Vice President and Provost, and the Executive Vice President for Health Affairs as appropriate.
Distribution of Reports

Audit reports will be issued to the Executive Vice President or Vice President most directly responsible for the department or activity involved. In addition, copies of all such reports will be distributed to the President, the Executive Vice President and Chief Operating Officer, and the senior fiscal administrator having a functional interest in the subject matter.

All audit reports will be available for review by the Board of Visitors.

A summary of significant audit findings will be prepared for each Board meeting and submitted to the Board of Visitors, the President, the Executive Vice President and Chief Operating Officer, the Executive Vice President and Provost, and the Executive Vice President for Health Affairs as appropriate.

November 2013