TO: The Audit and Compliance Committee:

Frank E. Genovese, Chair  
L.D. Britt, M.D.  
Allison Cryor DiNardo  
Barbara J. Fried  
William H. Goodwin Jr.  
Adelaide Wilcox King, Faculty Consulting Member  
George Keith Martin, Ex Officio

and

The Remaining Members of the Board and Senior Advisor:

Frank B. Atkinson  
Frank M. Conner III  
Helen E. Dragas  
Kevin J. Fay  
John A. Griffin  
Victoria D. Harker  
Bobbie G. Kilberg  
Stephan P. Long, M.D.  
John G. Macfarlane III  
Edward D. Miller, M.D.  
John L. Nau III  
Margaret N. Gould  
Leonard W. Sandridge Jr.

FROM: Susan G. Harris

SUBJECT: Minutes of the Meeting of the Audit and Compliance Committee on November 14, 2014

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, November 14, 2014, in the Auditorium of the Albert and Shirley Small Special Collections Library of the Harrison Institute. Frank E. Genovese, Chair, presided.

Present were L.D. Britt, M.D., Barbara J. Fried, William H. Goodwin Jr., George Keith Martin, and Adelaide Wilcox King.

Other Board members present were Frank M. Conner III and Leonard W. Sandridge Jr.
Present, too, were Susan Carkeek, Barbara J. Deily, Susan G. Harris, Patrick D. Hogan, Marcus M. Martin, M.D., Nancy A. Rivers, Roscoe C. Roberts, and Colette Sheehy.

Karen Helderman was the presenter.

Mr. Genovese opened the meeting noting that this was Ms. Deily’s last meeting and that she had worked for the University for nearly 32 years. Mr. Hogan added that he was thankful for Ms. Deily’s assistance and leadership. Mr. Hogan reported that the search for her replacement is underway. The search committee includes Ms. Gould and former Board member Hunter E. Craig. Although the University is still receiving applications, eight candidates are currently scheduled for interviews.

Mr. Genovese recognized Ms. Karen Helderman, who is an audit director with the Office of the Auditor of Public Accounts. She reported on the recently completed annual audit and also stated that the University will receive the written report during the next few months.

Action Item: Audit Charter

Ms. Deily said to comply with the standards of the Institute of Internal Auditors, the Board of Visitors annually reapproves the Audit Charter. The charter governs the work of the Audit Department, and not that of the Audit and Compliance Committee. It gives the Audit Department the authority to access all necessary records and clearly states that the Audit Department’s first responsibility is to the Board and then to management.

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

AUDIT CHARTER

RESOLVED, the attached Audit Charter, updated on November 14, 2014, is approved as recommended by the Audit and Compliance Committee.

Auditor of Public Accounts Audit and Management Report

Ms. Deily introduced Ms. Karen Helderman who provided an overview of the financial and management audit report prepared by the Auditor of Public Accounts (APA) for fiscal year 2014 for the University and the Medical Center. The APA has issued an unqualified opinion, which means that there were no weaknesses in the financial statements. In early December, the APA will issue a separate report on Internal Controls and Compliance. This report will be distributed at a later date to the Board of Visitors along with the report on the 2014 financial statements. The audit identified areas that are considered to be significant internal control deficiencies, but not material weaknesses. These deal with sole source procurements, reconciling
unfunded pension liabilities to the Virginia Retirement System, and improving controls over the disposal of fixed assets in the Medical Center. The APA also found that the University did not obtain the Board of Visitors’ approval for a $250 case fee automatically assessed on students enrolled in the Darden School of Business. The University has concurred with the APA’s recommendations and has agreed to address these items. The University’s response will be included in the APA report.

Expanded Role of the Audit and Compliance Committee

Mr. Genovese noted that at its last meeting the committee acknowledged the need to discuss the incorporation of Enterprise Risk Management (ERM) into its charge. Since 2007, the University has hired a consultant (KPMG) to assist with establishing its ERM program, identified its top institutional risks, developed work groups to address risks, and provided updates to the Board. Initially the Board and the administration had considered ERM to be part of the Finance Committee charge, but later concluded that such discussion would be more appropriate for the Audit and Compliance Committee. The committee’s charge has not been updated to address ERM.

At the June meeting, Mr. Gary Nimax, Assistant Vice President for Compliance and ERM, outlined the top nine institutional risks that have been identified for the academic division. The mitigation strategies for these risk categories will be discussed at future meetings.

The University has also looked at how other universities are handling ERM. The Association of Governing Boards recently issued a report called "Wake-Up Call: ERM at College and Universities Today". It found that only 39% of its survey respondents indicated that their institutions have conducted an ERM process in the last two years; the University is one of these institutions. While risk management discussions at the board level are most commonly conducted by the audit and the finance committees, discussions also occur in executive committees and in committees on investments, facilities, academic affairs, and student affairs. The University’s review of other institutions found that most institutions have audit committees, or audit and compliance committees at which ERM topics are addressed.

The Committee endorsed the incorporation of ERM into its charge and decided that next steps would define the scope and develop the necessary language changes. The scope of risk management is broad and a careful decision must be made as to which areas of oversight the Committee will be responsible, and which areas will fall under the purview of other committees. It was noted that administrative responsibilities should include the updating of identified risks from time to time, the development of risk management strategies which would include risk management training, and the development of a culture where risk management goes from being the sole responsibility of the audit department to being everyone’s responsibility. ERM includes more than just financial fraud; it includes operational and
reputational risk. The role of the committee should focus on monitoring. It was decided that a small subcommittee would work on a revised charge to be presented to the Executive Committee.

Compliance Report on Revised Project Schedule

Ms. Deily noted that the meeting materials contain an updated project schedule for the Health System Office of Corporate Compliance.

Summary of Audit Findings

Ms. Deily summarized the audit findings for University Accounting and Finance and for Employee Access Management at the Medical Center. The Accounting and Finance audit report recommended improvements in efficiency around the cost transfer process, suggested enhancements to policies concerning revenue-generating activities, and noted potential improvements in the oversight of our annual internal control questionnaires. The Medical Center audit report recommended strengthening controls over user roles, and improving onboarding and off-boarding procedures. Management concurred with the suggestions and agreed to address the issues.

Executive Session

The following motion was read and approved, and the committee continued in closed session beginning at 9:00 a.m.:

That the Audit and Compliance Committee of the Board of Visitors go into closed session to confer with the Auditor of Public Accounts on the performance of University management, and to discuss audits of specific departments involving specific personnel responsible for medical record security and patient billing procedures as permitted by Sections 2.2-3711 (A) (1) and (19) of the Code of Virginia 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 (22) of the Code of Virginia.

At 9:30 a.m. the committee concluded closed session and approved the following motion:

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.

On motion, the Committee approved the following resolution and recommended it for full Board approval:
AUDITOR OF PUBLIC ACCOUNTS’ FINDINGS AND THE SUMMARY OF INTERNAL
AUDIT FINDINGS

RESOLVED, the Auditor of Public Accounts’ Findings for fiscal year 2013-2014, and the Summary of Audit Findings for the period August 16, 2014 through October 15, 2014, as presented by the Chief Audit Executive, are approved as recommended by the Audit and Compliance Committee.

On further motion, the committee adjourned at 9:30 a.m.

SGH:wtl
These minutes have been posted to the University of Virginia’s Board of Visitors website:  http://www.virginia.edu/bov/auditminutes.html
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 2014