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

November 15, 2010
AUDIT AND COMPLIANCE COMMITTEE

Monday, November 15, 2010
1:15 – 2:15 p.m.
Board Room, The Rotunda

Committee Members:
The Honorable Alan A. Diamonstein, Chair
Hunter E. Craig
Glynn D. Key
W. Heywood Fralin
Randal J. Kirk
Sheila C. Johnson
Vincent J. Mastracco Jr.
John O. Wynne, Ex-officio

AGENDA

I. ACTION ITEM (Ms. Deily)
   • Audit Charter 1

II. INFORMATION ITEMS (Ms. Deily)
   A. Corporate Compliance and Privacy Office Accomplishments, 2009-10 (Ms. Deily will introduce Ms. Lori Strauss, Ms. Strauss to report) 9
   B. Audit Department Accomplishments, 2009-10 12
   C. 2010 Quality Assessment 17
   D. Summary of Audit Findings 19

III. EXECUTIVE SESSION – LIST OF ITEMS

IV. ACTION ITEM:
   • APPROVAL OF SUMMARY OF AUDIT FINDINGS
BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: I. Audit Charter

BACKGROUND: Ms. Deily, Chief Audit Executive, will present the Audit Charter for approval. As a result of the Audit Department's Quality Assessment Review in 2004, it was agreed that the Board would review and approve the Audit Charter every time there was a change in the Audit Committee Chair. Additionally, changes to the Charter were recommended during the recent Quality Assessment of the department and those recommendations have been included in this updated version of the Charter.

ACTION REQUIRED: Approval by the Audit and Compliance Committee and by the Board of Visitors

APPROVAL OF THE AUDIT CHARTER

RESOLVED, the Audit Charter, updated on November 15, 2010, is approved as recommended by the Audit and Compliance Committee.
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 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 President and Chief Operating Officer 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 President and Chief Operating Officer. 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 President and Chief Operating Officer 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 President and Chief Operating Officer on activities of the department, its findings, or significant issues. Nor shall the President and the Executive Vice President and Chief Operating Officer 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 also will 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, and the Executive Vice President and Provost 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, and the Executive Vice President and Chief Operating Officer, and the Executive Vice President and Provost as appropriate.

Updated on November 15, 2010
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.A. 2009-10 Corporate Compliance and Privacy Office Accomplishments

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.
Corporate Compliance and Privacy Office Accomplishments
July 1, 2009 – June 30, 2010

Overall: Completed 100% of scheduled projects.

Staffing:

- July 25, 2009, the Interim Chief Corporate Compliance & Privacy Officer was selected for the permanent position.
- Corporate Compliance & Privacy Analyst sent to the Health Care Compliance Academy intended for new compliance professionals. She became certified as a Health Care Compliance Professional in November, 2009; she is a registered health information administrator; and renewed her membership with the American Health Information Management Association.
- October, 4, 2009, the Interim Corporate Compliance & Privacy Program Manager was selected for the permanent position. She has been with the Office since July, 2005; she successfully completed three college courses this fiscal year in pursuit of her bachelor’s degree in health care; and she is certified in professional coding, healthcare compliance and as a HIPAA professional.

Special projects:

- Corporate Compliance & Privacy Database: Internal Audit IT staff worked with our Office to develop an Access database to document and report on compliance and privacy investigations and to ease annual reporting requirements to the Department of Health & Human Services on breach notifications. The Office is implementing the new database on July 1, 2010.
- Revision and education on disposal of protected health information and recycling guidelines.
- Increased awareness and assessed effectiveness through the use of a questionnaire on our Compliance Program during Corporate Compliance & Ethics week.
Corporate Compliance and Privacy Office Accomplishments
July 1, 2009 – June 30, 2010

- Participate in EPIC electronic medical records implementation projects and provide regulations on such topics as protocols, physician orders and authentication.
- Participated with Medical Center Finance to establish the payor audit review staff and database.
- Led an adhoc committee to establish a process to comply with the Health Information Technology for Economic and Clinical Health Act (HITECH) restrictions of disclosures.

Education:
- Updated the new hire privacy module to include the HITECH implications.
- Updated the new hire compliance training module to reduce paper per the Governor’s order by eliminating printing of the Code of Conduct booklets and incorporating ‘signed’ acknowledgements in the training module.
- Developed new content for the annual retraining module on compliance, privacy, e-security and ethics.
- Assisted Finance in developing a training module on documentation and billing for hospital employed Nurse Practitioners.
- Provided over 20 department and staff specific privacy presentations for the Medical Center and provided two HIPAA classes for medical assistant students at the National Business College.
BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.B. 2009-10 Audit Accomplishments

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.
Status of Fiscal Year 2009-10 Audit Projects  
as of June 30, 2010

**Scheduled Audit Projects**

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<thead>
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<th></th>
<th>University</th>
<th>Health System</th>
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<th>TOTAL</th>
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<tr>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>% Complete or In Process</td>
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<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
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</table>

*Comments: Two Health System projects were deferred due to vacancies and changes in auditee departmental administration.

**Non-Scheduled Projects**

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<td>% Complete or In Process</td>
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<td>100%</td>
<td>100%</td>
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</tr>
</tbody>
</table>
Department Accomplishments for 2009-10

- Had a Quality Assessment performed in accordance with the IIA standards. Received the highest rating of "generally complies."
- Completed 100% of the audit schedule, after adjustments for vacancies, when the goal was 90%.
- Completed 52 special projects and are still responding to six requests.
- Made cost recommendations amounting to approximately $1.2 million.
- Assisted with the annual ARMICS (Agency Risk Management and Internal Control Standards) by performing a majority of the key controls testing thus enabling the institution to maintain compliance with the Commonwealth's directives.
- Continued to increase use of telecommuting in support of the Governor's directives.
- Assisted the Police, General Counsel and Human Resources on projects requiring computer forensic expertise.
- Hosted audio conferences for our own staff as well as other relevant individuals at the institution.
- Our University Audit Manager successfully completed the exam to become a Certified Information Systems Auditor (CISA).
- Our University Director continues to teach classes for the Institute of Internal Auditors which earns credits for our staff to attend these and similar courses.
- Our Director for Health System Audits taught an Auditing class this fall and a Fraud class this spring for the School of Continuing and Professional Studies.
Department Accomplishments for 2009-10

- Our Director for Information Technology made presentations at an ISACA conference in October on UNIX and at an Academic Medical Center conference in June on “Information Technology Requirements for certified EHR’s.”

- Our Director for Information Technology and our IT Audit Manager presented a summary of their “Printer Review” audit at VA SCAN. This work then resulted in an article on “Printer Security” in the ISACA national magazine.

- Our IT Audit Manager completed the “Hoos Managing the UVA Way” program put on by the Human Resources Department.

- Audit staff made several presentations to various institutional groups on ARMICS and internal audit.

- The CAE and Directors continue to teach the “New Supervisor” and the “Introduction to University Business Administration” courses.

- Audit staff continued to serve on other institutional committees such as the Epic (medical record) implementation, electronic travel vouchers, electronic monthly reconciliations and the institutional policy committee.

- All staff members met their training requirements for the year.

- The department provided approximately 3,000 “Code of Ethics” pens to the University community.

- The department participated in the annual “Day of Caring” by making improvements at the Gallastar Equine Center which provides therapeutic experiences with animals for children who have suffered various forms of abuse. This was our third year at this facility.
Department Accomplishments for 2009-10

- Collected 1,000 pounds of food for the Blue Ridge Area food bank during the fiscal year.
- Hosted the CUAV Directors on a Risk Assessment meeting in July 2009.
- Hosted a CUAV “Large Shops” meeting in March 2010.
- Employed a UVA intern for six weeks.
- Assisted two student groups with school research projects for Professors Paul Walker and Roger Martin, both of the McIntire School.
- Established a breach reporting system for the Medical Center Compliance Office.
- Disposed of 20 years of records in accordance with record retention guidelines.
- Our office served as “Carruthers Hall Mayor” for the fiscal year. This is a rotating duty that occurs once every six years.
- Audit staff continues to act as an information resource for all areas of the institution, providing guidance on policies, and procedures.
BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.C. 2010 Quality Assessment Review

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will discuss the results of a Quality Assessment review performed of the Internal Audit Department. This does not require formal action, but is information of which the Board should be made aware.
University of Virginia External Quality Assessment

Executive Summary

The University of Virginia Internal Audit Program is staffed with competent professionals, produces quality written reports and is highly respected by the Audit and Compliance Committee and University management. Its conformance with IIA professional Standards earns the highest overall rating, while certain improvement opportunities are noted. Efforts to continuously improve the Program were evident; especially the noteworthy enhancement of the Information Technology Audit Program since the prior Quality Assessment.

The Internal Audit Program has done an excellent job of meeting the expectations of its stakeholders. However, events such as the impending changes in key leadership positions, can alter those expectations; typically raising them. We believe there is an opportunity for Internal Audit to elevate its role and focus in regard to risk (versus controls) and compliance. Internal Audit can, and should be, a catalyst for furthering the University’s enterprise risk assessment processes as the University introduces enterprise risk management practices. Further, given Internal Audit’s University-wide perspective, it can play a pivotal role in ensuring that the myriad of compliance officials are guided, coordinated and monitored so as to produce a comprehensive compliance program with consistent standards, robust compliance activities and clear communications practices.

To continue to extend its effectiveness and to fulfill its potential in these expanded areas, it is essential that Internal Audit’s placement and reporting lines in any revised organizational structure remain at the highest levels of the organization and are active, engaged relationships.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: II.D. Audit Summary Findings

ACTION REQUIRED: None

BACKGROUND: Ms. Deily will present a summary of audit findings on the following audit reports: Treasury Management, PBX Network Security, Windows Server Security - Health System, Purchasing Card Program, various Compliance Audits and FY 2010 Inventories. The summary does not require formal action, but is information of which the Board should be made aware.
BACKGROUND

Established in the fall of 2005, Treasury Management is responsible for providing debt management, cash management, and investment management and oversight for the University. Treasury Management also provides banking services to internal parties by providing loans, offering investment options, and managing cash flow in aggregate for the University's schools and departments.

AUDIT OBJECTIVES

The objectives of the audit were to determine whether:

- Key controls were working as intended in the significant fiscal processes identified by Treasury Management (Wire Disbursements, Short-Term Investments, and Debt Issuance, Service and Monitoring); and
- Adequate general controls (both physical and logical) were in place over the software and associated equipment used by Treasury Management.

Part of the research for the audit involved reviewing testing recently performed by the Auditor of Public Accounts (APA) as it related to Treasury Management. It should be noted that we relied on conclusions reached by the APA as appropriate, for those processes they specifically tested, and tailored our fieldwork to minimize duplication where possible.

OPINION ON AUDIT OBJECTIVES

Our overall opinion, based on the test work performed, is that internal controls over the significant fiscal processes and general controls were working as intended.

AREA NOTED FOR IMPROVEMENT

1) Policies owned and maintained by Treasury Management did not follow a consistent format. In particular, the format and content of the “Short-Term Investment Policy” did not conform to that of other Board of Visitors policies maintained by Treasury Management.
MANAGEMENT’S RESPONSE

Management concurs and has agreed to correct the identified condition.

FINANCIAL IMPACT

Implementation of the selected action will enhance the consistency and transparency of Treasury-specific policies.
BACKGROUND

The UVA Health System is home to hundreds of Windows-based servers. Servers can have various functions, ranging from the email servers to file servers. Security on these machines is critical as they can house confidential patient data, employee data, or can be used to escalate privileges within the UVA Health System network. It should be noted that this audit reviewed, on a sample of Windows servers, the security over the operating system which 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 Windows Security for fiscal year 2010. Audit objectives included verifying that Windows-based servers were in compliance with best IT control practices. This was done in large part through usage of the Center for Internet Security’s benchmarking tool as well as Microsoft Baseline Security Analyzer. Audit objectives included the following: Physical Access, Installed Programs and Services, User Accounts and Account Procedures, Password Policy, Security Programs and Settings, Logging Procedures, Backup and Recovery Procedures. The Windows Server Security 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

Overall, it appeared that the security in place for Windows servers was quite stringent. Based on our sample, there were a number of areas which were strongly secured, and given the consistent architecture of the Windows server environment at the Health System, we expect this to be fairly prevalent throughout.

AREAS NOTED FOR IMPROVEMENT

None Noted
IMPACT TO THE HEALTH SYSTEM

Although no compromised systems were found, the impact of Windows security is always important in the Health System environment because of the following concerns:

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

The University of Virginia has a complicated telephone network topology that enables voice communication between buildings on grounds as well as externally routed telephone calls. Current telephony at the University is routed by two separate means, older copper wire technology and newer Voice over Internet Protocol (VOIP). In both cases, calls are routed using lines and a Private Branch Exchange (PBX) managed jointly by ITC and Siemens, the contracted telephony provider. A PBX is used in an organization to privately manage the telephone communications instead of relying on the local telephone company. There are a number of security and business continuity risks associated with telephony, which are usually mitigated by controls over equipment located both out in the field and in the central communications processing facilities. In addition, there are inherent financial operational risks such as inefficient usage and uncontrolled costs. It should be noted that this audit reviewed the security and operations of telephone equipment and processing centers which makes up only a part of a multilayer defense. Other controls such as operating system, 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 PBX and Network Security as part of the fiscal year 2010 audit schedule. Internal Audit collaborated with the Auditor of Public Accounts (APA) during annual planning to maximize audit coverage without duplicating effort. Internal Audit reviewed the recent APA audit test work performed in the area of networking components at the University such as routers, switches and firewalls. This review allowed Internal Audit to rely on APA test work, and focus more thoroughly on the PBX and telephony at the University of Virginia. The audit objective was to verify that the telephone network was operating securely and efficiently. This verification included review of the following: telephone system billing, PBX and telephony physical security, disaster recovery, system configuration and system access. The PBX and Network Security 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

Overall, it appeared that the PBX and telephony environment at the University was operating in a reasonably secure and efficient manner. The underlying telephone system appeared to be largely well-managed, robust and effective for handling the large volume of voice communications. There were however, lesser areas noted for improvement as detailed below.

AREAS NOTED FOR IMPROVEMENT

1) Some departments were paying for unused phone equipment.
2) The repository for UVA directory information required improvement as many records were out of date.

MANAGEMENT'S RESPONSE

Management concurs and has agreed to correct the identified conditions.

IMPACT TO THE UNIVERSITY

Proper security surrounding the telephone network is important within the University and Health System environments because of the following concerns:
- Public relations issues
- Monetary loss as a result of downtime in the event of a disaster.
BACKGROUND

The mission of the Procurement Services Department is to support the purpose and goals of the University of Virginia – its educational, research, patient care, and public service missions – by purchasing and providing quality goods and services at competitive prices, ensuring proper financial stewardship for payments, and providing responsive and responsible service to all University departments. The responsibility for administering the University Purchasing Card Program (P-card), which is through Bank of America, resides within Procurement Services. This includes issuance of the card to cardholders, monitoring card activity for compliance, and enforcing the policies and procedures of the University as they relate to the program.

AUDIT OBJECTIVE

The audit objective was to determine whether various aspects of the Purchasing Card process were performed by the departments in accordance with University policies and procedures. This was accomplished by reviewing the P-card transactions recorded in the Bank of America system against the departmental supporting documentation, the Card Log, and the entries recorded in the Integrated System. In addition, P-card transactions were reviewed for instances where transactions may have been split in order to circumvent transaction limits.

OPINION ON AUDIT OBJECTIVE

In our opinion, based upon the test work performed, departments were generally complying with the policies and procedures of the University related to P-cards. In instances where the departments were not complying, Procurement Services was able to satisfactorily monitor the activity of the cardholders through the various reviews which they conduct each month. In instances where a restricted item had been purchased, Procurement Services had caught the transaction and had addressed the issue with the cardholder. Where sales tax had been paid by the cardholder, Procurement Services had contacted the cardholder by email. In addition, Procurement Services had a process in place to identify instances of possible transaction splitting where the same cardholder made multiple purchases from the same vendor on the same day which totaled more than $4,999. In these instances, Procurement Services would contact the cardholder for an explanation.
FINANCIAL IMPACT

Continued compliance with the University’s procurement policies and procedures will lessen the risk of financial loss related to the use of the P-card.
FY 2010 Compliance Audits October 12, 2010

BACKGROUND

The Audit Department completed three individual compliance audits of various departments across the institution between June 1, 2009 and May 31, 2010, which were not part of a larger audit.

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 card (P-card), purchasing, cash receipts, and various 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.

CRITICAL AREAS NOTED FOR IMPROVEMENT

- Two of three departments (67%) did not deposit cash items timely and did not properly safeguard cash receipts. Additionally, one department did not adequately segregate cash receipts responsibilities, and the second department did not maintain adequate documentation.
- Two of three departments (67%) did not complete monthly cardholder reviews of purchasing card transactions, and one of three departments (33%) did not conduct supervisory reviews of purchases.
- One of three departments (33%) did not conduct timely supervisory reviews of monthly project reconciliations of expenditures and cash receipts.

NON-CRITICAL AREAS NOTED FOR IMPROVEMENT

- Two of three departments (67%) did not accurately classify expenditures.
MANAGEMENT’S RESPONSE

Management concurs and has agreed to correct the identified conditions.

FINANCIAL IMPACT

The risk of loss or theft increases when cash items are held too long or are not appropriately safeguarded. When reconciliations and reviews are not conducted in a timely manner, this increases the possibility that errors and irregularities can occur and not be detected. In addition, inaccurate tracking of purchases can impact reporting to the Commonwealth, which may result in the improper imposition of fees.
BACKGROUND

As part of the University’s annual financial reporting process, all departments and divisions at the University that hold significant amounts of inventory must provide the Office of the Comptroller with a value for that inventory as of June 30th. On a departmental level, this responsibility typically includes organizing and scheduling the inventory, performing the physical count, and performing the accounting necessary to arrive at a final inventory valuation. As a control check on this process, the Audit Department (Audit) performs observations and test count work which is subsequently reviewed by the Auditor of Public Accounts (APA) to assist in their evaluation of the reasonableness of the inventory balance reported in the University’s annual report. Typically, Audit’s test work is limited to those departments whose inventories are greater than or equal to the materiality threshold established by the APA for the year (e.g. $2 million for FY 2010).

AUDIT OBJECTIVES AND PROCEDURES

The objectives of our test work were to ascertain the physical existence and reasonableness of the material inventory balances reported by management and to provide reasonable Assessment as to the system of internal controls over the physical inventory process. Major procedures performed by Audit included: observing the physical inventory counts, performing test counts, and performing various analyses between the current year and the prior year figures.

OPINION ON AUDIT OBJECTIVES

Based on the testing performed, no issues came to our attention that would make us conclude that the final inventory valuations provided to us by management were unreasonable. In addition, the explanations provided by management for significant inventory variances from the prior year were deemed to be reasonable. The inventory values for the University as of June 30, 2010 were:

1. *Surgical Supply - $6,864,413
2. *Pharmacy - $5,430,623
3. *University Bookstore/ Cavalier Computers - $5,277,395
4. Hospital Storeroom - $1,314,054
5. Heat Plant - $739,596
6. Outpatient Surgery - $679,339
7. University of Virginia Press - $616,069
8. UVA-Wise Bookstore - $204,942
9. Printing and Copying Services - $201,602
10. Curry School - $193,755

* 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, 2010 financial statements.
UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: November 15, 2010

COMMITTEE: Audit and Compliance

AGENDA ITEM: IV. Approval of the Summary of Audit Findings

BACKGROUND: The resolution reflects discussion by the Committee, in Open Session, of a summary of recent audits conducted by the Audit Department.

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 APRIL 30, 2010, THROUGH SEPTEMBER 30, 2010

RESOLVED, the Summary of Audit Findings for the period April 30, 2010, through September 30, 2010, as presented by the Chief Audit Executive, is approved as recommended by the Audit and Compliance Committee.