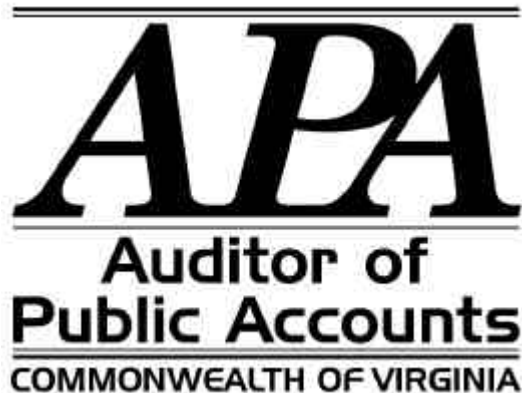


**UNIVERSITY OF VIRGINIA
CHARLOTTESVILLE, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2001, found:

- The financial statements are presented fairly, in all material respects;
- Internal control matters that we consider reportable conditions, however, we do not consider any of these to be material weaknesses. Our findings include the following issues:
 - Implement complete employee separation interview procedures,
 - Review and reconcile charge card statements,
 - Continue security initiative over critical information systems and network at the Medical Center, and
 - Implement the new change control procedures over PeopleSoft and Oracle applications at the Medical Center;
- No instances of noncompliance required to be reported; and
- Adequate corrective action of prior audit findings, except for the findings entitled, “Strengthen Security Over Critical Information Systems and Network” and “Develop Formal Change-Control Procedures Over its PeopleSoft and Oracle Applications.”

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UNIVERSITY OFFICIALS

October 15, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the financial statements of the **University of Virginia**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 15, 2001. Our report on the financial statements is contained in the President's Report 2000-2001 issued by the University.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Auxiliary Enterprises - Revenues and Expenditures and the State Student Loan Fund Schedule are presented for the purposes of additional analysis and are not a required part of the financial statements. The information in those schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Responsibility

University management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. Internal control is a process designed to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles; and the University has complied with applicable laws and regulations.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section, "Internal Control Findings and Recommendations."

We believe that none of the reportable conditions are material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Status of Prior Findings

The University has not completed corrective action with respect to the previously reported findings "Strengthen Security Over Critical Information Systems and Network" and "Develop Formal Change-Control Procedures Over its PeopleSoft and Oracle Applications." Accordingly, we included these findings in the section entitled "Internal Control Findings and Recommendations." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended solely for the information and use of the Governor and General Assembly, the Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 16, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva
kva:36

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

ACADEMIC DIVISION

Implement Complete Employee Separation Interview Procedures

The University has not implemented standard procedures for departments to ensure they properly recover all University property and change security access when an employee leaves. The separation procedure provides departments the opportunity to recover University property such as keys, charge cards, and identification cards and to properly cancel the employee's access to all University systems. In order to make sure that all departments consider these issues when an employee leaves, the University should develop and maintain standard procedures for departmental personnel to follow during the exit conference.

Review and Reconcile Charge Card Statements

The University has issued charge cards to over 1,200 staff for purchasing goods and services that totaled over \$11 million in the past fiscal year. While the University has policies and procedures to ensure that all purchases are appropriate and charges are accurate, we found instances where staff were not following the procedures.

- Some managers are not reviewing the purchasing logs and supporting receipts to ensure the appropriateness of cardholder purchases. Managers did not review and approve purchase logs and reconciliations in 6 of the 19 (32 percent) statements tested.
- Some cardholders are not reconciling their monthly card statement to the purchasing log. We found that 2 of 19 cardholders (11 percent) did not properly reconcile their purchasing logs to the card statements.

Without the statement review and reconciliations, unauthorized or inappropriate purchases may go undetected. Failure of cardholders and their managers to follow procedures could allow fraudulent charges or incorrect payments.

Management should enforce compliance with procedures over the charge card payment and reconciliation process and should revoke charge cards from cardholders who do not follow policies and procedures. Ensuring employees follow the internal controls over the Small Purchase Charge Card Program will reduce the risk of fraudulent and incorrect charges and ensure purchases are appropriate.

MEDICAL CENTER

Continue Security Initiative Over Critical Information Systems and Network

The Health Systems Computing Services (HSCS) has continued its effort to enhance security over the Health System's information systems. As custodian over data resources that are vital to the Health System's operations, HSCS must implement and maintain strong security controls that adequately safeguard Health System's information resources and protect the privacy of its patients. Federal regulations, in the form of the Health Insurance Portability and Accountability Act, and other recent events have heightened awareness of the need for strong information security and contingency plans.

To increase security within the entire information system environment, Health System's management developed a comprehensive security strategy. The plan has a two-phase implementation. In Phase One,

management hired a data security consulting firm to perform a Risk Analysis and Vulnerability Assessment. The assessment, completed in May 2000, addressed several vulnerabilities in the Health System's clinical subnet security system, including a lack of centralized security management, insufficient network controls, inadequate data security policies, and improper configurations of hardware. Although the Health System operates a subnet of the University's network, regulatory requirements and oversight are much more stringent due to Protected Health Information.

The Health System's management has begun Phase Two, the Remediation Phase. After correcting the most vulnerable network concerns, management hired another data security consultant to assist in developing a comprehensive information security program. The plan includes firewall security, which protects the entire Health System network, data encryption and token card one-time password generation for all data communication originating outside the Health System clinical subnet, and network monitoring equipment and software to detect and block attempts of unauthorized or inappropriate clinical subnet access.

HSCS management has established a clinical subnet architecture plan and is awaiting delivery of equipment. After installing the equipment, HSCS management will begin converting its user's network access to the new system. HSCS has also hired a new director whose duties will include managing data security. Finally, the Health System is working with Information Technology and Communications (ITC) at the University to develop comprehensive information security policies. Health System management should continue with the development and implementation of the comprehensive information security program.

Implement the New Change Control Procedures Over PeopleSoft And Oracle Applications

In our previous audit, we recommended that management of the Health System's Administrative Services Division (Administrative Services) develop and implement formal change control procedures to manage changes and upgrades to its PeopleSoft and Oracle software applications. During the year, Administrative Services developed a procedure entitled, "Change Control Policy and Procedures for PeopleSoft/Oracle Applications," however, management has only recently begun to implement these procedures.

We recommend that Administrative Services continue implementing the new procedures. Management should ensure that the change management procedures include logging and tracking all changes throughout the program change process and provide a record of all changes made. These procedures will document the data owner and management's approval of changes and provide a complete program change record for use in system upgrades.

UNIVERSITY OF VIRGINIA
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2001
(In thousands)

	Athletics	Faculty and Staff Services	Food Services	Residential Facilities	Stores and Shops
Operating revenues:					
Student fees	\$ 4,588	\$ 1,628	\$ -	\$ 1,270	\$ -
Sales and services	18,482	7,917	5,316	20,281	31,397
Gross operating revenues	23,070	9,545	5,316	21,551	31,397
Cost of sales	-	-	77	-	24,179
Net operating revenues	23,070	9,545	5,239	21,551	7,218
Operating expenditures:					
Personal services	12,308	2,862	196	5,811	3,163
Contractual services	5,437	3,002	2,638	6,295	1,444
Supplies and materials	1,776	529	118	1,781	361
Equipment	268	23	13	96	1
Miscellaneous	4,040	395	47	223	865
Total operating expenditures	23,829	6,811	3,012	14,206	5,834
Interdepartmental recoveries and charges	(546)	(290)	(1,102)	(12)	44
Net operating expenditures	23,283	6,521	1,910	14,194	5,878
Excess of revenues over operating expenditures	(213)	3,024	3,329	7,357	1,340
Nonoperating revenues (expenditures):					
Interest income	130	86	354	286	267
Private gifts	4,991	-	-	-	-
Other sources	255	-	-	-	-
Scholarships and fellowships	(91)	(1)	(1)	(18)	(3)
Total nonoperating revenues (expenditures)	5,285	85	353	268	264
Transfers:					
Mandatory:					
Debt Service	(5,614)	(2,316)	(803)	(3,205)	(140)
Nonmandatory:					
Capital improvements	(3,825)	(1,034)	(1,775)	(4,554)	(665)
Other	(82)	292	23	(176)	(299)
Total transfers	(9,521)	(3,058)	(2,555)	(7,935)	(1,104)
Net increase (decrease) for the year	(4,449)	51	1,127	(310)	500
Fund balances (deficit) at beginning of year	3,698	(178)	1,807	465	7,268
Fund balances (deficit) at end of year	\$ (751)	\$ (127)	\$ 2,934	\$ 155	\$ 7,768

Student Activities	Student Health	Other Auxiliaries	Long Distance Telephone	Total
\$ 5,286	\$ 5,568	\$ 107	\$ -	\$ 18,447
2,491	158	6,404	445	92,891
7,777	5,726	6,511	445	111,338
(13)	-	(8)	-	24,235
7,790	5,726	6,519	445	87,103
2,974	4,613	1,859	40	33,826
2,246	834	3,366	576	25,838
523	249	248	-	5,585
7	34	29	1	472
206	140	330	35	6,281
5,956	5,870	5,832	652	72,002
(313)	9	(90)	-	(2,300)
5,643	5,879	5,742	652	69,702
2,147	(153)	777	(207)	17,401
147	119	79	311	1,779
-	-	-	-	4,991
-	-	315	-	570
(5)	(1)	(1)	-	(121)
142	118	393	311	7,219
(183)	(5)	(1,092)	-	(13,358)
(2,026)	-	(442)	(104)	(14,425)
53	139	399	-	349
(2,156)	134	(1,135)	(104)	(27,434)
133	99	35	-	(2,814)
2,319	839	2,127	-	18,345
\$ 2,452	\$ 938	\$ 2,162	\$ -	\$ 15,531

UNIVERSITY OF VIRGINIA
STATE STUDENT LOAN FUND SCHEDULE
AS OF JUNE 30, 2001

The University has used its Commonwealth of Virginia Student Loan Fund to provide matching funds to meet the institutional contribution requirements of the federally-sponsored Perkins Loan Program. At June 30, 2001, the fund balance of the State Student Loan Fund consisted of the following:

Cash	\$ 8,128
Due from Perkins Loan Program	<u>82,306</u>
Fund balance	<u>\$90,434</u>

The University transferred no funds from the State Student Loan Fund to the Perkins Loan Program during the fiscal year.

UNIVERSITY OF VIRGINIA
Charlottesville, Virginia

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