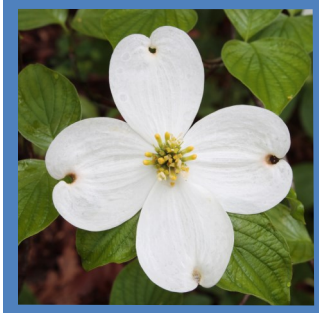


UNIVERSITY OF VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2015

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350

AUDIT SUMMARY

We have audited the basic financial statements of the University of Virginia as of and for the year ended June 30, 2015, and issued our report thereon, dated November 10, 2015. Our report, included in the University's basic financial statements, is available on the Auditor of Public Accounts' website at www.apa.virginia.gov and the University's website at www.virginia.edu. Our audit of the University found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses; and
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal program of the Research and Development Cluster for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement; and found no internal control findings requiring management's attention or instances of noncompliance in relation to this testing.

–TABLE OF CONTENTS–

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Virtual Private Network Security Controls

Applicable to: Academic Division

The University of Virginia (University) does not implement some industry best practice controls to reduce information security risk for its Virtual Private Network (VPN). When combined with the additional control deficiencies noted below, there is an increased risk of inappropriate access to sensitive systems and data by unauthorized individuals.

Best practices, such as the Special Publication 800-53r4 published by the National Institute for Standards and Technology (NIST), recommend specific VPN configuration settings to better ensure the adequate protection of remotely accessed information technology resources.

This configuration weakness was identified and communicated to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

As detailed in the recommendation marked FOIAE, the University should perform a risk assessment regarding the current VPN configuration. Based on the assessment, the University should either alter the configuration to prevent the identified weakness, implement sufficient compensating controls to reasonably mitigate the associated risks, or formally accept the risks with the current configuration. If the University does not alter the current VPN configuration, management should formally document the risks associated with the current configuration, communicate these risks to University leadership, and prepare documentation accepting the known risk.

Improve Controls for Granting and Restricting Elevated Workstation Privileges

Applicable to: Academic Division

The University permits unnecessary privileges on workstations, which increases the risk that an end-user can unintentionally download and install malware on their computer. The University also lacks adequate policy, procedures, and processes for restricting and managing elevated workstation privileges as required by its adopted information security standard, ISO 27002:2013 (Security Standard).

Once installed, malware may propagate throughout the University's internal systems, making them unavailable. Alternatively, certain malware designed to collect any information processed on an infected computer may send it to a server outside the organization, thereby making data available to unauthorized entities.

The details of this finding were communicated to management in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of

security mechanisms. The University should dedicate the necessary resources to further evaluate and implement the controls described in the FOIAE recommendation and incorporate them into its established information security program.

Improve System Activity Monitoring Controls

Applicable to: Academic Division

The University does not have a clearly defined process for reviewing certain audit logs for suspicious activity in sub-components that support the University's primary financial management system, Oracle E-Business Suite (EBS). Additionally, the University does not reasonably protect these audit logs to prevent manipulation of logged activity, and does not log the activities of certain privileged user accounts that can bypass the security rules in EBS.

The EBS system contains sensitive information that is critical to the operation of the University's administrative and financial business functions, such as financial records and personally identifiable information. The University's adopted Security Standard, Section 12.4, requires the implementation of system monitoring controls to safeguard critical information technology resources.

The absence of a defined review process and mechanism for reasonably protecting log integrity increases the risk that the University may not detect unauthorized changes to EBS. Organizations need to review activities of administrative accounts with elevated privileges and with rights to make changes to data without adhering to the rules in the applications to reduce and compensate for this risk.

Several areas of weaknesses regarding maintaining integrity of the audit logs were communicated to management in a separate document marked FOIAE under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The University should dedicate the necessary resources to further evaluate and implement the controls described in the FOIAE recommendation and incorporate them into its established information security program.

Improve myVRS Navigator Reconciliation and Confirmation

Applicable to: Academic Division and Medical Center

Academic Division

The University's Human Resources Department (Human Resources) is not consistently reconciling the Virginia Retirement System (VRS) Snapshot of current employees enrolled in VRS-provided plans to its payroll records before confirming the accuracy of the Snapshot. During fiscal year 2015, Human Resources initiated or completed the reconciliation process for ten of the required 60 reconciliations, but did not initiate the remaining 50 reconciliations.

In accordance with the *VRS Contribution Confirmation and Payment Scheduling Employer Manual*, employers must create a monthly Snapshot in myVRS Navigator (VNAV). Employers are responsible for reviewing and reconciling the Snapshot to agency payroll records prior to confirmation to ensure reporting of up to date and accurate data. Agencies must confirm and submit payment to VRS by the tenth of each month.

Human Resources and Information Technology personnel collaborated on the development of an exception-based query that would expedite the reconciliation process; however, the query and corresponding reconciliation requires a number of manual processes, which are cumbersome, time-consuming and compromise efficiency. Given the number of manual processes, Human Resources cannot complete the reconciliation before the monthly confirmation due date. Without an efficient reconciliation process, the University may unintentionally submit improper contributions to the Virginia Retirement System based on inaccurate data in VNAV. Insufficient reconciliation over an extended period can also affect assumptions made by VRS actuaries, who rely on data provided by individual agencies and institutions.

Human Resources and Information Technology should review the current exception-based query and reconciliation process to identify opportunities for improvement. Given the time sensitivity of the requirement to review and reconcile the Snapshot by the tenth of each month, the University should continue to refine the reconciliation to allow for the identification of reconciling items and ensure compliance. Human Resources personnel should also complete all incomplete reconciliations for fiscal year 2015, and identify and correct any discrepancies.

Medical Center (repeat finding)

The University of Virginia Medical Center (Medical Center) did not perform and document all pre-certification reconciliations between VNAV and the PeopleSoft payroll system during fiscal year 2015. Additionally, Medical Center personnel confirmed three contribution Snapshots after the required deadline.

The *VRS Contribution Confirmation and Payment Scheduling Employer Manual* details the required tasks and roles of agencies in the reconciliation process. The process requires agencies to play a more significant role in identifying and correcting errors prior to certifying payroll data monthly in VNAV. The manual requires agencies to compare the VRS Snapshot to the payroll system to identify discrepancies and make corrections in the payroll system or VNAV, as necessary. Once the Medical Center completes the Snapshot reconciliation, confirmation of the Snapshot will post the information to the employee's record. The VRS Employer Manual requires confirmation and payment by the tenth of each month in order to avoid a potential penalty of five percent of the amount due plus interest at the rate of one percent per month until the agency confirms and submits payment.

Failure to properly reconcile VNAV data with PeopleSoft data prior to certifying increases the risk the Medical Center will submit inaccurate retirement contributions for VRS-enrolled employees. As contributions are the basis for allocation of the Medical Center's share of the Commonwealth's

net pension liability, inaccurate contributions can affect the accuracy of the financial statements. Additionally, inaccurate contributions may result in future retroactive adjustments and additional withholding for individual employees.

The Medical Center should establish and document a formalized process for performing the required reconciliation of VNAV to the PeopleSoft payroll system to ensure accuracy of retirement system data and timely confirmation and payment of retirement contributions. If possible, the Payroll Department should work with Health System Technology Services to develop an automated comparison of VNAV and payroll system data to minimize the number of reconciling items requiring additional research by Medical Center staff.

Improve Sole Source Procurement Documentation

Applicable to: Academic Division

The University lacks sufficient documentation required by its policies and procedures to support some sole source procurements. For 17 out of 44 sole source procurements reviewed (38 percent), contract files did not contain sufficient documentation to fully support the selection of the sole source procurement method.

In accordance with the Virginia Association of State College and University Purchasing Professionals (VASCUPP) Purchasing Manual for Institutions of Higher Education and their Vendors, Section 5. E., "Upon a determination in writing that there is only one source practicably available for that which is to be procured, a contract may be negotiated and awarded to that source without competitive sealed bidding or competitive negotiation. The writing shall document the basis for this determination. The Institution shall issue a written notice stating that only one source was determined to be practicably available, and identifying that which is being procured, the contractor selected, and the date on which the contract was or will be awarded." The University's Management Agreement allows for the use of sole source procurements, and verbiage contained within aligns with the requirements outlined in the aforementioned VASCUPP Manual.

In addition, for six capital procurements reviewed, the University did not provide documented justification for using the sole source procurement method. Facilities Planning and Construction noted there is no specific requirement contained within the University's Higher Education Capital Outlay Manual (HECOM) requiring such documentation. While the HECOM does not explicitly require documentation to support selection of the sole source method, it does provide a clear sole source definition in Section 8.3.5.3, which states, "A Specification is sole source when it names only one manufacturer or product to the exclusion of others, or when it is contrived so that only one manufacturer, product, or Supplier can satisfy the Specification. Because it eliminates all competition, it can be used only in the most exceptional circumstances and under the strictest conditions." The University's Management Agreement, Exhibit M, Section VII, details that the University should seek "competition to the maximum practical degree" in capital outlay procurements and provide "access to the University's business to all qualified vendors, firms and contractors, with no potential bidder or offeror excluded arbitrarily or capriciously, while allowing the flexibility to engage in cooperative procurements and to meet special needs of the University."

Insufficient documentation can raise questions as to whether the procurement method selected is most advantageous for the University and the Commonwealth. Documenting the specific process taken for each sole source procurement helps to validate the University's decision to award a contract to one vendor or contractor without seeking competition. Management should review its procedures for documenting sole source procurements and ensure that contract files contain an explicit audit trail to support the selection of the sole source procurement method. Additionally, management should consider requiring additional documentation to support sole source capital procurements to better align capital and non-capital procurement practices.

Improve Equipment Inventory Process

Applicable to: Academic Division

University departments are not following required procedures for completing annual equipment inventory certifications. As a result, the Fixed Asset Department was not able to provide Inventory Certification Forms, certifying equipment in possession of the University, for six out of seven departments (85 percent) selected for testing.

The Fixed Asset Department Inventory Specialist performs an annual inventory of all equipment through a hand-held scanning process and informs the responsible departmental party, in accordance with policy FIN-034: Maintenance of Equipment Inventory, of the items he was unable to locate during the scan. The responsible party must conduct a search for the missing items and inform the Inventory Specialist of items located using the "Inventory Certification Form." The Fixed Asset Department uses information from the inventory process to write off equipment missing for more than two inventory cycles to ensure accurate reporting in the Fixed Asset System and University financial statements. Without the responsible party's follow-up certification, Fixed Asset Department staff may write off assets that are still in the possession of the Academic Division of the University.

The Office of the Comptroller is in the process of performing a comprehensive review of fixed asset processes, which includes a review of physical inventory procedures. The Academic Division should implement corrective measures that enhance the subsequent review process by responsible parties for missing equipment. The Fixed Asset Department should reinforce the requirement for the responsible party to complete the Inventory Certification Form and should periodically update upper-level management on departments with insufficient equipment follow-up or incomplete Inventory Certification Forms. This reporting practice will provide the Fixed Asset Department with an enforcement mechanism and help to ensure accurate reporting of fixed assets in the accounting system and financial statements.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 10, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
University of Virginia

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

We have audited, in accordance with the 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, the financial statements of the business-type activities and aggregate discretely presented component units of the **University of Virginia** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 10, 2015. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting entitled "Improve Virtual Private Network Security Controls," "Improve Controls for Granting and Restricting Elevated Workstation Privileges," "Improve System Activity Monitoring Controls," "Improve myVRS Navigator Reconciliation and Confirmation," "Improve Sole Source Procurement Documentation," and "Improve Equipment Inventory Process," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

Compliance and Other Matters

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations," in the findings entitled "Improve Controls for Granting and Restricting Elevated Workstation Privileges" and "Improve System Activity Monitoring Controls."

The University's Response to Findings

We discussed this report with management at an exit conference held on November 10, 2015. The University's response to the findings identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has not taken adequate corrective action with respect to the previously reported finding "Improve myVRS Navigator Reconciliation and Confirmation" pertaining to the Medical Center. Accordingly, we included this finding in the section entitled "Internal Control and Compliance 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

AUDITOR OF PUBLIC ACCOUNTS

EMS/alh

UNIVERSITY RESPONSE

FY15 APA Management Comments

The text of APA comments for the following IT recommendations are not included here for IT security reasons. Only the responses appear below:

University Management Response (Virtual Private Network)

The University concurs with the finding and will perform a risk assessment on the configuration of the VPN. If UVA must in certain cases continue to use the current VPN configuration, we will provide mitigating and reasonable controls to handle those devices. In addition, the University has plans as part of the Security Enhancement Project, to implement end-point detection and monitoring on key workstations, develop further segmentation of the network, and enhance the scanning, monitoring and alerting through managed security services of servers and key workstations, which would have access to highly sensitive data. These tools will provide mitigating controls for devices requiring the current VPN configuration.

University Management Response (Elevated Workstation Privileges)

The University concurs with the finding and will assess the risk, implementation timing, approach, and compensating controls in place for workstations that have elevated access or access sensitive data and update policies and standards as appropriate. Considerations will be given to the recommendations of: (1) a formal authorization process, (2) limited access to administrative rights to users who have a documented job related functions that requires the elevated privileges, (3) a documented record of end-users with elevated workstation privileges, (4) an end-user agreement for users with elevated privileges, and (5) additional security training that communicates the associated end user responsibilities and the University's expectations.

The University, through the Security Enhancement Project, is implementing end-point detection tools that will enable visibility, prevention, detection and response to workstations that are used by individuals that have access to the highest risk data. Tools that are being considered are leading tools in the security industry and the project has been kicked-off. These tools will be implemented on workstations that have elevated privileges or access highly sensitive data. In addition, the University is implementing a managed workstation solution for users with elevated and privilege access to University systems and those workstations will have these controls.

University Management Response (Detective Monitoring)

The University concurs and is implementing a Security Enhancement Project (SEP) to address these findings. The project planning is underway and vendor negotiations are wrapping up for a managed

security service. The SEP also provides dollars for both internal and external resources to implement this comprehensive security plan.

As part of the SEP, the University will implement the following log and monitoring tools that will comply with ISO 27002:2013:

1. The University will implement a log management system that will store log files for information related to high-security systems, including logs from the Oracle EBS environments, like operating system and database logs, as well as VPN logs. In addition, the log management system will ensure Enterprise Applications (EA) separation of duties by providing a place for log files other than EA file servers. There are current and longer term plans underway to implement this.
2. The University will be implementing a managed security service that will review log files and use standards developed by the industry for potentially suspicious and malicious activities. The University will work with the vendor to ensure appropriate rules-based monitoring is in place.
3. The University will implement changes to the Oracle Database Management log files, creating them more frequently, so they can be written to the log management system more frequently.

Audit Comment: Improve myVRS Navigator Reconciliation and Confirmation

Academic Division

The University's Human Resources department (Human Resources) is not consistently reconciling the Virginia Retirement System (VRS) Snapshot of current employees enrolled in VRS-provided plans to its payroll records before confirming the accuracy of the snapshot. During fiscal year 2015, Human Resources initiated or completed the reconciliation process for 10 of the required 60 reconciliations, but did not initiate the remaining 50 reconciliations.

In accordance with the VRS Contribution Confirmation and Payment Scheduling Employer Manual, employers must create a monthly snapshot in myVRS Navigator (VNAV). Employers are responsible for reviewing and reconciling the snapshot to agency payroll records prior to confirmation to ensure reporting of up to date and accurate data. Agencies must confirm and submit payment to VRS by the tenth of each month.

Human Resources and Information Technology personnel collaborated on the development of an exception-based query that would expedite the reconciliation process; however, the query and corresponding reconciliation requires a number of manual processes, which are cumbersome, time-consuming and compromise efficiency. Given the number of manual processes, Human Resources cannot complete the reconciliation before the monthly confirmation due date. Without an efficient reconciliation process, the University may unintentionally submit improper contributions to the Virginia Retirement System based on inaccurate data in VNAV. Insufficient reconciliation over an extended period can also affect assumptions made by VRS actuaries, who rely on data provided by individual agencies and institutions.

Human Resources and Information Technology should review the current exception-based query and reconciliation process to identify opportunities for improvement. Given the time sensitivity of the requirement to review and reconcile the snapshot by the 10th of each month, the University should continue to refine the reconciliation to allow for the identification of reconciling items and ensure compliance. Human Resources personnel should also complete all incomplete reconciliations for fiscal year 2015, and identify and correct any discrepancies.

Medical Center (repeat finding)

The University of Virginia Medical Center (Medical Center) did not perform and document all pre-certification reconciliations between VNAV and the PeopleSoft payroll system during fiscal year 2015. Additionally, Medical Center personnel confirmed three contribution snapshots after the required deadline.

The VRS Contribution Confirmation and Payment Scheduling Employer Manual details the required tasks and roles of agencies in the reconciliation process. The process requires agencies to play a more significant role in identifying and correcting errors prior to certifying payroll data monthly in VNAV. The manual requires agencies to compare the VRS snapshot to the payroll system to identify discrepancies and make corrections in the payroll system or VNAV, as necessary. Once the Medical Center completes the snapshot reconciliation, confirmation of the snapshot will post the information to the employee's record. The VRS Employer Manual requires confirmation and payment by the 10th of each month in order to avoid a potential penalty of five percent of the amount due plus interest at the rate of one percent per month until the agency confirms and submits payment.

Failure to properly reconcile VNAV data with PeopleSoft data prior to certifying increases the risk the Medical Center will submit inaccurate retirement contributions for VRS-enrolled employees. As contributions are the basis for allocation of the Medical Center's share of the Commonwealth's net pension liability, inaccurate contributions can affect the accuracy of the financial statements. Additionally, inaccurate contributions may result in future retroactive adjustments and additional withholding for individual employees.

The Medical Center should establish and document a formalized process for performing the required reconciliation of VNAV to the PeopleSoft payroll system to ensure accuracy of retirement system data and timely confirmation and payment of retirement contributions. If possible, the Payroll department should work with Health System Technology Services to develop an automated comparison of VNAV and payroll system data to minimize the number of reconciling items requiring additional research by Medical Center staff.

University Management Response

Human Resources and Information Technology are continuing the review of the current exception-based query and reconciliation processes to identify opportunities for improvement. As discussed with the APA, UVA's process has been uniquely complex and time-consuming because the interface between our systems and the state's systems are not aligned. Nonetheless, we have made significant

progress during the past twelve months. All 100 employees whose records were out of sync have been reconciled. 85 of the 100 were faculty with contributions over 9 months in the university system compared to 12 months in the VRS system. This has been corrected with VRS effective 25-August-2015. VRS has confirmed this update. We have modified our reconciliation procedure to account for the reconciliation issues created by nine-month faculty. The remaining 15 employee records that were out of sync were for a variety of reasons. However, all have been corrected. Funding for the account is in order and no additional funds need to be passed between VRS and the University. The University devotes substantial resources already, but will direct additional resources to it in order to meet the VRS monthly due date.

Medical Center Management Response

The Medical Center agrees that the VNAV reconciliation should be completed in a timely fashion. New steps have been added to the reconciliation procedure to ensure that due dates, deliverables and responsible parties are clearly specified, and that appropriate documentation of the reconciliation is retained.

A calendar will be developed and distributed to Health Sciences Technical Services (HSTS), Payroll and Human Resources showing due dates and deliverables for each responsible department. HSTS will send an email to Payroll and Human Resources when the Medical Center file has been sent and loaded at VRS. HR will send an email to Payroll when the errors have been corrected (Payroll will print and save this email). Payroll will process payment and submit file and print out confirmation from VRS.

Audit Comment: Improve Sole Source Procurement Documentation

The University lacks sufficient documentation required by its policies and procedures to support some sole source procurements. For 17 out of 44 sole source procurements reviewed (38 percent), contract files did not contain sufficient documentation to fully support the selection of the sole source procurement method.

In accordance with the Virginia Association of State College and University Purchasing Professionals (VASCUPP) Purchasing Manual for Institutions of Higher Education and their Vendors, Section 5. E., "Upon a determination in writing that there is only one source practicably available for that which is to be procured, a contract may be negotiated and awarded to that source without competitive sealed bidding or competitive negotiation. The writing shall document the basis for this determination. The Institution shall issue a written notice stating that only one source was determined to be practicably available, and identifying that which is being procured, the contractor selected, and the date on which the contract was or will be awarded." The University's Management Agreement allows for the use of sole source procurements and verbiage contained within aligns with the requirements outlined in the aforementioned VASCUPP Manual.

In addition, for six capital procurements reviewed, the University did not provide documented justification for using the sole source procurement method. Facilities Planning and Construction

noted there is no specific requirement contained within the University's Higher Education Capital Outlay Manual (HECOM) requiring such documentation. While the HECOM does not explicitly require documentation to support selection of the sole source method, it does provide a clear sole source definition in Section 8.3.5.3, which states, "A Specification is sole source when it names only one manufacturer or product to the exclusion of others, or when it is contrived so that only one manufacturer, product, or Supplier can satisfy the Specification. Because it eliminates all competition, it can be used only in the most exceptional circumstances and under the strictest conditions." The University's Management Agreement, Exhibit M, Section VII, details that the University should seek "competition to the maximum practical degree" in capital outlay procurements and provide "access to the University's business to all qualified vendors, firms and contractors, with no potential bidder or offeror excluded arbitrarily or capriciously, while allowing the flexibility to engage in cooperative procurements and to meet special needs of the University."

Insufficient documentation can raise questions as to whether the procurement method selected is most advantageous for the University and the Commonwealth. Documenting the specific process taken for each sole source procurement helps to validate the University's decision to award a contract to one vendor or contractor without seeking competition. Management should review its procedures for documenting sole source procurements and ensure that contract files contain an explicit audit trail to support the selection of the sole source procurement method. Additionally, management should consider requiring additional documentation to support sole source capital procurements to better align capital and non-capital procurement practices.

University Management Response

With respect to the sole source procurements addressed above, the University stands by its selection of the sole source procurement method as appropriate and also understands the APA's assertion that contract files need to contain a more explicit audit trail to support the selection of the sole source procurement method. For the sole source procurements managed by Procurement and Supplier Diversity Services (PSDS) similar to those referenced in paragraphs 1 and 2, the University will take steps to ensure that its internal sole source approval form is completed and retained as documentation. Additionally, as a number of the documentation shortcomings were related to maintenance contracts, the University will specifically amend the sole source policy to clarify that sole source maintenance transactions require the same essential documentation as for other sole source transactions. For capital sole source procurements, Facilities Planning and Construction commits to reviewing the HECOM with respect to how sole sources are addressed and initiating any necessary relevant edits to the HECOM to ensure requisite clarity, specificity, and consistency with other relevant sections of the law.

Audit Comment: Improve Equipment Inventory Process

University departments are not following required procedures for completing annual equipment inventory certifications. As a result, the Fixed Asset Department was not able to provide Inventory

Certification Forms, certifying equipment in possession of the University, for six out of seven departments (85 percent) selected for testing.

The Fixed Asset Department Inventory Specialist performs an annual inventory of all equipment through a hand-held scanning process and informs the responsible departmental party, in accordance with policy FIN-034: Maintenance of Equipment Inventory, of the items he was unable to locate during the scan. The responsible party must conduct a search for the missing items and inform the Inventory Specialist of items located using the "Inventory Certification Form." The Fixed Asset Department uses information from the inventory process to write off equipment missing for more than two inventory cycles to ensure accurate reporting in the Fixed Asset System and University financial statements. Without the responsible party's follow-up certification, Fixed Asset Department staff may write off assets that are still in the possession of the Academic Division of the University.

The Office of the Comptroller is in the process of performing a comprehensive review of fixed assets processes, which includes a review of physical inventory procedures. The Academic Division should implement corrective measures that enhance the subsequent review process by responsible parties for missing equipment. The Fixed Asset Department should reinforce the requirement for the responsible party to complete the Inventory Certification Form and should periodically update upper-level management on departments with insufficient equipment follow-up or incomplete Inventory Certification Forms. This reporting practice will provide the Fixed Asset Department with an enforcement mechanism and help to ensure accurate reporting of fixed assets in the accounting system and financial statements.

University Management Response

Before an inventory write-off occurs, the University's operating practice requires that an item be reported as "not found" for two inventory cycles and that the department certify that the item cannot be found. This provides maximum opportunity for units to locate items or determine that items have been disposed or sent to surplus property and helps to prevent premature write-off of missing items. The University agrees that the completion of equipment inventory certifications needs to improve. The Comptroller's Office is currently conducting a comprehensive review of the equipment inventory process. This includes collaboration with the schools and departments to develop a more effective process for completing, verifying, and certifying the accuracy of units' inventories on a timelier basis. One meeting with the largest unit has resulted in positive changes that are currently being implemented and will help to ensure completion of inventory certifications.

UNIVERSITY OF VIRGINIA

Charlottesville, Virginia

BOARD OF VISITORS

William H. Goodwin, Jr.
Rector

Frank M. Conner, III
Vice Rector

Frank B. Atkinson
Mark T. Bowles
L.D. Britt
Whittington W. Clement
Helen E. Dragas
Kevin J. Fay
Barbara J. Fried
Frank E. Genovese
John A. Griffin
Victoria D. Harker
Bobbie G. Kilberg
John G. Macfarlane, III
Tammy S. Murphy
James V. Reyes
Jeffrey C. Walker

Daniel T. Judge
Student

Susan G. Harris
Secretary to the Board of Visitors

ADMINISTRATIVE OFFICERS

Teresa A. Sullivan
President

Patrick D. Hogan
Executive Vice President and Chief Operating Officer