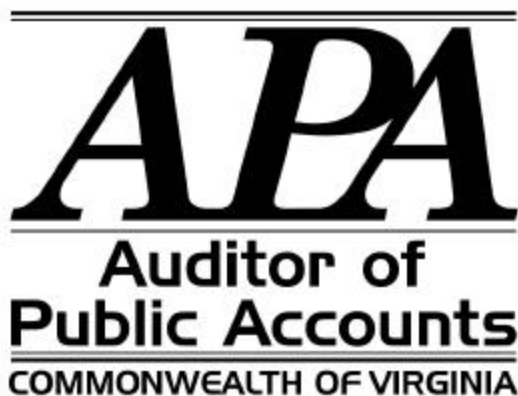


**UNIVERSITY OF VIRGINIA
CHARLOTTESVILLE, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter relating to the Medical Center that we consider a reportable condition, however, we do not consider this issue to be a material weakness;
- no material instances of noncompliance required to be reported under Government Auditing Standards; and
- adequate corrective action of prior year audit findings, except for the finding entitled, "Strengthen Security Over Critical Information Systems and Network."

We recommend that Medical Center management continue its security initiative over its critical information systems and network.

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UNIVERSITY OFFICIALS

October 22, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
University of Virginia

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the basic financial statements of the University of Virginia, a component unit of the Commonwealth of Virginia, as of June 30, 2002, and for the year then ended, and have issued our report on the financial statements contained in the President's Report 2001-02 issued by the University. The financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University of Virginia. 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. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

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

In planning and performing our audit of the financial statements of the University of Virginia as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the University of Virginia'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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the section titled "Internal Control Finding and Recommendation."

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. However, we believe that the reportable condition described in this report is not a material weakness.

Status of Prior Findings

The University has not completed adequate corrective action with respect to the previously reported finding "Strengthen Security Over Critical Information Systems and Network." Accordingly, we included this finding in the section entitled "Internal Control Finding and Recommendation." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, 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 October 22, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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kva:42

INTERNAL CONTROL FINDING AND RECOMMENDATION

MEDICAL CENTER

Continue Security Initiative Over Critical Information Systems and Network

The Health Systems Computing Services (HSCS) continues its initiative to enhance security over the Health System's network of 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 the Health System's information resources and, as importantly, protect the privacy of its patients. The Federal Health Insurance Portability and Accountability Act's Privacy Rule, effective April 2003, heightens awareness of the need for strong information security policies and procedures along with accountability of staff accessing patient information.

To increase security within the entire information systems environment, management developed a comprehensive security strategy. Initially management, with the aid of a security consultant, conducted a risk analysis and vulnerability assessment. The security consultant completed their assessment and made recommendations in May 2000.

The assessment addressed several vulnerabilities in the Health System's network security system. After correcting the most vulnerable network concerns, management began developing a comprehensive, ongoing information security program. The program encompasses the review and development of information security policies, development and administration of a new "more secure" network, and monitoring the access of sensitive data.

The new "more secure" network has been installed. The network includes improved physical security, enhanced authentication procedures, encryption of data communications for users outside the network, and stronger prevention of unauthorized network access from outside the Health System's network.

Health Systems Computing Services has begun moving its more than 5,000 network users to the new the secure clinical subnet. They will initially migrate the Medical Center, consisting of University Hospital, Primary Care Clinics, and West Hospital, by April 2003. Afterwards, remote centers such as Northridge, Orange, etc. will be migrated by the end of the calendar year.

Further, Health System management is conducting an ongoing review of policies in cooperation with the University's Department of Information Technology and Communication and under the direction of its Director of Information Services and Security. Also, the Health System's Corporate Compliance Office has begun a program monitoring staff access of patient data.

Management should continue with the development and implementation of the comprehensive, ongoing information security program.

UNIVERSITY OF VIRGINIA
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002
(in thousands)

	Dining Services	Residential Facilities	Student Health	Stores and Shops
Operating revenues:				
Student tuition and fees	\$ -	\$ 20	\$ 6,196	\$ 240
Sales and services of auxiliary enterprises	465	15,872	58	23,282
Total operating revenues	465	15,892	6,254	23,522
Operating expenses:				
Compensation and benefits	716	6,374	4,931	3,282
Supplies and other services	795	4,073	1,346	17,316
Student aid	-	2	-	-
Utilities	191	3,577	123	139
Total operating expenses	1,702	14,026	6,400	20,737
Operating income/(loss)	(1,237)	1,866	(146)	2,785
Nonoperating revenues/(expenses):				
Gifts	-	-	-	-
Investment income	603	561	102	327
Transfers for debt service, capital improvements and other	(2,573)	(5,266)	133	(1,101)
Total nonoperating revenues/(expenses)	(1,970)	(4,705)	235	(774)
Net increase/(decrease) for the year	\$ (3,207)	\$ (2,839)	\$ 89	\$ 2,011

Note - This schedule accounts for purchases of capital assets as expenses and does not include depreciation. Management uses this method of accounting to monitor individual auxiliary enterprises and to set rates. Reductions have been made to account for student discounts and allowances and to eliminate internal transactions.

Student Activities	Faculty/Staff Services	Parking and Transportation	Athletics	Other Auxiliaries	Total
\$ 6,947	\$ -	\$ 1,649	\$ 4,855	\$ 664	\$ 20,571
2,223	2,155	5,855	22,290	4,476	76,676
9,170	2,155	7,504	27,145	5,140	97,247
2,588	927	2,207	13,887	1,437	36,349
1,271	619	1,255	10,606	3,319	40,600
-	-	-	102	1	105
508	177	476	1,158	399	6,748
4,367	1,723	3,938	25,753	5,156	83,802
4,803	432	3,566	1,392	(16)	13,445
-	-	-	5,677	-	5,677
148	187	123	378	(480)	1,949
(3,700)	(1,412)	(3,288)	(7,817)	(817)	(25,841)
(3,552)	(1,225)	(3,165)	(1,762)	(1,297)	(18,215)
\$ 1,251	\$ (793)	\$ 401	\$ (370)	\$ (1,313)	\$ (4,770)

UNIVERSITY OF VIRGINIA
STATE STUDENT LOAN SCHEDULE
For the Year Ended June 30, 2002

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, 2002, 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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