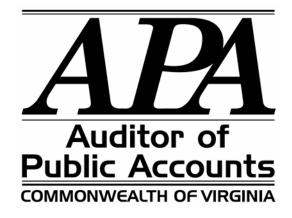
UNIVERSITY OF VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2006



AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we do not consider to be a material weakness; and
- no instances of noncompliance or other matters required to be reported.

We have audited the basic financial statements of the University as of June 30, 2006 and for the year then ended and issued our report thereon, dated November 3, 2006. Our report is included in the President's Report 2005-06 issued by the University that it anticipates releasing on or around March 1, 2007.

-TABLE OF CONTENTS-

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL FINDING AND RECOMMENDATION	1
INDEPENDENT AUDITOR'S REPORT	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	2-3
SUPPLEMENTARY INFORMATION	
Schedule of Auxiliary Enterprises – Revenues and Expenses	5-6
State Student Loan Fund Schedule	7
UNIVERSITY RESPONSE	8-9
UNIVERSITY OFFICIALS	10

INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Student System Access Procedures

The University does not promptly discontinue employee access to the Integrated Student Information System (ISIS) after termination. While the University does suspend accounts after 45 days of inactivity and promptly discontinues overall University system access after termination, there is a possibility that terminated employees could use another employee's University system access during that period to access ISIS and then review or change student accounts. The University's Human Resources policy states that "Access revocations should generally be effective and physical items should be collected on the day these are no longer required by the individual."

We also specifically found where the Student Financial Services Office used a single access account and different passwords for a series of temporary employees. The University has discontinued this practice for all departments since it does not allow for individual responsibility for transactions and may allow former temporary employees to access student accounts after they leave their assignment.

The University should follow its Human Resources policy and best business practices of removing access to the ISIS for all employees upon termination to avoid unnecessary access to sensitive data. Management of the Student Financial Services Office should make sure that all employees have an individual access logon and that access is immediately discontinued upon the employee's termination.



Commonwealth of Hirginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts P.O. Box 1295 Richmond, Virginia 23218

November 3, 2006

The Honorable Timothy M. Kaine Governor of Virginia

The Honorable Thomas K. Norment, Jr. 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 the financial statements of the **University of Virginia** as of and for the year ended June 30, 2006, and have issued our report thereon. Our report, dated November 3, 2006, is included in the President's Report 2005-06 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 <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States. The financial statements of the component units of the University that were audited by other auditors were audited 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, 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 an opinion 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 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, entitled "Improve Student System Access Procedures" 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 above is not a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Supplementary Information

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 Expenses" and the "State Student Loan Fund Schedule" are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The 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 statements taken as a whole.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, its audit committee, and management, and are not intended to be and should not be used by anyone, other than these specified parties. However, these reports are a matter of public record and their distribution is not limited. We discussed these reports with management at an exit conference held on November 3, 2006.

AUDITOR OF PUBLIC ACCOUNTS

JHS:sks sks: 62

SUPPLEMENTARY INFORMATION

UNIVERSITY OF VIRGINIA SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENSES For the Year Ended June 30, 2006

	Dining]	Residential	Student		Stores and	
	Services		Facilities	Health	Shops		
Revenues:							
Student fees	\$ -	\$	20,000	\$ 6,809,539	\$	-	
Auxiliary enterprise revenue	5,531,842		26,222,715	938,173		28,305,731	
Gifts	-		-	-		-	
Investment income	465,025		109,066	72,780		48,402	
Total revenues	5,996,867		26,351,781	7,820,492		28,354,134	
Expenses:							
Compensation and benefits	1,551,209		7,071,944	5,460,027		3,751,082	
Supplies and other services/(recoveries)	(3,891,491)		(1,979,971)	(100,882)		(7,708,009)	
Supplies and other services /(non-recoveries)	2,883,817		6,597,037	1,926,736		29,496,534	
Student aid	59		2,121	-		174	
Utilities	873,249		4,456,983	121,989		190,858	
Depreciation (Note 1)	5,023		15,378	7,223		2,316	
Other	-		1,507	93		70,178	
Total expenses	1,421,865		16,164,998	7,415,185		25,803,133	
Revenues over/(under) expenses	4,575,002		10,186,784	405,307		2,551,000	
Transfers to plant and other	(3,786,674)		(10,862,311)	(141,607)		(1,544,899)	
Net revenue/(expenses)	\$ 788,328	\$	(675,528)	\$ 263,700	\$	1,006,101	

Note 1: Depreciation not reported by function in the functional matrix footnote in the Financial Report.

Note 2: Operating Revenue is net of scholarship allowances in the amount of 6,505,821.

		aculty/Staff Services	Parking and Transportation		Athletics			Other Auxiliaries		Other Self-Supporting		Total
 7 Tetr vities		Bervices		ansportation		Timetres		Tianinaries		en supporting		10141
\$ 9,164,956	\$	-	\$	2,321,317	\$	9,971,790	\$	273,356	\$	-	\$	28,560,958
2,537,398		2,267,158		7,291,187		26,232,714		(251,647)		2,018,133		101,093,405
-		-		-		37,150,264		-		-		37,150,264
133,427		63,764		18,185		951,852		640,763		357,429		2,860,693
 11,835,781		2,330,922		9,630,690		74,306,620		662,471		2,375,561		169,665,320
3,694,450		1,184,415		3,529,020		20,644,422		1,365,402		4,116,992		52,368,962
(166,204)		(626,138)		(4,538,519)		(5,180)		(132,420)		(19,390,440)		(38,539,255)
1,939,083		1,019,493		4,753,701		16,848,172		4,004,522		7,175,625		76,644,719
-		-		-		8,728,356		-		-		8,730,710
715,939		414,026		1,118,441		1,486,883		519,575		7,791,339		17,689,284
32,957		1,244		4,131		68,915		12,031		121,590		270,807
19,870		37,645		-		402,576		112,620		5,577		650,065
6 226 006		2 020 695		1 0 6 6 77 1		40 174 142		5 001 730		(170.216)		117 015 202
 6,236,096		2,030,685		4,866,774		48,174,143		5,881,729		(179,316)		117,815,292
5,599,686		300,237		4,763,916		26,132,477		(5,219,258)		2,554,877		51,850,028
(4,034,662)		(1,084,645)		(4,585,774)		(43,245,817)		(755,640)		(2,520,774)		(72,562,802)
\$ 1,565,024	\$	(784,407)	\$	178,142	\$	(17,113,340)	\$	(5,974,897)	\$	34,104	\$	(20,712,774)

Student Loan Funds

In the past, 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, 2006, the fund balance of the State Student Loan Fund consisted of the following:

Cash
Due from Perkins Loan Program

\$ 8,128

82,306

Fund balance \$90,434

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



January 30, 2007

Mr. Walter J. Kucharski Auditor of Public Accounts P.O. Box 1295 Richmond, Virginia 23218

Dear Mr. Kucharski:

We have reviewed the internal control finding and recommendation resulting from the fiscal year 2006 audit by the Auditor of Public Accounts (APA) and discussed during the exit conference held November 3, 2006.

The University of Virginia acknowledges and concurs with the internal control finding. The following contains (1) the APA finding and (2) the University of Virginia's corrective action plan to address the concerns and issues brought forward.

(1) APA Finding: Improve Student System Access Procedures

The University does not promptly discontinue employee access to the Integrated Student Information System (ISIS) after termination. While the University does suspend accounts after 45 days of inactivity and promptly discontinues overall University system access after termination, there is a possibility that terminated employees could use another employee's University system access during that period to access ISIS and then review or change student accounts. The University's Human Resources policy states that "Access revocations should generally be effective and physical items should be collected on the day these are no longer required by the individual."

We also specifically found where the Student Financial Services Office used a single access account and different passwords for a series of temporary employees. The University has discontinued this practice for all departments since it does not allow for individual responsibility for transactions and may allow former temporary employees to access student accounts after they leave their assignment.

The University should follow its Human Resources policy and best business practices of removing access to the ISIS for all employees upon termination to avoid unnecessary access to sensitive data. Management of the Student Financial Services Office should make sure that all employees have an individual access logon and that access is immediately discontinued upon the employee's termination.

(2) Management's Response

As background, policies and procedures in place at the time of the audit provided significant controls to help ensure terminated employees did not retain ISIS access. For example, the University's Departmental Data Security Contacts are responsible for immediately suspending the user IDs of terminated employees and initiating requests that the IDs be deleted.

There is also an automated process to suspend user IDs after 45 days of inactivity, which among other safeguards serves as a "safety net" should a Data Security Contact fail to make suspension requests as required.

Based on the audit finding, the University implemented an additional procedure in December to create a stronger, system-based internal control. A daily file of terminated employees is created out of the Human Resources module of the Integrated System and compared to individuals with ISIS access. All matching individuals are then deleted from having ISIS access.

Corrective action for this portion of the finding has been implemented.

Concerning the single access account, it was established by Student Financial Services for inquiry access only. It facilitated the transition when a temporary employee was replaced by another, particularly during peak operational periods such as registration. Management implemented this process in the year 2000 in response to an audit report. At that time, Student Financial Services was housed in a different building, with a different, customer service office and had yet to have Student Accounts included in its responsibilities. The account password was changed before handing off the account to the new employee and a manual record of transfers was kept so that any account problems could be traced to the appropriate individual. Also, the new employees had to be fully trained on privacy of student data and sign a confidentiality statement.

Based on the current audit finding, a new access account is now established for each new temporary employee. This enhanced internal control is a better fit with Student Financial Services' new location, and its expanded role in responding to student and parent inquiries.

Corrective action for this portion of the finding has been implemented.

Please contact me if additional information is needed. Thank you for your recommendation for the benefit of the University of Virginia.

Sincerely,

Jest eynolds
Yoke San L. Reynolds

Vice President and Chief Financial Officer

UNIVERSITY OF VIRGINIA

BOARD OF VISITORS

Thomas F. Farrell, II Rector

Daniel R. Abramson

A. Macdonald Caputo

Alan A. Diamonstein

Susan Y. (Syd) Dorsey

Georgia Willis Fauber

G. Slaughter Fitz-Hugh, Jr.

Vincent J. Mastracco, Jr.

Lewis F. Payne

Don R. Pippin

Gordon F. Rainey, Jr.

Warren M. Thompson

Edwin Darracott Vaughan, Jr. M.D.

W. Heywood Fralin John O. Wynne

Glynn D. Key Anne Elizabeth Mullen (Student Member)

Alexander G. Gilliam, Jr. Secretary to the Board of Visitors

ADMINISTRATIVE OFFICERS

John T. Casteen, III, President

Leonard W. Sandridge, Jr., Executive Vice President, and Chief Operating Officer

Gene D. Block, Vice President, and Provost

R. Ariel Gomez, M.D., Vice President for Research and Graduate Studies

William B. Harvey, Vice President and Chief Officer for Diversity and Equity

R. Edward Howell, Vice President and Chief Executive Officer of the Medical Center

Patricia M. Lampkin, Vice President and Chief Student Affairs Officer

James L. Hilton, Vice President and Chief Information Officer

Yoke San L. Reynolds, Vice President and Chief Financial Officer

Colette Sheehy, Vice President for Management and Budget

Robert D. Sweeney, Senior Vice President for Development and Public Affairs

Arthur Garson, Jr., M.D., Vice President, and the Dean of the School of Medicine