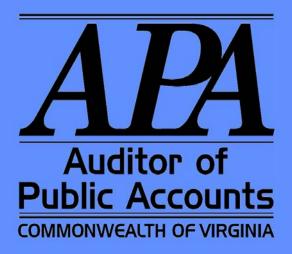
UNIVERSITY OF VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2009



AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2009, found:

- the financial statements are presented fairly, in all material respects, with generally accepted accounting principles;
- certain matters that we consider to be significant deficiencies in internal control; however, we do not consider them to be material weaknesses
- one instance of noncompliance or other matters required to be reported under <u>Government Auditing Standards</u>.

We have audited the basic financial statements of the University as of June 30, 2009, and for the year then ended and issued our report thereon, dated November 20, 2009. Our report is included in the <u>President's Report 2008-09</u> issued by the University that anticipates its release on or around December 14, 2009.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Financial Statement Preparation Process

The University found an erroneous beginning balance adjustment, which understated accounts receivable and grant revenues in a previous period by \$16.4 million. Also, Management performed a reconciliation of the student information system to the financial system on June 30, 2009 and noted a \$3.1 million reconciling item, however, neither the preparer of the reconciliation, nor the managers reviewing the reconciliation followed up on the reconciling item to ensure its proper resolution. The reconciling difference of \$3.1 million overstated tuition and fee revenue and understated deferred revenue. More importantly, this was an indication of a system calculation error, which the university needed to correct.

In response to finding these errors, the University needs to change its grant and student accounts receivable reconciliation procedures. During the current year financial statement preparation process, management instituted some changes and will need to continue these procedures in the future. We encourage the University to review and refine its financial statement reporting process with emphasis on enhancing its reconciliation processes.

Properly Process Return of Title IV Funds

The University of Virginia's College at Wise (UVA Wise) did not determine whether any students unofficially withdrew from the University, and did not perform the Title IV calculations required by the U.S. Department of Education to determine if UVA Wise should return any funds to the federal government. In addition, UVA Wise did not perform the required withdrawal calculations for students who withdrew after completing 60% of the semester to determine if the students were eligible for a post-withdrawal disbursement.

The <u>Code of Federal Regulations</u>, Title 34 CFR 668.22(a)(1) - (4) has specific requirements regulating "the treatment of title IV funds when a student withdraws" and "for a student who withdraws after the 60% point-in-time." The requirement is to have a mechanism in place for identifying and resolving instances where the institution cannot confirm a student's attendance through the end of the period, calculating earned and unearned funds, and returning unearned funds to the federal Department of Education. In addition, "for a student who withdraws after the 60% point-in-time the school may have to complete a return calculation in order to determine whether the student is eligible for a post withdrawal disbursement."

By not identifying and processing Title IV refunds for unofficial withdrawals and not completing the calculation for students that withdraw after completing 60% of the semester, UVA Wise is not in compliance with federal requirements. Student financial aid staff should develop policies and procedures for determining if a student has unofficially withdrawn from the University, calculating earned and unearned funds, and returning unearned funds to the federal Department of Education. In addition, UVA Wise should process Title IV refund calculations for students who have withdrawn after completing 60 percent of the semester, to ensure appropriate post-withdrawal disbursements.



Commonwealth of Mirginia

Walter J. Kucharski, Auditor

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

November 20, 2009

The Honorable Timothy M. Kaine Governor of Virginia

The Honorable M. Kirkland Cox 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 business-type activities and aggregate discretely presented component units of the **University of Virginia** as of and for the year ended June 30, 2009, which collectively comprise the University of Virginia's basic financial statements and have issued our report thereon dated November 20, 2009. Our report was modified to include a reference to other auditors. 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. 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 of Virginia, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with <u>Government Auditing Standards</u>.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on

a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Improve Financial Statement Preparation Process," which is described in the section titled "Internal Control and Compliance Findings and Recommendations," to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards. One instance of noncompliance and other matters, entitled "Properly Process Return of Title IV Funds" is described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

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 Student Loan Fund Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

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, 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.

We discussed this report with management at an exit conference held on November 23, 2009.

AUDITOR OF PUBLIC ACCOUNTS

HCV/alh

SUPPLEMENTARY INFORMATION

STUDENT LOAN FUND SCHEDULE

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, 2009, the fund balance of the State Student Loan Fund consisted of the following:

Cash	8,128
Due from Perkins Loan Program	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.

VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

December 8, 2009

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

Dear Mr. Kucharski:

The University of Virginia has reviewed the two management comments provided by the Auditor of Public Accounts for the period ending June 30, 2009. University management concurs with the findings, and has already taken action to strengthen internal controls over these areas.

I have provided a more detailed response to each comment below.

APA Comment: Improve Financial Statement Preparation Process

The University found an erroneous beginning balance adjustment, which understated accounts receivable and grant revenues in a previous period by \$16.4 million. Also, Management performed a reconciliation of the student information system to the financial system on June 30, 2009 and noted a \$3.1 million reconciling item, however, neither the preparer of the reconciliation, nor the managers reviewing the reconciliation followed up on the reconciling item to ensure its proper resolution. The reconciling difference of \$3.1 million overstated tuition and fee revenue and understated deferred revenue. More importantly, this was an indication of a system calculation error, which the university needed to correct.

In response to finding these errors, the University needs to change its grant and student accounts receivable reconciliation procedures. During the current year financial statement preparation process, management instituted some changes and will need to continue these procedures in the future. We encourage the University to review and refine its financial statement reporting process with emphasis on enhancing its reconciliation processes.

UVa Management Response

Management has implemented changes in both grant and student accounts receivable reconciliation procedures. The University Comptroller's Office updated its financial statement preparation procedures on 9/08/09. In addition, it created new reconciliation procedures by 11/30/09, requiring both preparer and reviewer sign-off on all reconciling items. Any reconciling item must be investigated and its resolution confirmed and captured in writing by the preparer, and approved by the reviewer. Training on the new procedures will be completed by 1/15/10.

APA Comment: Properly Process Return of Title IV Funds

The University of Virginia's College at Wise (UVA Wise) did not determine whether any students unofficially withdrew from the University and did not perform the Title IV calculations required by the U.S. Department of Education to determine if UVA Wise should return any funds to the federal government. In addition, UVA Wise did not perform the required withdrawal

calculations for students who withdrew after completing 60% of the semester to determine if the students were eligible for a post withdrawal disbursement.

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By not identifying and processing Title IV refunds for unofficial withdrawals and not completing the calculation for students that withdraw after completing 60% of the semester, UVA Wise is not in compliance with federal requirements. Student financial aid staff should develop policies and procedures for determining if a student has unofficially withdrawn from the University, calculating earned and unearned funds, and returning unearned funds to the federal Department of Education. In addition, UVA Wise should process Title IV refund calculations for students who have withdrawn after completing 60% of the semester to ensure appropriate post-withdrawal disbursements.

UVa Management Response

In response to the subject of the APA's comment, the College at Wise amended its policy on withdrawals to strengthen the section on "unofficial" withdrawals as it relates to those students earning a 0.0 grade point average for any given semester. For the 2008 – 2009 school year, fourteen (14) students received federal aid and earned a 0.00 grade point average (receiving all F's for a term). This number represents just 0.9 percent of all aid recipients and only 0.5 percent of all federal financial aid recipients.

The College also moved the Return to Title IV refund calculation process to the Office of Financial Aid in accordance with industry best practices. The Office of Financial Aid will utilize the refund software provided by the Department of Education to perform each calculation. These changes, along with implementation of the College's new student information system, will help ensure that these withdrawals are identified and addressed in a timely fashion as required by the federal regulations. All of these changes were implemented October 1, 2009.

Please contact me if any additional information is needed. On behalf of the University of Virginia, please extend my appreciation to all of your staff for their professional work and recommendations.

Sincerely,

Yoke San L. Reynolds

CC: Mr. Leonard Sandridge

Mr. Sim Ewing Mr. Steve Kimata

Moderales

UNIVERSITY OF VIRGINIA Charlottesville, Virginia

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