



# UNIVERSITY OF VIRGINIA

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts  
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## AUDIT SUMMARY

We have audited the basic financial statements of the University of Virginia as of and for the year ended June 30, 2022, and issued our report thereon, dated December 15, 2022. Our report, included in the University's Financial Report, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the University's website at [www.virginia.edu](http://www.virginia.edu). Our audit found:

- the financial statements are presented fairly, in all material respects;
- one deficiency related to governance structure and resources surrounding the financial reporting process that we consider to be a material weakness in internal control;
- additional 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.

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## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

### **Improve Governance Structure and Resources Surrounding Financial Reporting Process**

**Applicable:** University-wide

**Responsible Department:** University's Board of Visitors, President, Executive Vice President and Chief Operating Officer, and UVA Finance

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** Partial (first issued in fiscal year 2021, *with limited progress*)

**Prior Title:** Allocate Additional Resources for Financial Statement Preparation

The University of Virginia's (University) governance structure does not provide for a coordinated approach to financial reporting that allows for proper assessment of the accounting impact of material University of Virginia Medical Center (Medical Center) operational decisions on the University's consolidated financial statements. Additionally, the Medical Center does not have staff with appropriate expertise and knowledge of increasingly complex governmental accounting standards and best practices relevant to public universities and public hospitals to prepare and review Governmental Accounting Standards Board (GASB) compliant financial statements.

#### *University's Consolidated Financial Statement Process*

University management is responsible for designing and maintaining a system of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement in accordance with generally accepted accounting principles (GAAP). While the University's Academic Division and Medical Center are individual divisions of the University, GASB requires reporting of these divisions in a single column in the University's consolidated financial statements. In addition, the University is a material component of the Commonwealth's Annual Comprehensive Financial Report (ACFR) and each fiscal year, the University submits consolidated financial information to the Commonwealth's Department of Accounts for inclusion in the Commonwealth's ACFR. The University's process for compiling the consolidated financial statements relies on the Medical Center and Academic Division's preparation of separate financial information that complies with GASB standards. Because the divisions operate and complete financial reporting activities separately, implementation of new standards and accounting for complex transactions requires significant planning and engagement from stakeholders across the University; however, the University's consolidated financial statement process does not provide a centralized mechanism for ensuring alignment on timing, deliverables, and the impact of significant operational decisions made by the separate divisions on the consolidated financial statements.

The Medical Center, as a governmental hospital and a division of the University, is a unique type of governmental entity, and as such, GASB's application of GAAP does not, in all cases, prescribe specific accounting treatment for all types of transactions. However, the Medical Center's financial decisions, activities, and financial reporting have a direct impact on the University's consolidated financial statements and the Commonwealth's ACFR. As an example, in the prior fiscal year, the implementation

of GASB Statement No. 90, Majority Equity Interests, resulted in a change in reporting of a majority-owned company, University of Virginia Imaging, LLC (UVA Imaging), as a discretely presented component unit in the Medical Center and University's consolidated financial statements. Because the Medical Center does not require UVA Imaging to obtain an audit of its financial statements, we disclaimed an opinion on the component unit opinion unit in the Medical Center's financial statements. While UVA Imaging is not material to the University's consolidated financial statements, the decision to continue to forgo obtaining an audit of UVA Imaging, nevertheless requires our Office to disclaim an opinion on discretely presented component units in the Medical Center's financial statements and results in the inclusion of unaudited activity in the University's consolidated financial statements.

Additionally, during the preparation of the University's consolidated financial statements for fiscal year 2022, Academic Division personnel, who prepare the University's consolidated financial statements, were unaware of the Medical Center's accounting plan related to the acquisition of the hospital joint operating company now known as University of Virginia Community Health (Community Health). Subsequent delays in receiving accurate information from the Medical Center related to the acquisition, and delays in the Medical Center preparing other required financial information due to additional time allocated to properly account for the acquisition, resulted in the University requesting a significant extension on submission of required information to the Commonwealth's Department of Accounts for use in preparing the Commonwealth's ACFR and delays in preparing the University's consolidated financial statements.

#### *Medical Center Financial Reporting Resources and Community Health Acquisition*

On July 1, 2021, the Medical Center completed its acquisition of Community Health, a hospital system with \$470 million in assets. Following the acquisition, Community Health remained a legally separate organization and as such, it received a separate financial statement audit for its fiscal year ended December 31, 2021. Because the University is the sole owner of Community Health, GASB standards require the reporting of Community Health as a governmental entity as of the date of the acquisition. The transition of Community Health from a joint operating company structure to a governmental entity resulted in Community Health's auditor providing an adverse opinion on its financial statements based on GASB standards and an unmodified opinion based on standards published by the Financial Accounting Standards Board (FASB).

Our Office does not have responsibility for auditing entities that are legally separate from the University. As a result, we typically rely on audits performed by external auditing firms to ensure legally separate organizations have presented their financial statements in accordance with accounting principles generally accepted in the United States of America and our opinion on the University's financial statements refers to the opinion of other auditors. Due to the adverse GASB opinion over Community Health, we were unable to refer to the other auditor's report in our financial statement opinion and had to assume responsibility for gathering audit evidence related to the inclusion of Community Health in the University's consolidated financial statements. This assumption of responsibility and risk required us to significantly adjust our audit scope and procedures to obtain assurance over Community Health's financial amounts, which flow into the Medical Center's and University's financial statements. The Medical Center's lack of appropriate planning increased the risk

of a modification of our audit opinion on the Medical Center financial statements, University's consolidated financial statements and Commonwealth's ACFR. Ultimately, the Medical Center procured a third-party specialist late in the audit process to assist in developing and providing our Office with sufficient, appropriate audit evidence related to Community Health's financial statement amounts to avoid such a modification of opinion. While the Medical Center made appropriate adjustments to correct the financial statements, the Medical Center's insufficient resources to properly plan and account for complex accounting transactions led to the following:

- untimely increases in audit scope and procedures;
- unexpected financial burdens to the University related to hiring third party specialists;
- significant delays in providing normal audit deliverables due to increased effort required to address accounting related to the acquisition;
- delays in audit completion; and
- increased risks related to our ability to provide an opinion on the Commonwealth's ACFR.

#### *Financial Reporting Impact and Recommendation*

The Medical Center's lack of expertise in governmental financial reporting coupled with the University's lack of formal governance structure to coordinate the accounting and financial reporting activities and decisions of the University's divisions increases the risk that material misstatements in the University's financial statements may not be prevented, or detected and corrected in a timely manner, by the University's internal controls. As a result, we consider this a material weakness in internal control.

The University should consider allocating resources to oversee and coordinate the financial reporting activities of its divisions to ensure alignment of accounting decisions and proper planning for the impact of operational decisions on the University's consolidated financial statements. Dedicating additional resources will assist financial reporting functions at the University's divisions with researching accounting issues, educating staff, coordinating accounting decisions, and preparing timely and accurate financial statements. Additionally, due to the complexity associated with governmental hospital and government departmental financial statements, the Medical Center should continue to engage additional resources to assist with preparation of its year-end financial statements to ensure adherence to the presentation requirements prescribed by GASB and meet University reporting deadlines. Lastly, the University should require audits of significant affiliated organizations in accordance with the appropriate accounting framework to ensure availability of accurate financial information for consolidation and consider requiring audits of other affiliated organizations to limit the inclusion of unaudited information in the University's financial statements.

### **Improve Controls over User Access to the Payroll and Human Resources System**

**Applicable:** University-wide

**Responsible Department:** University Human Resources Office

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (partial, first issued for fiscal year 2019)

The University has not implemented a resource to adequately evaluate conflicting business processes and their respective user access roles in its payroll and human resources system (payroll and HR system). Without this resource, there is an increased risk that the University will assign employees roles in the payroll and HR system that create segregation of duties conflicts, resulting in a heightened reliance on detective controls to reduce the risk of fraudulent transactions and errors in financial reporting. The University is in the process of developing procedures and implementing a resource to identify potential conflicts. However, the University did not implement this resource or procedures during fiscal year 2022.

As outlined in the University's policy FIN-021: Internal Control, individuals responsible for administering University funds and resources must grant or delegate financial authority carefully, with consideration for proper segregation of duties. The University's adopted information security standard, ISO 27002, section 9.2.2 states, "the provisioning process for assigning or revoking access rights granted to user IDs should include verifying that the level of access granted is appropriate to the access policies and is consistent with other requirements such as segregation of duties."

The University should allocate personnel to develop procedures and implement the resource that details conflicting business processes and their respective roles for use in establishing and monitoring future access to the payroll and HR system.

### **Improve Processes over Employment Eligibility Verification**

**Applicable:** University-wide

**Responsible Department:** University Human Resources Office

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2020)

The University Human Resources Office (Human Resources) continues to improve the University's process to ensure compliance with Employment Eligibility Verification Form (Form I-9) completion. Human Resources sent communications to hiring managers to emphasize the importance of Form I-9 compliance and timely completion. Additionally, Human Resources created a student hiring website and two student monthly reports aimed at Form I-9 compliance. However, we found that Human Resources did not comply with guidelines issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security for 12 employee Form I-9s out of a sample of 25 randomly selected employees (48%). The applicable compliance criteria resulting in exceptions are as follows:

- ten out of 25 (40%) employees did not complete and sign Section 1 of the Form I-9 by the first day of employment;
- for nine out of 25 (36%) employees, the Human Resources Officer did not complete Section 2 within three business days after the first day of employment; and
- for nine out of 25 (36%) employees, Human Resources did not create a case in E-Verify within three business days.

The Immigration Reform and Control Act of 1986 requires employers to verify employment eligibility and identify all employees hired after November 6, 1986, by using Form I-9. U.S. Citizenship and Immigration Services sets forth federal requirements for completing Form I-9 in the Handbook for Employers M-274 (the Handbook). Chapter 3 of the Handbook requires the employee to complete and sign Section 1 of Form I-9 by the first date of employment. Chapter 4 of the Handbook requires the employer to complete Section 2 of Form I-9 within three business days of the first date employment. Chapter 2.2 of the E-Verify User Manual requires employees to create a case in E-Verify no later than the third business day after the employee starts work. Noncompliance with federal regulations related to employment verification could result in civil and/or criminal penalties and debarment from government contracts.

The decentralized nature of the hiring and on-boarding process is the primary cause of noncompliance. Each applicable school is responsible for hiring and subsequently recording and activating each new hire in the University's payroll and HR system. Employees cannot complete Form I-9 until they are active in the payroll and HR System, and delays in this process create little to no time for an employee to complete their Form I-9 on the first day of employment. Human Resources should continue to develop procedures to ensure each decentralized department responsible for hiring timely enter new employees into the System to ensure compliance with employee eligibility requirements.

#### **Complete Annual Review over User Access to University Information Systems**

**Applicable:** Academic Division

**Responsible Department:** Information Technology Services

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2021)

The University's Academic Division did not perform an adequate annual review and re-verification of users with access to three Academic Division systems containing sensitive data. The Academic Division conducted a security role mapping exercise to assist with the transition of user access for each unit to the new accounting and financial reporting system the Academic Division is implementing in fiscal year 2023. However, the Academic Division did not review and re-verify each individual user's access as being appropriate within the existing accounting and financial reporting system. The Academic Division is in the process of piloting the implementation of a compliance attestation tool to assist managers with annual review and re-verification of users with access to the Academic Division's student information system, accounting and financial reporting system, and payroll



and HR system. However, the Academic Division did not implement the compliance attestation tool during fiscal year 2022.

As outlined in the Academic Division's policy SEC-037: Networks, Systems, and Facilities Access & Revocation and the Issue & Return of Tangible Personal Property, "User access to all University systems of record and any system used to process, store, transfer, or access highly sensitive data must be re-verified annually." The lack of a sufficient annual access review process increases the risk of improper or unnecessary access to sensitive systems, which could result in a breach in data security. This finding resulted from the Academic Division not designating specific personnel and/or departments to perform the annual access reviews nor having adequate annual review procedures for each system.

The Academic Division should consider including designated personnel and/or departments, who are responsible for the University's student information system, accounting and financial reporting system, and payroll and human resources system for annual access reviews, within the Academic Division's policy SEC-037. The Academic Division should also develop adequate procedures for the annual review process for each information system.

**Continue to Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act**

**Applicable:** Academic Division

**Responsible Departments:** Student Financial Services Office and Information Technology Services

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2021)

**Prior Title:** Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act

The Academic Division should continue to implement required elements of the Gramm-Leach-Bliley Act (GLBA) and conduct risk assessments of systems containing nonpublic customer information. The Academic Division determined that five systems contain nonpublic customer information but has not completed a risk assessment for three of the five systems. Additionally, the Academic Division did not include all the required elements of the GLBA for two completed risk assessments. However, the Academic Division did form a committee to address the cybersecurity requirements of the GLBA. The committee signed a contract with an external vendor to conduct a GLBA assessment in August 2022, with the evaluation scheduled to begin in October 2022. The Academic Division expects to complete remediation efforts by June 2023.

Institutions of higher education, because of their engagement in financial assistance programs, are considered financial institutions that must comply with Public Law 406-12, also known as the GLBA. Related regulations at 16 U.S. Code of Federal Regulations (CFR) 314.4 require organizations to develop, implement and maintain the information security program to safeguard nonpublic customer information and complete a risk assessment that includes consideration of risks and mitigating controls in each relevant area of operations. The regulations require a risk assessment that considers risks for the following elements:

- employee training and management;

- information systems, including network and software design, as well as information processing, storage, transmission, and disposal; and
- detecting, preventing, and responding to attacks, intrusions, or other system failures.

Without implementing cybersecurity requirements of the GLBA for each system containing nonpublic customer information, the Academic Division may not be able to ensure the security and confidentiality of customer information. Additionally, the Academic Division may not protect against anticipated threats or hazards to the security or integrity of such information and protect against unauthorized access to or use of nonpublic customer information that could result in substantial harm or inconvenience to any customer.

The Academic Division should continue to follow its corrective action plan to work with the external vendor and complete comprehensive risk assessments that include all elements the GLBA requires for all five systems that contain nonpublic customer information. The risk assessment should document those risks that may impact the IT environment, identify controls and safeguards in place to mitigate identified risks, and identify controls and safeguards that the Academic Division needs to implement. If there are controls and safeguards that the Academic Division needs to implement, the Academic Division should develop and implement a corrective action plan to mitigate identified risks. This process will assist the Academic Division in evaluating its information security program and protecting the confidentiality, integrity, and availability of student information within its environment.

#### **Continue to Improve Controls and Compliance with Student Financial Aid Requirements**

**Applicable:** UVA Wise

**Responsible Department:** UVA Wise Financial Aid Office

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Partial (first issued in separate report dated September 7, 2021)

The University of Virginia's College at Wise (UVA Wise) should continue to address our findings related to its management of federal student financial assistance. As of June 30, 2022, UVA Wise has adequately resolved four of the ten internal control findings and instances of noncompliance from our prior report. Corrective action remains ongoing for the following areas:

- UVA Wise did not report disbursements timely or accurately to the federal Common Origination and Disbursement System.
- UVA Wise did not report enrollment data to the National Student Loan Data System accurately and/or timely.
- UVA Wise did not perform accurate return of Title IV calculations.

- The UVA Wise Financial Aid Office did not complete return of Title IV calculations.
- UVA Wise was unable to provide sufficient documentation showing that it completed all required monthly federal Direct Loan reconciliations.
- UVA Wise was not able to provide audit evidence to indicate full compliance with the Gramm-Leach-Bliley Act (GLBA).

In accordance with 2 CFR 200.303, non-federal entities must establish and maintain effective internal control over federal awards that provides reasonable assurance that the non-federal entity is managing federal awards in compliance with federal statutes, regulations, and terms and condition of the federal award. These findings resulted from significant turnover within the UVA Wise financial aid office and lack of management oversight. Management should continue to monitor the implementation of the corrective action plans to resolve these findings.

#### **Continue to Improve Security Awareness Training**

**Applicable:** Medical Center

**Responsible Department:** Health System Technology Services

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2021)

**Prior Title:** Improve Security Awareness Training

The Medical Center continues to not meet certain security awareness training (SAT) requirements in the National Institute of Standards and Technology Standard, 800-53 (NIST Standard). The Medical Center does not ensure all users complete annual SAT and the Medical Center does not provide role-based training to users with specific information security roles and responsibilities. An established SAT program is essential to protecting the Medical Center's information technology (IT) systems and data by ensuring that employees understand their roles and responsibilities in securing sensitive information. Specifically, our review of the Medical Center's SAT program identified the following weaknesses:

- The Medical Center does not enforce compliance with security awareness training requirements, which resulted in 56 out of 6,816 (0.8%) users not completing the assigned annual SAT. The Medical Center's Security Awareness Policy requires that users complete initial and annual refresher training, that users not completing the training will have access suspended, and that the user's supervisor must notify Health Information Technology to suspend access due to noncompliance. However, the Medical Center is not currently suspending user access when the user does not complete required annual training. Additionally, the NIST Standard requires that all computer users complete SAT initially upon employment, after significant changes in the environment, and at organizationally defined intervals thereafter (*NIST Standard section: AT02 Security Awareness*). Without ensuring that all users take SAT annually, the Medical Center increases the risk that users will be more

susceptible to malicious attempts to compromise sensitive data, such as ransomware, phishing, and social engineering.

- The Medical Center does not require or provide role-based training to users with designated information security roles, such as System Owners, Data Owners, System Administrators, and security personnel. The Medical Center's Security Awareness Policy includes requirements for employees to complete at-hire security training and annual refresher training; however, the policy does not include a requirement for role-based training for users with designated information security roles. The NIST Standard requires role-based training initially, when required by information system changes, and at organizationally defined intervals thereafter for personnel with assigned security roles and responsibilities (*NIST Standard section: AT-1 Security Awareness and Training Policy and Procedures; NIST Standard section: AT-3 Role-Based Security Training*). Insufficient role-based training increases the risk that users will be unaware or lack pertinent skills and knowledge to perform their security related functions, increasing the risk to sensitive data.

While the Medical Center's policy requires annual completion of SAT and states that the Medical Center will suspend access of users that have not completed SAT, the Medical Center does not have a process in place to track and confirm that all employees and contractors complete annual SAT, or a process to suspend the access of any accounts for employees that have not completed SAT. Additionally, the Medical Center has not prioritized providing role-based training for users with designated information security roles.

The Medical Center should continue strengthening its SAT process to ensure that all users complete SAT on an annual basis, and to suspend access for any users who do not complete annual SAT. Additionally, the Medical Center should develop a procedure, and continue to implement the necessary modules to provide role-based training to users with designated security roles. Improving the SAT program will help protect the Medical Center from malicious attempts to compromise the confidentiality, integrity, and availability of sensitive data.

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Improve Payroll Accounting and Financial Reporting Processes**

**Applicable to:** Academic Division

**Responsible Department:** UVA Finance

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** No

The Academic Division is not properly accounting for payroll liabilities, including taxes and retirement contributions. The University of Virginia Finance department (UVA Finance) booked a \$55 million reclassification entry moving debit balances in payroll liabilities representing historical overpayments to prepaid assets. UVA Finance was aware of the error and began an internal investigation. During our review of the entry, we noted the following:

- UVA Finance did not properly map approximately 40 payroll liability accounts to the correct line item within the University's financial statements.
- The Academic Division's Payroll department (Payroll) did not properly code approximately \$17 million to the correct projects related to retirement benefits, resulting in a financial reporting classification error between the deposits held in custody line item and the accounts payable line item.

UVA Finance's investigation determined that Payroll did not book necessary expense and liability entries, totaling approximately \$29 million, related to the Medical Center's employer FICA tax deferral in fiscal year 2020 and 2021 in the University's financial system. The Medical Center did book the appropriate expense in its financial system. GASB Concept Statement 4, Element of Financial Statements states, "liabilities are present obligations to sacrifice resources that the government has little to no discretion to avoid." Most expenditures are measurable and should be recorded when the liability is incurred. The manual journal entry template and further inaccurate coding of projects into the financial system by Payroll resulted in the retirement benefits coding errors. Further, UVA Finance does not update or review the mapping of payroll liability accounts to the multiple financial reporting line items.

Compensation and benefits represent over \$2 billion of annual operating expense for the University. The University's separate accounting and financial reporting and payroll systems in place during fiscal year 2022 created a complex general ledger and trial balance accounting structure requiring numerous manual adjustments. Because of this complex structure, the University's risk of financial reporting errors increases without proper oversight and management of its payroll liabilities and related accounting. As the Academic Division transitions to a new accounting and financial reporting system in fiscal year 2023, UVA Finance should reevaluate its payroll accounting and related financial reporting processes. As part of this assessment, management should ensure proper training and oversight of manual journal entries.

### **Improve Capital Asset Inventory Controls**

**Applicable to:** Medical Center

**Responsible Department:** Controller's Office

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** No

The Medical Center did not properly complete an equipment inventory to ensure data in the capital asset system is accurate and complete. Our audit included a review of the inventory process along with testing a sample of assets to verify existence and completeness. Based on our audit procedures we identified the following:

- ten out of 25 assets (40%) did not exist;
- for two out of 20 assets (10%), the Controller's Office did not tag the asset in accordance with policy; and
- for seven out of 40 assets (18%), the Controller's Office did not include tag numbers in the asset module.

The Medical Center's *Capital Assets Policy and Procedures* document does not contain guidance directing the processes by which the Medical Center adds equipment to or removes equipment from the capital asset module of its accounting and financial reporting system. Also, the policy document does not describe asset tagging requirements. However, the Medical Center's policy is to conform to all current accounting standards and policies including, but not limited to, state requirements mandated by the Commonwealth of Virginia's Department of Accounts. The Department of Accounts communicates its requirements via the Commonwealth Accounting Policies and Procedures Manual (CAPP Manual). Topic 30205 of the CAPP Manual requires agencies to tag capitalized items with a unique inventory identification number upon receipt. Topic 30505 of the CAPP Manual requires agencies to conduct a physical inventory once every two years. The Medical Center did not complete the physical inventory count due to staff turnover.

Inadequate capital asset inventory controls increase the risk of misappropriation of Medical Center property and may contribute to the inclusion of inaccurate information in the Medical Center's accounting and financial reporting system and financial statements. Medical Center management should update its policies and procedures governing capital asset inventory controls and ensure the processes described therein are sufficient to track and record capitalized assets. Medical Center management should also allocate additional resources to its Office of Asset Accounting, as needed, to ensure the office can properly discharge its duties, including the performance of a capital asset inventory review.

### **Complete Annual User Access Reviews**

**Applicable:** Medical Center

**Responsible Department:** Health System Technology Services

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The Medical Center did not perform an adequate annual review for 2,101 (15%) employees with access to systems containing sensitive data. The Medical Center's *Use of Electronic Information and Systems* (IT-002) policy states that "managers and supervisors shall use the Supervisor Review Application annually or as needed to review and verify the status of Users within their respective departments or areas to ensure that access to Institutional Systems continues to be appropriate to each User's role or function." The lack of a sufficient annual access review process increases the risk of improper or unnecessary access to sensitive systems, which could result in a breach in data security. The Medical Center should enforce applicable policies to ensure compliance with management's requirements for systems access reviews.

### **Complete a System Security Plan for Each Sensitive System**

**Applicable:** Medical Center

**Responsible Department:** Health System Technology Services

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The Medical Center does not have a completed system security plan for all its sensitive systems in accordance with requirements in the NIST Standard. The NIST Standard, section PL-2, requires the Medical Center to develop a system security plan for each sensitive system, and to review the system security plans on an annual basis.

Without having a system security plan for each sensitive system, the Medical Center increases the risk of not identifying and implementing proper security controls to secure the system. Additionally, without documenting and reviewing system security plans annually, the Medical Center increases the risk it will not detect changes to key security controls and not have the proper security mechanisms to adequately protect its sensitive systems.

The Medical Center does not have a documented policy or procedure that requires the development of system security plans for each sensitive system. Additionally, the Medical Center's Infrastructure Team documents target architecture plans rather than requiring defined individual system security plans for individual systems or applications.

The Medical Center should dedicate the necessary resources to develop a system security plan for each of its sensitive systems. Additionally, the Medical Center should update its policies and procedures to require the development of system security plans and periodic review the plans at an organization-defined frequency. Maintaining current system security plans will assist in safeguarding the confidentiality, integrity, and availability of the Medical Center's sensitive and mission critical data.



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Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

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December 15, 2022

The Honorable Glenn Youngkin  
Governor of Virginia

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, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated December 15, 2022. Our report includes a reference to other auditors who audited the financial statements of the component units of the University, as described in our report on the University's financial statements. The other auditors did not audit the financial statements of the component units of the University in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component units of the University.

### 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 (internal control) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.



Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the sections titled “Status of Prior Year Findings and Recommendations” and “Internal Control and Compliance Findings and Recommendations,” we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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. We consider the deficiency titled “Improve Governance Structure and Resources Surrounding Financial Reporting Process,” which is described in the section titled “Status of Prior Year Findings and Recommendations,” to be a material weakness.

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. We consider the deficiencies titled “Improve Controls over User Access to the Payroll and Human Resources System,” “Improve Processes over Employment Eligibility Verification,” “Complete Annual Review over User Access to University Information Systems,” “Continue to Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act,” “Continue to Improve Controls and Compliance with Student Financial Aid Requirements,” “Continue to Improve Security Awareness Training,” “Improve Payroll Accounting and Financial Reporting Processes,” “Improve Capital Asset Inventory Controls,” “Complete Annual User Access Reviews,” and “Complete a System Security Plan for Each Sensitive System,” which are described in the sections titled “Status of Prior Year Findings and Recommendations” and “Internal Control and Compliance Findings and Recommendations,” 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 financial statements. 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 sections titled “Status of Prior Year Findings and Recommendations” and “Internal Control and Compliance Findings and Recommendations,” in the findings and recommendations titled “Improve Controls over User Access to the Payroll and Human Resources System,” “Improve Processes over Employment Eligibility Verification,” “Complete Annual Review over User Access to University Information Systems,” “Continue to Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act,” “Continue

to Improve Controls and Compliance with Student Financial Aid Requirements," "Continue to Improve Security Awareness Training," "Complete Annual User Access Review," and "Complete a System Security Plan for Each Sensitive System."

### **The University's Response to Findings**

We discussed this report with management at an exit conference held on January 31, 2023. Government Auditing Standards require the auditor to perform limited procedures on the University's response to the findings identified in our audit, which is included in the accompanying section titled "University Response." The University's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Status of Prior Findings**

The University has not taken adequate corrective action with respect to the previously reported findings with the current titles "Improve Governance Structure and Resources Surrounding Financial Reporting Process," "Improve Controls over User Access to the Payroll and Human Resources System," "Improve Processes over Employment Eligibility Verification," "Complete Annual Review over User Access to University Information Systems," "Continue to Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act," "Continue to Improve Controls and Compliance with Student Financial Aid Requirements," and "Continue to Improve Security Awareness Training". Accordingly, we included these findings in the section titled "Status of Prior Year 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 Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

DLR/clj



December 15, 2022

Ms. Staci Henshaw  
Commonwealth of Virginia Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Dear Ms. Henshaw,

We have reviewed the audit findings and recommendations resulting from the fiscal year 2022 audit related to the University of Virginia (UVA) Academic Division (University) and Medical Center. Below are management's responses to those findings.

**Improve Governance Structure and Resources Surrounding Financial Reporting Process**

**Management Response:** UVA and the Medical Center concur with the APA's findings.

**Responsible for Corrective Action:** University's Board of Visitors, President, Executive Vice President and Chief Operating Officer, and UVA Finance

**Anticipated Completion Date:** June 30, 2023

UVA concurs with the APA's findings and recommendations. We agree to the following:

The FY2021 implementation of GASB Statement No. 90, Majority Equity Interests resulted in a change in the reporting for University of Virginia Imaging, LLC, which necessitates that going forward we will obtain an audit of UVA Imaging to ensure that the APA can fully opine on the discretely presented components.

The July 1, 2021, acquisition of UVA Community Health requires that the fully consolidated entity be accounted for under GASB accounting standards. To ensure that comparative information and beginning balances are correctly stated under GASB for the FY23 financial statements, we will initiate a FY22 audit. Beginning with FY23 and on an ongoing basis, we will provide audited, GASB-based Community Health financial statements to the APA for review of the Medical Center and University consolidated financial statements.

The Medical Center will engage the accounting and financial reporting expertise needed to ensure its financial reporting is completed accurately and timely.

We recognize that the University's governance and organizational structure does not provide for a sufficiently coordinated approach to consolidated audit and financial statements. For FY22, we recognize that this impacted the University's ability to provide timely consolidated accounting information to the Department of Accounts, in turn potentially impacting the timely preparation of

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the Commonwealth's Annual Comprehensive Financial Report. We further agree with the need to strengthen ongoing planning and engagement to ensure a consistent approach, timely decisions, and appropriate consideration of operational decisions that will impact accounting and reporting.

To address this, we plan to do the following, effectively immediately:

- Create a financial reporting committee under the University's Chief Financial Officer to serve as single point of responsibility for the consolidated quarterly and annual financial statements and annual audit, reporting through the University's Chief Financial Officer and the University's Chief Operating Officer. The financial reporting committee will meet monthly on financial statements and audit preparation. This committee will be responsible for planning and ensuring the University's consolidated approach related to (a) new acquisitions or joint ventures, (b) the impact of new GASB implementation, (c) progress on implementing action plans for management points from the prior fiscal year audit, and (d) engagement of any third-party expertise for the purposes of ensuring timely submission of all annual audit requirements. This financial reporting committee will include accounting leadership from the Medical Center and consolidating units, the Academic Division, UVA internal audit, and, as needed, the APA. The Chief Operating Office and the EVP for Health Affairs will meet monthly to get updates and engage the APA and President regularly.
- The University will immediately recruit and hire a Senior Director of Consolidated Financial Reporting who will be responsible and accountable for University-wide accounting treatments, GASB interpretations and implementations, financial statement consolidation, intercompany eliminations, and the overall financial reporting and external audit processes. This position will report to the University of Virginia's Associate Vice President for Financial Operations and Controller and will have significant engagement and coordination with UVA Health Chief Financial Officers and the UVA Health Controller. In addition, the UVA Health Controller will begin to have a dotted line reporting relationship for purposes of financial analysis and reporting to the Associate VP for Financial Operations and Controller for all consolidated activities. This task will be accomplished by the mid-February of 2023.
- The EVP for Health Affairs will immediately provide full access to UVA Medical Center financials to the University Chief Operating Officer, the University Chief Financial Officer, and the Internal Auditor at UVA.

Related to the statement that the Medical Center does not have staff with appropriate expertise and knowledge of increasingly complex governmental accounting standards and best practices, we recognize that the Medical Center has added two financial analysts and an implementation specialist, as well as the services of KPMG to provide supplementary expertise as needed. As

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mentioned above, the Medical Center continues to evaluate expertise needs and will engage the accounting and financial reporting expertise needed to ensure its financial reporting is completed accurately and timely.

The University will work in the coming months to develop a prospective calendar and meet with the APA on a regular basis to ensure coordination, communication, and project completion.

**Improve Controls over User Access to the Payroll and Human Resources System**

**Management Response:** UVA concurs with the APA's finding.

**Responsible for Corrective Action:** University Human Resources Office

**Anticipated Completion Date:** June 30, 2023

UVA concurs with the APA's findings and recommendations. The University is taking a collaborative approach into FY2023, now that our new finance system has been implemented, to address the entire control environment over University systems and user access:

- Request-Based Access (RBA) project, initiated and managed by Information Technology Services (ITS), continued through the end of FY2022 with goals for implementation into FY2023. The RBA project sought to address each University system individually, and with each system given a unique timeline for implementation. At the end of FY22, not all University systems were included in the active RBA process for provisioning user access, due to the transitional implementation phases for both the new finance system, sunset of existing provisioning tool, and new electronic research administration (eRA) platform.
- Segregation of Duties (SoD) identification and review will be ongoing through the end of FY23, while stabilizing the new finance system, and evaluating the reporting capabilities within the audit and continuous monitoring tool, which was implemented in late FY22. This tool runs across the entire Workday tenant, encompassing Human Resource (HR) and Finance systems.
- A System Access Working Group has provided recommendations to best approach policy and procedures. This work includes determining ownership of University systems, oversight of user access (provisioning and deprovisioning), and a standard process for adequate and appropriate attestation to user access within University business units.
- SEC-037: Networks, Systems, and Facilities Access & Revocation and the Issue & Return of Tangible Personal Property is under review and revision. This effort requires collaborative engagement from University Human Resources (UHR), UVA Finance, ITS, and Data Governance, with potential consulting from University Audit. We will continue to engage with the APA to gauge comfort with compensating controls, should the University policy be modified.

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**Improve Processes over Employment Eligibility Verification**

**Management Response:** UVA concurs with the APA's finding.

**Responsible for Corrective Action:** University Human Resources Office

**Anticipated Completion Date:** June 30, 2023

UVA concurs with the APA's findings and recommendations. We acknowledge and appreciate the APA's willingness to review and affirm ongoing efforts regarding all related business processes regarding this particular compliance matter.

After multiple decentralized initiatives around compensating controls regarding the onboarding process, UVA leadership will be operationalizing a more centralized preventative approach to remediate. UVA will provide more directed and detailed insight on those remediation efforts and business process changes in our quarterly updates to the Department of Accounts, however it is important to note, that due to governance and the need for new processes, will not take effect until Spring of 2023.

**Complete Annual Review Over User Access to University Information Systems**

**Management Response:** UVA concurs with the APA's finding.

**Responsible for Corrective Action:** Information Technology Services

**Anticipated Completion Date:** June 30, 2023

UVA concurs with the APA's findings and recommendations. Prior to the implementation of the new finance system, an inventory of user access and finance roles/responsibilities was performed at an elevated level, in preparation for the transition to the new system and entirely new roles.

As stated above, the University is taking a collaborative approach into FY2023, with the implementation of the new finance system, to address the entire control environment over University systems and user access. The University is re-evaluating the timing and frequency of user access reviews for information systems, following the implementation of the new finance system and an opportunity to take tenant-wide approach. University leadership has established Cross-Platform Support and Governance to focus on these efforts, with recommendations from the System Access and Security working group in Spring 2023.

**Continue to Implement Information Security Program Requirements for the Gramm-Leach-Bliley Act**

**Management Response:** UVA concurs with the APA's findings.

**Responsible for Corrective Action:** Student Financial Services and Information Technology Services

**Anticipated Completion Date:** June 30, 2023

UVA concurs with the APA's findings and recommendations. We acknowledge and appreciate the

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APA's willingness to review and affirm ongoing efforts with all related business processes regarding these compliance and internal control matters.

The Academic Division continues to progress towards full implementation of all required components of the Gramm-Leach-Bliley Act. The Academic Division's external vendor conducted risk assessments on all five systems containing nonpublic customer information in October 2022 as planned. Upon receipt and review of the external vendor's report, the Academic Division will develop a remediation plan to mitigate identified risks. The plan is expected to be developed in early 2023.

**Continue to Improve Controls and Compliance with Student Financial Aid Requirements**

**Management Response:** UVA Wise concurs with the APA's finding, with clarification provided for specific follow-up items that have been resolved.

**Responsible for Corrective Action:** UVA College at Wise Financial Aid Office

**Anticipated Completion Date:** May 31, 2023

Following the receipt of an audit report to UVA Wise from University Audit, the draft response to the management points previously issued, and submitted on November 30, 2022, has been amended as follows for clarification:

The management point issuance from the APA indicated that UVA Wise had resolved four out of ten internal control findings and instances of noncompliance. Following the issuance of the report from University Audit, it was determined that four of the remaining six findings have been addressed, one has been partially addressed, and one remains outstanding. The following findings were presented in the management point issuance as requiring resolution, and our revised responses are as follows, with specific completion dates included if applicable:

- *Wise did not report disbursements timely or accurately to the federal Common Origination and Disbursement System.*  
UVA Wise has addressed this recommendation. Wise has enhanced current reporting procedures and implemented corrective actions to ensure that student disbursements are reported accurately and timely. As noted by University Audit, UVA Wise is continuing work on this corrective action plan as management wants to monitor the improvements implemented for the whole academic year of 2022-23 to ensure the process is smooth and to pursue further automation, wherever possible. Management's anticipated completion date for this continued work is May 30, 2023.
- *Wise did not report enrollment data to the National Student Loan Data System accurately and/or timely.*  
UVA Wise has addressed this recommendation, specifically:

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1. Management has performed a comprehensive review of student status reporting procedures. Based on that review, management has developed and implemented procedures to ensure accurate and timely reporting of student status changes to NSLDS.
2. Additionally, the UVA Wise Registrar has developed and implemented a self-audit process with a checklist as part of their quality control review of the NSLDS reporting.

As noted by University Audit, UVA Wise is continuing work on this corrective action plan as the Registrar will monitor through the end of calendar year 2022 and perform one more self-audit at the end of the Fall 2022 semester. Management's anticipated completion date for this continued work is January 31, 2023.

- *Wise did not perform accurate return of Title IV calculations.*  
UVA Wise has addressed this recommendation. SFA realigned the enrollment period to the last day of exams ensuring accuracy and timeliness of the R2T4 calculations.
- *Wise's financial aid office did not complete return of Title IV calculations for summer 2019, fall 2019, and spring 2020 until June 2021. The delay in completing the calculations resulted in unearned aid for some students withdrawing during summer 2019, fall 2019, and spring 2020 not being returned within 45 days of the Wise's determination that each student had withdrawn.*  
UVA Wise has partially addressed the recommendations, and corrective action is ongoing (see attached details). Financial Aid has worked to identify the students impacted, and calculated the amounts required to be returned. Financial Aid will provide this information to the Comptroller's Office who will process the return of funds in December 2022. Financial Aid has engaged external consultants to assist in configuring PowerFunds and automating the process with the Student Information System. Financial Aid staff will be cross trained for continuity of operations.

Expected Completion Date: January 31, 2023

- *Wise was unable to provide sufficient documentation showing that all required federal Direct Loan reconciliations have been completed monthly as required.*  
UVA Wise has addressed the recommendation. UVA Wise management is now performing and retaining documentation of monthly reconciliations.
- *Wise was not able to provide audit evidence to indicate full compliance with the Gramm-Leach-Bliley Act (GLBA).*

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UVA Wise concurs with this recommendation. UVA Wise has secured the services of a third-party contractor who will complete the GLBA assessment. The contract was awarded on December 1, 2022, and the work is in progress. Assessment will be conducted in early Spring 2023.

Expected Completion Date: April 1, 2023

UVA Finance and UVA Wise are committed to working in partnership, as these internal control findings and instances of noncompliance continue to be remediated.

**Continue to Improve Security Awareness Training**

**Management Response:** The Medical Center concurs with the APA's finding.

**Responsible for Corrective Action:** Health System Technology Services

**Anticipated Completion Date:** June 30, 2023

The Medical Center concurs with the finding. The action plan resulted in ensuring all **Employees** received the mandatory annual training. However, there were contractors/contingent workers who did not complete training or were not granted an exemption to the training. We will partner with Human Resources to provide feedback to management and ensure training is completed (or exemptions granted) for all employees and contract workers prior to January 31, 2023. The UVA Health Information Security Officer will be responsible for this action plan.

**Improve Payroll Accounting and Financial Reporting Processes**

**Management Response:** UVA concurs with the APA's findings.

**Responsible for Corrective Action:** UVA Finance

**Anticipated Completion Date:** June 30, 2023

UVA Financial Reporting concurs with the finding. UVA Management began investigation of the debit balances in certain payroll accounts after it was discovered internally and identified and corrected the issues. Due to the complexity of the University payroll structure and accounting, we will perform a detailed review of all accounting for payroll in the final six months of fiscal year 2023 in order to determine if the current payroll accounting is materially accurate.

**Improve Capital Asset Inventory Controls**

**Management Response:** The Medical Center agrees with the APA's findings.

**Responsible for Corrective Action:** Controller's Office

**Anticipated Completion Date:** June 30, 2023

In response to the audit findings, there were a total of 31 assets that were selected for the

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sampling size for the List to Floor/Floor to List. Ten assets were marked as did not exist. Out of the ten assets, seven with a NBV of \$0.00 were documented as retired outside of the Asset Management (AM) system but had not been updated; one was a conversion item with NBV of \$0.00 that is being retained as active in the AM system for historic reference, and two with a NBV of \$0.00 were not able to be located during the physical sampling audit.

There were two assets selected that were located but did not have the asset tag.

Forty assets were selected for the Floor to List portion of the audit. Of those forty assets, seven of the asset tag numbers were not added to the assets in the AM system.

The auditor recognized internal control weakness in our documentation and execution of adding, tagging, and retiring assets in our asset management system. We agree there are undocumented processes for adding asset, asset tagging and retiring assets. We will document the processes needed to align with CAPP 30205 and CAPP 30805. Our action plan is as follows:

- Document the processes for adding assets into the AM module by December 30, 2022
- Document the process for tagging assets created in the AM module by December 30, 2022
- Document the process for removing assets from the AM module by December 30, 2022

FY22 presented several challenges due to an unexpected illness of the Medical Center's asset manager. In an attempt to mitigate the loss, the Medical Center hired an Asset Management consultant, as well as recruited and hired an Asset Manager. As with any new hire and position, the learning curve is sharp, however, by the end of next fiscal year, this position will be fully trained.

#### **Complete Annual User Access Reviews**

**Management Response:** The Medical Center concurs with the APA's finding.

**Responsible for Corrective Action:** Health System Technology Services

**Anticipated Completion Date:** June 30, 2023

The Medical Center concurs with the finding. The UVA Health Identity and Access management team will initiate an effort to identify the root cause of these access reviews remaining outstanding and take additional actions as appropriate to strengthen internal controls. We will follow up with appropriate managers/supervisors to ensure all user access reviews are up to date by June 30, 2023. The UVA Health Information Security Officer will be responsible for this plan.

#### **Complete a System Security Plan for Each Sensitive System**

**Management Response:** The Medical Center concurs with the APA's finding.

**Responsible for Corrective Action:** Health System Technology Services

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**Anticipated Completion Date:** November 30, 2023

Medical Center Health Information Technology will establish a project to understand the long term resource needs to deliver and maintain System Security Plans for all sensitive systems; establish a “standard” that requires system security plans to be completed and maintained; ensure the completion of all System Security Plans for Tier 1 designated systems; and define an ongoing process for oversight/annual review as prescribed. The UVA Health Information Security Officer will be responsible for this action plan. The planned completion date is November 30, 2023.

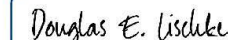
Sincerely,

DocuSigned by:



Melody Blanchetto  
Vice President for Finance

DocuSigned by:



Douglas E. Lischke  
Health System Chief Financial Officer

cc: Jennifer "J.J." Davis  
A. "Augie" Maurelli  
Dana German  
John Kosky

Kim Holdren  
Wendy Horton  
Erin Trost  
Mike Marquardt

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## UNIVERSITY OF VIRGINIA

As of June 30, 2022

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