



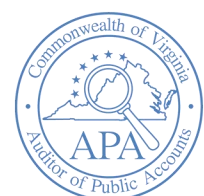
UNIVERSITY OF VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of the University of Virginia for the year ended June 30, 2014, found:

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

We have audited the basic financial statements of the University of Virginia as of and for the year ended June 30, 2014, and issued our report thereon, dated November 5, 2014. Our report is included in the President's Annual Report that the University anticipates releasing in December 2014.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Procurement Processes

University

During fiscal year 2014, the University issued over 115,000 purchase orders. We obtained the procurement file and analyzed the purchase orders to isolate and categorize those that represent higher risk. That analysis identified the following:

- Procurements valued just under the competitive request for proposal threshold of \$50,000;
- Procurements made to the same vendor, on the same day, by the same buyer; and,
- Procurements identified as sole source purchases.

We selected a sample from each of these categories and identified the following concerns.

1. The University uses the same generic, unsigned sole source justification for most research-oriented sole source procurements rather than requiring the purchaser to explain the need for a sole source. A consequence of recording these research procurements as sole source involves eVA rebates. Whenever procurements are made from unregistered eVA vendors identified as sole source, the Department of General Services refunds the eVA fees originally paid by the University. We found some instances where the University received eVA rebates to which they may not have been entitled had they identified the procurement as a cooperative contract or other procurement method.
2. We tested two Facilities Management sole source procurements and found that both had inadequate sole source justifications. These procurements involved the same vendor who was awarded two sole-source contracts to replace HVAC units based on criteria that could have been outlined in a competitive procurement and contract. Additionally, Facilities Management did not publically post these award notices in eVA or the University's procurement website, which is linked in eVA. Both the Code of Virginia, Section 2.2-1110, and the Restructured Higher Education Financial and Administrative Operations Act require public posting of such awards.
3. We tested all incidences of purchases being made from the same vendor, on the same day, by the same buyer and requested justifications as to why the procurements were split. Individually the procurements fell below the \$5,000 threshold for a competitive procurement, but had they been combined they would have exceeded \$5,000. For four of these incidences (17 percent) the University provided no justification. For five incidences (22 percent) the justifications were unreasonable and may indicate intentional splitting to avoid the delays and additional work caused by competitive procurements.

4. For one of six vendors tested (17 percent) who had procurements between \$49,000 and \$49,999.99 the buyer's original estimate of \$49,999 was later deemed insufficient as a second procurement for \$21,660 was required 10 months later. In the case where buyers estimate a procurement at just beneath the competitive procurement threshold of \$5,000 or \$50,000, they should be conservative and consider the potential for additional purchases during the subsequent 12 month period. Increasing the value would result in more competition that may provide cost savings to the University.
5. The University relied on their insurance broker to procure competitively an insurance plan for college athletes at UVA Wise, valued at over \$100,000. While it is reasonable to obtain the broker's assistance in writing the procurement specifications, University's Procurement Services should have performed the procurement in-house.

To increase competition and ensure the University receives high quality goods and services at the best price we recommend the following:

1. Require sole source justifications in all instances, including research, and ensure the justifications are reasonable and not based on preference. Additionally, post all sole source awards on the University's website or in eVA as required by the Code of Virginia.
2. Avoid splitting procurements or undervaluing them as a means to bypass the competitive procurement process. In addition, Procurement Services should monitor procurement data to identify buyers who are not adhering to the University's Guidelines for Competition. These Guidelines require buyers to use competitive procurement when they believe the total value of goods or services to a particular vendor will exceed a competitive procurement threshold over the next 12 months.
3. Identify procurements as cooperative contracts or other procurement methods where possible to avoid accidentally identifying a procurement as sole source, generating an eVA rebate.

Improve VNAV Reconciliations and Confirmations

University

The University's Payroll Department does not have supporting documentation of their payroll system to VNAV reconciliation, which they should perform before submitting their Contribution Snapshot to the Virginia Retirement System (VRS). The reconciliation from the University's payroll system to the VNAV system (VRS Navigator) is a new process implemented in fiscal year 2013. Employers are now responsible for ensuring that all employee data changes in their payroll and human resource systems are also changed in VNAV and it is the agency's obligation to ensure that the data in VNAV reconciles with their own records.

On June 15, 2014, Governmental Accounting Standards Board Statement No. 68 went into effect and will require agencies to report a pension liability on their fiscal year 2015 financial statements. Therefore, it is critical to reconcile the employee data in VNAV to ensure its accuracy since it is used to calculate the Commonwealth's total pension liability that will calculate the pension liability for the University's fiscal year 2015 financial statements. Additionally, ensuring that employee data in the University's payroll system is consistent with data in VNAV is a significant control in verifying that employee retirement benefit payments are accurate. Reconciling the University's payroll system and VNAV ensures that any differences between the systems are researched and corrected.

The Payroll Department currently has a process in place to review the VNAV error report each pay period; however, they do not maintain documentation of this review. By not maintaining this documentation, we were unable to confirm that the Payroll Department followed their procedure and verified the accuracy and completeness of employee data in the VNAV system.

We recommend the Payroll Department retain sufficient documentation to demonstrate a reconciliation was performed and that they verified changes in their system were properly reported in VNAV.

Medical Center

The Medical Center did not follow the Virginia Retirement System (VRS) guidelines and confirm the accuracy of VNAV data by the 10th of the subsequent month, as detailed in the Department of Accounts Payroll Bulletin, dated January 3, 2013. Eight out of the twelve months in fiscal year 2014 were certified after the 10th day, and included time lapses ranging from 2-29 days. One exception was caused by a problem with the VRS servers, which was outside the control of Medical Center staff. However, seven exceptions remain where the Medical Center did not take sufficient action to properly confirm the VNAV data timely.

These errors are the result of the Medical Center not having a sufficient internal control in place to ensure the timely confirmation of VNAV data. We recommend that the Medical Center implement a procedure to ensure compliance with VNAV requirements.

Improve Controls over the Disposal of Fixed Assets

Medical Center

The Medical Center removed four forklifts from its asset management system but could not provide documentation to demonstrate the forklifts were properly surplus, sold, or transferred to another entity.

The Medical Center removed the four forklifts with a net book value of \$72,085 based upon the results of their biennial capital equipment inventory, when a department representative said the

forklifts were transferred to the Academic Division. In following up with the Academic Division, we found they had no record of ever receiving the four forklifts from the Medical Center and further follow-up by the Medical Center eventually located them still in use there.

While the total amount is insignificant to the Medical Center as a whole, the breakdown of internal control over the handling of noting and deleting the disposal of capital assets is a fraud risk that could potentially lead to the misappropriation of state assets. To reduce the risk of asset misappropriation, we recommend the Medical Center review its policies and procedures over the disposal of equipment and ensure that appropriate documentation is complete before removing assets from the system.

Ensure Tuition and Fee Rates are Approved by the Board of Visitors

University

The University did not obtain the Board of Visitors' (the Board) approval for a \$250 case fee automatically assessed on students enrolled in the Darden School Business (Darden).

Section § 23-38.88 of the Code of Virginia states that, "the Board of Visitors of a covered institution shall have sole authority to establish tuition, fee, room, board, and other charges consistent with sum sufficient appropriation authority for all nongeneral funds as provided by the Governor and the General Assembly in the Commonwealth's biennial appropriations authorization."

The Darden case fee is for books and study materials and was historically collected by the School of Business. However, the school was having difficulty collecting the fee from students and was advised by the Budget Department to include it on the student's tuition and fee bill. The University obtained approval of this fee in April of 2012 from the Provost, John Simon, and the former Chief Financial Officer, Michael Strine. Despite receiving approval by upper management, we recommend that this fee be approved by the Board in accordance with the Code of Virginia, which could be accomplished by a resolution delegating to senior management the authority to establish fees in addition to those specifically established by the Board.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 5, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
University of Virginia

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the University of Virginia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated November 5, 2014. Our report includes a reference to other auditors. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the University, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings entitled "Improve Procurement Processes", "Improve VNAV Reconciliations and Confirmations" and "Improve controls over the Disposal of Fixed Assets" that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the section titled "Internal Control and Compliance Findings and Recommendations" in the findings entitled "Improve Procurement Processes" and "Ensure Tuition and Fee Rates are Approved by the Board of Visitors."

The University's Response to Findings

We discussed this report with management at an exit conference held on November 5, 2014. The University's response to the findings identified in our audit is described in the accompanying section titled "University Response." The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Status of Prior Findings

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

Purpose of this Report

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

AUDITOR OF PUBLIC ACCOUNTS

KKH/alh

UNIVERSITY RESPONSE TO INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Procurement Processes

University

During fiscal year 2014, the University issued over 115,000 purchase orders. We obtained the procurement file and analyzed the purchase orders to isolate and categorize those that represent higher risk. That analysis identified the following:

- Procurements valued just under the competitive request for proposal threshold of \$50,000;
- Procurements made to the same vendor, on the same day, by the same buyer; and,
- Procurements identified as sole source purchases.

We selected a sample from each of these categories and identified the following concerns.

1. The University uses the same generic, unsigned sole source justification for most research-oriented sole source procurements rather than requiring the purchaser to explain the need for a sole source. A consequence of recording these research procurements as sole source involves eVA rebates. Whenever procurements are made from unregistered eVA vendors identified as sole source, General Services refunds the eVA fees originally paid by the University. We found some instances where the University received eVA rebates to which they may not have been entitled had they identified the procurement as a cooperative contract or other procurement method.
2. We tested two Facilities Management sole source procurements and found that both had inadequate sole source justifications. These procurements involved the same vendor who was awarded two sole-source contracts to replace HVAC units based on criteria that could have been outlined in a competitive procurement and contract. Additionally, Facilities Management did not publically post these award notices in eVA or the University's procurement website, which is linked in eVA. Both the Code of Virginia, Section 2.2-1110 and the Restructured Higher Education Financial and Administrative Operations Act require public posting of such awards.
3. We tested all incidences of purchases being made from the same vendor, on the same day, by the same buyer and requested justifications as to why the procurements were split. Individually the procurements fell below the \$5,000 threshold for a competitive procurement, but had they been combined they would have exceeded \$5,000. For four of these incidences (17 percent) the University provided no justification. For five incidences (22 percent) the justifications were unreasonable and may indicate intentional splitting to avoid the delays and additional work caused by competitive procurements.

4. For one of six vendors tested (17 percent) who had procurements between \$49,000 and \$49,999.99 the buyer's original estimate of \$49,999 was later deemed insufficient as a second procurement for \$21,660 was required 10 months later. In the case where buyers estimate a procurement at just beneath the competitive procurement threshold of \$5,000 or \$50,000, they should be conservative and consider the potential for additional purchases during the subsequent 12 month period. Increasing the value would result in more competition that may provide cost savings to the University.
5. The University relied on their insurance broker to procure competitively an insurance plan for college athletes at UVA Wise, valued at over \$100,000. While it is reasonable to obtain the broker's assistance in writing the procurement specifications, University's Procurement Services should have performed the procurement in-house.

To increase competition and ensure the University receives high quality goods and services at the best price we recommend the following:

1. Require sole source justifications in all instances, including research, and ensure the justifications are reasonable and not based on preference. Additionally, post all sole source awards on the University's website or in eVA as required by the Code of Virginia.

University Management Response

Previously, the University had identified particular vendors as designated sole source vendors in our procurement system regardless of the particulars of the specific purchase. This resulted in numerous transactions of less than \$5,000 which were identified as sole source procurements but were documented with only a single generic sole source justification; in fact, the dollar value of these purchases did not require competition (and correspondingly sole source justification). The University will cease to identify specific vendors as designated sole source vendors for all of their transactions and will instead focus on the specific sole source merits of individual transactions. This will eliminate the identification of so many procurements that are less than \$5,000 as being sole source awards. We will, as always, require sole source justifications that are reasonable and not based on preference for all procurements over \$5,000.

The University policy currently requires all sole source awards over \$50,000 be publicly posted, which we currently post on the University's website. Additionally, in order to comply with the University's Management Agreement with the Commonwealth, we will initiate posting of our sole source procurements over \$50,000 directly in eVA.

2. Avoid splitting procurements or undervaluing them as a means to bypass the competitive procurement process. In addition, Procurement Services should monitor procurement data to identify buyers who are not adhering to the University's Guidelines for Competition. These Guidelines require buyers to use competitive procurement when they believe the total value of goods or services to a particular vendor will exceed a competitive procurement threshold over the next 12 months.

University Management Response *As noted, the University's Guidelines for Competition outline the expectations that procurements are not split or under-valued in an attempt to avoid a competitive procurement process. Procurement and Supplier Diversity Services (PSDS) central buyers follow these Guidelines. PSDS has recently become more pro-active in reviewing transactions from the procurement shoppers in the field with the recent hiring of a procurement analyst. We will review the findings of the APA with the procurement analyst in order to better ensure that the Guidelines are followed by shoppers in the field. In addition, we will emphasize these Guidelines to shoppers in the field through modification of existing shopper training and targeted communications. Additionally, future procurements will be conservatively estimated for potential additional purchases.*

3. Identify procurements as cooperative contracts or other procurement methods where possible to avoid accidentally identifying a procurement as sole source, generating an eVA rebate.

University Management Response

The actions taken related to the first two recommendations (ceasing to identify specific vendors as designated sole source vendors for all of their transactions and instead focusing on the specific transactions over \$5,000, and working with the new procurement analyst) will help to ensure that procurements are appropriately identified, justified, and recorded in the system so that accidentally identifying a procurement as sole source and generating an eVa rebate will not occur.

Improve VNAV Reconciliations and Confirmations

University

The University's Payroll Department does not have supporting documentation of their payroll system to VNAV reconciliation, which they should perform before submitting their Contribution Snapshot to the Virginia Retirement System (VRS). The reconciliation from the University's payroll system to the VNAV system (VRS Navigator) is a new process implemented in fiscal year 2013. Employers are now responsible for ensuring that all employee data changes in their payroll and human resource systems are also changed in VNAV and it is the agency's obligation to ensure that the data in VNAV reconciles with their own records.

On June 15, 2014, GASB No.68 went into effect and will require agencies to report a pension liability on their fiscal year 2015 financial statements. Therefore, it is critical to reconcile the employee data in VNAV to ensure its accuracy since it is used to calculate the Commonwealth's total pension liability that will calculate the pension liability for the University's fiscal year 2015 financial statements. Additionally, ensuring that employee data in the University's payroll system is consistent with data in VNAV is a significant control in verifying that employee retirement benefit payments are accurate. Reconciling the University's payroll system and VNAV ensures that any differences between the systems are researched and corrected.

The Payroll Department currently has a process in place to whereby they review VNAV error report each pay period; however, they do not maintain documentation of this review. By not maintaining this documentation, we were unable to confirm that the Payroll Department followed their procedure and verified the accuracy and completeness of employee data in the VNAV system.

We recommend the payroll department retain sufficient documentation to demonstrate a reconciliation was performed and that they verified changes in their system were properly reported in VNAV.

University Management Response

The University will continue to perform reconciliation from the University's payroll system to VNAV; we will add a new step to the reconciliation procedure to ensure that documentation is retained to confirm the reconciliation was performed and all differences were researched and corrected.

Medical Center

The Medical Center did not follow the Virginia Retirement System (VRS) guidelines and confirm the accuracy of VNAV data by the 10th of the subsequent month, as detailed in the Department of Accounts Payroll Bulletin, dated January 3, 2013. Eight out of the twelve months in fiscal year 2014 were certified after the 10th day, and included time lapses ranging from 2-29 days. One exception was caused by a problem with the VRS servers, which was outside the control of Medical Center staff. However, seven exceptions remain where the Medical Center did not take sufficient action to properly confirm the VNAV data timely.

These errors are the result of the Medical Center not having a sufficient internal control in place to ensure the timely confirmation of VNAV data. We recommend that the Medical Center implement a procedure to ensure compliance with VNAV requirements.

University Management Response

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

Improve Controls over the Disposal of Fixed Assets

Medical Center

The Medical Center removed four forklifts from its asset management system but could not provide documentation to demonstrate the forklifts were properly surplus, sold, or transferred to another entity.

The Medical Center removed the four forklifts with a net book value of \$72,085 based upon the results of their biennial capital equipment inventory, when a department representative said the forklifts were transferred to the Academic Division. In following up with the Academic Division, we

found they had no record of ever receiving the four forklifts from the Medical Center and further follow-up by the Medical Center eventually located them still in use there.

While the total amount is insignificant to the Medical Center as a whole, the breakdown of internal control over the handling of noting and deleting the disposal of capital assets is a fraud risk that could potentially lead to the misappropriation of state assets. To reduce the risk of asset misappropriation, we recommend the Medical Center review its policies and procedures over the disposal of equipment and ensure that appropriate documentation is complete before removing assets from the system.

University Management Response

The Medical Center agrees that communication and documentation of asset transfers are important internal controls. The Medical Center has restored the four forklifts to its inventory, and will obtain proper documentation supporting this action. Additionally, the Medical Center has reviewed current policy and added steps to ensure proper documentation of all capital asset disposals, whether by sale, surplus or transfer.

Ensure Tuition and Fee Rates are Approved by the Board of Visitors

University

The University did not obtain the Board of Visitors' (the Board) approval for a \$250 case fee automatically assessed on students enrolled in the Darden School Business (Darden).

Section § 23-38.88 of the Code of Virginia states that, "the Board of Visitors of a covered institution shall have sole authority to establish tuition, fee, room, board, and other charges consistent with sum sufficient appropriation authority for all nongeneral funds as provided by the Governor and the General Assembly in the Commonwealth's biennial appropriations authorization."

The Darden case fee is for books and study materials and was historically collected by the School of Business. However, the school was having difficulty collecting the fee from students and was advised by the Budget Department to include it on the student's tuition and fee bill. The University obtained approval of this fee in April of 2012 from the Provost, John Simon, and the former Chief Financial Officer, Michael Strine. Despite receiving approval by upper management, we recommend that this fee be approved by the Board in accordance with the Code of Virginia, which could be accomplished by a resolution delegating to senior management the authority to establish fees in addition to those specifically established by the Board.

University Management Response

The University will implement the recommended approach to propose a resolution delegating authority from the Board of Visitors to the appropriate University leadership to establish mandatory fees in addition to those specifically established by the Board.

UNIVERSITY OF VIRGINIA

Charlottesville, Virginia

BOARD OF VISITORS

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