



UNIVERSITY OF VIRGINIA

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

We have audited the basic financial statements of the University of Virginia as of and for the year ended June 30, 2020, and issued our report thereon, dated December 11, 2020. Our report is included in the University's Financial Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the University's website at www.virginia.edu. Our audit 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
- instances of noncompliance or other matters required to be reported under Government Auditing Standards.

Our audit also included testing over the major federal programs of the Research and Development Cluster and Education Stabilization Fund for the Commonwealth's Single Audit as described in the U.S. Office of Management and Budget Compliance Supplement; and found no internal control findings requiring management's attention or instances of noncompliance in relation to this testing.

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STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

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

Applicable to: All Divisions

Responsible Department: University Human Resources Office

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (partial)

Prior Title: Improve Segregation of Duties Controls over the Payroll and Human Resources System

The University of Virginia (University) does not have adequate controls in place to effectively manage user access to the Payroll and Human Resources System (System). The University's Internal Audit Department (Internal Audit) issued a System provisioning and deprovisioning audit report (provisioning report) in May 2020, which found that six of 11 (54.5%) controls tested did not fully meet the relevant University policies and adopted information security standard controls. In August 2019, as communicated in our prior year audit report, the University hired a consultant with proprietary access analysis tools to perform a segregation of duties analysis over the System and provide a detailed report identifying potential concerns. Remediation actions taken by the University have reduced potential concerns detailed in the consultant's report. However, four of the control deficiencies identified in Internal Audit's provisioning report have an indirect effect on segregation of duties detailed in the consultant's report. Additionally, the University has not adequately identified or developed a resource to identify all conflicting business processes and their respective roles for use in establishing and monitoring future access to the System.

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." Internal Audit's provisioning report details the additional University policies and information security standards not satisfied by the existing System access controls. Inadequate System access controls and improper segregation of duties increases the risk that users obtain and retain improper access to view or modify sensitive data not necessary for their role and heightens reliance on compensating detective controls to reduce the risk of fraudulent transactions and errors in financial reporting.

The University should take corrective actions to address internal control findings in Internal Audit's provisioning report and develop a resource that details conflicting business processes and their respective roles for use in establishing and monitoring future access to the System.

Develop Policies and Procedures to Ensure Compliance with Conflict of Interest Act Requirements

Applicable to: All Divisions

Responsible Department: University Human Resources Office

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (partial)

The University of Virginia Human Resources department (Human Resources) continues to improve the University's policies and procedures to address the deficiency communicated in our prior year audit report to ensure compliance with the Commonwealth of Virginia's Conflict of Interest Act (COIA) requirements. Human Resources established procedures effective April 1, 2020 to ensure compliance with COIA requirements, which are adequate to ensure employees complete required training within each two-year rolling period as required by the Code of Virginia. However, the established procedures do not ensure individuals in positions of trust file a Statement of Economic Interest (SOEI) form upon assuming the position, and do not ensure individuals complete required training within two months of assuming the position. The auditor reviewed records of six individuals assuming a position of trust subsequent to April 1, 2020 and found that four of the six individuals (66.7%) did not file the SOEI form prior to assuming their position of trust, and one of the six individuals (16.7%) did not complete required training within two months of assuming their position of trust.

Pursuant to the Code of Virginia § 2.2-3114A and § 2.2-3118.2, persons occupying positions of trust within state government shall file with the Council, as a condition to assuming office or employment, a disclosure statement of their personal interests and such other information as is required on the form, on or before the day such office or position of employment is assumed, and thereafter shall file such a statement annually on or before February 1. Executive Order Number Eight (2018) indicates positions of trust for institutions of higher education include Presidents, Vice Presidents, Provosts, Deans, and any other person as designated by the institution including those persons with approval authority over contracts or audits. Additionally, Code of Virginia § 2.2-3129 and § 2.2-3130 require employees in a position of trust to complete an ethics and conflict of interest course, initially within two months of hire, and thereafter on a biennial basis.

By not ensuring that individuals in positions of trust file Statement of Economic Interest forms as a condition of assuming employment, the University could be susceptible to actual or perceived conflicts of interest that would impair or appear to impair the objectivity of certain programmatic or fiscal decisions made by employees in designated positions of trust. While not a cost to the University itself, employees in a position of trust who do not complete the required Statement of Economic Interest form may, as allowed by the Code of Virginia § 2.2-3124, be assessed a civil penalty in an amount equal to \$250.

Starting in August 2020, the University reassigned oversight responsibility for tracking SOEI compliance and is making additional improvements to enhance the SOEI filing process. Human Resources should continue to enhance its policies and procedures to ensure that the appropriate individuals submit SOEI forms as a condition of assuming a position of trust and complete the required ethics and conflict of interest course within two months of hire.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Processes over Employment Eligibility Verification

Applicable to: All Divisions

Responsible Department: University Human Resources Office

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Human Resources did not complete Employee Eligibility Verification (I-9) Forms in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. For a sample of 25 randomly selected employees, we noted the following:

- seven out of 25 (28%) did not complete and sign Section 1 of the I-9 form by the first day of employment;
- the Human Resources Officer did not complete Section 2 within three business days for nine out of 24 (38%) applicable employees; and
- Human Resources did not create E-Verify cases within three business days for nine out of 24 (38%) applicable employees.

The decentralized nature of the hiring and on-boarding process is the primary cause of noncompliance. In most instances, the cause of the delays pertained to untimely communication between departments regarding the hiring of new employees, which resulted in limited time to achieve compliance. The Immigration Reform and Control Act of 1986 requires employers to verify employment eligibility and identity for all employees hired after November 6, 1986 by using Form I-9. U.S. Citizenship and Immigration Services sets forth federal requirements for completing the 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 the 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.

Based on discussions with University management, Human Resources modified controls in August 2020 to identify new hires sooner, which should allow for additional time to complete required documentation. Human Resources implemented additional monitoring reports to better identify potential noncompliance and are increasing training efforts for hiring managers in University departments. As Human Resources implemented these processes after fiscal year end, the fiscal year 2021 audit will evaluate the effectiveness of these new processes in preventing noncompliance during the completion of employee eligibility verification.

Improve Database Security

Applicable to: Medical Center

Responsible Department: Health System Technology Services

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The University of Virginia Medical Center (Medical Center) does not secure the database that supports its accounting and financial reporting system with some minimum security controls required by the National Institute of Standards and Technology Standard, 800-53 (NIST Standard) and industry best practices.

We communicated the control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The NIST Standard requires the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the NIST Standard and aligning the database's settings and configurations with best practices, the Medical Center is not reducing unnecessary risk that may impact the confidentiality, integrity, and availability of data within the database or the information it reports.

The Medical Center should implement the security controls discussed in the communication marked FOIAE in accordance with the NIST Standard.

Improve Controls Over the Creation of Medicaid Cost Settlement Report Estimates

Applicable to: Medical Center

Responsible Department: Third-party Reimbursement

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The University of Virginia Medical Center (Medical Center) lacks effective controls to prevent or detect errors in the development of its estimate of the settlement due to or due from the Department of Medical Assistance Services (DMAS) for services provided to Medicaid patients. Additionally, the estimate process relies on significant assumptions made by management, which management does not document in a comprehensive manner to permit ease of review. Formula errors in the spreadsheet calculating the estimate resulted in material changes to the current year estimate. Prior year financial statements also included the impact of the same formula error, resulting in the need for a prior period adjustment to the financial statements. Finally, Medical Center management noted an additional item that should have been included in the formulation of the fiscal year 2019 estimate that the model unintentionally omitted.

The development of the estimate is highly complex and the Medical Center's process involves large workbooks of spreadsheets with embedded formulas to capture the impact of various inputs on

the estimate. Currently, the workbook does not employ technological controls to prevent editing of formulas to minimize the impact of entry errors on the calculation of the estimate. Additionally, the Medical Center does not have comprehensive written documentation that guides the assumptions used in developing this estimate. While the process used to develop the estimate is consistent across previous periods, formally documenting assumptions regarding model variables would better inform management and the individual reviewing the estimate of the variables the model includes and the impact or sensitivity of those variables, which would help prevent inconsistency and the unintentional omission of important model variables.

Medical Center management is responsible for the preparation and fair presentation of its financial statements in accordance with generally accepted accounting principles. As a result, management must make a reasonable estimate of amounts that ultimately will be realized, considering adjustments associated with regulatory reviews, audits, billing reviews, investigations, or other proceedings. Governmental Accounting Standards Board (GASB) Codification Section 2250.135 states that errors in financial statements are “distinguishable from a change in estimate,” and as the GASB guidance explains, “errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared.” The errors in the development of the estimate for settlements due to and from DMAS do not represent a change in estimate, and therefore caused the Medical Center to report income (or loss) recognized from the settlement of these reports in incorrect fiscal years.

Medical Center management should formally document the procedure and significant assumptions critical to the proper development of the estimate. Additionally, employing technological controls to prevent the unintentional updating of key formulas in the workbook and employing a process for adopting significant changes to the model will help to reduce the risk of misstatement of the financial statements and improve visibility of model changes that may impact comparability of the estimate across fiscal years.

Improve Compliance with Unclaimed Property Act

Applicable to: Medical Center

Responsible Department: Medical Center Cash Management

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

The Medical Center does not submit unclaimed checks to the Commonwealth of Virginia’s Department of Treasury (Treasury) within the timeframe required by Code of Virginia § 55.1, Chapter 25 (Unclaimed Property Act). Medical Center management uses software configured to escheat unclaimed outstanding checks to Treasury as unclaimed property on a five-year schedule instead of after one year as required for all intangible property held by any government or government subdivision of agency.

Code of Virginia § 55.1-2517 states that all intangible property held for the owner by any government or governmental subdivision or agency, public corporation, or public authority that has remained unclaimed by the owner for more than one year after it became payable is presumed

abandoned. Intangible property includes checks as defined in Code of Virginia § 55.1-2500, and that abandoned property is subject to the custody of the Commonwealth of Virginia. Treasury's Division of Unclaimed Property serves as custodian of abandoned property for the Commonwealth.

The Unclaimed Property Act, Code of Virginia § 55.1-2540, specifies entities may be required to pay interest on the property or value thereof from the date it should have been paid or delivered to Treasury. Additionally, entities without good cause for failing to report, pay, or deliver property within the time prescribed, must pay a civil penalty of \$100 a day up to a maximum of the lesser of \$10,000 or 25 percent of the value of the property that should have been reported. As of June 30, 2020, the Medical Center should have surrendered 778 checks worth a total of \$1,552,730.72 to Treasury during its annual escheatment process from 2016 to present. The Medical Center has surrendered these amounts to Unclaimed Property as of November 2020 as a response to this finding.

The Medical Center should reconfigure the existing software for annual reporting of unclaimed property by November 1st each year as required by the Code of Virginia or develop a new process that ensures compliance with the annual reporting requirement.

Improve Cash Reconciliation and Review Process

Applicable to: Medical Center

Responsible Department: Medical Center Cash Management

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

The Medical Center overstated its cash and cash equivalents by \$25.9 million due to several erroneous manual journal entries related to cash accounts. An adequate reconciliation process should allow for agreement of cash reported in the Medical Center's general ledger to cash balances reported in the Medical Center's bank accounts. The following deficiencies in the Medical Center's controls contributed to the error in reporting:

- Medical Center staff recorded two manual adjustments totaling \$10.7 million during the fiscal year ending June 30, 2018 to correct certain receivable balances, resulting in an improper increase to cash amounts in the general ledger without proper support for the receipt of related cash. Medical Center management reviewed and approved these journal entries but should have scrutinized the need for an adjustment to the Medical Center's cash balance. As indicated in our finding from the fiscal year 2018 audit, the Medical Center's cash reconciliation process needed significant improvement following the implementation of a new revenue accounting system, and therefore, did not detect this difference between the general ledger and bank account activity.
- Medical Center staff did not record one outgoing wire payment for \$14.5 million in the general ledger during the fiscal year ending June 30, 2019. Medical Center staff identified the discrepancy between the bank account and the general ledger in the revised cash reconciliation process implemented during fiscal year 2019; however, staff improperly

identified a journal entry that had no impact on cash as the resolution to this reconciling item and as such, did not make any further correction to the general ledger.

Management is responsible for designing and maintaining a system of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement in accordance with generally accepted accounting principles. As noted in GASB Concepts Statement 1, *Objectives of Financial Reporting*, “Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to faithfully represent the underlying events and conditions, nor should anything be included that would cause the information to be misleading.”

The Medical Center’s general ledger includes many distinct cash accounts, which separately track receipts, disbursements, and transfers of cash between the Medical Center and the University. These accounts are cumulative in nature, requiring summation to obtain the net cash balance recorded in the general ledger. The Medical Center did not detect the errors in its reported balance of cash and cash equivalents because the Medical Center’s reconciliation process focuses on daily and monthly inflows and outflows of cash but does not compare all cash in its bank accounts to all cash in the general ledger for a corresponding reporting period.

The Medical Center should strengthen the journal entry review process to ensure journal entries debit and credit the appropriate accounts prior to entry in the accounting and financial reporting system. The Medical Center should also improve its reconciliation process to ensure bank account balances at the end of each month and fiscal year agree to the sum of general ledger cash and cash equivalents and should consider adding a formal review by the Controller of the agreement between the bank balance and sum of general ledger cash balances as part of its month-end and year-end closing process.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 11, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
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, aggregate discretely presented component units, and aggregate remaining fund information of the **University of Virginia** as of and for the year ended June 30, 2020, 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 11, 2020. 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 (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.

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 was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control entitled "Improve Controls over User Access to the Payroll and Human Resources System," "Develop Policies and Procedures to Ensure Compliance with Conflict of Interest Act Requirements," "Improve Processes over Employment Eligibility Verification," "Improve Database Security," "Improve Controls Over the Creation of Medicaid Cost Settlement Report Estimates," "Improve Compliance with Unclaimed Property Act," and "Improve Cash Reconciliation and Review Process," which are described in the sections titled "Status of Prior Year Findings and Recommendations" and "Internal Control and Compliance Findings and Recommendations," 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 financial statement. 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 entitled "Improve Controls over User Access to the Payroll and Human Resources System," "Develop Policies and Procedures to Ensure Compliance with Conflict of Interest Act Requirements," "Improve Processes over Employment Eligibility Verification," "Improve Database Security," and "Improve Compliance with Unclaimed Property Act."

The University's Response to Findings

We discussed this report with management at an exit conference held on November 23, 2020. 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 not completed corrective action with respect to the previously reported findings "Improve Controls over User Access to the Payroll and Human Resources System" and "Develop Policies and Procedures to Ensure Compliance with Conflict of Interest Act Requirements". Accordingly, we included these findings in the section entitled "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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

EMS/vks



December 11, 2020

Ms. Martha S. Mavredes
Commonwealth of Virginia
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes,

We have reviewed the audit findings and recommendations resulting from the fiscal year 2020 audit related to the University of Virginia (UVA) Academic Division (University) and Medical Center. Below are management's responses to those findings.

ACADEMIC DIVISION

Improve Controls over User Access to Payroll and Human Resource System

Management Response: The UVA Academic Division concurs with the APA's finding.

Responsible for Corrective Action: Syed Mahmood, Director of HR People, Data and Technology; Teresa Wimmer, Assistant Vice President of Enterprise Application; Augie Maurelli, Associate Vice President for Financial Operations.

Anticipated Completion Date: June 30, 2021

This management point is a combination of the previous Segregation of Duties management comment from fiscal year 2019 in conjunction with the Human Resources and Payroll System Provisioning and De-Provisioning report provided in Spring 2020.

UVA HR, UVA IT, and UVA Finance led the initial collaboration around design and business process for the Human Resources and Payroll System including roles and access, prior to implementation in January 2019 as well as the further analysis of the system roles and potential segregation of duties results in the summer/late fall of 2019.

Beginning in early 2020, using a risk rated approach, analysis was performed which supported the remediation of the majority of existing conflicts, or segregation of duties issues presented, around payroll related roles. UVA HR, UVA IT, and UVA Finance have begun work on a project plan to address the remaining report comments. Significant progress has been made toward report comments associated with User Access and Provisioning Rights, Review of User Rights, as well as Password Management.

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P 434.924.0716 | F 434.982.2315 | vpfinance@virginia.edu

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A cross-functional team has been created to support this effort, as well as a risk rated approach around Segregation of Duties and Access Provisioning and De-Provisioning. As part of the remediation effort, the UVA cross functional team will ensure the following:

- Identify and evaluate the current business process for provisioning and de-provisioning access to the UVA Human Resources and Payroll System
- Re-evaluate the current business process for provisioning and de-provisioning access to Oracle, and establish a plan for access to the new roles in Human Resources and Payroll System Financials prior to implementation
- Review current Oracle system roles and established conflicts, to evaluate readiness for transition to Human Resources and Payroll System Financials
- Identify finance-impacted business processes and prioritizing potential conflicting roles for Human Resources and Payroll System Financials
- Establish a plan for continuous monitoring of system access, for Human Resources and Payroll System HCM and for future Human Resources and Payroll System Financials
- Continue to work on all comments around UVA Internal Audit report

Develop Policies and Procedures to Ensure Compliance with Conflict of Interest Act Requirements

Management Response: The UVA Academic Division concurs with the APA’s finding.

Responsible for Corrective Action: Julie Bird, Sr. Director of Continuous Improvement & Project Management; Gary Nimax, Assistant Vice President for Compliance; Michael Latsko, Sr. Director of HR Strategic Initiatives

Anticipated Completion Date: December 31, 2020

The University understands the sensitivity around controls and compliance. Process improvements put in place on April 1, 2020 successfully ensured completion of the Statement of Economic Impact (SOEI) filing and the Conflict of Interest Act (COIA) reporting requirements. Additional improvements, however, were needed to fully address the specific timing requirements that are defined in the Code of Virginia. In August 2020, the University reassigned oversight responsibility for the tracking for SOEI compliance, resulting in improvements to the process and to its execution.

The new processes that are in place allow the University to identify new hires/transfers weeks before their start date and to effectively communicate their need to complete both the filing and the training. Additionally, we have well-trained resources reviewing the status of new hires/transfers and associated filing and training on weekly basis.

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Improve Processes over Employment Eligibility Verification

Management Response: The UVA Academic Division concurs with the APA’s finding.

Responsible for Corrective Action: Adam Weikel, Assistant Vice President for HR Service; Jennifer Weaver, Talent Support Manager

Anticipated Completion Date: March 31, 2021

The University will implement additional business process controls as it pertains to stated weakness in controls and compliance, but would like to ensure that both risk and materiality are considered upon business process implementation. Root cause analysis of the data points presented in this management comment indicate opportunities around hiring notifications, student worker documentation, document requirement notification, as well as reporting for compensating controls around onboarding and notification requirements.

As a result, the University has already created reporting that allows UVA HR to begin communicating with all new employees on their hire date in the Human Resources and Payroll System eliminating several compliance concerns. The new report/process was put into place in August 2020 for the Fall Student Hiring season. To date, the University has been able to meet compliance standards around documentation of the I-9 and any e-verify processes due to COVID-19 exemptions set by DHS. New efforts regarding training are also underway.

MEDICAL CENTER

Improve Database Security

Management Response: The Medical Center concurs with the APA finding to improve database security

Responsible for Corrective Action: Erin Trost, Manager HIT Security

Anticipated Completion Date: June 30, 2021

The Medical Center is reviewing and testing to determine the feasibility of implementing suggested controls.

Improve Controls Over the Creation of Medicaid Cost Settlement Report Estimates

Management Response: The Medical Center concurs with the APA finding to improve controls over the Medicaid estimate calculation.

Responsible for Corrective Action: Kim Holdren, Director of Finance and Controller; Brian Wilmoth, Strategic Planning and Reimbursement Officer

Anticipated Completion Date: June 30, 2021

The Medicaid estimate is highly complex, and constantly changing as a result of the patient’s gaining Medicaid coverage. The calculation of the Medicaid due to (from) Model estimate, involves several

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steps and fluctuates from month to month. The identified issue proved to be an excel formula/math error. As a result of the timing of cost report settlements, the error self-corrects before final settlement with the State. All balances were corrected as of June 30, 2020.

The Medical Center agrees that the internal controls can be improved in the Medicaid estimate calculation. The Medical Center recorded a correcting journal entry to accurately reflect the estimated ending balances for the open, pending, and unsettled cost reports, as a result of the correction of the math error.

In order to improve controls over the Medicaid estimate calculation, the Medical Center will continue to have an independent third party review the Medical Center's reserve position, annually, to include Medicaid estimates, as well as implement the following additional controls:

- Monthly, after the spreadsheet is prepared, the Reimbursement Officer will review for accuracy and reasonableness of the calculated estimate, and signoff with approval.
- The Reimbursement Officer and the Controller will review the journals, quarterly, with the Reimbursement Officer providing the Controller insight and circumstances as to the amount of the estimate each quarter.
- After the date of this response (11/18/2020), the Reimbursement Officer will develop a quantitative analytical work paper that includes the major components of the Medicaid settlement estimate and applicable financial statement positions. To satisfy the qualitative analysis a log of the management positions taken, governmental guidance, and other environmental factors that weigh on the calculation will be created.
- The resulting work paper will contain the following:
 - Assumptions used when calculating estimate
 - Current issues/factors, if any, resulting in a deviation from assumptions
 - Direction/guidance received from management resulting in a deviation from assumptions
 - Rule changes based on governmental guidance, including assumptions the Medical Center makes in anticipation of rule changes yet to be implemented
 - Work paper to be reviewed with the Controller to ensure documentation in place, as well as the Excel formulas are calculating correctly.

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Improve Compliance with Unclaimed Property Act

Management Response: The Medical Center concurs with the Management Point finding (Noncompliance of the Unclaimed Property Act) related to outstanding checks deemed unclaimed property.

Responsible for Corrective Action: Kim Holdren, Director of Finance and Controller

Anticipated Completion Date: October 31, 2020

Currently, the Medical Center uses Bank of America to perform its escheatment process, in order to turn over unclaimed property to the State of Virginia, however the software used by Bank of America escheats checks every 5 years, versus every year as required by the State of Virginia. In October 2020, the Medical Center escheated the outstanding checks to the State of Virginia, in order to bring the Medical Center in compliance with the Unclaimed Property Act. The Controller’s Office, in tandem with HSTS, developed a process where the escheatment production file will be automatically created every October. The process will pick up checks issued as of June 30 of the current year minus one year. For example, In October, 2020, we submitted all uncashed checks dated June 30, 2019 (FY19) and prior.

In October, 2021, we will escheat all outstanding checks issued in FY20. They will have issue dates prior to July 1, 2020 and have been outstanding for a year. Said another way, each year we escheat all checks issued in the prior fiscal year that remain outstanding when we file each October.

Improve Cash Reconciliation and Review Process

Management Response: The Medical Center concurs with the APA management point to improve cash reconciliation, access, and internal control processes.

Responsible for Corrective Action: Kim Holdren, Director of Finance and Controller; Sally Evans, Manager of Cashiering

Anticipated Completion Date: June 30, 2020

The Medical Center will implement the following improvements to the cash reconciliation, journal entry, and cash management processes:

1. The Medical Center will reconcile the monthly bank statement to monthly ending general ledger balance, to include reconciling items and actions taken to clear identified reconciling items.
2. The Medical Center will further substantiate the general ledger monthly ending balance by using an analytic to identify all general ledger cash balances, to include only Medical Center cash, net of the short term investment pool held by the University.
3. The Controller will approve all manual cash entries.

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P 434.924.0716 | F 434.982.2315 | vpfinance@virginia.edu

Martha Mavredes – Auditor of Public Accounts

December 11, 2020

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4. For general ledger cash accounts containing system interfaces for receipts (EPIC), the general ledger account will be identified as a control account. Manual journal entries CANNOT be posted to control accounts.
5. For general ledger cash accounts containing system interfaces for disbursements (PeopleSoft), limit access by user id to the Controller, Assistant Controller, and Financial Analyst.
6. Create a designated general ledger cash wire account within the cash chartfield range to be reconciled with the corresponding bank subaccount, as well as identification, documentation for general ledger posting for ALL wires, including outstanding items and subsequent resolution.

Sincerely,

DocuSigned by:

 Melody Bianchetto
 Vice President for Finance

DocuSigned by:

 Douglas E. Lischke
 Health System Chief Financial Officer

cc: J.J Davis
 Augie Maurelli
 Virginia Evans
 John Kosky

cc: Kim Holdren
 Wendy Horton
 Erin Trost
 Mike Marquardt

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UNIVERSITY OF VIRGINIA

As of June 30, 2020

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