UNIVERSITY OF VIRGINIA
BOARD OF VISITORS

Meeting of the Audit, Compliance, and Risk Committee

September 13, 2018

AUDIT, COMPLIANCE, AND RISK COMMITTEE

Thursday, September 13, 2018
11:00 a.m. – 12:00 p.m.
Upper West Oval Room, The Rotunda

Committee Members:
Babur B. Lateef, M.D., Chair
Robert M. Blue
Mark T. Bowles
L. D. Britt, M.D.
C. Evans Poston Jr.
Frank M. Conner III, Ex-officio
Margaret F. Riley
Adelaide Wilcox King, Faculty Consulting Member

AGENDA

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 13, 2018

COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: I. Remarks by the Committee Chair

ACTION REQUIRED: None

BACKGROUND: Dr. Babur Lateef, the Committee Chair, will open the meeting and provide an overview of the agenda.

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BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 13, 2018

COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: II.A. Construction Management: Financial Controls and Project Monitoring

ACTION REQUIRED: None

BACKGROUND: UVA's Audit Department engaged ResX, PC (ResX) to perform an interim audit of the University's Hospital Expansion Project (HEP). The audit report was issued on June 4, 2018.

The HEP comprises expansion of the current Emergency Department and the surgical services suite on the second level, development of a six-story inpatient tower, and expansion of ancillary spaces on the lower level. New construction is approximately 425,000 square feet and renovation is approximately 95,000 square feet. The work will encompass new drop off and entries into the Emergency Department for ambulance and ambulatory patients. The Board of Visitors approved this project, which has an estimated cost of $322 to $394 million, in March 2015.

Mr. Donald Sundgren, Associate Vice President and Chief Facilities Officer, will discuss improvements to be implemented based on audit recommendations and review Facilities Management's processes for overseeing the total construction portfolio.

The following table is an excerpt from the report, summarizing priority audit findings (4 P2 findings) and process improvement recommendations:

Summary Recommendations and Management's Corrective Action Plans
Refer to ResX Report for Details of Each Observation and Recommendation
Note: Corrective action plans are not required for process improvement recommendations

ResX issue #	Priority Rating	Observation	Recommendation	Management's Corrective Action Plan	Responsible Person & Expected Completion Date
Audit Topic: Mark-Ups					
III.1 Page 4	P2	Contracts signed with Skanska allowed it to bill $336,354 more in mark-up than Skanska would have billed if it were required to adhere to the rates it bid in its Pricing Proposal Refer to detailed analysis highlighting calculations supporting $336,354 in mark-up overcharges in Attachment #2.	Mark-ups agreed to in the Pricing Proposal should be incorporated into all of the CM's contracts. If multiple contracts are used to complete a project, mark-ups should be tracked on a consolidated schedule to ensure compliance with the overall agreed upon mark-up percentages. See report page 8 for more detail on a related process improvement recommendation.	The mark-ups cover CM services and include a variety of cost elements. Those in the pricing proposal for the initial contract applied to that contracted scope of work. While on many projects those mark-ups would apply to the full project, this project had numerous contracts awarded over a period of years and the mark-ups for each of those contracts were negotiated separately for the various scopes of work. We will do a comparative analysis of the mark-ups for our records.	George Southwell/ Jeff Moore 9/30/18

ResX issue #	Priority Rating	Observation	Recommendation	Management's Corrective Action Plan	Responsible Person & Expected Completion Date
Audit Topic: Change Order Approval Process					
III.2.A Page 4	P2	Skanska's CO No. 12 with Bell BCI Company (Bell) stated a Payment and Performance Bond was needed based on the contract value of $46,146,897 unable to be bonded through Subguard.	1. UVA should determine to what extent Bell was not covered by CM's Subguard insurance and issue a deductive CO to the CM for the amount of any shortfall (potentially $622,938 or 1.35% of contract value) 2. UVA Facilities Management, in consultation with UVA Risk Management, should study the use of bonds on the Project and whether coverage provided by these bonds overlap with coverages available under Skanska's Subguard insurance.	Bell was covered by the Subguard program for the initial portions of the work. For subsequent contracts Bell obtained a separate Performance and Payment Bond. UVA was charged the Subguard rate but was not charged for the cost of the separate Payment and Performance Bond. As a follow-up we will do a cost comparison of the two programs for the work that was bonded separately. Our analysis showed that the coverages do not overlap. We would be glad to review with UVA Risk Management.	George Southwell/ Jeff Moore 9/30/18
III.2.B Page 5	P2	Change order prices were not consistently approved before work	1. Ensure change orders are approved timely. Document the negotiation process so that the CO file or electronic directory includes the initial	There was a negotiated fixed price for each of the change orders	Jeff Moore 12/31/18

ResX issue #	Priority Rating	Observation	Recommendation	Management's Corrective Action Plan	Responsible Person & Expected Completion Date
		was underway or completed for 6 COs tested (67% of all CO dollars). During testing, we did not find evidence of negotiation with subcontractors prior to work commencing.	proposal and management's response and proposed modifications to the proposal. There should be some proof of "negotiation" in the file to inform the approval process. 2. If work commences before CO approval, ensure HECOM requirements are followed by either tracking cost of work in the field and obtaining reimbursement on a cost basis or establishing a negotiated fixed price prior to commencing the work. 3. Field activities (e.g. labor hours, equipment usage, or material usage) related to any CO started before the CO price is approved should be tracked to that actual costs can be estimated. In this manner, the CO price can be set at cost plus the CM's contractual mark-ups.	prior to commencement of the work, however in some cases the multi-layer approval process had not been completed. We will emphasize that the approvals are to be in place prior to commencement of the work unless, at the judgment of the team, there is a compelling reason for the work to move forward prior to formal approval. We will also review our approval process to see if there are opportunities to reduce the time typically required for approvals.	
			Audit Topic: Design Assist Subcontractors		
III.4 Page 6	P2	The subcontractors invited to simultaneously bid both design assist work and the subsequent construction	1. If the final construction documents for Design Assist Subs' (D-A Subs) scope of work results in a material increase in the D-A Subs' price as compared to the original	We maintain the option of re-bidding the D-A Subs scope of work at any time prior to the execution of the	Jeff Moore 9/30/18

ResX issue #	Priority Rating	Observation	Recommendation	Management's Corrective Action Plan	Responsible Person & Expected Completion Date
		work eventually negotiated contracts that were higher than their original bids. For example, Bell Mechanical's bid of $39.5 million (as memorialized in the MON) increased by $7.2 million once the design was complete. This increase was incorporated into Bell's various subcontracts. The increase was not processed as a change order because the change in scope occurred during pre-construction and before the final contracts were executed.	bid, consider rebidding the work, if possible. 2. If re-bidding in the open market is not feasible: a) engage an engineering/ estimating firm to perform a 3rd party review of the proposed additional scope and price, with a documented letter of recommendation from the reviewer. b) retain the right to conduct a close-out audit of the D-A Sub.	construction contract, as we have done on some of our projects. In this case the cost increase was a result of recognized scope increases and the pricing was reviewed and reconciled with a 3rd party estimating firm. We will review the D-A Subs language in our RFP documents to be sure there is clarity regarding our process and options. Our existing audit clause gives us audit rights for the D-A Subs.	

Process Improvement Recommendations: Management Response Not Required

ResX issue #	Priority Rating	Observation	Recommendation
Audit Topic: Subguard Insurance Mark-Up			
III.3 Page 5	PI	Skanska was permitted to use its in-house captive self-insurance program, for which UVA has no audit rights, to cover subcontractor default risk. The rate charged, 1.35% of total subcontractor cost, generally exceeds normal market rates from recognized sources (e.g. Zurich Insurance) which charges rates from 0.75% to 1.25% of the enrolled subcontractor costs.	Given the potential for savings available in the market for Subguard products, UVA should consider allowing 3rd parties to compete with a CM's captive insurer.
Audit Topic: eBuilder System			
III.5 Page 6	PI	The eBuilder system does not contain all the Project's records because it was implemented after the project was underway. Consequently, early project documentation, including bid related documents) was not routinely entered into the system.	Ensure all project documents are uploaded into eBuilder to ensure completeness of file and enable audit or management review
Audit Topic: Price Proposal			
III.6 Page	PI	Skanska inserted a series of end notes in its Price Proposal that added new terms to UVA's Price Proposal form. Skanska's end notes were overruled by language in the RFP, and the contracts signed stipulated the order of document precedence. Allowing the CM to insert end notes underscores the importance of including audit rights language in the contract documents that is at a higher level of precedence than the Price Proposal.	Continue to ensure audit rights are inserted in contract documents with the highest order of precedence. Limit or eliminate contracting parties' ability to insert end notes in Price Proposals that could change contract terms.
Process Improvements and Recommendations: Fixed Price Contract Controls			
IV.1 Pages 6-9	PI	If fixed price contracts are to be used, then control of the bidding process, is critical to ensuring project costs are minimized.	CM should bid all rates at cost (labor, Subguard, CCIP, builder's risk) except for their CM fee, which should be the only rate within which the CM is allowed to cover overhead and profit. Rates bid at cost should be auditable and if found to contain profit, should

	PI		be adjusted through execution of a retroactive deductive CO.
	PI	See overall observation on fixed price contract controls on page 4.	Subguard mark-up should only be applied to subcontractors with contracts valued in excess of $500k that are enrolled in the Subguard program. The CM's contract should specify the amount allowed as a deductible on the Subguard policy.
	PI	See overall observation on fixed price contract controls on page 4.	UVA should have the right to audit any financial representation made by the CM in its pricing proposal and all costs incurred during the course of the contract, including subcontractor costs, even if the contract is a fixed price.
	PI	See overall observation on fixed price contract controls on page 4.	If subcontractors are engaged to provide design assist services, this should either be communicated in the scope description provided in UVA's request for proposals (RFP) for architectural/engineering (A/E) and in the RFP for CM services. If these RFPs do not stipulate the use of DA-Subs, UVA should consider negotiating a deduct from the A/E's contract price and/or from the CM's price, if any of the design assist services are expected to reduce the scope of work of the A/E or CM during pre-construction.
Process Improvement Recommendations: Contracts, Other		
	PI	Certain items were not observed to be included in contract documents reviewed (HECOM, CO-7, HECO-7, and HECO-9CM)	Consider modifying future CM contracts by adding these items on the HECO-9CM contract form signed by the parties.

Audit rights: UVA should have the right to audit the accounting records underlying any cost based representation made in the CM's price proposal and the accounting records of the CM's subcontractors related to any cost based representation made during the bidding process.

UVA should state in its audit clause that it has the right to audit any subcontractor's books and records related to its cost of work. |

	PI		**CM In-House Insurance Programs**: CM should not be allowed to use an in-house captive insurance program unless it can demonstrate it is properly underwritten. Rates charged by an in-house captive should not exceed market.
	PI	Additional items to consider adding to HECO-9CM (Construction Manager at Risk with Design Phase Services UVA contract template)	**Contingency:** CM should issue a change order when removing funds from the contingency account. The change order should be approved by UVA. All unused contingency money should be returned to UVA.
	PI		**CO Pricing**: As noted elsewhere in the report, field activities related any CO started before the CO price is approved should be tracked by the CM. The eventual price of the CO should be set based on the actual field cost plus a mark-ups established in the contract.

Priority Rating Definitions

Individual findings are evaluated with the context of the area under review. Audit findings are classified into categories as defined below. The Audit Department assigns each of the findings in this report to one of these categories to assist management in the prioritization and implementation of audit recommendations.

Ratings for Internal Audit Testing Results		
1	Priority 1	A Priority 1 item signifies a control and/or process deficiency of sufficiently high risk that it provides minimal or no assurance that institutional objectives will be achieved. Management must take immediate corrective action to mitigate Priority 1 deficiencies.
2	Priority 2	A Priority 2 item signifies a control and/ or process deficiency that hinders the effectiveness and efficiency of operations, potentially impeding the attainment of institutional objectives. Management must take timely corrective action to mitigate Priority 2 deficiencies.
PI	Process Improvement	A process improvement item signifies an opportunity to achieve additional control and/or process efficiencies.

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 13, 2018

COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: II.B. Enterprise Risk Management Program Report on 2019 Goals

ACTION REQUIRED: None

BACKGROUND: The Enterprise Risk Management (ERM) Charter (amended and approved in September 2017) states that the program's mission is to:

> ...strengthen the University's ability to achieve its mission and strategic objectives. This is done by effectively managing key risks and seizing opportunities related to the achievement of our strategic objectives. In this context, risk encompasses both negative events (downside risk) and opportunities (upside risk). An effective ERM program helps the University effectively deploy its resources in pursuit of its objectives.

In keeping with the mission, FY 2018 program goal accomplishments included:

- Enhancing communication and discussion among executives and board members related to key risk management
- Strengthening risk management efforts through better understanding and use of risk appetite and key risk indicators
- Updating the ERM charter
- Better aligning and integrating ERM efforts with University planning and audit cycles

DISCUSSION: Mr. James Matteo, Associate Vice President and Treasurer, will report on the ERM program and on the following FY 2019 goals:

1. Working to further on-board Wise into the ERM program

2. Building a key-risk interaction map

3. Moving ERM data into the Governance Risk Compliance (GRC) system being implemented by Audit

4. Revising the annual ERM cycle and governance structure

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 13, 2018

COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: III. A. UVA Audit Department Summary of Current Activities

ACTION REQUIRED: None

BACKGROUND: The Audit Department Status Report outlines activities since the June 2018 Audit, Compliance, and Risk Committee meeting including: audits completed and in flight; a summary of Priority 1 and Priority 2 audit findings reported; and status of management action plans due within the period.

Audit Projects Completed and In Flight Since June 2018 Board of Visitors Meeting:
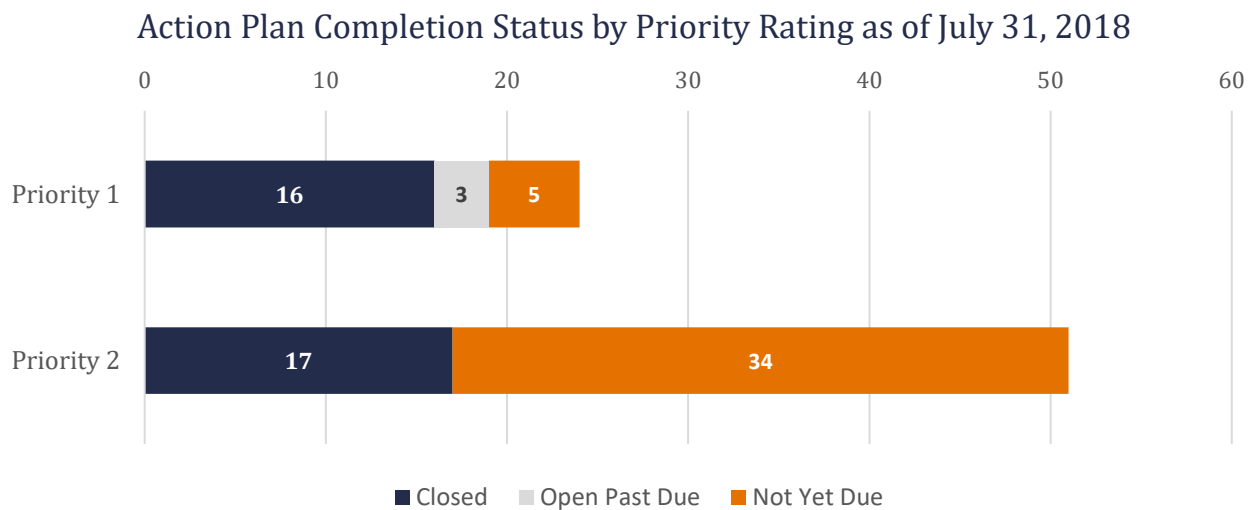
Project Status	Audit Subject	UVA Division
Completed	Construction Contract Audit: Hospital Expansion Project	Pan-University
Completed	Ufirst: Workday Implementation Project Health Check Report #3	Pan-University
Completed	Surgery: Departmental Gifts and Endowment Balances Confirmation	Health System
In progress	Athletics Business Office	Academic
In progress	Executive Vice Presidents' Travel and Expenses	Pan-University
In progress	Title IX Complaint Management (Phase 2 of Minors Protections Audit) conducted under direction of Counsel	Pan-University
In progress	Distributed IT Systems Management	Academic
In progress	Athletics Drug Testing Program	Academic
In progress	UVa College at Wise Risk Assessment	College at Wise
In progress	Patient Cash Receipts and Refunds	Health System
In progress	Charge Capture: Neurology	Health System
In progress	Network Security: Intrusion Prevention and Detection, Firewalls	Academic
In progress	Presidential Turnover Audit	Pan-University

Summary of Prioritized Audit Findings Reported June 2018 to Date:				
Audit Subject	**Responsible Unit**	**P1**	**P2**	**PI**
Construction Contract Audit: Hospital Expansion Project (HEP)	UVA Facilities Management		4	12
UVA Travel and Expense Management	UVA Finance	5	6	
Epic System User Access and Segregation of Duties	UVA Medical Center Revenue Cycle		2	
Total rated findings reported for the period		5	12	12

For Priority Rating Definitions see page 9 above

Status of Management's Action Plans for Priority 1 and Priority 2 Findings
IIA Standard 2500: Monitoring Progress requires the chief audit executive to establish and maintain a system to monitor the disposition of results communicated to management. The chart below displays the status of management's action plans through July 31, 2018.

Action Plan Completion Status by Priority Rating as of July 31, 2018

Priority 1: Closed 16, Open Past Due 3, Not Yet Due 5
Priority 2: Closed 17, Not Yet Due 34

■ Closed   ■ Open Past Due   ■ Not Yet Due

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

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COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: III. B. Office of Audit and Compliance Goals for FY 2019

ACTION REQUIRED: None

BACKGROUND: The 2018-2019 goals for the Office of Audit and Compliance, consisting of the UVA Audit Department, Institutional Compliance, and Records and Information Management, are presented on the following pages.

       The 2018-2019 goals for the University of Virginia's Medical Center compliance department are also presented.

2018-2019 Goals and Priorities

The Office of Audit and Compliance encompasses 3 units: UVA Audit Department; Institutional Compliance; and Records and Information Management.

Each unit has specific goals that combine to accomplish our office's mission: to provide valued assurance, insights, and advice to UVA's Board of Visitors and institutional leaders on matters of risk, control, and compliance.

> **Office of Audit and Compliance Leadership Team:**
> Carolyn Devine Saint, Chief Audit Executive
> Gary Nimax, Assistant Vice President for Compliance
> Philip Stavropoulos, Director of Academic Div. Audits
> James Sullivan, Director of Health System Audits
> Caroline Walters, University Records Officer

UVA Audit Department Goals 2018-2019:

Goal 1: Execute the audit plan.

- Allocate audit resources across UVA's Academic Division, Health System, and College at Wise to provide real-time assurance on the effectiveness of
  - UVA's key financial, operational, IT, and compliance processes and controls;
  - plans and activities designed to mitigate UVA's significant risks

Refer to pg. 18 for 2018-2019 BOV approved audit plan

Goal 2: Implement Onspring software.

- With implementation of Onspring, a cloud-based governance, risk, and compliance (GRC) tool we will begin to integrate and better align risk identification, assessment, management, monitoring, and reporting activities across UVA Audit, Institutional Compliance, and Enterprise Risk Management..

Goal 3: Provide process and control expertise to major university projects.

- Allocate resources to projects including
  - Finance Strategic Transformation phase 1
  - Internal Controls pilots (COSO implementation) for payroll and financial reporting
  - COSO requirements for research compliance, in collaboration with the Office of Sponsored Research
  - FISMA "auditability" assessment in support of incoming researchers attached to biocomplexity initiative
  - Others as they arise

Institutional Compliance Goals 2018-2019

1. Review and update the university's Code of Ethics for approval by the Board of Visitors.

2. Complete Gartner's Ignition Diagnostic on Institutional Compliance, an assessment of the function's performance across key program objectives identified by stakeholders, with prioritized plan for implementation of identified improvements.

3. Expand marketing and use of the university's anonymous helpline in order to more effectively monitor compliance reporting.

4. Convert the compliance responsibilities matrix and the compliance risk assessment into OnSpring, the new software being implemented to manage audit, compliance, and risk documents.

Records & Information Management (RIM) Goals 2018-2019

1. RIM System upgrades and management:
   a. University Records Management Application (URMA) – plan for 2019 upgrade.
   b. eDiscovery system (Zovy) – continued training and utilization.

2. Records Retention Series Revisions – various approvals of needed records series from the Library of Virginia (ex. Environmental Health & Safety).

3. Office 365 Implementation:
   a. Guidance to faculty and staff on retention modules.
   b. Management of hold for historical, legal and investigative purposes.

4. RIM Strategic Planning for next decade 10 years and review of data from 2018 User survey.

5. Explore software to assist with shared drive clean-up analysis and processing.

6. Participate in University wide projects/transitions. (ex. UFirst, Finance Transformation and leadership transitions.)

7. Continue physical records clean-outs as needed (ex. Athletics, Honor Committee, Office of Sponsored Programs, various Fontana Food cages)

Medical Center Compliance Goals 2018-2019*

1. Complete a Medical Center compliance risk assessment using the converted compliance responsibilities matrix and compliance risk assessments in Onspring.

2. Develop data analytics process to evaluate compliance issues for the purpose of applying performance improvement, focused corrective action and reinforcement of mitigating behaviors to reduce compliance risk.

3. Expand the coding audit function to examine compliance with regulatory requirements for documentation of medical necessity, accurate coding, billing and reimbursement from Medicare for specific services, documentation of patient communication and acknowledgement as needed, and to assess compliance in high risk areas as identified by the FY 2018 Office of Inspector General/Health & Human Services Work Plan.

*Regina Verde, UVA Medical Center Chief Corporate Compliance & Privacy Officer, reports to Pam Sutton-Wallace, UVA Medical Center Chief Executive Officer, with a dotted line to Gary Nimax, AVP for Compliance.

Board of Visitors approved 2018-2019 audit plan (June 2018 Audit, Compliance, and Risk Committee meeting):

Lead Audit Team	Risk Prioritized Audit Topics *Audit Timing Determined by Assessment of Current Institutional Priorities; Detailed Scope Determined at Time of Audit*
Audit Coverage: Pan- University	
IT & Health System	Ufirst Project Health Check: Provide feedback on project risk mitigation (through launch in January 2019)
Health System	Research Compliance Administration
Health System/Co-Sourced	Construction Contract Audits (Specific Capital Projects To Be Determined)
IT	Research Computing Security (Ivy Secure Computing Environment)
Academic & Health System	COSO Internal Controls Framework Pilots (Payroll and Financial Reporting Processes)
Academic	Financial and Budgetary Management Processes
Academic	Presidential Travel and Expenses (Conducted Annually)
Audit Coverage: Academic Division	
Academic	International Student and Scholar Support
Academic	Dining Services
Academic	Student Health & Counseling
Academic	Athletics Drug Testing Program (ACC Follow Up Request)
IT	Security and Integrity of Key Instructional Systems
IT	Network Infrastructure & Security: Vulnerability & Patch Management
IT	Third Party IT Vendor Management; Cloud System Vendor Risks
IT	Disaster Recovery & Business Continuity Planning
Audit Coverage: Health System	
Health System	Revenue Cycle: Charge Capture (Procedures and Surgeries)
Health System	Epic as a Platform: Managing Ongoing System Upgrades and New Functionality
Health System	Outpatient Clinical Set Up
Health System	Patient Friendly Access (PFA): Registration and Scheduling Processes
IT	Network Infrastructure & Security: Vulnerability & Patch Management
Health System	Clinical Trials Billing (Epic)
IT	Disaster Recovery & Business Continuity Planning
IT	Third Party IT Vendor Management; Cloud Vendor Risks
IT	HIPAA Compliance
Audit Coverage: UVA's College at Wise	
Academic	UVA Wise: Comprehensive Risk Assessment with Specific Audits to Follow
IT	UVA Wise: General Computer Controls for Key Systems

UNIVERSITY OF VIRGINIA
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING: September 13, 2018

COMMITTEE: Audit, Compliance, and Risk

AGENDA ITEM: III.C. Ufirst Project Status Report

ACTION REQUIRED: None

BACKGROUND: Ms. Kelley Stuck, Vice President and Chief Human Resources Officer, prepared the following report on the status of the HR transformation project called Ufirst.

Progress to date has been substantial:

- We have successfully tested and deployed the workaround for the benefits enrollment process.
- In collaboration with our stakeholders, we have completed successfully over 6,000 test cases designed to validate that the Workday system is performing according to specification.
- We have identified, and are currently in the process of validating, all interfaces to systems that provide data to, or consume data from, the Workday system.
- **The project is on track for a January 2019 launch**. Training and support activities are ongoing and will continue through the completion of our post go-live stabilization period.
- The new HR Organization (UVA HR) has successfully developed and implemented interim business processes, and continues to identify and resolve issues impacting quality in collaboration with stakeholders as part of its commitment to continuous improvement.
- The HR Solution Center continues to maintain high satisfaction ratings (4.5+ out of 5).
- The payroll transformation is proceeding and we are now engaged in testing the new payroll system in parallel with our current systems to ensure we are getting the same results.
- The Ufirst Workday implementation continues to receive oversight from both internal (Executive Sponsors, Strategic Operating Committee, Internal Audit) and external (Gartner Independent Validation and Verification, Virginia APA, VITA) sources to ensure that project risks are identified and mitigated.

The Ufirst project represents a significant step forward for the University and plays a critical role in our ability to attract and retain exceptional faculty, staff, and team members committed to teaching, research, and patient care. We are confident that the scale and complexity of our undertaking has been matched by the thoughtful dedication of our UVA HR and Ufirst project team members and the commitment and support of our partners and stakeholders.