Office of the State Inspector General
Report to President Sullivan

Performance Review
University of Virginia

August 2015

June W. Jennings, CPA
State Inspector General
Report No. 2014-PR-006

COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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August 14, 2015

Teresa A. Sullivan, President
University of Virginia
Post Office Box 400224
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Dear President Sullivan:

Under § 2.2-309 [A](9) of the *Code of Virginia* (*Code*), the Office of the State Inspector General is empowered to conduct performance reviews of state agencies to ensure that state funds are spent as intended and to evaluate the efficiency and effectiveness of programs in accomplishing their purposes. The University of Virginia review covers the period of July 2013 through June 2014.

The OSIG's review focused on the:

- General Fund Appropriations
- Accounting and Financial Reporting
- Investment in the STEM Program
- AccessUVA Program
- Faculty Retention, Recruitment, and Compensation

The University of Virginia was selected for review in these areas based on a 2013 statewide risk assessment completed by Deloitte, LLP. This agency was ranked eighth highest in terms of risk of all executive branch agencies. The planning phase of the review consisted of conducting interviews with selected members of executive and divisional management, assessing the risks identified during those interviews, and creating a detailed review plan to accomplish the review objectives. The steps in the review plan were executed, and the results were discussed with the University of Virginia management on July 13, 2015.

Overall, the Office of the State Inspector General staff found that the University of Virginia's state general fund appropriations, financial reporting, STEM investment, AccessUVA, and faculty retention/recruitment functions were operating efficiently and effectively except for issues noted in the attached report. By copy of this letter OSIG is requesting that agency management provide a corrective action plan within 30 days to address this report's recommendations.

OSIG review staff appreciates the assistance provided by your staff during this review.

June W. Jennings

June W. Jennings
State Inspector General

CC: Paul J. Reagan, Chief of Staff to Governor McAuliffe
Suzette P. Denslow, Deputy Chief of Staff to Governor McAuliffe
Anne Holton, Secretary of Education
Senator Stephen H. Martin, Chairman of the Education and Health Committee
Delegate R. Steven Landes, Chairman of the Education Committee
William H. Goodwin, Jr., University of Virginia Rector

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Executive Summary

Overall, the Office of the State Inspector General staff found that the University of Virginia's state general fund appropriations, accounting and financial reporting, and faculty retention/recruitment functions were operating efficiently and effectively. The Investment in STEM program and the AccessUVA program were also being administered efficiently and effectively.

Office of the State Inspector General (OSIG) staff reached these conclusions after:

- Determining, on a sample basis, that General Fund Appropriations were expended for purposes specified in Items 195 - 197 of the Appropriations Act (as adopted by the 2013 General Assembly).
- Reviewing management's contingency plans for dealing with reductions in State Appropriations.
- Evaluating whether preventive and detective controls were in place to identify symptoms of fraud, waste, and abuse and to follow-up for resolution, as needed.
- Determining the amount of revenue recorded by the University from vendor/contract rebates, purchase discounts, and P-Card rebates; the accounting of such funds, the reasonableness of the accounting practices, and how such funds are used.
- Reviewing the new University Financial Model (UFM) and Managerial Reporting projects.
- Reviewing the accounting for investment, the return on investment, and plans for investment in STEM fields, and the adequacy of lab/classroom space and equipment.
- Determining that University management has developed plans to ensure the sustainability of funding to meet the financial need of students.
- Determining whether the University's strategies for improving recruitment and retention align with the reasons for faculty departures or applicants declining employment offers.
- Determining if the University has an effective method to evaluate faculty retention, recruitment success, and compensation through comparisons within the University and with other peer universities.

OSIG staff identified issues within various areas and makes the following recommendations to potentially improve operations:

- There is no established quantitative process in place to monitor the performance or return on investment of individual faculty Start-up Packages. Four (Arts & Sciences, Darden, Engineering, and Medicine) of the five Schools we contacted offered 39 start-up packages totaling $44 million in FY14 to new faculty members to launch their research programs. The success of a particular start-up package is evaluated as a component of the faculty member's overall performance review based on individual and specific qualitative measures. Performance outcomes of start-up package investments should involve increased research productivity as measured by external grants, scholarly works and publications. OSIG recommends UVA management develop a set of metrics to provide a quantitative measure of performance for each start-up package exceeding a specified amount. The University should develop additional institutional goals and metrics to sustain and grow research, then monitor how start-up packages assist the university in meeting those goals at both the faculty and institutional level. Once the metrics have been established, a dashboard may be used to monitor the level of success in meeting the institutional goals. One metric identified in the University's Cornerstone Plan was for UVA's total research portfolio to be among the top 40 in the annual tabulations by the National Science Foundation.

- UVA has not determined what expenditures, programs and goals are considered an investment in the STEM initiative. While UVA has a goal to increase student enrollment in STEM disciplines by 33% to 40% of total student growth, the University has not developed any metrics for its goals to increase, pursue, and expand the resources for the STEM initiative. Since there is no clear definition of STEM investment and related goals, management has not been tracking the investments or determining the return to the University. Defining what is included in a program or initiative and establishing measurable goals facilitates the ability to more accurately track outcomes. OSIG recommends UVA management define what the University considers an investment in STEM, establish quantifiable metrics or benchmarks, track the investment made in STEM disciplines, and regularly assess the progress made in achieving its goals related to STEM. A clear definition will facilitate tracking and evaluation of the investments to ensure spending is aligned with the University strategic goals and help identify where changes in the goals and plans may need to occur.

- UVA is one of four universities classified as a "Tier III" University within the Commonwealth of Virginia and has been granted latitude in managing its operations and finances, including holding and investing its tuition, fees, research funds, auxiliary funds, and all other public funds. The UVA Treasurer's Office staff must wire transfer revenue funds to the State Treasury on a daily basis and the Department of Treasury returns the funds to the University, via an automated clearing house (ACH) funds transfer, the same business day. The process involves at least one Department of Treasury and two UVA employees. Additionally, UVA management has estimated that the daily transfer process costs the University approximately $7,500 annually in bank charges. The Virginia Constitution requires that State revenues be deposited to the State Treasury, but does not specify how often these transfers must be made. Topic 20205 - Deposits of the *Commonwealth Accounting Policies and Procedures (CAPP) Manual* indicates State agencies receiving public funds shall deposit such funds into the State Treasury on the day received or the next banking day, but allows for an exception to the daily deposit requirement with the approval of the Department of Treasury. The management agreement between the Commonwealth of Virginia and the University, contained within the 2009 Session *Virginia Acts of Assembly – Chapter 675* and *Chapter 685,* states that the University is authorized to hold and invest tuition, Education and General (E&G) fees, research and sponsored program funds, auxiliary enterprise funds, and all other non-general fund revenues, but stipulates that the University shall deposit such funds in the State Treasury pursuant to the State process in place at the time of such deposit. The agreement permits the University to draw down all tuition, E&G fees, and all other non-general revenues deposited to the State Treasury each day on the same day they were deposited. OSIG recommends that the University and the Department of Treasury establish an arrangement that requires revenue transfers to be made less often (perhaps when a specified cash limit is reached and/or a particular time period occurs, such as month-end) to reduce transaction and administrative costs associated with the present transfer method.

Purpose and Scope of the Review

The Office of the State Inspector General conducted a performance review of the University of Virginia (UVA) pursuant to *Code of Virginia* (*Code*) § 2.2-309[A](9) whereby the State Inspector General shall have power and duty to:

> *Conduct performance reviews of state agencies to assess the efficiency, effectiveness, or economy of programs and to ascertain, among other things, that sums appropriated have been or are being expended for the purposes for which the appropriation was made and prepare a report for each performance review detailing any findings or recommendations for improving the efficiency, effectiveness, or economy of state agencies, including recommending changes in the law to the Governor and the General Assembly that are necessary to address such findings.*

This review was not designed to be a comprehensive review of UVA. Instead, the focus was on certain risk areas identified through a statewide risk assessment of state agencies. The scope and objectives of the review were established through interviews with management concerning UVA's risks in these areas:

- General Fund Appropriations;
- Accounting and Financial Reporting;
- Investment in STEM Fields;
- AccessUVA;
- Faculty Retention, Recruitment, and Compensation.

The review covers the period of July 2013 through June 2014.

The review's objectives were to:

1. Determine the effectiveness and efficiency of operations in the state General Fund Appropriations risk area.
2. Determine the effectiveness and efficiency of operations in the Accounting and Financial Reporting risk area.
3. Determine the adequacy of University management's oversight and planning for investment in STEM (Science, Technology, Engineering, and Math) disciplines.
4. Determine the effectiveness of University management's administration of the AccessUVA financial aid program.
5. Determine the effectiveness of the University's efforts to improve faculty recruitment, retention, and compensation.
6. Be alert to any symptoms of fraud, waste, and abuse that may appear during the review and follow-up for resolution if necessary.

Background

Introduction

The University of Virginia (UVA) is an agency of the Commonwealth of Virginia (the Commonwealth) and is governed by the University's Board of Visitors. The Commonwealth prepares a separate financial report that incorporates all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. UVA consists of three major divisions (Academic, Medical Center, and College at Wise), and is a component of the Commonwealth and is included in the basic financial statements of the Commonwealth.

A public institution of higher learning with approximately 21,800 on-grounds students and 2,200 full-time instructional and research faculty members in eleven schools in 2013–14, UVA offers a diverse range of degree programs, from baccalaureate to postdoctoral levels, including doctorates in fifty-five disciplines. UVA is recognized internationally for the quality of its faculty and for its commitment to the primary academic missions of instruction, research, public service, and medical care. UVA consistently ranks among the nation's top public colleges and universities, both for its general academic programs and for its strengths in specific academic disciplines.

The UVA Medical Center is an integrated network of primary and specialty care services ranging from wellness programs and routine checkups to the most technologically advanced care. The hub of the UVA Medical Center is a licensed hospital with 657 beds in a state-designated Level 1 trauma center located in Charlottesville. The UVA Medical Center also has a transitional care hospital with 40 beds that is located west of the Charlottesville campus. In addition, primary and specialty care is provided at clinic locations throughout central Virginia.

The College at Wise is located in southwestern Virginia and is a public liberal arts college with nearly 2,200 students and 100 full-time instructional and research faculty. It offers baccalaureate degrees in thirty majors and eight pre-professional programs, including dentistry, pharmacy, engineering, forestry, law, medicine, physical therapy, and veterinary medicine.

Based on the analyses of several credit agencies, UVA's financial condition is stable despite challenges stemming from the Commonwealth of Virginia's current budgetary challenges and increasing scrutiny of the federal budget, and the changing health care environment. UVA maintains the highest credit ratings (AAA, AAA, and Aaa) of all three ratings agencies, which provides UVA with a high degree of financial flexibility. The graduation rate at UVA is among the highest in the country.

Higher education remains a focus of attention at state and national levels, particularly in terms of access, affordability, and student outcomes. Preserving the University's excellent academic reputation and rigor is equally crucial among students and alumni. To address these issues, in November 2013 the Board of Visitors of the University of Virginia endorsed the Cornerstone Plan (the Plan), which sets out five pillars to serve as areas of strategic emphasis over the next five years:

1. Enrich and strengthen the University's distinctive residential culture;
2. Strengthen the University's capacity to advance knowledge and serve the Commonwealth of Virginia, the nation, and the world through research, scholarship, creative arts, and innovation;
3. Provide educational experiences that deliver new levels of student engagement;
4. Assemble and support a distinguishing faculty;
5. Steward the University's resources to fortify and further distinguish what is already one of the academically strongest, best managed, most financially stable, and most affordable universities in the nation.

The Board of Visitors (BOV) saw a need to develop a long-term financial plan and a sustainable financial/pricing model that provides the reliable and ongoing funding necessary to enhance academic excellence as outlined in the Plan and advances affordability and predictability of tuition, fees, and financial aid for students and families. The BOV Finance Subcommittee evaluated the implementation cost of the Plan, including the impending generational turnover of faculty; efforts to streamline and increase effectiveness of all processes supporting the core mission; and potential revenue enhancements, including leveraging the favorable balance sheet position. A key focus of UVA is organizational excellence to enhance organizational capacity across academic and administrative service.

With the majority of the UVA's research funding coming from federal grants, as well as its impact on federally-funded student grants and loans, the federal budget remains a key consideration of its financial outlook. Midterm elections resulted in overwhelming changes in Congress; it is anticipated that the Higher Education Act reauthorization as well as federal revenues and spending will be a focus. At UVA, federal research awards increased very slightly in 2014, but it remains a top priority to continue to increase proposals and awards with the strategic recruitment of highly productive faculty. UVA has aggressively pursued new partnerships with industrial sponsors to diversify its institutional research portfolio and directly support key research and scholarship elements of the Cornerstone Plan, creating new external sources of funding for research and opportunities for faculty and students, such as new domestic and global internships, access to real-world problem sets, and the expansion of its global footprint.

UVA anticipates further uncertainty in state funding. Appropriations from the state general fund to support increasing enrollments and research did not materialize for fiscal year 2015. In August 2014, the Commonwealth's budget reconciliation process passed on an $8.2 million reduction in previously authorized state support, which more than offset the additional state support for enrollment growth. Predicting the ultimate results is somewhat dubious; the UVA administration continues to believe that the financial condition will remain strong.[1]

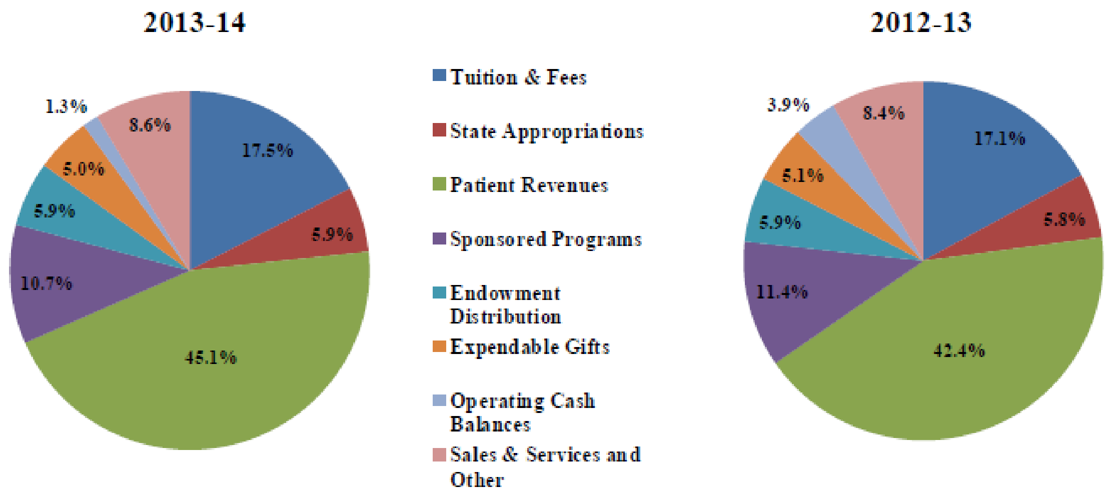
General Fund Appropriations

Since the early 1990s, economic conditions in the Commonwealth of Virginia have resulted in reduced revenue available for state supported programs. Medicaid, mental health, corrections, and K-12 education funding needs have taken precedence over financial support for higher education, resulting in a series of budget reductions to public institutions of higher education over the last 20 years and a shift in responsibility for paying for higher education from taxpayers to students. Not only has taxpayer support for UVA declined, but other revenue sources contributing to the UVA budget have risen, resulting in a smaller percentage of the budget supported by the state.

The consolidated operating expenditure budget for the period July 1, 2013 through June 30, 2014 for the University of Virginia totaled $2.7 billion, with 53 percent, or $1.4 billion, allocated for the Academic Division (including the schools of medicine and nursing). The remainder of the consolidated budget relates to the Medical Center ($1.2 billion) and the College at Wise ($38.6 million). The consolidated budget does not include capital or the activities of affiliated foundations.[2]

As shown below, patient revenues (45.1 percent) fund the greatest proportion of the operating expenditure budget, followed by tuition and fees (17.5 percent), grants and contracts (10.7 percent), sales and services and other (including auxiliary revenue, investment income, short-term financing, and other miscellaneous revenues) (8.6 percent), endowment distributions (5.9 percent), state general funds (5.9 percent), gifts (5.0 percent), and accumulated investment balances (1.3 percent)[3].

[1] http://www.virginia.edu/finance/finanalysis/docs/2014%20UVA%20FS%20FINAL.pdf, pg.7, 13 - 14.
[2] http://www.virginia.edu/budget/Docs/2013-14%20Budget%20Summary.All%20Divisions.pdf, pg. 4.
[3] http://www.virginia.edu/budget/Docs/2013-14%20Budget%20Summary.All%20Divisions.pdf, pg. 5.



Accounting and Financial Reporting

The University Comptroller is responsible for financial reporting, financial transaction processing, account reconciliations, fixed asset accounting, investment, and endowment accounting, debt accounting, and cost analyses. The office is comprised of three main units:

- Financial Analysis
- Financial Operations and University Reporting
- Training & Outreach[4]

UVA has incorporated multiple controls to ensure financial data is accurate. The main control is the monthly reconciliation process used by departments (including academic departments) to prove or document their assigned account balances are correct. The reconciliations are completed electronically in the "Recon@UVA" system. In addition, the Office of the University Comptroller reviews data throughout the year, reviews new accounts to ensure proper use, reviews monthly report totals for unusual fluctuations, prepares quarterly financial reports presented to the BOV, and reviews fixed assets for proper handling.

Budgeting at UVA has been centralized for many years; however, the university is implementing a new institutional financial model, referred to as the University Financial Model (UFM), for the academic division. The new financial model is activity-based, so that each department's actual operating costs can be calculated after allocating expenses such as utilities and office space that in the past have been accounted for under a central billing unit or cost center. Such a change will empower the department heads and deans as "entrepreneurs" who will have to determine whether having all the space or employees they want is truly feasible considering the associated costs and their unit's revenues. The UFM is running concurrently with the old system for the 2014-2015

[4] http://www.virginia.edu/finance/

academic year and is expected to be fully in place for the next academic year. The system does not replace the underlying Oracle financial system, but changes how costs and revenues in the system are internally allocated.

University management felt there were some issues regarding the processes to create internal financial reports for department managers to analyze their particular unit's income and expenses. Therefore, UVA has begun a Managerial Reporting project to improve the internal financial reporting environment for the academic units, including the implementation of a business intelligence toolset, data warehouse, and an analytical data governance process. The project will occur in stages over a period of time to provide the level of detail needed for decision making. The schools and departments have been or will be trained in how to use the tool to view the financial data.

The annual financial report includes UVA - Charlottesville, UVA at Wise, the Medical Center, and eight foundations (of 25 affiliated with the university) which qualify as component units.[5]

Investment in the STEM Program

The U.S. Bureau of Labor Statistics (BLS) has projected employment in STEM fields to grow from 2012 to 2022 by varying percentages including 7.2% for Healthcare Practitioners and Technical Occupations, 18% for Computer and Mathematics Occupations, and 10.1% for Life, Physical, and Social Science Occupations.[6] In these three occupational areas alone, that equates to approximately one million more jobs nationwide in 2022 than in 2012.

The Virginia Higher Education Opportunity Act of 2011, also known as the Top Jobs Act or "TJ21" (§ 23-38.87:10 of the *Code of Virginia*), was enacted to help address the employment needs noted by BLS. As directed by § 23-38.87:17, the governing board of each Virginia public institution of higher education is required to adopt biennially and amend and affirm annually a six-year plan for the institution. Incentives for certain areas, including degree production in STEM fields, are identified within § 23-38.87:16. These areas are not required to be included in the six-year plan, however, UVA elected to include goals related to STEM.

UVA's Six-Year Plan[7], most recently updated August 4, 2014, includes goals specifically aligned with STEM to:

- Increase enrollment growth with 33 to 40 percent of growth targeted in STEM-H (includes Health) disciplines (Part II, pg. 3);

[5] http://www.virginia.edu/finance/finanalysis/docs/2014%20UVA%20FS%20FINAL.pdf, pg. 24.
[6] http://www.bls.gov/opub/mlr/2013/article/pdf/occupational-employment-projections-to-2022.pdf, pg.8.
[7] http://www.virginia.edu/bov/meetings/14sep/Finance%20Committee%20-%20UVa%20Six-Year%20Plan%202014.pdf

- Increase degree production in STEM-H disciplines by implementing a plan to provide sufficient start-up packages and space to accommodate new STEM-H faculty associated with enrollment growth and retirement turnover (Part II, pg. 4);
- Increase research, including regional and public-private collaboration, and continue development of and support for various pan-University research priorities (Part II, pgs. 5-6); and
- Increase research and expand medical translational research, including cancer clinical trials and focused ultrasound surgery, so that laboratory discoveries are converted into new methods to diagnose and treat illness and augment cancer outreach and prevention activities (Part II, pg.6).

UVA's Facilities Department uses a space management system and has performed a benchmarking study to identify how other universities and corporations manage space.[8] From this exercise, UVA identified actionable items related to what the capabilities of the system are and enhanced usage of the system. UVA management noted they would eventually like to have the space management system tied to the financial system to assist in evaluating use of research space. UVA is encouraged to continue efforts to determine if the current system has the capabilities to link with the financial system, assist in evaluation of research space, and meet future space management needs.

AccessUVA

The AccessUVA program was approved by the UVA Board of Visitors (BOV) in February 2004.[9] Goals/objectives of the program were:

- To help ensure access to and affordability of education at UVA, regardless of a student's financial circumstances;
- To ensure access and affordability to students who cannot afford the price of an education by providing financial aid rather than by artificially depressing tuition;
- To attract, enroll, and graduate a socio-economically diverse student body; and
- To meet 100% of the demonstrated financial need for all students by fall of 2004.

The program included offering financial aid to meet 100% of demonstrated financial need for qualifying undergraduate students of all income levels, phasing in over four years a commitment to replace loans with grants for students at or below 150% of the federal poverty level, and to replace loans with grants for all undergraduate students at all income levels beyond a loan cap. These components were met until the fall of 2014, when a loan element was added to the program to cover the rising institutional cost for the program. A maximum of $14,000 in loans over four years was

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[8] http://www.space.virginia.edu/docs/Summary-of-FindingsReport20131227.pdf, pgs. 27 and 32.
[9] http://www.virginia.edu/bov/meetings/04feb/%2704%20FEBRUARY%20MINUTES.pdf , February 5 – 7, 2004, pgs. 6578 – 6579.

added for low-income, in-state students and a maximum of $28,000 in loans over four years was added for all others with financial need.

In the 2004 – 2005 academic year, the institutional cost for the program was $11.5 million. However, by 2012 – 2013, the cost had risen to $40.2 million due to shifting economic conditions, particularly the 2008 recession. The percentage of low-income undergraduate students rose from 6.5% in 2004 -2005 to 8.9% in 2012 – 2013 and the percentage of all undergraduates with financial need rose from 24% to 33% during the same time frame.

The driving factors of the impact of the economic recession on student family incomes, flat or decreased need-based aid from federal sources, rising costs of educating students, and the rising costs of room, board, and books forced the addition of loans to the package, according to the UVA Associate Vice President for Finance. The AccessUVA program was reauthorized by the BOV in August 2013.

A student must have a "demonstrated financial need" to qualify for the AccessUVA program. Financial need is defined as: The Cost of Attendance (COA) minus Expected Family Contribution (EFC). Every student receiving need-based aid at UVA, even if their family has a high income, has demonstrated financial need.[10]

COA includes tuition, fees, room, board, books, supplies, travel, and miscellaneous items. EFC is determined by a formula using parent income and assets, student income and assets, number in the household, and number in college.

UVA has established packaging plans that will determine a student's eligibility for each type of financial aid. The system will proceed down the established order of aid types until 100% of a student's demonstrated financial need has been met. The basic order of aid distribution for all of the plans is:

- Federal Pell Grant
- Federal SEOG grant
- Bayly Tiffany/Watson Endowment
- Federal Nursing Loan
- Federal Direct Subsidized Loan
- Federal Perkins Loan
- Federal Work Study
- Virginia Guaranteed Assistance Program Grant/Commonwealth Grant
- Tuition-funded grant for remaining need

[10] UVA Office of AVP for Finance, http://www.virginia.edu/bov/meetings/FINANCE%20SUBCOMMITTEE/AccessUVa%20Overview.pdf, pg. 9.

First-year Virginia students entering this fall will see a $1,000 step increase added to base tuition. Currently enrolled in-state students will not pay the step increase, which also does not apply to out-of-state students. The 2015-16 step increase, combined with another step increase in 2016-17, will generate funds the University will deploy to dramatically reduce debt for students from low- and middle-income Virginia families. For 70 percent of Virginia households, the "Affordable Excellence" model approved in March, 2015 reduces the net cost of a UVA education.

The Affordable Excellence model will result in a reduction in the total maximum debt for low-income Virginian's from $14,000 over four years to $4,000. The total maximum debt for all other in-state students qualifying for need-based loans will drop from $28,000 over four years to $18,000.

Faculty Retention, Recruitment and Compensation

In 2012, the Special Committee on Strategic Planning was tasked with developing a strategic plan for the Academic Division of the University of Virginia. Work Groups were established to develop objectives based on ideas stemming from open forums and results of academic and peer assessments. The Faculty Recruitment, Retention and Development Work Group identified several challenges relating to the retention and recruitment of faculty at UVA. These include:

- Generational turnover of faculty which was identified as a concern based on estimates that approximately 35% of current UVA faculty will retire by 2020.
- UVA faculty members who have been actively recruited by other institutions that will provide them with greater research resources and higher salaries.
- Competition that will be intense for faculty recruitment and retention, as all universities will be affected by generational turnover. In the past, job offers that have been declined have been attributable to salary, research support, and dual careers.
- Rapid changes in Higher Education due to technology and globalization, which will increase the need for faculty to continue to develop professionally throughout their careers.

The objectives that the Work Group established for the University were as follows:

1. Declare excellence, diversity, honor and respect, and engagement with students and community as values that will define the next generation of faculty and advance UVA.
2. Convert the University's hiring practice from "episodic hiring" to "continual recruiting."
3. Foster a University culture that encourages career-long development for faculty members.

In November 2013, UVA published "The Cornerstone Plan", which outlines a strategic plan that will allow the University to excel in the higher education sector. The Cornerstone Plan outlines five pillars, or themes, which will promote the success of faculty, students and the University. Specifically, the fourth pillar is entitled "Assemble and Support a Distinguishing Faculty" and is related to the recruitment, retention and development of faculty members at the University. It is recognized that maintaining a distinguished faculty is a key factor in enabling the University to remain competitive with other Institutions. The impending generational turnover creates an air of uncertainty, but also gives the University the opportunity to attract distinguished faculty members. The Cornerstone Plan provides a framework for assembling a distinctive faculty best suited to fulfill the University's aspirations as a collegiate research university and equipped to use its scale for advantage through three strategies:

- **Faculty Leadership Development:**
  The University will invest in, mentor, and support current faculty members to further their careers, assisting them in gaining the knowledge and skills needed to enhance their effectiveness as teachers, researchers, and leaders in the University community.
- **Continuous Active Recruiting to Secure Leading Faculty:**
  The University will develop a continuous recruiting process to more accurately identify high-potential faculty, build stronger relationships with targeted candidates, and close recruitment efforts successfully.
- **Interdisciplinary Hiring:**
  The University will identify its hiring priorities and, in those cases where they are interdisciplinary in nature, adjust institutional and professional incentives appropriately.[11]

Prior to completion of the Cornerstone Plan, the generational replacement of faculty over the next decade had been identified as an important strategic initiative. The Board of Visitors recognized this imperative in its February 22, 2013 resolution that set a goal of improving faculty salaries for the next five years. This goal is important because successful hiring presupposes that the University is willing and able to pay salaries at the market rate.[12]

[11] http://planning.virginia.edu/sites/planning.virginia.edu/files/Cornerstone-Plan-December-2013.pdf pg. 30 - 36.
[12] http://planning.virginia.edu/sites/planning.virginia.edu/files/Cornerstone-Plan-December-2013.pdf pg. 3.

Review Methodology

OSIG review staff conducted this review by:

- Examining the detailed results of Deloitte's statewide risk assessment
- Conducting interviews to gain insight into the specific concerns from within the risk areas from the Deloitte assessment with the University of Virginia's (UVA's):
    - Executive Vice President and Chief Operating Officer
    - Executive Vice President and Provost
    - Senior Vice Provost
    - Vice President for Research
    - Vice President for Management and Budget
    - Vice President and Chief Human Resources Officer
    - Dean, Darden Graduate School of Business
    - Dean, School of Nursing
    - Associate Vice President for Finance
    - Associate Vice President and Treasurer
    - Associate Vice Provost for Academic Administration
    - Assistant Vice President for Compliance & Enterprise Risk Management
    - Assistant Vice President for Finance & University Comptroller
    - Assistant Vice President and Chief of Staff to the Executive Vice President and Chief Operating Officer
    - Assistant Vice President for Research Administration
    - Director of Procurement and Supplier Diversity Services
    - Director, Managerial Reporting Project
    - Project Director, University Financial Model
    - Director of Institutional Assessment and Studies
    - Chief Audit Executive
    - Auditor of Public Accounts (APA) staff (for the University of Virginia)

As a result of the interviews, OSIG's review staff identified associated risks for each of the risk areas, established performance review objectives (see *Purpose and Scope of the Review*), and developed detailed review procedures to address these objectives.

The performance review procedures included:

- Reviewing the 2013-2014 Budget Summary to obtain an understanding of the sources and uses of funds at UVA and the Appropriations Act to gain an understanding of the General Fund Appropriations for UVA.
- Determining, on a sample basis, that General Fund Appropriations were expended for purposes specified in Items 195 - 197 of the Appropriations Act (as adopted by the 2013 General Assembly).

- Reviewing the UVA Policy Directory for formal policies related to management and accounting for General Fund Appropriations.
- Reviewing Management's Contingency Plans for Dealing with Reductions in State Appropriations.
- Reviewing the affirmation statements from UVA's credit rating agencies to obtain an independent opinion on how the decreased state funding situation is being managed by the institution.
- Evaluating whether preventive and detective controls were in place to identify symptoms of fraud, waste, and abuse and to follow-up for resolution, as needed.
- Reviewing the University's Financial Policy and Procedure Manual and any other relevant policies and the APA audit reports for significant issues.
- Reviewing the manual combination of the Academic Division and the Medical Center in the preparation of aggregate financial statements.
- Determining the amount of revenue recorded by the University from vendor/contract rebates, purchase discounts, and P-Card rebates; the accounting of such funds, the reasonableness of the accounting practices, and how such funds are used.
- Reviewing the new University Financial Model (UFM) and Managerial Reporting projects.
- Reviewing the accounting for investment in STEM fields, the return on investment in STEM fields, plans for investment in STEM fields, and the adequacy of lab/classroom space and equipment.
- Determining that University management has developed plans to ensure the sustainability of funding to meet the financial need of students.
- Determining that University management has an effective method for evaluating and analyzing reasons for faculty resignations or applicants declining employment offers.
- Determining whether the University's strategies for improving recruitment and retention align with the reasons for faculty departures or applicants declining employment offers.
- Determining whether retention programs are in place and evaluated for effectiveness.
- Determining whether the University has developed plans for increasing and maintaining faculty salaries in accordance with the University's strategic goals (Top 20 Association of American Universities (AAU) faculty salary level).
- Determining if the University has an effective method to evaluate retention, recruitment success, and compensation through comparisons within the University and with other peer universities.
- Determining what, if any, impact that the University's plans for education programs/research will have on faculty retention or recruitment.

Review Results

Overall, the Office of the State Inspector General staff found that the University of Virginia's state general fund appropriations, accounting and financial reporting, and faculty retention/recruitment functions were operating efficiently and effectively except for the issues noted below. The Investment in the STEM Program and the AccessUVA Program were also being administered efficiently and effectively except for the issues noted below.

Subsequent to the interviews conducted with UVA senior management, OSIG identified associated risks for the five performance review areas and established performance review objectives for the risks. OSIG then developed detailed review procedures to address these objectives. Work associated with each of the objectives (except the objective for assessing fraud) was accomplished primarily through discussions with appropriate departmental managers and reviewing relevant documentation provided from them.

General Fund Appropriations

The Auditor of Public Accounts (APA) performs a risk assessment for revenues during their annual audit of UVA. Primarily, this assessment is to ensure that the amount of Appropriation Funds sent from the Department of Accounts (DOA) is the same amount received by UVA.

The transfer of Appropriation Funds from DOA to UVA is an automated process utilizing electronic funds transfers. There is no manual processing of the funds once they are received at UVA. Through automated processing, the Appropriation Funds are allocated to the pre-assigned budget units in pre-determined amounts. There is no human intervention in this process and at no point in the flow are funds available to be misappropriated to outside sources.

OSIG determined that the General Fund Appropriations revenue is commingled with Tuition funds. The spending of general fund appropriations and non-general fund tuition and fee revenues are commingled for purposes of spending. This is true on both the university books of record and with the required reporting in the Commonwealth of Virginia for all of higher education.

At UVA, spending authority is managed by specific allocation to various awards, which carry differing 'award types' to allow proper oversight of those specific appropriations. An award is a seven character alphanumeric code where the first two characters identify the fund source; the award prefix on state E&G (Educational & General) funding is "SG" and the source of funds are the commingled state general fund appropriations and tuition and fee revenues. At the onset of establishing spending against these awards, the authorized spending authority required to support educational and general activities is aligned to the total expected state E&G revenues (appropriations plus tuition and fees plus other miscellaneous state revenues).

OSIG selected for testing seven of the thirteen spending items from Item 195 of the 2013 Session *Virginia Acts of Assembly – Chapter 806* (State Budget)[13] that designated specific uses of state general funds. Six of the items were supported with actual expenditure data provided by UVA staff. The seventh item was a cost reduction/reallocation requirement that was adequately supported by agreed upon data.

According to the former UVA Chief Audit Executive, the IT section of the Internal Audit department periodically audits the security of electronic interfaces pertaining to the transfer of funds into and out of UVA. As noted in the aforementioned text, the APA addresses this area in their risk assessment for revenues during their annual audit of UVA. The APA also verifies that State Appropriations revenue recorded in UVA's accounting system and reported in the annual Financial Statements agrees to the amount shown in the Appropriations Act.

The analysis conducted in 2013 by each of the three investor services (Moody's, Fitch, and S&P) determined that the state funding situation was not a detriment to the 2013 financial condition of UVA. Moody's analysis, dated September 11, 2014, stated that UVA is one of the financially strongest public universities in the world.

During the course of our interviews with UVA Management, OSIG was made aware of the University's obligation to wire transfer collected revenue on a daily basis to the Virginia Department of Treasury. According to UVA Management this process is a Virginia Constitutional requirement.

ISSUE NO. 1— DAILY TRANSFER AND RETURN OF COLLECTED REVENUE FUNDS

UVA is one of four universities classified as a "Tier III" University within the Commonwealth of Virginia and has been granted latitude in managing its financial transactions. However, the UVA Treasurer's Office staff must wire transfer revenue funds to the State Treasury on a daily settlement basis. This transaction involves a wire transfer by the University to the State Treasury and the funds are returned by the State Treasury to the University, via an automated clearing house (ACH) funds transfer, the same business day. UVA management has estimated that the daily transfer process costs the University approximately $7,500 annually in bank charges. The process involves two UVA employees and at least one Department of Treasury staff member.

According to UVA management, the transfer of collected revenue to the State Treasury is a Virginia Constitutional requirement (Article X, Section 7 – Collection and disposition of State revenues).[14] However, the Virginia Constitution does not specify how often these transfers must be made.

Other legislation or policies pertinent to the revenue deposit process include the following:

[13] http://lis.virginia.gov/131/bud/hb1500chap.pdf
[14] http://law.justia.com/constitution/virginia

- Topic 20205 - Deposits of the *Commonwealth Accounting Policies and Procedures (CAPP) Manual* specifies that State agencies and institutions receiving public funds belonging to or for the use of the Commonwealth or any State agency shall deposit such funds into the State Treasury on the day received or the next banking day. The CAPP Manual allows for an exception to the daily deposit requirement with the approval of the Department of Treasury.[15]
- Within the Restructured Higher Education Financial and Administrative Operations Act, §23-38.104 of the *Code of Virginia* indicates that a covered (Tier III) institution may be permitted to independently manage its operations and finances, including holding and investing its tuition, fees, research funds, auxiliary funds, and all other public funds. Such institutions may also control the expenditures of all moneys generated or received, including tuition, fees and other non-general fund revenue sources.
- The management agreement between the Commonwealth of Virginia and the University is contained within the 2009 Session *Virginia Acts of Assembly – Chapter 675* and *Chapter 685*.[16] The policy governing financial operations and management for UVA is identified as Exhibit R, which states in Section VII that the University shall have the power and authority to manage all monies received by it. The agreement further indicates the University is authorized to hold and invest tuition, Education and General (E&G) fees, research and sponsored program funds, auxiliary enterprise funds, and all other non-general fund revenues, but stipulates that the University shall deposit such funds in the State Treasury pursuant to the State process in place at the time of such deposit. According to Section IX of the agreement, the University may draw down all tuition, E&G fees, and all other non-general revenues deposited to the State Treasury each day on the same day they were deposited.

ISSUE NO. 1 RECOMMENDATION

Because no transfer frequency is stated in the Constitution, OSIG recommends that the University and the Department of Treasury establish an arrangement that requires revenue transfers to be made less often (perhaps when a specified cash limit is reached and/or a particular time period occurs, such as month-end). This procedure would save transaction and administrative costs associated with the present transfer method and would ultimately reduce waste and inefficiency in state government.

Accounting and Financial Reporting

OSIG reviewed the University's Financial Policy and Procedure Manual and other relevant policies and the past APA audit reports for significant issues. In addition, the new University Financial Model (UFM) project and Managerial Reporting module were reviewed.

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15 http://www.doa.virginia.gov/Admin_Services/CAPP/CAPP_Topics/20205.pdf

16 http://lis.virginia.gov/cgi-bin/legp604.exe?091+ful+CHAP0675+pdf and http://lis.virginia.gov/cgi-bin/legp604.exe?091+ful+CHAP0685+pdf, pages 79-85.

Through interviews with the UVA Comptroller, OSIG determined that UVA was using a manual method for combining the financial statements of the Academic Division and the financial statements of the Medical Center in the preparation of aggregate financial statements. Management estimated the cost to manually combine the financial information at approximately $2,000 to $3,000 per year. The use of a manual process is prone to human error and may not be the most efficient or economical method for aggregating the financial records. Management agreed with our suggestion to evaluate various software applications to determine if a cost effective solution exists for automating the financial statement combination process.

OSIG also interviewed the UVA Director of Procurement and Supplier Diversity Services and reviewed the University policies regarding vendor/contract rebates, purchase discounts, and P-Card rebates; the accounting of such funds, the reasonableness of the accounting practices, and how such funds are used.

ISSUE NO. 2— PURCHASE DISCOUNTS AND REBATES RECORDED IN INCOME ACCOUNTS

We noted the following matters from our review of General Ledger *Activity Reports* for purchase discounts and rebates:

A. The University received a $1 million incentive bonus payment in August 2013 pursuant to a contract with the Bank of America (BOA). While the $1 million bonus was received, deposited, and reflected correctly as cash, the entire amount was incorrectly reflected as income in the accounting records for the 2014 fiscal year. Since the contract terms specified that the University can earn and retain one-fifth of the incentive bonus during each of the first five years of the agreement in which it meets a $90 million transaction volume requirement, $800,000 should have been recorded as deferred revenue.

B. For two of the six rebate/discount programs (Local P-Card and ePayables), rebates totaling approximately $819,000 were recorded in income. It would appear more appropriate to account for them as purchase discounts since the rebates are based on the volume of purchase transactions under the Local P-Card or ePayables methods.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*[17], establishes revenue recognition requirements for non-exchange transactions. Providers of resources, such as BOA, in non-exchange transactions frequently establish eligibility requirements, which are conditions established by the provider that are required to be met before a transaction can occur. Resources transmitted before the eligibility

17 http://www.gasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824063588&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs

requirements are met should be reported as advances by the provider and as deferred revenues by recipients.

ISSUE NO. 2 RECOMMENDATION

OSIG recommends that UVA management determine the proper accounting treatment for the $1 million incentive bonus and make the appropriate adjustment after ensuring that all eligibility requirements of the contract contingencies have been met. Furthermore, UVA management should consider implementing changes in the accounting treatment for the rebate/discount programs to ensure rebates of a similar nature are appropriately applied in accordance with proper accounting and financial reporting rules.

Investment in the STEM Program

OSIG interviewed the Assistant Vice President for Research Administration and reviewed the University buildings and space Assessment Reports and determined that lab/classroom space and equipment is currently adequate for instruction and research.

However, through interviews with the University Provost and the Senior Vice Provost, OSIG determined that the UVA STEM program lacked definition, quantifiable goals, monitoring, and a means of measuring the return on the investment in the STEM program.

COMMENDATION — EVALUATION OF RESEARCH, CLASSROOM, AND OTHER SPACE NEEDS IS ONGOING

UVA has completed two assessments of buildings and space with the first focused on the condition of buildings and the second expanded to evaluate space for STEM disciplines, as well as pedagogical changes in teaching and classroom design. The second assessment proactively addresses concerns expressed by three of six faculty members surveyed about the need for more classroom space in the future. As a result of the assessments, capital projects have been identified to ensure existing and future space needs are met. A renovation of Gilmer Hall, which houses the Biology and Psychology departments and research facilities, and a renovation of the Chemistry Building have been authorized for planning and design which should be completed by January, 2016. The university hopes to receive construction authorization in fiscal year 2016-17.

ISSUE NO. 3— LACK OF DEFINITION, MEASURABLE GOALS, TRACKING OF INVESTMENT IN STEM DISCIPLINES, AND EVALUATION OF RETURN ON INVESTMENT

Defining what is included in a program or initiative facilitates the ability to more accurately track outcomes. UVA has not determined what expenditures, programs, and goals are considered an investment in the STEM initiative. Without a clear definition of what needs to be tracked and evaluated, the University cannot ensure alliance with strategic goals and plans or evaluate the return on investment in the STEM program. However, goals for STEM disciplines typically include increased enrollment and graduation in those disciplines, increased research, the development of teachers and faculty to better instruct, and changes in teaching methods, all of which require funding.[18] [19] [20]

Several areas at UVA have recognized the value of having measurable goals, with metrics (standards of measurement) to aid in evaluating progress. [21] Tracking of how organization funds are invested is a necessary process to evaluate progress and determine return on investment. UVA has several goals related to investment in STEM disciplines, but only one includes a metric, which is to increase student enrollment in STEM disciplines by 33% to 40% of total student growth. Other goals are to increase, pursue, and expand the resources for the STEM initiative. However, no metrics have been developed. As noted above, UVA has not defined what comprises investments in the STEM program and, therefore, has not been tracking the investments or determining the return to the University. Failure to track the investment in STEM disciplines and establish metrics by which to gauge the success or failure of these efforts may result in continued funding of programs or practices which are not generating positive results. Conversely, programs or practices which are generating positive, desired results may not be receiving enough funding or could perform even better with additional funding.

ISSUE NO. 3-A RECOMMENDATION

UVA should define what the university considers an investment in the STEM disciplines. A clear definition will facilitate tracking and evaluation of the investments to ensure spending is aligned with the University strategic goals and Six-Year Plan, help determine if there is a positive return on investment, and help identify where changes in the goals and plans may need to occur.

ISSUE NO. 3-B RECOMMENDATION

UVA management should establish quantifiable metrics or benchmarks and regularly assess progress made in achieving the goals associated with the investment in the STEM program.

ISSUE NO. 3-C RECOMMENDATION

UVA management should track the investment made in the STEM disciplines and compare the results to the metrics identified to assess the university's success in meeting its goals related to the STEM program. If the metrics are not met, management should make changes to the investment process as deemed appropriate. UVA staff uses an Oracle integrated system which has the capability to track investments in STEM disciplines through the use of multiple codes and descriptive fields. Management should consider using this system to track the results of its investment in the STEM program.

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[18] http://www.lehman.edu/science-building/documents/stem-strategic-plan.pdf
[19] http://www.unomaha.edu/college-of-education/office-of-stem-education/about/stem-strategic-plan.pdf
[20] http://www.purdue.edu/strategic_plan/whitepapers/STEM.pdf
[21] http://uvamagazine.org/articles/a_better_way_to_think_about_u.va.s_crisis/; http://www.hr.virginia.edu/uploads/documents/media/Resource_Guide_to_Performance_Management.pdf; http://www.virginia.edu/cio/goals_metrics.html; and http://www.virginia.edu/resourcingthemission/faq.html.

AccessUVA

Through interviews with the Assistant Vice President and Chief of Staff to EVP/COO and the Associate Vice President for Finance, OSIG determined that University management has developed strategic plans to ensure the sustainability of funding to meet the financial need of students. Furthermore, the University has appropriately planned for future increases in student financial need.

COMMENDATION — ACCESSUVA FUNDING AND PROJECTION PROCESSES

UVA tracks the sources of funding available for the AccessUVA program and uses a comprehensive model to determine current and future needs for the program. The tracking and models have allowed UVA to identify and address the growing need for financial aid. UVA management is to be commended for planning ahead and identifying future needs. As of the period of this review, UVA's Board of Visitors (BOV) was considering several options to meet those needs.

Faculty Retention, Recruitment, and Compensation

From our review of the minutes for the BOV's meeting on February 22, 2013, OSIG found that the BOV approved a resolution to increase faculty salaries over four years (FY14 – FY17) with a goal to increase UVA's average faculty salary to the top 20 of its peer group of Association of American Universities (AAU) institutions. To achieve this goal, the University plans to raise overall faculty salaries by an average of 4.75% each year. Annual reports are provided to the BOV to show their progress; UVA moved from the 34th spot in FY13 to the 27th position for FY14.

The Provost's Office relies on two methods to evaluate the competitiveness of UVA job offers in the faculty labor market. One method involves the computation and analysis of Faculty Acceptance Offer Yield Rates, which is the percentage of job offers that are accepted by faculty candidates. The University-wide yield rates improved from 63.5% in FY13 to 77.3% in FY14. Yield rates are also computed for each individual School and also based on faculty rank (full / associate / assistant professor). The yield rates are reported to the Provost, the President's office, the BOV and the Deans of each School. Another procedure for judging the quality of UVA job offers is through the Faculty Finalist Surveys. UVA requests candidates who were offered a faculty position (whether they accept or decline the offer) to complete a survey where they rate the quality of specific attributes about UVA and the Charlottesville area, the importance of the attributes in their decision, and reasons why they accepted or declined the position. Survey response rates by those who declined a UVA job offer (50%) were not significantly below the response rates for those individuals accepting the UVA position (63%). The University has analyzed responses to the 2013-2014 survey and made efforts to address issues cited by applicants where UVA performance needed improvement (Spousal/Partner Career Opportunity; Salaries; and Research Support).

To help measure faculty retention, the UVA Director of Institutional Assessment and Studies determines Tenure/Tenure-Track (TTT) faculty retention rates, which are computed as the percentage of faculty members from the prior year that return to work for UVA the next year. The Director calculates a single Academic Division-wide rate as well as each individual School's faculty retention rate. The statistics are reported to the Provost's Office as requested, which has been every two years since FY11. The University-wide retention rate has ranged from 93% to 95% for fiscal years 2012 through 2014.

OSIG contacted representatives from five of the eleven Schools and found that two Schools had developed an exit survey to determine why faculty members chose to leave the University. The other three Schools did not have an exit survey, but relied on informal processes to obtain such information. Realizing the value that a uniform survey can provide, particularly for determining why tenure-track faculty members resign prior to becoming tenured, the University has developed a standard exit survey to be administered by the Provost's Office beginning in 2015. In this first year of surveying, a follow-up phone interview will be performed with former faculty members who are willing to participate in the process. Based on responses to the surveys and interviews, revisions will be made to the survey as needed.

The University relies on periodic surveys to assess faculty job satisfaction so that management may address issues in an attempt to improve faculty retention. For example:

- The Faculty Senate at UVA has conducted surveys of the faculty in 2007 and 2012 that addressed communication and leadership, the academic community, time devoted to work, and overall satisfaction with work at the University.
- The Harvard-based Collaborative on Academic Careers in Higher Education (COACHE) conducts surveys every three years. The COACHE's findings yield benchmarks, and the University's membership garners access to the data in comparison with peer institutions.

The latest surveys showed faculty concerns regarding salary levels, UVA leadership beyond the department level, and with performance reviews. The University has responded to these issues by instituting the salary increases described above, appointing new Deans at five Schools, and incorporating changes to the performance review process in late 2012.

From discussions with the Senior Vice Provost, the Vice President for Research, and some School Deans, OSIG found that the process to undertake a new research or education project takes into consideration the impact on faculty recruitment and retention. Among the examples cited include the Institute for Data Science, which involved over 170 faculty members from most of the Schools in its formation, and the subsequent hiring of several faculty members whose research would be connected to the Institute.

The University is a proponent of offering start-up packages in the recruitment process to attract highly sought-after faculty. Start-up packages may include funds to support the renovation of laboratories, purchase of equipment, hiring of research staff, and training of graduate students, among others, while the research program is being established. The UVA Vice President for Research and representatives from several UVA Schools indicated there is no established process in place to monitor the quantitative performance or return on investment of the start-up packages for the individual faculty members. The Senior Vice Provost explained that the University evaluates the overall performance and success of the faculty member receiving the start-up package using individual and specific qualitative measures. The *Financing Academic Excellence FY14-FY17* report indicates that UVA has projected spending $25 million per year for start-up packages from 2014-2017. As the number and dollar amounts of start-up packages increase, a method for monitoring performance of each start-up package should be implemented. Numerical metrics should be established to define the performance of each package, although management may also wish to establish qualitative measures for the packages as well.

ISSUE NO. 4— LIMITED PROCESS FOR MONITORING THE PERFORMANCE OF START-UP PACKAGES

There is no established quantitative process in place to monitor the performance or return on investment of individual faculty start-up packages. Four (Arts & Sciences, Darden, Engineering, and Medicine) of the five Schools OSIG contacted offered 39 start-up packages totaling $44 million in FY14 to new faculty members to launch their research programs. The Schools monitor the expenditures and available budget for each start-up package.

The success of a particular start-up package is evaluated annually in the performance review of the individual faculty member, during a formal three-year promotion and tenure review, and again at the six-year mark when a promotion and tenure decision is made. The university evaluates the overall performance and success of the faculty member receiving the start-up package using individual and specific qualitative measures.

Because of the significant sums of money planned for future start-up packages, it is essential that management evaluate how beneficial these expenditures are for the University. While the underlying purpose is to attract high-caliber faculty who enable the University to focus on strategic areas and enrich the overall academic experience, these investments should correlate to increased research productivity as measured by external grants, scholarly works or publications.

One institutional metric that the University identified in the Cornerstone Plan was to "…increase its total research portfolio to be among the top 40 in the annual tabulations by the National Science Foundation" of the top university recipients of competitive federal research funding.[22]

ISSUE NO. 4 RECOMMENDATION

OSIG recommends that management develop a set of metrics to provide a quantitative measure of performance for each start-up package exceeding a specified amount. The university should develop additional institutional goals and metrics to sustain and grow research, then monitor how start-up packages assist the university in meeting those goals at both the faculty and institutional level. Once

[22] http://planning.virginia.edu/sites/planning.virginia.edu/files/Cornerstone-Plan-December-2013.pdf, pages 3, 10 and 47

the metrics have been established, a dashboard may be used to monitor the level of success in meeting the institutional goals.

Fraud, Waste, and Abuse

As part of the performance review, we considered the risk of fraud, waste and abuse. For the focus areas of this project, we considered the risk of fraud to be low. APA auditors conduct extensive testing of UVA's accounting records, including state general fund appropriations, and the integration of accounting system data into the annual financial statements. Therefore, we conducted a limited review of accounting activity. No instances of possible fraud, waste, or abuse came to our attention during the review.

Exhibit 1 — Management's Response

UNIVERSITY of VIRGINIA
OFFICE OF THE EXECUTIVE VICE PRESIDENT
AND CHIEF OPERATING OFFICER

August 5, 2015

Ms. June W. Jennings, State Inspector General
Office of the State Inspector General
James Monroe Building
101 North 14th Street, 7th Floor
Richmond, Virginia 23219

Dear Ms. Jennings:

Thank you for sharing the draft report documenting the results of the performance review conducted by the Office of the State Inspector General. We have reviewed the observations for each risk area and we concur with your recommendations.

Issue No. 1 – Daily Transfer and Return of Collected Revenue Funds

We agree with OSIG's recommendation. The University looks forward to working with the Department of Treasury to explore options that may exist to streamline the process of daily transfers. This change could prove beneficial to other agencies of the Commonwealth as well and we appreciate your assistance.

Issue No. 2— Purchase Discounts and Rebates Recorded in Income Accounts

We agree with OSIG's recommendation. We will review the incentive bonus and rebate programs to ensure that we account for such payments correctly, recognizing income when earned.

Issue No. 3— Lack of Definition, Measurable Goals, Tracking of Investment in STEM Disciplines, and Evaluation of Return on Investment

We agree with OSIG's recommendations. We will explore new ways to define, measure, and track our investments in STEM. Such measures could include STEM degrees, total research funding, and similar strategic or school-specific measures.

Issue No. 4— Limited Process for Monitoring the Performance of Start-Up Packages

We agree with OSIG's recommendation. Many different factors may be considered when monitoring and assessing start-up packages, depending on the use of the funds and the

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related discipline of the faculty member. Competing for faculty on a national level requires that we offer start-up packages as a recruiting and retention tool, as the University's peers offer similar packages. Start-up packages provide a mechanism through which we can focus on particular strategic areas of the University and enrich the overall academic experience. The evaluation of start-up packages must continue to be focused on the faculty member during reviews of performance, promotion, and tenure.

We appreciate the time and effort from your staff in completing the performance review.

Sincerely,

P. Hogan

Patrick D. Hogan
Executive Vice President and
Chief Operating Officer

cc: President Teresa Sullivan
Milton Adams, Interim Provost
Gary Nimax, Assistant VP for Compliance and ERM
Roscoe Roberts, General Counsel
Carolyn Saint, Chief Audit Executive