

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Approved by the Regents

March 17, 2006

Item for Information

Subject: Report of University Internal Audits
May – September 2005

Background:

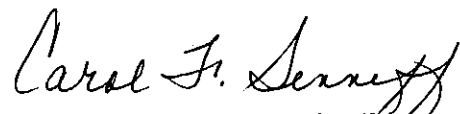
This is the report of the Office of University Audits activities for the period May 1, 2005 through September 30, 2005. The summaries of audits contained in this report were previously reported in bi-monthly reports provided to members of the Board Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of September 30, 2005.

If you have any questions or would like additional information, please contact me at 647-7500 or by e-mail at csenneff@umich.edu.

Respectively submitted,



Carol F. Senneff, Executive Director
University Audits

March 2006

ORIGINAL REPORTS

Information Technology

ITCom Campus WiFi Wireless Network

2004-335

Issued May 18, 2005

IT Communications (IT Com), a unit of Information Technology Central Services (ITCS), operates a wireless data (WiFi) network dubbed the UM Wireless Network (UMWN). The primary objective of this audit was to determine whether the UMWN has adequately implemented internal controls to ensure data integrity, data security and availability, and to evaluate the effectiveness and efficiency of the University's overall approach to WiFi networking.

Control issues:

- There is no strong encryption facility. Controls to protect unencrypted network services from unauthorized data tampering and interception are missing or inadequate. The risk is somewhat mitigated by the significant time and technical expertise required to take advantage of any vulnerability that might exist.

One acceptable means of addressing this is to provide a Virtual Private Network (VPN) service. Currently, the College of Engineering and the Health System require VPN, as do several Big Ten universities. Others offer VPN as an option.

Management Plan – ITCom is performing limited testing of VPN services in conjunction with the IT Commons Interim Secure Remote Access Project. It is expected that by fall term 2005 ITCom will provide a VPN service to all University of Michigan faculty, staff, and students that can be used both on campus and from remote locations.

- A single privileged account password for accessing UM Wireless Network wireless gateways is shared among 67 members of the ITCom Operations and Engineering teams.

Management Plan - A request was submitted to the vendor to provide an option for individually authenticated administrators. The vendor has indicated that this is a very low priority for them. Until the vendor implements this change request, ITCom will assume the associated risk. Web interfaces of the wireless access points also have a single administrative password. ITCom is working with that vendor to develop individual authentication and authorization for this interface. University Audits agrees with management's decision to accept the risk in the first issue and will follow the progress with the vendor in the second issue.

Summary: No uniform security policy exists for the installations and use of WiFi at the University. Authorization or registration is not required to establish a WiFi network on Central Campus. WiFi security controls of varying degrees of adequacy are in place throughout the University. Controls to prevent interference between WiFi networks do not exist. These control deficiencies pose potential risks to data security, data integrity, and availability.

The UM IT Commons Network Working Group publishes guidelines on WiFi access control, security, and site design. These guidelines represent the consensus opinion of IT organizations throughout the institution, and reflect our unique environment. WiFi service providers should

adhere to these guidelines. The UM Wireless Network was developed by ITCOM with these guidelines in mind.

University Audits will conduct a follow-up review of the outstanding issues during the first quarter of fiscal year 2006.

FOLLOW-UP REVIEWS

Telefund Office

Original Report issued September 22, 2004

2004-225

Follow-up Report issued May 2, 2005

- Management has received training in accessing information through Business Objects.
- Internal time documents now provide a cumulative record of hours reported for the pay period as required by SPG section 518.1.
- The program manager now signs internal time documents to provide evidence of his review and approval of hours reported by student managers.
- Employees no longer have access to their approved time reports.
- The departmental policy and procedure is in draft form and expected to be completed in August.
- The Telefund director and student manager have taken the Foundations of Supervision course.
- The department is working with the Office of Financial Analysis to review current recharge rates.
- A journal entry was processed to reclassify software expenditures to meet University capitalization requirements.

All corrective actions have been implemented and an action plan continues to be followed.

This audit is closed.

School of Education and Human Services – Early Childhood Development Center – Flint # 2003-140

Original Report issued December 1, 2003

Follow-up Report issued May 18, 2005

- The revenue processes have been formally documented.
- Segregation of duties in the revenue process has been strengthened.
The revenue process has been greatly improved.

This audit is closed.

ORIGINAL REPORTS

Campus

Intercollegiate Athletics – NCAA Financial Aid

#2005-240

Issued June 15, 2005

Article 15 of the NCAA Division I Manual specifies the types of financial aid that may be awarded to student-athletes and regulates the administration of such aid. Article 15 also defines maximum institutional grant-in-aid limitations by sport. The University of Michigan Intercollegiate Athletics (ICA) Department is responsible for the administration of athletic awards. ICA and the Office of Financial Aid coordinate efforts to monitor financial aid awarded to student-athletes.

During the review of 2004-2005 NCAA squad lists for football, men's basketball, baseball, softball, men's golf and women's soccer, no areas of non-compliance were observed.

This audit is closed.

Healthcare

University Audits is conducting a series of departmental audits reviewing the understanding and compliance with Standard Practice Guide (SPG) 500.1, Fiscal Responsibilities. According to the SPG, every faculty and staff member who is involved in any financial activity on behalf of the University must be fiscally responsible and exercise appropriate financial controls in the transaction. Responsibilities outlined in the SPG support the University's achievement of fiscal goals and objectives including certain Sarbanes-Oxley initiatives and best practices.

The goal of these audits is to assure compliance in the departments audited; also, to share lessons learned with departments across the University.

During June, three of six Fiscal Responsibility Audit Reports were issued.

UMHS Department of Surgery Fiscal Responsibilities

2005-114

Issued June 1, 2005

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- While financial transactions are regularly reviewed by a second party, many transactions were not approved by a higher authority, a person with documented delegated authority or by a person who has the knowledge and ability to perform the required management and compliance review. Roles and responsibilities for reviewing and approving financial transactions have not been documented in writing to support staff knowledge and performance of assigned duties.

Management Plan – The department is creating a specific policy related to P-Card transactions to identify a managerial authorization at the appropriate level for each P-Card holder. A compliance review will continue to be performed by the Associate Director for Finance. Education of the department P-Card holders will be provided by email and by a new policy web site.

- Corrections/changes made to staff member time cards were not initialed or otherwise validated by the employee or the supervisor prior to submission to Surgery Human Resources (HR).

Management Plan – Corrections to timecards will be authorized by immediate supervisors through documented telephone discussions between the Surgery HR staff member or by direct e-mail correspondence with the supervisor.

- Faculty time cards are consistently submitted by faculty members as a whole; however, in several cases, there was no written approval of reported time for faculty members including two section heads.

Management Plan – A standardized policy for tracking and recording faculty time is being implemented.

- Documentation was not always available to support the business purpose of certain travel and hosting expenses. There were a several instances where policy was not followed for foreign travel activity, hosting authorization, timeliness of expense submission, and meal reimbursement.

Management Plan – The department website will be updated to include proper procedure and re-communicated to all personnel.

- Documentation was unavailable to support the service or cost-benefit of using external vendors when University resources or select vendor discounts are available. Additionally, the University Purchasing Department was not used to acquire certain items that met University thresholds for central processing (e.g.>\$5,000, printing, storage space).

Management Plan – Use of external resources and non-select vendors will be assessed and the cost/benefit will be documented and reviewed at least annually.

- Certain purchases were not flagged for indirect cost recovery exclusion (e.g. alcohol).

Management Plan – The department has developed additional training on their website and through direct feedback.

A follow-up review will be conducted during the first quarter of FY 2006.

UMHS Department of Ophthalmology and Visual Sciences

#2005-114

Issued June 15, 2005

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- Financial transactions are not consistently approved by a higher level of authority or by a person who has the knowledge and ability to perform the required management and compliance review outlined in SPG 500.1. Roles and responsibilities for reviewing and approving financial transactions have not been documented in writing. The business manager should not have primary responsibility for approving expenses initiated by faculty or persons to whom he reports.

Management Plan – Department administration has made all parties involved aware of the policies and procedures which should be followed. A departmental policy manual including all of the appropriate guidelines has been prepared.

- Time reporting issues were noted as follows:
 - Faculty members do not submit exception time reports as specified by the faculty handbook and regental bylaws.
 - Staff time cards are not consistently signed by the direct supervisor of employees submitting hours for pay. There is no established policy/procedure for alternate approvers.
 - The department payroll clerk was allowed to submit her personal pay information to central payroll once it was approved.
 - Termination information for temporary employees was not consistently reported on a timely basis to the department payroll clerk.

Management Plan – Faculty was notified by the chair that everyone is to submit Temporary Faculty forms directly to him for review and approval. The department administrator sent a memo to all faculty and staff regarding proper time card procedures. The memo addressed supervisor signatures, delegation of signature authority, restricting employee access to signed timecards and communication regarding temporary employees. A departmental policy manual including all of the appropriate guidelines has been prepared.

- Documentation was not consistently available to support the business purpose of travel and hosting expenses processed by the department. In several instances, the following information was not available or unsupported:
 - Persons participating in hosting events
 - “reasonable and necessary” nature of an expense
 - Correlation between the expense date(s) and the date(s) of the actual travel or hosting event

Management Plan – All faculty and staff have been notified of the documentation necessary to support business purpose and hosting events participants; and the departmental policy requiring receipts for all travel and hosting expenses. The new department policy manual also includes these guidelines as well as a checklist to assist staff in on-going compliance reviews of these and other University and department requirements.

- Management plans have not been established or approved to control related party transactions that may occur. During this limited review, three key relationships with management personnel were identified. While there was no indication of any specific problems, management plans avoid the issues of conflict of interest and objectivity. SPG 201.23 regarding nepotism specifically addresses University requirements to manage these relationships.

Management Plan – Written plan were prepared for all parties involved. These plans were reviewed by University Audits before the close of the audit. **This issue is closed.**

- Documentation was unavailable to support the service or cost-benefit of using external vendors when University resources or select vendor discounts are available. Additionally, the University Purchasing Department was not used to acquire certain items that met University thresholds for central processing (e.g.>\$5,000, printing, storage space).

Communication was distributed to all staff and faculty regarding purchasing policies; specifically, included was the use of preferred University suppliers as well as purchases above \$5,000.

- Department process of expenses was not consistent with University requirements in the following areas:
 - Certain purchases were not flagged for indirect cost recovery exclusion (e.g. alcohol, fundraising, advertising).
 - In several instances, travel expenses were not submitted and processed within 30 days of the expense.

Management Plan - The proper departmental procedures have been communicated to all staff and faculty and are included in the new departmental policy manual.

A follow-up review will be conducted during the first quarter of FY 2006.

UMHS Department of Psychiatry

2005-114

Issued June 3, 2005

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- Certain financial transactions are not consistently approved by a higher level authority. The department chair's expenses were approved by the business manager and/or associate chair instead of the dean.

Management Plan – The department is obtaining a P-Card specifically for the chair's travel and hosting expenses; any expenses incurred will be approved by the Dean or the Dean's designee. Faculty and staff roles are being reinforced through periodic communications at various meetings, including the Administrators Meeting, Chair's Advisory Counsel Meeting and Section Directors Meeting.

- Central administration does not maintain control over time cards once they have been approved by the supervisor. Time cards are returned to each employee for submission to Human Resources.

Management Plan – This practice was discontinued during the course of the audit. **This issue is closed.**

- Faculty with partial appointments to the department do not consistently submit exception time reports for review and approval. Additionally, faculty time reports are not always signed by the chair, associate chair and/or discipline chief.

Management Plan – Timekeeping procedures for faculty with partial appointments will be reviewed and monitored to assure appropriate payment. Exception time reports will be revised to obtain signatures prior to chair review and approval and to reflect current business practice.

- Documentation was not available to support the service and/or cost benefit of using external vendors and suppliers when University resources or select vendor discounts are available.

Management Plan – The department is developing a process to ensure documentation is available to support the rationale for using external vendors when appropriate.

A follow-up review will be conducted during the second quarter of FY 2006.

FOLLOW-UP REVIEWS

UMHS Rehabilitation Engineering

2005-116

Original Report issued January 18, 2005

Follow-up Report issued June 24, 2005

- Secondary Review of Financial Transactions: The Clinical Department Administrator has established the PMR Administration policy outlining the grant administrators roles and responsibilities associated with review and sign off on all financial transactions.
- Adequate Tracking and Monitoring of Equipment: Rehabilitation Engineering has established an equipment log to track and monitor the location, repair enhancements and timeline for completion of repairs. PMR also established the Off-Campus equipment policy for use and security of equipment off campus.
- Authorized Fee Schedules: A meeting was held with the Budget and Rate Setting Office in which final decisions and agreements were made regarding changes in CDM's, CPT codes and rate changes.
- Appropriate Classification of Program Services: A journal entry was processed to input charges appropriately to both the equipment account and the patient account and will no longer attempt to make up deficits by billing the opposite account. Documentation was provided to support corrections made.
- Billing policies and procedures that ensure timeliness: PMR and Rehabilitation Engineering have reviewed and approved the Rehabilitation policy. A current copy was provided and ongoing training will be provided to staff as changes occur.
- Adequate Equipment inventory controls: PMR has revised their patient equipment spreadsheet to document receipt and delivery of all equipment. A policy was also established regarding reconciliation of equipment and reporting of variances.

Management has taken the appropriate steps and corrective action on all major audit recommendations. **This audit is closed.**

Federal Student Financial Aid Program FYE 2003

2004-236

Original Report issued January 27, 2004

Follow-up Report issued June 21, 2005

- Timely reporting of withdrawal information to the Clearinghouse: The Registrar's office initiated a procedure in Fall 2004 to process manual updates each term with the Clearinghouse.
- Timely reporting of Law School graduations to the Registrar's Office: The Registrar's office amended the University's current schedule with the National Student Loan Data System for loading data from the Clearinghouse. Effective February 2005, Law School e-mail notifications pertaining to degree status approval are tracked through the RightNow system.
- Timely reporting of graduation information to the Clearinghouse: The Registrar's Office enrolled in the Clearinghouse's Degree Verify Service. The Clearinghouse will receive regularly scheduled updates of degrees awarded from the University.

Management has taken appropriate corrective action on all audit recommendations. **This audit is closed.**

Campus Communications Closets (3)

Original Report issued November 30, 2004

2004-346

Follow-up Report issued June 21, 2005

- Communications closets were observed with missing or inadequate firestop. Information Technology Central Services (ITCS) and Plant Operations have installed firestop in the 22 campus and 4 housing sites noted.
- Communications closets and panels were not adequately secured from unauthorized access. Six campus closets and three housing closets have been secured by Facilities Maintenance and unit management. Enclosures will be constructed by Housing Information Technology around two switches by the end of June 2005. In addition, Housing will enclose similarly exposed equipment in areas not tested. Corrective action is in process.
- Trash, flammables, and unnecessary supplies and equipment were being stored in closets. Between the efforts of Facilities Maintenance and Housing Facilities, 25 closets have been cleaned. A cleanup project was begun by Facilities Maintenance for University Unions, and is to be completed by November 2005. Corrective action is in process.
- Seven junction boxes were uncovered. Covers were replaced by Facilities Maintenance and Housing Facilities.
- Eight closets had potential water or heat (environmental) issues. All were investigated. Repairs were made, equipment was moved, or the issue was judged to be within operating standards.
- Cable management needed improvement in five closets. Raceways were installed where possible by ITCS.

Management has taken appropriate corrective action or has begun action and has agreed to an acceptable completion date for all audit recommendations. **This audit is now closed.**

ORIGINAL REPORTS

Campus

**Intercollegiate Athletics – Men’s Basketball, Ice Hockey and Other Sports Event Ticket Counts
FY 2005** #2005-242

Issued July 22, 2005

The objective of this audit was to verify the accuracy of the 2004/2005 settlement reports for home Big Ten men’s basketball games, and 2004/2005 ticket sales reports for other Intercollegiate Athletics sporting events for which admission was charged. A similar report on football settlement reports was issued on March 31, 2005.

The accuracy of the settlement reports was tested by reviewing ticket stock manifests received from the printer, counting unsold tickets and verifying all computations. University Audits signed each of the settlement reports attesting to its accuracy. Ticket sales reports for all other sports were also accurately stated. **This audit is closed.**

Intercollegiate Athletics NCAA Recruiting

#2005-245

Issued July 22, 2005

The objective of this audit was to determine whether University of Michigan policies and procedures governing contact with, evaluations of, and official paid visits from prospects comply with NCAA Bylaws 13.1 and 13.7. Audit procedures included verifying the certification status of coaches performing recruiting activities, examining fiscal year 2005 telephone logs, official visit files, and contact and evaluation logs for the targeted sports. Targeted sports included football, men’s basketball, women’s basketball, baseball, softball, men’s golf, and women’s soccer.

Based on the audit work conducted, it appears that Athletics has appropriate policies, procedures, and controls to monitor on-campus and off-campus recruiting activities in accordance with NCAA Regulations. No areas of non-compliance were observed. **This audit is closed.**

Healthcare

University Audits is conducting a series of departmental audits reviewing the understanding and compliance with Standard Practice Guide (SPG) 500.1, Fiscal Responsibilities. According to the SPG, every faculty and staff member who is involved in any financial activity on behalf of the University must be fiscally responsible and exercise appropriate financial controls in the transaction. Responsibilities outlined in the SPG support the University’s achievement of fiscal goals and objectives including certain Sarbanes-Oxley initiatives and best practices.

The goal of these audits is to assure compliance in the departments audited; also, to share lessons learned with departments across the University.

During July, three of six Fiscal Responsibility Audit Reports were issued.

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- **Segregation of duties** - In four Radiology units, there is a lack of appropriate segregation of purchasing access rights based upon individual responsibilities. Staff in these units who have access to execute purchasing transactions also have responsibility for reconciling related statements of activity.

Management Plan – Purchasing access rights have been separated from the responsibility for reconciling the related account when there is no documented third party review of the transaction.

- **Time reporting**
 - Approximately half of the faculty time exception reports reviewed were not signed by a division director, or in the case of division directors, by the chair or his delegated authority.
 - There were instances when staff time reports were returned to the staff member for delivery to central timekeeping after the supervisor had signed approval.
 - White-out corrections made to staff time sheets were not signed or initialed by the supervisor as authorization.

Management Plan – Department management has modified the faculty absence request form to clarify the requirement for director approval. Delegated signature authority is being documented and signature stamps are no longer used. Supervisors have been informed that timecards may only be delivered to payroll processing by the supervisor or a designee whose information is not included in the time report. Corrections will be signed or initialed by supervisors.

- **Related Party Transactions** – There are no approved management plans to control related party transactions that occur within Radiology. There are several sets of relatives working in the department; some reporting to the same supervisor.

Management Plan – Management plans were drafted for two sets of related faculty members during the audit. Authorization of the plans is pending. Radiology Human Resources staff is reviewing additional related party reporting structures and will develop plans and obtain approvals. A policy and procedures to assure equal opportunity and to avoid nepotism have been drafted and approval is pending.

- **Processing Expenses** – In several cases, surgical supplies exceeding the \$5,000 threshold were purchased directly by the department rather than going through the purchasing department. Additionally, three transactions that were not properly coded for indirect cost recovery exclusion.

Management Plan – The written rationale for non-PO purchase of certain emergency medical surgical supplies was drafted and approved by Central Purchasing in June 2005. Staff has been instructed about correct coding for indirect cost recovery.

A follow-up review will be conducted during the second quarter of fiscal year 2006.

Issued July 20, 2005

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- Review and Approval of Expenses – Financial transactions are regularly reviewed by a second party, but a managerial review by a higher level authority was not consistently documented. Roles and responsibilities for reviewing and approving financial transactions have not been documented in writing.

Management Plan – Department policies and procedures for review and approval of expenses will be developed and will include a process flow to clarify responsibilities for each staff member. The process is being communicated to all staff and faculty. The policy will also be placed on the department's internal website.

- Submission, Review and Processing of Pay Information – Occasionally, timecards are returned to employees after they are signed by their supervisor. Employees are then submitting their own timecards to department payroll staff for processing.

Management Plan – The process of returning timecards to employees was stopped immediately during the audit. The proper practice has been communicated to all employees.

- Review and Reimbursement of Travel Expenses – Documentation was not always available to support the business purpose of travel expenses. There were several instances of missing event ID's or original receipts.

Management Plan – All staff and faculty have discussed the proper handling of travel expenses at staff and faculty meetings. The department also updated an internal job aid used for reconciling P-Cards. They have also added quarterly reviews to their departmental procedures to spot-check for consistent compliance with documentation requirements.

A follow-up review will be conducted during the second quarter of fiscal year 2006.

UMHS Department of Otolaryngology Fiscal Responsibilities

2005-114

Issued July 29, 2005

This audit was one of the series of audits conducted to review compliance with SPG 500.1.

Control issues:

- Review and Approval of Expenses – Financial transactions do not consistently undergo a management and compliance review to ensure appropriateness and consistency with grant or University requirements.

Management Plan – Staff responsibility for financial transactions is being reinforced through education and training.

- Submission, Review and Processing of Pay Information – Central administration does not maintain control over timecards once they have been approved by the supervisor. Timecards are returned to each employee for submission to Human Resources.

Faculty exception time reports were not consistently submitted as required by the faculty handbook and regental bylaws.

Management Plan – Employees no longer have access to their timecards after they have been approved. All faculty members will be required to submit exception time reports to document vacation, sick, and other authorized leaves.

- Business Purpose of Travel and Hosting Events – Documentation was not consistently available to support the business purpose of travel and hosting expenses processed by the department. Event ID's which are required by SPG 501.4, Travel and Hosting Policy, were missing in some cases.

Management Plan – Management is in the process of re-educating all faculty and staff regarding University travel and hosting requirements. There will be periodic monitoring to identify areas of non-compliance.

- Purchasing Practices – Documentation was unavailable to support the purpose and/or cost-benefit of using external vendors and suppliers when University resources and/or select vendor discounts were available.

There were several instances of purchases made directly by the department for items that are required to be purchased through the Purchasing department as specified by SPG 507.1, Purchasing Policy.

- Segregation of Duties – The staff assigned to departmental purchasing also has responsibility for reconciling the Statement of Activity. SPG 500.1 states that “no one individual should control financial transactions from start to finish.” “The adequate separation of duties requirement is essential in order to maintain an appropriate system of checks and balances.”

Management Plan - The practice was discontinued immediately. Responsibilities have been appropriately delegated to provide an effective control.

- Miscellaneous Processing – Controls surrounding expense processing can be strengthened. Some purchases were not flagged for indirect cost recovery exclusion (alcohol, retirement gifts). Other transactions did not have appropriate account descriptions or supporting documentation.

Management Plan – Management will re-educate faculty and staff regarding appropriate travel and hosting activity and documentation requirements. Management will monitor existing practices going forward to ensure established guidelines for financial transactions are met.

A follow-up review will be conducted during the second quarter of FY 2006.

Information Technology

UM-Flint Information Technology Services IT Infrastructure Controls

#2005-333

Issued July 22, 2005

This audit took a macro view of ITS-administered infrastructure security at UM-Flint. Included in the review were the following:

- Access to data, applications, and operating systems
- Network policy

- Wired and wireless network configuration
- Hardware
- System software
- Data transfer
- Database management systems
- Support processes

Control issues:

- Security Over Network-Based Applications - Based on network vulnerability scanning, at least one server was using unencrypted Telnet (“clear text”).

Management Plan – ITS was aware of this issue and has targeted to complete remediation of all servers during September 2005.

- Trivial FTP – Unrestricted Trivial File Transfer Protocol (TFTP) provides no security features. TFTP access allows remote sites to retrieve a copy of any world-readable file. A number of ITS supported machines were running TFTP.

Management Plan – ITS has provided mitigating controls to address the issue during the audit. The switches that require TFTP are in the process of being replaced. No further follow-up is required.

- Vulnerability Scan Results – University Audits requested a scan of the Flint subnets from UM’s Information Technology Security Services (ITSS). Several vulnerabilities were noted.

Management Plan – ITS addressed, during the audit, the concerns that impact servers over which they have control and they have made other departments aware of problems with other servers judged to be vulnerable. Subsequent scanning of the subnet has been done. ITS Flint has taken appropriate action. No further follow-up is required at this time.

- Guest Access on a Switch Administration Site – Using a standard Internet browser, University Audits was able to gain access to a site running the Dell OpenManager Switch Administrator. Audits was then able to authenticate to the site using a default ID and password.

Management Plan – The problem was verified on this and other switches. Guest access allowed read-only access, but could be used to help map the network. Guest access has been disabled from this and other switches.

- ZenTrack password file – The auditor was able to access this test product and its password file through a well-known vulnerability.

Management Plan – The test ZenTrack site has been removed from the server. ITS has addressed the issue appropriately.

- Anti-Virus Protection on the Firewall – No virus protection was provided on the firewall machines. Virus scanning should ideally be performed at the perimeter of the network.

Management Plan – ITS will investigate anti-virus scanning on web proxy server further as soon as the new anti-virus vendor is selected by ITCS.

- Wireless Policy – The wireless policy on the UM-Flint website does not specifically forbid users from adding unauthorized wireless access points to the network. Lack of this prohibition makes it difficult to enforce security over the wireless network.

Management Plan – ITS will create a policy by September 2005. Airwave management software is being evaluated.

- Security Incident Handling – Although there are procedures in place for handling computer security incidents at UM-Flint, there is no written policy concerning incident response and escalation of authority and responsibility for computer incidents.

Management Plan – UM-Flint personnel will be included in a University-wide committee that will be establishing a process for centralized security incident responses.

- Unexpected HTTP Access - Using a standard Internet browser, the auditor was able to gain access to sites used for system monitoring and web-based diagnostics. These sites could give information about the configuration of the network at UM-Flint.

Management Plan – ITS analyzed each of the sites in which the audit was being conducted. Where appropriate, the service has been blocked from outside the University; in some cases, it was determined that the data on the sites did not need to be secured.

A follow-up review will be conducted during the second quarter of fiscal year 2006.

MAIS PeopleSoft 8 Authentication and Authorization

#2005-366

Issued July 20, 2005

This audit reviewed the Java Cosign authentication and authorization tool which was developed by the University of Michigan Administrative Information Services (MAIS). Java Cosign is used to authenticate users against the central account database.

The objectives of the audit were to evaluate the security controls of the Cosign filter and the Cosign filter's ability to control access to the PeopleSoft 8 transaction processes and resources. We also reviewed PeopleSoft 8 roles and permissions for Human Resources and Affirmative Action (HRAA).

Based on the review of the Human Resources roles and permissions, controls are sufficient to minimize threats to HRAA data. The MAIS Java Cosign filter does not appear to be at risk.

This audit is closed.

FOLLOW-UP REVIEWS

Financial Operations Payroll Office Off-cycle Payment Process

2004-246

Original Report issued January 21, 2005

Follow-up Report issued July 19, 2005

- Access to Printed Checks – In lieu of prohibiting employees who generate checks from having access to the physical checks, management implemented procedures to promptly detect missing checks. Payroll management believes the risk that misappropriated checks will be undetected is minimal. University Audits agrees. **Closed**
- PeopleSoft Roles and Permissions – The M-Pathways system was modified to prevent individuals from updating pay data and generating online checks for themselves. **Closed**
- Repeat Calls Pertaining to Previously Reported Problems – Payroll Service Center employees are now required to refer these calls to management. **Closed**

- Overlapping HR and Payroll Job Functions – Controls were implemented to limit overlapping job functions. Payroll management will conduct a quarterly review to examine online check transactions. **Closed**
- Payroll Systems Administration – Management implemented controls to monitor administrators' job functions. **Closed**
- Independent Review of Job Functions – Management reviewed and restricted employees with overlapping roles and permissions. **Closed**
- System-Generated Logging – System logging was turned on for all critical pay transactions. The system now captures the operator ID of the individual creating the payment and other relevant information. **Closed**
- MailLog Access – Update access to the MailLog has been restricted to Service Center employees and several other individuals who occasionally update the log. **Closed**
- Paycheck Name Overrides – Payments created with a name override are reviewed during each on-cycle and off-cycle payroll process. **Closed**
- Adherence to Operating Procedures – During Payroll's quarterly review, management will verify supporting documentation authorizing pay transactions. University Audits will examine the results of Payroll's quarterly review in a separate audit during FY2006. **Closed**
- Check Writing Policies and Procedures – Policies and procedures will be updated by December 2005. University Audits will review these policies and procedures in a separate audit during FY2006. **Closed**
- Terminated Employee Accounts – A process for handling employee terminations is in place. Payroll completes an M-1 form (Request for Access) immediately upon an employee's termination. MAIS has agreed to remove the accounts from the system on a timely basis. **Closed**
- Online Check Control Log Review – Management now reviews the log on a daily basis. **Closed**
- Signature Stamp and Check Stock – The signature stamp is now maintained in a locked area separate from the check stock. **Closed**

Management has taken the appropriate steps and corrective action on all major audit recommendations. **This audit is closed.**

Michigan Health Corporation Michigan Visiting Nurses Capture and Billing Review # 2004-105
Original Report issued May 11, 2004 Follow-up Report issued July 20, 2005

- Physician Orders Signed in a Timely Manner – Currently 90% of physicians are approving orders electronically through CareWeb. Management has worked vigorously in ensuring timeliness of physician orders and that orders are approved prior to billing. Policies and procedures have been established. **Closed**
- Efficient Accounts Receivable Collection and Follow-up – Days in A/R have been reduced by 3 days. The department continues to work to facilitate the process and improve accounts receivable aging. Management conducts monthly reviews and works with billing staff to resolve issues. A performance report is submitted to the Finance Committee and Board on a monthly basis. **Closed**
- Sufficient Control and Monitoring of Daily Visit Notes – Several staff are working through the Point of Care (POC) system. Management plans to transition all staff to the POC system

over time. For those still writing manual visit notes, management has established procedures to monitor and track timeliness. **Closed**

- Authorized System Access to Conduct Write Offs and Bad Debt Adjustments – Management has revised write-off procedures to address specific guidelines. Reports are sent to the Finance Committee and Board on a monthly basis for review. **Closed**
- Adequate Practices to Refund Credit Balances – Credit balances have been reduced. Management has worked diligently with payer groups to resolve credit balance issues. **Closed**
- Updated Compliance Plan – The compliance plan has been updated and all appropriate signatures have been included. **Closed**

MVN continues to maintain an aggressive compliance and internal monitoring function and actively educates staff on compliance issues for appropriateness. **This audit is closed.**

UMHS MCIT Clinical Support Unit Pharmacy OmniCell System

2004-337

Original Report issued August 31, 2004

Follow-up Report issued July 20, 2005

- Review of access and security logs – MCIT management began quarterly reviews of super user activity within the OmniCell system in April 2005.
- Off-site storage of data backups – Daily backup tapes are now stored at a secure on-site location and then moved to and off-site weekly.
- Physical security over OmniCell servers – The server room has been rekeyed and keys were distributed to appropriate staff.
- Network scan and evaluation of vulnerabilities – The network scan was run in early 2005. Microsoft security patches have been applied, and the Internet Information Services lockdown utility was run. The server and software are in the process of being upgraded. The scan will be run again this fall and then every six months after that.
- Upgrade of cabinet operating systems to Windows XP – Windows XP has been installed on ten cabinets; all new cabinets will come equipped with XP.

Management has taken appropriate corrective action on all major audit recommendations. **This audit is closed.**

UMHHC Durable Medical Equipment Inventory and Billing

2004-109

Original Report issued April 6, 2004

Follow-up Report issued July 14, 2005

- Inventory accountability – MedEQUIP has established a monthly physical inventory, including consignment and truck equipment and it is reconciled to system inventory. The UMH Accounting Office receives a semi-annual inventory report and will provide feedback regarding losses.
- Compliance with Medicare billing requirements – A MedEQUIP billing audit process has been implemented to test for adequate billing documentation. Corrective feedback is provided to departments to support quality improvements.
- Appropriate systems access security – A consistent process for documenting system access authorization has been established. Individual access is assigned by job roles and will be part of annual competency reviews. Exceptions to access are authorized by the appropriate signature authority and audit logs are reviewed by management for these individuals.
- Accountability for consignment inventory – Letters of understanding have been issued to consignment areas.

- Open orders report – A report of open orders is reviewed and followed-up by management on a monthly basis. The number of unconfirmed deliveries is diminishing significantly.

Management has taken appropriate actions to improve internal controls for the durable equipment inventory and billing processes. **This audit is closed.**

UMCE Arbor Lakes Data Facility Physical Security/Disaster Recovery

#2003-128

Original Report issued February 18, 2004

Follow-up Report issued July 11, 2005

This was a second follow-up review. The two outstanding issues have been addressed by management:

- Written Disaster Recovery Plan – An infrastructure component risk assessment has been completed. The document provides the basis for recovery of environmental, communications, and security functions at the facility. An alternative site is under review. When the site is selected, the Plan will be updated. **Closed**
- Smoke detection system – Smoke detectors have been purchased and installed and the units are now being tested. They will be connected to the main building fire panel. **Closed**

This audit is closed.

UM-Dearborn Infrastructure

2003-109

Original Report issued February 26, 2004

Follow-up Report issued July 29, 2005

All issues related to authentication, user access, passwords, firewall policies, wireless networks, and systems updates have been corrected. Vulnerabilities to the systems at UM-Dearborn have been reduced. Internal controls which mitigate risk of something going wrong have been strengthened. The Dearborn campus continues to monitor all areas of risk. **This audit is closed.**

ORIGINAL REPORTS

Campus

Intercollegiate Athletics – NCAA – Playing and Practice Seasons, Coaching Staff Limits and Contracts, and Rules Education #2005-245

Issued August 31, 2005

The objective of this audit was to determine whether policies and procedures governing playing and practice seasons, coaching staff limits and contracts, and rules education comply with relevant NCAA Bylaws. This review was limited to the following sports: football, men's basketball, women's basketball, baseball, softball, men's golf, and women's soccer.

Based on the audit work conducted, the policies, procedures and controls in place comply with NCAA Regulations. No areas of noncompliance were observed. **This audit closed.**

Human Resources Management System College Work Study #2004-227

Issued August 31, 2005

This audit was initiated at the request from the Financial Aid Office targeting specific issues encountered since the conversion to the Human Resources Management System in June 2001. The Federal work study programs are administered by the Ann Arbor Office of Financial Aid. The Flint and Dearborn Offices of Financial Aid receive funds for student awards. This audit included all three campuses for the period of FY 2005.

Control issues:

- FICA charged to work study shortcodes (accounts) and students - During 2005, FICA was charged to Dearborn's campus's Federal Work Study. Federal regulations do not allow FICA to be paid with Federal Work Study funds. It was determined that the file layout in the enrollment files in Dearborn Information Technology Services were incorrect. This problem has been corrected.

Management Plan – The incorrect FICA amounts have been calculated, reported, and credited against current FICA payments. All student refunds have been made. The Payroll Office is continuing to distribute this credit to individual University accounts.

- FICA charged to work study shortcodes due to earnings transfers – Periodically, FICA was charged to two Ann Arbor campus Federal Work Study accounts. This was a by-product of salary transfers from non-work study status to work study status. Any FICA charged to the departmental account on the non-work study earnings was also transferred to the work study account when those earnings were transferred to work study status.

Management Plan – The Office of Financial Aid will prepare an annual manual journal entry to transfer the FICA charges back to the appropriate departmental accounts. The FICA charges will be monitored to make sure that they do not exceed expected minimal amounts.

- Dearborn JumpStart Program – In the fall of 2004, the Dearborn campus began a community service program called JumpStart which employed 27 students during FY 2005. Instead of the usual Federal Work Study funding level of 75%, Jumpstart was funded at 100%. Instead

of separating this project by account, the JumpStart students' hours were grossed up and then the difference was reversed out to net to the actual hours worked.

Management Plan – The Dearborn Office of Financial Aid has requested and received a separate account code for JumpStart for FY 2006. No follow-up is necessary.

- Work Study Time Report Signature Requirements – Over half of the biweekly time reports reviewed during the audit were not signed by the work study student employee. SPG 518.01 requires that work study students sign their biweekly time reports, stating it is a legal requirement. Federal regulations do not require that the work study student sign time reports, only that the supervisor sign the time record certifying that the student has worked the hours claimed.

Management Plan – The next revision to SPG 518.01 will not include the requirement that work study students must sign their time reports.

A follow-up review of open items will be conducted during the second quarter fiscal year 2006.

Information Technology

Residential Ethernet Conditions of Use Violations Process

#2005-343

Issued August 24, 2005

The objective of this audit was to ensure that the program to provide computing services and support to residence hall users discourages illegal use of data while encouraging education. The key objective was proper use of data. Specifically:

- Ensure identified non-compliance with file sharing practices and copyright law is investigated and responded to appropriately
- Ensure that identified improper use of IT resources is responded to appropriately
- Ensure users have the opportunity for training, education, and understanding proper use of resources
- Ensure risks are identified
- Ensure policies and procedures are adequate

The scope included network and Internet connections provided to students in residential housing.

Control Issue:

- Record retention policy – There is no documented record retention policy related to the Digital Millennium Copyright ACT approved by the Housing Information Technology Office. Although there is no specific requirement to retain this information, it is necessary to be able to identify repeat offenders.

Management Plan – A seven year retention period has been adopted in order to match that of the User Advocate's Office. No further follow-up is necessary.

Procedures to investigate and resolve copyright infringement notifications identified by the Recording Industry Association of America or other copyright holders or their designees appear appropriate. Educational programs for students residing in residence halls related to improper use of file sharing, copyright violations, virus activities, bandwidth use, malicious use, vulnerability control, and unsafe computing are comprehensive. **This audit is closed.**

FOLLOW-UP REVIEWS

UMHHC Organ and Tissue Donation

#2004-113

Original Report issued July 29, 2004

Follow-up Report issued August 17, 2005

- Organ and Tissue Procurement Agreement – The Transplant Center is in the final stages of re-negotiating their contract with The Gift of Life. Management has conferred with the Office of the General Counsel and final approval is imminent. Management provided University Audits with copies of draft contracts for review. No further action is needed. **This audit is closed.**

Medical School Internal Medicine Charge Capture

#2004-102

Original Report issued June 16, 2004

Follow-up Report issued August 24, 2005

- Management Review of Patient Encounter Forms – The Clinic Charge Capture policy and procedure has been modified to include a supervisor review and sign-off for the “Removed from Census Report” and the “Audit Report of Modifications and Deletions”. **Closed**
- Accurate Patient Visit Data – A pending project to move Enterprise Wide Scheduling (EWS) patient data to the Health Systems Data Warehouse environment will result in accurate arrival reports. The project is the number one priority on the MCIT’s list of top EWS projects. **Closed**

Management has taken appropriate corrective action. **This audit is closed.**

University of Michigan Hospital Cashier’s Office

#2005-123

Original Report issued January 20, 2005

Follow-up Report issued August 24, 2005

- Control Environment – A new Cashier’s Office supervisor has been hired. The Cashier’s Office is no longer cashing personal checks for any Hospital or Medical School employees. The Hospital Cashier’s Office policy and procedure has been revised to establish single custodian accountability with stricter security for cash drawers and a disciplinary plan in the case of non-compliance. Background checks are performed for all new Cashier’s Office employees. Department revenue deposits are processed separately from Cashier’s Office deposits. **Closed**
- Cash Handling Practices – The Cashier’s Office has strengthened controls associated with cash drawers by establishing separate keys for each individual’s cash tray and cash drawer. Access to spare keys requires two different individuals, each with a different key to open the storage box. Monthly surprise cash drawer counts are occurring. Teller cash drawers are now limited to the teller window counter or the vault room within view of security cameras. **Closed**
- Commingling of Operating Funds and Revenue Funds – The Cashier’s Office continues to replenish operating cash funds by withholding a combination of clinic revenue checks and cash from daily deposits until all checks can be exchanged for cash and deposited. The Cashier’s Office will continue to work with the Treasury Office to obtain cash directly from the bank in exchange for University Accounts Payable reimbursement checks. Checks are rotated routinely to ensure they are current and a detailed review of each check is being performed by a second party to control the risk of inaccurate or fraudulent reporting. The Cashier’s Office is also evaluating the feasibility of reducing the operating fund balance. **Closed**

The Hospital Cashier’s Office control environment has been strengthened significantly and management continues to pursue resolution of operating cash replenishment with the Treasury Office. **This audit is closed.**

ORIGINAL REPORTS

Campus

Board for Student Publications – Financial Statements

#2005-248

Issued September 22, 2005

University Audits reviewed the statement of net assets of the Board for Student Publications and the related statement of revenues, expenses, and changes in net assets for Fiscal Year 2005. As a review, the scope was less than an audit conducted in accordance with generally accepted auditing standards. Audits conducted inquiries of Board for Student Publications personnel and analytical procedures applied to financial data. Based on the limited scope review, there did not appear to be any material issues.

Intercollegiate Athletics Complimentary Admissions and Ticket Benefits

#2005-254

Issued September 22, 2005

University Audits conducted an audit of compliance with National Collegiate Athletic Association (NCAA) rules and regulations governing complimentary admissions and ticket benefits for student-athletes, prospective student-athletes and coaches. All policies, procedures, and practices appear to be in compliance with the applicable NCAA rules and regulations. **This audit is closed.**

UM-Flint Tuition Revenue Processes

#2005-238

Issued September 28, 2005

UM-Flint uses the Banner System, a suite of integrated student oriented applications for managing much of the information related to admissions, registration, financial aid and student accounts. The Banner System was previously audited. The purpose of this audit was to evaluate the adequacy and effectiveness of controls over the *manual processes* used by the Registrar's Office to register or adjust a student's class schedule after the early and open on-line registrations periods close at the beginning of classes. The following activities were reviewed:

- Drops
- Adds
- Withdrawals
- Registration of classes to special situation students
- Assessment of late registration fees

Based on the audit work done, procedures used for making manual adjustments to student data affecting tuition revenue are well controlled and appropriate. **This audit is closed.**

University Audits – University of Michigan
Open Audits Follow-up Table
September 30, 2005

Audit Title	Report Date	Status	Expected Completion
UM – Flint ITS Disaster Recovery and Business Continuity 2002-160	4/30/03	UM-Flint has recently hired a new system administrator who has extensive experience with DR. They will create a detailed, comprehensive plan.	December 2005
MCIT User Account Management 2004-338	5/19/04	MCIT has been actively addressing open issues on this audit. During the period, 3 additional issues have been closed; 5 remain open.	October 2005
School of Social Work Computer and Physical Security Controls 2004-350	4/11/05	School of Social Work has been addressing the issues on this audit. Six issues were closed during the period; 3 remain open including two that Plant is addressing.	November 2005
MAIS Business Continuity Planning 2004-302	4/19/05	MAIS had made significant progress in addressing the open items. Most if not all open recommendations will be completed by end of October.	October 2005
MAIS Data Center Firewall 2004-347	4/29/05	One item remains open.	October 2005
ITCom Campus WiFi Wireless Network 2004-335	5/18/05	ITCom has made progress in closing the open items. One item remains open.	November 2005
UM- Flint Information Technology Services IT Infrastructure Controls 2005-333	7/22/05	Security and access issues are being addressed.	December 2005
Senior Housing Bureau 2005-112	10/28/04	Follow-up will be conducted as planned in original report	October 2005
Chargemaster 2005-120	11/9/04	Policies have been drafted and preliminarily approved.	October 2005
University of Michigan Medical School Outside Employment Disclosure 2005-118	4/26/04	Update disclosure policy and communication	November 2005
M-CARE Sales Commission 2005-121	4/26/05	Improve controls	October 2005
UMHS Department of Surgery 2005-114	6/1/05	Compliance with Fiscal Responsibility SPG	October 2005
UMHS Department of Psychiatry 2005-114-2	6/3/05	Compliance with Fiscal Responsibility SPG	November 2005
UMHS Department of Ophthalmology and Visual Sciences 2005-114-3	6/15/05	Compliance with Fiscal Responsibility SPG	October 2005

UMHS Department of Obstetrics and Gynecology Fiscal Responsibilities 2005-114-4	7/20/05	Compliance with Fiscal Responsibility SPG	November 2005
UMHS Department of Otolaryngology Fiscal Responsibility 2005-114-5	7/29/05	Compliance with Fiscal Responsibility SPG	November 2005
UMHS Department of Radiology Fiscal Responsibility 2005-114-6	7/29/05	Compliance with Fiscal Responsibility SPG	November 2005
College of Pharmacy Financial and IT Controls 2004-251, 351	1/31/05	Review new IT processes; cash handling for special events.	November 2005
English Language Institute – Financial and Information Technology Controls 2005-208, 308	3/30/05	Improve controls related to cash handling, reconciliations, timesheets.	October 2005
Business and Finance Division Procurement Data Monitoring 2005-250	4/27/05	New procedure related to non-PO purchases	October 2005
Human Resources Management System College Work Study 2004-227	8/31/05	Accounting and reporting issues are being addressed.	December 2005