THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

Subject: Report of University Internal Audits
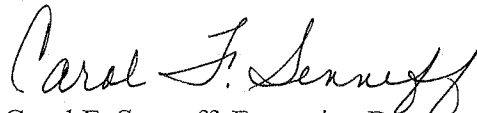   **December 1, 2006 – February 5, 2007**

Background:

This is the report of the Office of University Audits activities for the period **December 1, 2006 through February 5, 2007**. The summaries of audits contained in this report were previously reported to members of the Regents' 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 **February 5, 2007**.

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 2007

ORIGINAL REPORTS

Review of the Career Center and Services for Students with Disabilities #2007-102
Issued January 26, 2007

University Audits recently completed an audit and follow-up review of the purchasing controls for the Counseling and Psychological Services (CAPS) unit within the Division of Student Affairs. Our recommendations were satisfactorily implemented and the audit of CAPS is closed. In addition to the follow-up review of CAPS, University Audits extended the audit review to include a sample of other division units. The Career Center and the Services for Students with Disabilities (SSD) units were selected.

The reviews of the Career Center and SSD were limited in scope. We reviewed internal controls for P-Card purchases, Statement of Activity reconciliation and budgetary reviews. We also reviewed for compliance with selected Division of Student Affairs fiscal policies and procedures. Audit procedures for both units included interviewing various personnel, reviewing policy and procedure manuals, and examining the reconciliation and supporting documentation for selected reports.

We found no significant internal control weaknesses in either unit. In our opinion, internal controls for both the Career Center and SSD are adequate to ensure compliance with University policies and procedures as well as those of the Division of Student Affairs.

Procurement Services Procurement Card Program #2007-115
Issued February 5, 2007

INTRODUCTION
The University's Procurement card (P-Card) program was initiated by the Small Payments Quality Improvement Team in 1995. The objectives of the program were to:
- Reduce the need for processing cash advances and reimbursement to individuals for out-of-pocket expenses.
- Expedite and simplify the procurement process for purchasers.
- Reduce processing costs for high volume, low dollar transactions.
This report provides an overview and analysis of current P-Card program efficiency, spending and process controls.

P-Card Spending
The University's P-Card program spending in FY 2006 was approximately $112M, making it the second largest program in the Big Ten. Over the last five years, the average annual rate of increase in the number of cardholders is 5%, with an average increase in spending of 6%. See the chart to the left for detail.

P-Card Growth Trends: 2001 – 2006				
Fiscal Year	Active Cards	% Increase	P-Card Spend	% Increase
2001	4,737		$85 M	
2002	5,044	6%	$92 M	8%
2003	5,396	7%	$102 M	11%
2004	5,547	3%	$97 M	-4%
2005	5,832	5%	$101 M	4%
2006	6,038	4%	$112 M	11%

From 2004 to 2006, as total procurement expenditures increased by 23%, P-Card expenditures increased by 15%.

P-Cards played a modest role overall in the University's total FY 2006 procurement spending, representing 5% of approximately $2.4B. See graph below.

FY 2006 Expenditures by Procurement Mode
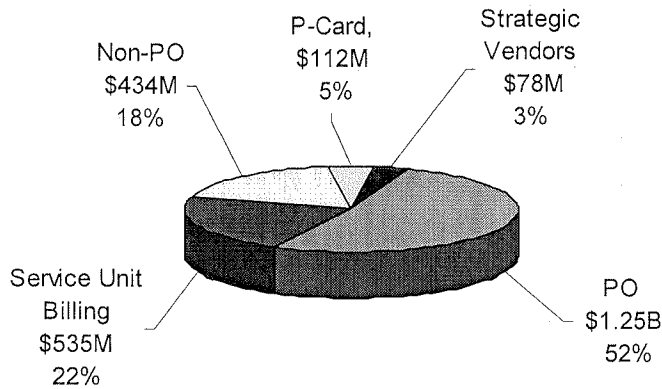
Excluding purchase orders and service-unit billing, $624M was paid through P-Cards, strategic vendors and non-PO vouchers. A non-PO voucher is used when a reimbursement, payment to a vendor or refund needs to be made. Non-PO vouchers are often used to reimburse purchases when vendors do not accept University purchase orders or University credit cards. As illustrated to the right, strategic vendors accounted for 12%, P-Card payments 18%, and Non-PO vouchers 70%. Over the last three years, the P-Card ratio has remained consistent at 18%; strategic vendor payments increased 4% and Non-PO voucher payments decreased 4%.

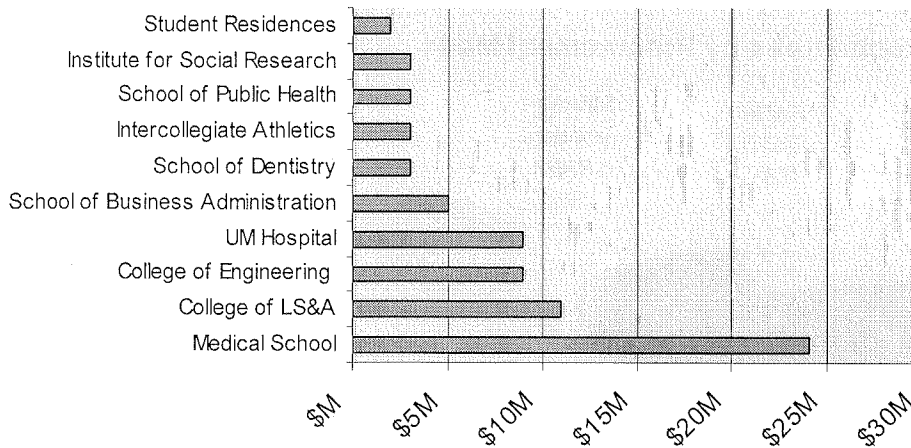**FY 2006 Expenditures Excluding PO and Service Unit Billing**
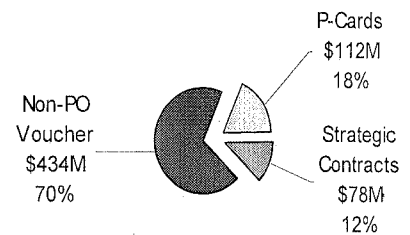
Department P-Card Spending and Controls
Responsibility for controlling P-Card spending rests primarily with individual University departments or units (Units). The ten department groups that spent more then $2M each during FY 2006 are listed in the graph below. They accounted for 65% of all P-Card spending.

FY 2006 P-Card Spend by Department Group

Student Residences
Institute for Social Research
School of Public Health
Intercollegiate Athletics
School of Dentistry
School of Business Administration
UM Hospital
College of Engineering
College of LS&A
Medical School

$M $5M $10M $15M $20M $25M $30M

Unit management determines who will obtain cards and authorizes the card application. Cards are issued primarily to individuals to pay for supplies, travel, hosting, and subject fee transactions. Unit management also assigns one or more reconciler and approver for each card. Reconcilers, who may be the cardholders themselves, are responsible for obtaining and reconciling receipts and other support documents to each purchase transaction. After manual reconciliation, including individually taping original receipts to 8.5 x 11 sheets of paper and attaching them to the statement, a hand-written signature approval of the statement is obtained from the approver. The statements are then sent through the University mail system to the central P-Card Office staff (P-Card Group).
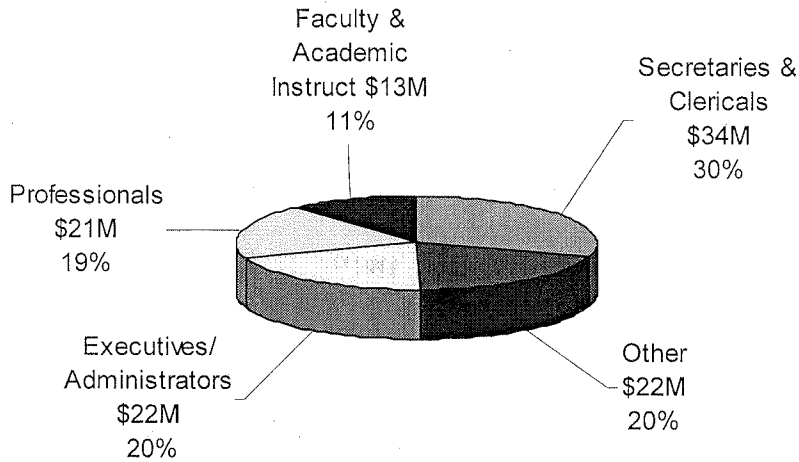
Approvers serve as a key control to ensuring that individual expenditures are made for appropriate business purposes and are in compliance with Unit and University policy. They are also responsible for ensuring that all charges are reconciled to P-Card statement activity, supported with adequate documentation, and are submitted for post-spend approval in a time-effective manner. Since prior authorization is not required for most P-Card purchases, an effective Unit approver review and oversight process is essential to ensure that these purchases are necessary, appropriate and at best price. The departments also set and request spending limits other than the defaults. Individual P-Card spending limits are set at a default of $5,000 per transaction, $10,000 per month or a total of $120,000 per year. In FY 2006, cardholders spent on average $1,000 per month or $12,000 per year.

P-Card Spending by Employee Groups[1]
Analysis of P-Card use by University employee groups indicates that Secretaries and Clerks represented the largest volume, or 30% of all P-Card spending. The following graph provides more detail with "Other" representing 67 various employee groups.

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[1] The other employee Group totals $22 million and is comprised of 67 job groups. The other job groups include professional support staff ($9M), program and project supervisors ($2M), research scientists ($1.5M), accountants ($1M), athletic coaches ($1M), research projects and program representatives ($.5M), media producers ($.5M), national and health science research assistants ($.5M), and the remaining $6M is charged to the various other job groups.
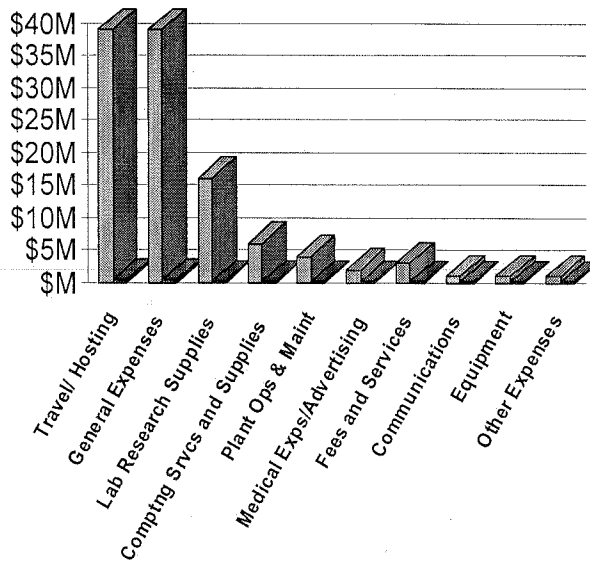
P-Card Use by Employee Group

Faculty &
Academic
Instruct $13M
11%

Secretaries &
Clericals
$34M
30%

Professionals
$21M
19%

Executives/
Administrators
$22M
20%

Other
$22M
20%

P-Card Spending by Account Category[2]

Travel and hosting represents $39M or 35% of the total spending with the remaining 65% or $73M spent for various commodities and limited services. Procurement cards are most effective when they are used for settling small dollar purchases with vendors that are used infrequently. The preferred purchasing channel for frequently used commodities and services is the University's electronic marketplace that hosts online vendor catalogs and electronic invoicing and payment. FY 2006 P-Card spending by financial account category is illustrated in the following graph.

FY 2006 P-Card Purchases by Account Category

$40M
$35M
$30M
$25M
$20M
$15M
$10M
$5M
$M

Travel/ Hosting
General Expenses
Lab Research Supplies
Compting Srvcs and Supplies
Plant Ops & Maint
Medical Exps/Advertising
Fees and Services
Communications
Equipment
Other Expenses

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[2] The General Expenses account group totals $39 million and is comprised of 144 accounts. General expenses include various types of supplies ($11M), printing ($5M), publications, subscriptions, and printed matter ($4M), memberships and dues ($3M), services of others ($2M), conferences ($2M), advertising ($1M), and the remaining $11M is charged to various other accounts.

Central P-Card Office Roles
The P-Card Group serves as the liaison or point of contact with the P-Card bank provider. The following list provides an overview of the internal processes they perform:
- Individual card application with the bank and issuance of new and renewal cards to cardholders.
- Department-approved maintenance to card information, including credit limit changes.
- Card terminations either at the department's request or as a result of a routine report of terminated employees.
- Downloading all card transactions into the M-Pathways financial system on a routine basis to ensure they are available for review by Units electronically through the M-Pathways system.
- Receiving all department-reconciled statements of P-Card activity (in paper form) for each month and tracking their individual receipt.
- Performing "face audits" or very high level review of every monthly statement.
- Performing "100% audits" or detailed, transaction-specific reviews of selected statements including those issued for executives and one for every cardholder twice a year.
- Organizing and packing all paper statements with accompanying receipts to be sent out to a vendor for microfilming.

The current process flows performed by the P-Card group are highly manual, transaction-based, and paper-intense.

AUDIT OBJECTIVE AND SCOPE
This audit provides an assessment of P-Card Group process efficiency and controls for supporting and managing cardholder purchasing and offers recommendations for process changes. The assessment included:
- Analysis of P-Card spending patterns and trends.
- Assessment of P-Card Group processes related to issuing, maintaining and terminating cards; supporting P-Card statement reconciliations; and auditing transactions.
- Data analysis of all FY 2006 P-Card activity to identify possible exceptions to policy.
- Collaboration with Financial Operations and Procurement, Logistics and Business Services executive management; benchmarking with peer institutions; and high volume unit representatives from the central campus, Medical School, and Hospital.

Issues, audit recommendations and management action plans are provided in the following section of the report.

RECOMMENDATIONS
1. Utilization of Data-Mining Resources
The P-Card Group Compliance Auditing team consists of 5 employees, reporting to the Accounts Payable Supervisor. Each month, they perform "100% audits," which consists of a complete review of all charges and supporting documentation for all ATM and subject fee transactions, Executives, prior Accounts Payable employees and problem cardholders. On a rotating basis, they also perform this audit for every cardholder twice a year. All other statements receive a face audit. Performing "face audits" includes ensuring that all travel and hosting related expenses are accompanied by original receipts, reviewing all purchases for more than the $5,000 individual transaction limit, and determining that meals are within University guidelines. However, responsibility for the accuracy and completeness of statement reconciliations is the responsibility of the cardholders and the department approvers.

We recommend reducing the time currently spent manually reviewing P-Card statements by eliminating face audits and continuing complete audits on a sample basis. Additionally, complete audits should be performed for all new cardholders throughout the first three months, to ensure their understanding of P-Card policy and procedures.

We also recommend that the P-Card group provide training and reinforcement for policy and correct procedure by returning incomplete or problem statements to the responsible department for correction. Returned statements could be tracked within the same process used for statements that had not been received.

By focusing efforts on common P-Card risk areas through utilization of data mining, the efficiency and effectiveness of the University's P-Card monitoring efforts would be improved. Based on our understanding of the common P-Card risk areas, obtained through focus group discussions with University P-Card users and administrators, as well as the results of peer institution surveys, we recommend development of data mining reports that support risk-based auditing. See examples in the following table of suggested report criteria and example reports created during the audit.

Risk	*Recommended Data Mining Reports*
a. Prohibited purchases	• Sorts transactions by Merchant Category Codes code, specific merchants, or other descriptor to identify potential prohibited purchases that require further investigation for compliance with University policy. • *Example* - identified $300,000 of prohibited purchases (furniture, floor covering, draperies).
b. Policy violations – split transactions	• Identifies purchases made from the same vendor by the same P-Card within a specified timeframe. • *Example* - identified cardholders billed more than once by the same company on the same day or on consecutive days and the total was more than $5,000. Example – identified 122 purchases totaling $950,000 that were split into two or more transactions.
c. Liability exposure - excess credit limits	• Provides average cardholder spending compared to individual purchase limit. • Identifies all P-Cards that are inactive. The P-Card holder and supervisor should be notified and the continued necessity of the card be documented. • *Example* – the monthly average of purchases made via P-Card was $1,000. Each P-Card is automatically assigned a $10,000 monthly credit limit. Management should reduce excess credit limits whenever possible. • *Example* – identified over 100 P-Cards that had not been used in over one year. • *Example* - identified over 100 P-Cards with monthly credit limits of $50,000 or more (up to $250,000) per month. On average, these card holders utilized 15% of their available credit.
d. Terminated employee maintains P-Card	• Compares terminated employees to cardholders, reconcilers, and approvers.
e. Loss of purchase power discounts	• Summarizes annual purchases by merchant. Analyze the results to determine whether discounts can be negotiated based on projected purchasing needs of the University. • Summarizes annual purchases made via P-Card for the University's current strategic suppliers. Purchases made via P-Card generally do not receive negotiated discounts. • *Example* – purchased over $1.7 million from 17 merchants in fiscal year 2006 that were not strategic vendors.
f. Travel expenses paid via P-Card are also reimbursed through a Travel Expense Report request	• Summarizes P-Card holders who also submitted Travel Expense Reports. Analyze the results to determine whether the reimbursement requests are for the same expenses. • *Example* - noted 600 employees with P-Cards requested reimbursement via Travel Expense Reports, totaling $600,000.
g. Unusual transactions	• Identifies patterns, control weaknesses, or unusual transactions, such as disputed or declined charges, purchases exceeding transaction limits, purchases made on holidays or weekends, and cardholder purchases for those assigned as their own reconciler.

2.   Training, Support and Accountability for P-Card Approvers

Procurement card administrators (approvers) are one of the most critical controls for ensuring that University funds spent via P-Card comply with policies. Yet, the approver is not required to complete a training course or sign a form attesting to knowledge of their responsibilities. Training would ensure that approvers are aware of all policies and guidelines and have the appropriate knowledge and skills needed to approve cardholder account statements.

The number of P-Cards that some approvers are responsible for may be too voluminous for an effective review to be performed. The following table indicates that for fiscal year 2006 there were over 50 approvers who were responsible for reviewing and approving 25 or more cardholder statements.

Number of Approvers	Number of Statements to Approve
2	> 100
13	50 to 99
37	25 to 49

As noted in SPG 500.1, individuals designated with approval responsibility should be in a position to determine that the financial activity is appropriate.

Additionally, there is no single, well outlined central repository of P-Card guidelines. Information is referenced on the P-Card website with links to several locations, including the training module and a listing of P-Card Newsletters with topics by month. As further noted in the SPG, individuals who authorize commitments must be aware of the relevant policies that guide expenditure decisions.

We recommend that training be mandatory for all procurement card administrators and include periodic refresher courses. Particular emphasis should be placed on enforcing the requirement that cardholders provide an adequate description of the business purpose. Approvers should receive P-Card statements and supporting documentation in a timely manner, to allow for adequate time to review the documents. Additionally, trained approvers should be proficient at locating P-Card guidance provided by the University.

We recommend that the quantity of reports a single approver is responsible for is a manageable number. Rarely should the quantity exceed 25 statements. In establishing the reasonableness of this responsibility, consideration must be given to the number of cardholders assigned, the number and complexity of Procurement card transactions being reviewed each billing period, and the demands of other responsibilities assigned to the approver.

Additionally, given the significant role that the approver plays in ensuring P-Card compliance, the related responsibility and accountability of the approver should be parallel with that of the P-Card user. We recommend that approvers be held accountable when their review of a statement was not thorough enough to identify a prohibited transaction or other significant violation of policy.

3.   Card Issuance Criteria

There are no limitations on the number of cardholders or types of employees who are eligible to be cardholders. Criteria or guidelines have not been developed to assist departments in determining the types of job duties and responsibilities of employees who should be able to obtain procurement cards. Limiting card issuance to individuals with purchasing responsibilities or travel obligations is an important factor in managing the risk associated with a procurement card program. For fiscal year 2006, 80% or 5,000 of the 6,000 cardholders accounted for only 1/3 or $37 million of procurement card purchases. While there may be some benefit to employees being able to make immediate purchases, there are also added risks and possible inefficiencies with so many cardholders to monitor.

The Procurement Card group should periodically review a report of spending levels for all issued cards to ensure that cardholders have significant purchasing responsibilities and actually need cards. It may not be appropriate and necessary for an employee who makes limited purchases to have a procurement card.

4. Utilization of Electronic Resources

Application Process - Manual procedures are performed by the P-Card Group to ensure that card application and issuance requirements are complete and accurate. Among other procedures, the group verifies employee name, title, unit address, federal sponsored project account numbers, and training status.

Record Retention - Original receipts are taped to paper and are imaged to microfilm for retention. At times, it can be as long as eleven months from transaction date before procurement card microfilm is available. As a result, managing the audit trail is cumbersome since original receipt documentation is a combination of hard copy paper documents and microfilm.

Card Termination - When employees terminate use of the P-Card, two systems are updated, the University M-Pathways system and the bank's PathwaysNet System. The bank's system is notified to terminate the card upon receipt of the Maintenance Form. M-Pathways is updated a few weeks later to allow for posting all transactions. This results in excess time spent closing cards, as each card must be manually closed twice and an increased risk of a closed account inadvertently being left open.

We recommend using an on-line, bank application and termination process with direct download of information between University and bank systems.

Additionally, we recommend eliminating manual paper flow by providing the electronic capture, storage, access, and workflow processing of procurement card documents. Electronic receipts and workflow would expedite the approval process, eliminate the need to send hardcopy receipts to central Accounts Payable for final review and approval, and provide online access to procurement card supporting documents.

AUDITOR SUMMARY

The current process of administering and monitoring P-Cards is much too manual and time consuming. By utilizing on-line resources and data mining tools, P-Card activity could be more effectively and efficiently reviewed for compliance with University policy.

Management is undertaking an initiative to obtain new banking support for P-Cards. This will provide an opportunity to improve the overall administration of the P-Card program and ensure compliance with policies and guidelines. However, implementation of certain recommendations in this report, especially those relating to data mining, can and should begin immediately.

PROCUREMENT SERVICES RESPONSE

This audit is a good complement to our efforts to make significant changes to the use and management of P-Cards in the University. The P-Card can be a powerful procurement tool when utilized for the appropriate kinds of transactions provided the controls are strongly enforced and the review process is effective.

Utilization of Data-Mining Resources

As pointed out in this audit report, the review process has been very transactional oriented. We agree with the assessment that our review would be more effective through the use of data-mining tools that focus on the kinds of problems that would indicate possible fraud or ineffective purchasing approach for obtaining a fair price. As such, we fully intend to use the data-mining reports identified by University Audits and expect that additional reports will be developed over time. Our P-Card supervisor and assistant director will complete training on the software (ACL) by March 7, 2007.

By the end of March 2007, we will eliminate the face audit procedure that we do currently for the entire population of P-Card holders twice a year and will focus on face audits for 1.) senior management, 2.) new cardholders throughout the first three month purchasing period, and 3.) cards which are identified to have potential problems based on the results of the data mining reports.

If issues are identified with the new cardholders, we will provide the corrective training to the cardholder, reconciler and approver. This will be documented for audit purposes. The cardholder will be placed in the 100% audit list for 3 months to ensure that the error does not continue. If the behavior continues, the cardholder, reconciler and approver will each be required to re-take the online training.

All inappropriate statements will be returned to the approver and cardholder for correction and regular reporting to the unit of problems will be provided. Returned statements could be tracked within the late statement tracking process.

As we make the transition, there will still be some backlog periods requiring audit. We will set a date for the audit of P-Cards through the data-mining reports consistent with the first month which has not been audited.

In addition to the data-mining resources, we are assessing software packages that we could implement for filing expenses that would be able to automate "auditing" of transactions to ensure that detailed transactions are consistent with the policy. This would prevent inappropriate transactions from being processed and would provide approvers with an "alert" of inconsistent behavior outside of a defined norm for transactions which were not a violation of policy but rather seemingly excessive in terms of established norms. For example, the policy does not define hotel rates but we can provide a table to the system highlighting the range of reasonable hotel bills which the computer can reference in order to highlight irregular activity.

Training, Support and Accountability for P-Card Approvers
We concur that the weakest link currently are the P-Card approvers and that this responsibility must be improved. In order to address this need, we will design online refresher course for all P-Card holders and approvers which will include testing at the end.

These refresher courses will initially be required whenever problems are identified in their purchasing. Within the next year, this will be implemented as a recurring certification requirement on a frequency to be determined – annually, bi-annually. If the certification is not passed, the privileges of the cardholders/approvers will be revoked until they do pass the test.

An online course for P-Card holders will be designed and completed by the end of March 2007. An online course for P-Card approvers will be designed and completed by the end of June 2007. Reports will be generated identifying P-Card approvers who have responsibility for approval of more than 15 P-Cards. Internal review processes will be reviewed and approval authority will likely need to be transferred to approvers who have a closer business knowledge of expenditures for approvers with over 25 P-Card holders.

If the approvers or reconcilers are found liable for inappropriate exceptions, the other cards the approvers or reconcilers are assigned to will also be reviewed for problems. Where problems are found, the budget administrator or director will be contacted for further action regarding required additional training. Repeated violations will carry a recommendation that the authority of the reconciler and approver be replaced. The unit should also assess whether the approver is able to carry out their job responsibilities if they can not execute their duties appropriately.

Finally, we will create a P-Card reference guide which will consolidate all of information provided on the web pages, training, and P-Card newsletters into one place.

Card Issuance Criteria
By the end of June 2007, a guideline will be developed for units regarding the kind of P-Card holders there are (travelers, departmental buyer, etc.) and the appropriate privileges and limits for each. The departments will be asked to review their list of P-Cards to review the privileges currently granted their P-Card holders for consistency with the guidelines established and to make any changes necessary. New P-Card applications will include type of cardholders and an explanation will be required for any deviation in privileges and limits from the guidelines.

By January 2008, we will examine the activity on the P-Cards within a unit on an annual basis and identify activity for which there is extremely high volume on individual cards or for specific commodities. Procurement and Payables will jointly meet with the customer to understand their needs and identify more effective and efficient purchasing methods for the volume and contracts.

Utilization of Electronic Resources
We have recognized that there are a number of more effective ways to complete a number of our processes and as such are pursuing the cost/benefit of several approaches to improve the effectiveness, efficiency and controls. We are currently in the final process of evaluating an RFP from different vendors to provide the P-Card and associated services. We are also in the exploration stages of software to file employee expenses including P-Card expenses. We anticipate that the award of the P-Card contract will allow for daily electronic files that we can upload to Pathways without the necessity to rekey and that this will address both the application and card termination issues raised by the audit.

With regard to record retention, we plan to switch to imaging P-Card statements before March 2007. We are working on defining the new workflow in time for imaging and will replace the manual scanning of the statements with use of the imaged documents.

AUDITOR COMMENTS
We concur with Management's action plans. These plans have target dates ranging from March 2007 to January 2008. During the fourth quarter of fiscal year 2007, we will review management action plans for addressing those recommendations that could begin immediately. We will assess the inclusion and implementation status of the improvement opportunities included in the restructuring process in the 3rd quarter of fiscal year 2008.

All staff members were helpful and responsive during the audit. Opportunities to strengthen existing policies, procedures, and practices were identified and presented to management.

FOLLOW-UP REPORTS

Parking Services   #2006-202
Original Report issued January 9, 2006   Follow-up Report issued January 31, 2007

Three of the original issues were addressed during the audit. Subsequent follow-ups were performed to review corrective actions resolving the remaining open items:
- Parking Passes Issued to Vendors/Non UM Affiliates: Procedures for issuing business vehicle permits and Hospital structure passes to vendors have been documented. The UM contract number is now required on both applications.

- Employees Parking in Patient Designated Structures: Procedures to monitor the usage of business vehicle permits in patient designated areas and follow-up have been established and documented.

- Security of Hospital Discount Parking Stamps: A new program to provide discounted parking to Hospital patients was approved by Hospital Administration on January 10, 2007 pending support for space allocation. To reduce the risk that parking stamps may be misused, the program will

consolidate these stamps throughout the Hospital to limited key locations administered by Parking personnel. This risk remains until the approved resolution is fully implemented.

- Adherence to Departmental Policies: Attendants were re-educated on the importance of maintaining complete documentation for all free exits from the parking structures. Disciplinary actions for not following procedures are communicated to staff.

- Improved Audit Process: Parking will perform quarterly audits based on a risk assessment of the department. The first audit, completed in April 2006, included a review of Parking's imprest cash funds and the Attendant Services overage/shortage report.

- Revenue Controls: The office clerks at the Parking Customer Services Office print a copy of all cash transactions for permits that do not have a receipt attached to give to the customer. Signs alerting customers that cash receipts are available and should be provided were posted in the lobby. A cash receipt book is used to document all cash transactions. Voided permits are included in the checkout documentation with an explanation and shredded only after the reconciliation is complete. To ensure daily deposits, the courier pick-up time was changed.

- Compliance with the Service Level Agreement: Credit card numbers are completely encrypted and no longer stored.

- Data Security Controls: Management implemented a procedure to require passwords for the McGann system to be changed at least annually.

- Key Access Records: The Parking computing facilities doors were re-keyed the week of December 18, 2006. Parking maintains a spreadsheet indicating which individuals have been given keys to each area.

- Firewall Security: Parking implemented a network firewall independent of the machines as an interim solution until the host based firewall solution is implemented by Business and Finance Information Technology.

- Security Scans: Nessus software is used for network security scanning in order to reduce exposure due to unrecognized system vulnerabilities.

- Remote Access: Virtual Network Computing and Terminal Services are used as tools for providing secure remote access.

- Disaster Recovery Plan: Parking created a comprehensive Disaster Recovery Plan which includes the necessary components to help ensure that hardware, software, facilities, and people are available to reestablish critical business systems in a timely manner in the event of a disaster. The final draft has been submitted to the executive director for approval.

- Security Compliance Statement: Parking implemented a confidentiality policy. Appropriate staff members are required to read and sign the statement annually.

Parking Management is adequately addressing all issues. **This audit is closed**.

School of Music Internal Control Assessment   #2005-216
Original Report issued June 6, 2006   Follow-up Report issued January 31, 2007

Six issues were closed before the end of the audit. A follow-up review was conducted to determine the progress made on proposed actions outlined in the report.

- Safeguarding of Musical Collections: The music librarian assessed the band music collection maintained at Revelli Hall and sent his observations to School management. He made several suggestions to preserve the collection and agreed with University Audits that unique items with significant research value should be identified and transferred to the Music Library. Management

acknowledged the librarian's assessment. Management will consider increasing the care and preservation of the collection when resources are available. Until then, the School will bear the risk of loss. **Closed**

- Dance Department Box Office Revenue: The Dance Department has requested an official imprest cash fund for $100 from the Accounts Payable and Travel Office and will deposit the revenue they withheld to use as a change fund. Effective November 2006, house managers are paid using a Payroll Form G. Management revised their ticket sales policy to provide a better separation of duties. **Closed**

Management has responded to safety concerns regarding the musical collection at Revelli Hall and has strengthened controls governing Dance Department box office revenue. **This audit is closed.**

Central Payroll Office Processes   #2006-101
Original Report issued August 11, 2006   Follow-up Report issued February 2, 2007

Three issues were closed before the end of audit fieldwork. University Audits has performed a follow-up review to determine that appropriate corrective actions had been taken on the remaining issues.

- Reconciliation of Payroll Fund: Management has documented reconciliation and write-off procedures. Payroll is actively reconciling payroll fund shortcodes for which the Payroll Office is responsible. **Closed**

- Segregation of Duties: Payroll duties within the check re-issue, reconciliation, and escheatment processes have been redistributed to ensure an adequate segregation of duties. Duties relating to custody of assets, transaction authorization, and record keeping have been assigned to more than one individual. **Closed**

- Workstation Controls: Management has developed and distributed a password management policy. Management discusses password management and acceptable use of computing resources with staff during annual performance evaluation meetings. **Closed**

- Payroll Queries: The Payroll Office runs several queries prior to the on- and off-cycle pay processing to assist in detecting data entry errors and other exceptions. Management has reviewed query parameters to ensure that they produce reports with sufficient information to assist in the detection of errors and other problems. In the future, parameters will be reviewed annually. **Closed**

- Quarterly Online Check Review Process: New procedures were implemented within the Payroll Office's off-cycle online payment process. Management has increased the sample size and has procedures in place to ensure that a sample of documents is reviewed for each individual who created an online check during the review period. **Closed**

- Outsourced Time Entry: Time and labor data entry for a significant portion of the University's bi-weekly and monthly time reports has been outsourced to an independent vendor. A disruption in vendor services could have a significant negative impact on Payroll operations. Payroll management has created an action plan to mitigate the effects of such a disruption as part of their business and pandemic business continuity plans. **Closed**

- Department Time Entry: Currently, only 20% of time data is submitted via hardcopy time reports, an 11% decrease since May 2006. Payroll has several departments signed up for electronic rollout in 2007 and appears to be making satisfactory progress toward moving University units to electronic time data entry. **Closed**

- State Income Tax Withholding and Reporting: Management has reviewed tax settings to ensure that active employees have a state tax row. They have also revised tax policies and procedures to

ensure that state taxes are appropriately withheld from employee paychecks and that gross income is reported to the appropriate state taxing authority. **Closed**

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

Student Organization Account Services Operational Controls #2006-104
Original Report issued November 14, 2006   Follow-up Report issued February 2, 2007

- Segregation of duties: Due to limited staffing within the unit, it was possible for the SOAS Manager or the office supervisor to draft an unapproved check that might not be discovered through the reconciliation process. SOAS worked with the University Unions business office supervisor to develop a process for a post-disbursement review of checks drafted by the SOAS office.

  University Audits discussed this process with the person performing the independent review to verify thorough review was being performed and all discrepancies were satisfactorily addressed. **Closed**

- Location of check printer:

  The printer used to print checks was located in an area accessible by the general public.

  SOAS now prints checks on a printer in the SOAS Cash Office. The Cash Office has very limited accessibility.

  University Audits verified SOAS disbursement procedures indicated that all checks should be printed using the printer in the Cash Office. **Closed**

- Departmental procedures manual:

  SOAS had only a limited procedure manual. SOAS management has developed or is in the process of developing procedures for all significant activities performed.

  University Audits reviewed selected sections of the procedures manual. **Closed**

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

LIMITED REVIEWS

C.S. Mott Children's and Women's Replacement Hospital
Barton Malow Company Administrative Management Plans   #2007-603
Completed January 29, 2007

University Audits has completed an informal review of the Administrative Manual, dated 8/22/06, created by Barton Malow Company (BMC) for the C. S. Mott Children's and Women's Replacement Hospital Project. Barton Malow is the firm that the University of Michigan has retained to be the construction manager on the Children's and Women's Replacement Hospital Project. This review was undertaken at the request of University of Michigan's Architecture, Engineering and Construction (AEC) group in order to assess the document in terms of content and to examine those processes, policies and procedures included for adequacy of controls.

The Barton Malow Company Administrative Manual documents processes, systems and documents which will result in an adequately controlled project if the processes, procedures and systems are completed, made available to all parties involved in the C. S. Mott Children's and Women's Hospital Replacement project, complied with in all material respects, and kept up-to-date in accordance with changes that occur during the project.

A review of security and environmental controls at the Michigan Academic Computing Center (MACC) was completed at the request of the working group overseeing its construction. The MACC is a new data center intended primarily to support the high performance computing needs of U-M research.

Specific changes and improvements were recommended in security plans and procedures, including the Operating Agreement. The working group will consider these recommendations as the Operating Agreement is revised and standard operating procedures for the MACC are developed. The MACC is tentatively scheduled to open in March 2007.

University Audits – University of Michigan
Open Audits Follow-up Table
February 5, 2007

Audit Title	Report Date	Status	Expected Completion
Utilities Services Energy Billing System 2005-337	11/2/05	Issues to be addressed are security policies, encryption of a password, and status of the virtual firewall	February 2007
UMHHC Radiology IT Security 2005-338	5/23/06	Management is addressing issues related to physical access to the server room, passwords and user IDs	February 2007
UMHHC Security/Access – Card Access Security 2006-306	9/8/06	Cross-training and server security issues related to the Access Control, and documentation of department policy are the issues that are being addressed	February 2007
UM Medical School Anesthesiology IT Security 2006-404	9/29/06	Removal of SSNs from the Centricity system, physical access to the server room and securing workstations in public areas are the issues still being addressed	February 2007
UMHHC Pathology IT Security 2006-401	9/29/06	Installation of another proximity card reader on Pathology's server room and implementation of a periodic review of access are the outstanding issues for follow-up	March 2007
University of Michigan Computing Environment CoSign Web Authentication 2006-303	11/28/06	Issues being addressed include relocation of a server and formalization of departmental procedures	June 2007
Credit Card Processing 2006-121	11/30/06	The Treasury Office is updating the Service Level Agreement with merchants across campus	March 2007
Professional Fee Billing Compliance 2005-126	12/22/05	New organizational structure is been established; additional controls are being implemented	March 2007
UMHS Mlabs 2006-112	1/19/06	Management is implementing corrective action measures	February 2007
UMH Patient Transfers 2006-124	4/20/06	Multi-disciplinary team has been established to design, implement, and evaluate discharge procedures, roles and responsibilities	February 2007
UMHHC Vendor Discounts, Allowances, and Rebates 2006-119	7/19/06	Vendors are being asked to send remittances directly to UMHHC Purchasing Department to reduce the number of days required to process a deposit	February 2007

UMHS Materiel Services Center 2006-106	9/29/06	Identification of staff authorized to receive goods, reconfiguration of the dock to restrict access, pre-numbering receiving reports and conducting periodic cycle counts are the open issues	March 2007
University Health Services – Charge Capture and Inventory Management 2006-111	11/14/06	Strengthening controls over billing and cash handling; formalizing related procedures	March 2007
Graduate Medical Education – Veterans Administration Billing 2006-128	11/30/06	Improving procedures that support billing from the VA for UM Graduate Medical Education	April 2007
Michigan Public Media Phase I 2006-806	3/24/06	Policies have been documented and communicated to all staff	Follow-up memo issued 7/31/06 2nd follow-up planned for February 2007
Michigan Public Media Phase II 2006-806	4/24/06	Significant reorganization and implementation of control policies and procedures is in progress	February 2007
Library Special Collections 2006-205	6/16/06	Library administration is working to strengthen the controls discussed during the audit	February 2007
Intercollegiate Athletics Sports Camps 2006-410	7/28/06	No compliance issues: operational improvements being implemented regarding background checks, contracts, financial records, reconciliations, time away policy and cash management	February 2007
College of Engineering – Minority Engineering Program Office 2006-813	9/29/06	CoE and MEPO created a thorough management plan to address the audit issues; will review progress ongoing	March 2007
Office of the VP for Research Animal Care Administrative Processes 2006-102-3	9/29/06	Management in units and centrally will address action plans	February 2007
NCAA Compliance – Recruiting 2007-405	11/16/06	Improving the quality of recruiting support documentation	June 2007
Autism & Communication Disorders Center 2006-814	11/22/06	Procedures will be documented	May 2007
Procurement Services Procurement Card Program	2/5/07	Phase I - Procurement Services will utilize data mining tools and reduce transaction based monitoring; additional focus on training & accountability of P-Card approvers, provide guidelines for card issuance, and utilize electronic resources. Phase II – annual monitoring of card activity by dept.	Phase I – June 2007 Phase II – March 2008