

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

Received by the Regents
September 22, 2006

Subject: Report of University Internal Audits
May 2006 – June 2006

Background:

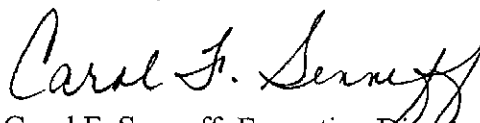
This is the report of the Office of University Audits activities for the period **May 1, 2006 through June 30, 2006**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee 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 **June 30, 2006**.

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

September 2006

ORIGINAL REPORTS

Campus

Counseling and Psychological Services Purchasing Controls (CAPS)

#2006-809

Issued May 12, 2006

This audit was conducted in response to a request by the University's Department of Public Safety and senior Student Affairs management because of alleged improprieties associated with the use of a University-issued Procurement Card (P-Card).

This audit focused on an analysis of P-Card transactions and supporting documentation for the period of January 2004 through December 2005. 100% of non-P-Card expenditures for the period July 1, 2005 through December 31, 2005 were also reviewed.

Control Issues:

- 1) Authorization to obtain and use a University of Michigan Procurement Card – At CAPS, there were only two administrative employees with P-Cards, the unit director and the administrative assistant. During the period of the audit, the director had not authorized the administrative assistant to purchase any specific items on her P-Card. Each time the director had a request for a purchase, it was made using his P-Card which did go through appropriate review and approval by his direct supervisor.

Misuse of the employee's P-Card was not discovered for an extended period of time because the director did not have reason to think that the employee was purchasing anything on her P-Card. The P-Card holder was forging the director's signature on the P-Card assigned to her and sending the P-Card statement to the Student Affairs finance office for review without the knowledge of anyone else in CAPS. There was never a first level reviewer examination of the administrative assistant's P-Card because the director was unaware that the employee was purchasing anything.

Occasionally, the director of CAPS provided the administrative assistant his P-Card number to make purchases on his behalf. The assistant did make several purchases using the director's P-Card. None of these charges appeared to be inappropriate.

P-Cards should not be issued to an employee without documented needs and responsibilities of the P-Card holder, including dollar limits. The need for every departmental P-Card should be reviewed at least annually. P-Card holders must not delegate or share use of P-Cards.

Management Plan:

CAPS:

- The CAPS director will augment current policy of reviewing and signing all P-Card statements for the unit by initiating a log that is signed and dated each month when the review takes place.
- CAPS no longer transfers to, assigns to or allows P-Cards to be used by anyone other than the P-Card holder.
- CAPS senior administrative team (director and two associate directors) will submit to the Dean of Students office and the Division of Student Affairs Financial Office a copy of their signatures for them to keep on file.

Senior Management:

- Current application process for new P-Cards requires written justification of business purpose and an application form, both approved by the unit director. Unit directors submit requests to the central finance office where need and dollar limits are reviewed again before submission to the P-Card Office. P-Card guidelines are currently under construction and will be distributed to P-Card requesters as part of the application process. This reference tool will also be distributed to all current unit directors and P-Card holders.
 - Periodic review of P-Card needs at both the divisional leadership and unit levels will be formalized to an annual process. This review will be coordinated as part of fiscal year-end activities so that changes can be made effective the first day of each fiscal year.
 - Formal reminder notification that P-Card holders must not delegate or share their P-Card will be sent out to units and divisional leadership. This directive will also be included in the P-Card guidelines currently under construction.
- 2) Monthly supervisory review and approval of P-Card statements – For every approved P-Card, there must be a monthly supervisory review of the P-Card Statement. In CAPS, there was not a review of all P-Card activity for each month. Non-use of P-Cards was not verified using M-Pathways pre-defined queries.

Management Plan:**CAPS:**

- Current CAPS policy and procedure is for the director to review each transaction and supporting documentation. The director then works with the relevant staff to secure more documentation if needed. CAPS will augment this current policy by initiating a log that is signed and dated each month when the review takes place.

Senior Management:

- Formal P-Card guidelines are currently under construction. They will include internal guidelines for the review and approval of statements as well as reminder guidelines for appropriate types of P-Card purchases and the related required documentation. Also included will be links to relevant Standard Practice Guide's and University website resources.
 - A list of current P-Card holders and card attributes has been provided to senior leadership.
 - Monthly P-Card activity reports will be provided to unit directors and senior leadership by the central finance office.
- 3) Student Affairs Finance office P-Card review - Student Affairs has a central finance office that does a secondary review of P-Card purchases and supporting documentation for all units within Student Affairs including CAPS. Reviews by the finance office are expected to be thorough but at a higher level than the review performed by the CAPS director. A central unit does not have the same direct knowledge of appropriate purchasing as unit management. Over the review period, there was evidence that the central finance review staff did identify potential issues with P-Card purchases in CAPS. Instead of taking the issues to the director of the central finance office or the director of CAPS, the reviewer asked for an explanation from the cardholder.

There was no logging of issues or trending of questionable purchases.

Management Plan -- Senior Management:

- P-Card guidelines are currently under construction and will include definitions of roles and responsibilities.
- A formal review process has been instituted that includes recording and tracking the receipt of active P-Card statements, issues or questions related to the P-Card statement and disposition of those issues. Also included is a designation of what organizational level the

question or issue has been referred as well as a plan for escalating issues to the appropriate level.

- A “P-Card statement is being returned & requires your attention” cover sheet has been developed and will accompany P-Card statements returned to the card holder because of issues or questions. Each unit director will receive a copy of this cover sheet so that they have knowledge of the P-Card statement status.
 - The formal logging process will allow for periodic trend analysis.
- 4) Budget review - During the audit period, January 2004 through December 2005, CAPS exceeded the planned budget during most months. At the end of fiscal year 2005, the total expenditures significantly exceeded budget. There was not a detailed review of budget deviations either on a monthly basis or at the end of the fiscal year. During the period, CAPS was conducting two special projects which were thought to be the reason for the budget differences. No one reviewed the budget transactions in detail to prove this. If the budget deviations had been investigated and explained on a timely basis, the misuse of the employee’s P-Card would have been discovered months earlier.

Management Plan:

CAPS:

- The CAPS director is now revamping the review of monthly financial statements at the departmental level. The director and/or the associate directors are now reviewing each statement for deviations from the budgeted expenses and revenues as well as for unusual expenditures.
- The CAPS director and/or one of the associate directors will review the gross pay registers each month.
- Project accounts will be established for special projects when it is anticipated that there will be a significant amount of financial activity related to the project.

Senior Management:

- A process is being implemented that requires each unit director and senior leadership to review financial statements for deviations from budgeted expenses/revenues as well as for unusual expenditures. Written explanations for these deviations and unusual expenditures will be required and sent to the central finance office.
- A process has been implemented that requires each unit director and senior leadership to sign a certification statement each month that says they have reviewed their unit’s financial statement(s) and related detail transaction data. This certification statement appears on the monthly financial statement.
- The vice president for Student Affairs has reminded unit directors and senior leadership that they are responsible for their unit’s financial affairs. This includes responsibility for effective use of resources as well as appropriate financial controls such as separation of responsibilities, budget to actual comparisons and prompt investigation of spending deviations.
- A reference tool called “Basic Financial Guidelines” is under construction. This tool will provide units with information on how to ensure they are transacting business in accordance with sound business practices.
- The divisional financial management team invited the executive director of University Audits to its April meeting to discuss the issues of proper internal financial controls, unit responsibilities, effective financial oversight, etc. Also discussed was the option of rolling this discussion out to a broader divisional audience through the Division of Student Affairs Leadership Assembly.

Student Affairs Management Summary

Senior leadership in the Division of Student Affairs takes its fiduciary responsibility seriously. It is fully engaged in efforts to review and enhance existing business processes so that any potential gaps in the control structure can be identified and corrected. Several specific steps have already been taken or are in process: They are:

- Development of formal P-Card guidelines and reference tool for units and leadership. Annual review of P-Card holder list and card attributes.
- Distribution to units of monthly P-Card activity reports.
- Implementation of formal P-Card statement review processes including logging of P-Card issues, issue resolution methods, and trend analysis.
- Certification of monthly financial statements and related transaction detail by unit and senior leadership.
- Development of basic financial guidelines reference tool for units and leadership. Specific timeline for implementation of process enhancements.
- Partnering with Internal Audit to communicate the importance of fiscal responsibility and effective financial oversight throughout all levels of leadership in the division.

Divisional leadership is confident that by taking the steps identified above and with diligent ongoing financial oversight and review at all levels in the organization, the resources of the division will be well protected.

Auditor's Summary

CAPS did not have sufficient internal controls to prevent or detect the misuse of a University P-Card for many months. Internal controls that were in place were disregarded allowing the misuse to occur. Roles and responsibilities must be clearly defined, understood and monitored by those in administrative authority. Fiscal responsibility continues even if authority has been delegated. Management must demonstrate diligent fiscal responsibility and oversight. This includes reconciliations, trend analysis, exception reporting, and budget review.

Management throughout Student Affairs is reviewing all policies and procedures for gaps in the control structure. University Audits will be in contact with Student Affairs management as they define new processes and implement new procedures for CAPS and other units in their organization.

During the first quarter of fiscal year 2007, there will be a complete follow-up review to make sure that no control gap has been overlooked and that new procedures are working as intended to provide a robust control environment. University Audits will extend this audit review to include a sample of other Student Affairs units.

School of Music Internal Control Assessment

#2005-216

Issued June 6, 2006

The School of Music has five major areas: The School of Music, University Productions, Department of Dance, Marching/Athletic Bands, and the Theatre and Drama department. This audit focused on the Department of Dance, Marching/Athletic Bands, and the IT department. Particular controls evaluated related to:

- School administrators' roles and responsibilities related to cash handling, payroll, procurement and other day-to-day operations
- Safeguarding of musical collections
- Information technology

Control issues:

- Safeguarding of musical collections - Marching/Athletic Bands sheet music is not adequately protected from natural threats, such as fire, water damage, and weathering. All of the musical arrangements for the Marching Band, including original works composed by former band director William Revelli, are stored in open cabinets in a locked room at Revelli Hall.

Management Plan - Cabinet doors will be closed to minimize damage to sheet music. A School of Music manager has examined the contents of the storage facility and has determined that the musical scores/arrangements maintained within do not have historical significance. School of Music administrators also asked the music librarian to review the contents of the storage facility. According to the librarian, follow-up work needs to be done. He and his staff will perform some preliminary assessments, which may include testing the humidity levels. He will send a detailed assessment of his preliminary findings and recommended actions to the School of Music business manager.

- Payroll overpayment - Three employees received duplicate payments for participation in a study abroad program. School of Music personnel initiated these payments at the request of the Office of International Programs (OIP), the funding department. The School of Music inadvertently requested that these individuals be paid their specified salaries for two months instead of over two months. The OIP noticed the error during a review of their gross pay reports.

One of the three employees has reimbursed the University for the overpayment. Another of the three employees, unable to attend the study program due to other commitments, was asked to reimburse the OIP for one of the two overpayments, but was allowed to keep the other payment in anticipation of participation in next year's program. Another of the employees was allowed to keep the overpayment in anticipation of an administrative differential to be paid from September through December. School of Music management stated that the overpayment would be transferred from an OIP account to a School of Music account. Payroll records indicate that the employee received administrative differentials in September, October, November and December despite the fact that the overpayment was not reimbursed.

Based on good business practices, overpayments should be collected promptly to ensure that expenses are reported accurately and recorded in the proper time periods.

Management Plan – Management has established procedures to ensure the accuracy of appointment information. The Payroll Office has established repayment plans for employees who were overpaid. **This issue is closed.**

- Form G/GQ authorization & FICA liability – A request for payment of special compensation (Form G) was prepared and authorized by the same individual. The payment appears to be appropriate. The failure to review the form resulted in the University compensating a non-employee through payroll as an employee instead of through procurement as an independent contractor.

Management Plan - Management will establish written procedures for completing Form G requests. School of Music employees recently attended a Form G/GQ training session with representatives from the Payroll Office and HRAA. This training session was designed to educate employees on when to initiate Form G payments and how to complete relevant forms. Management will maintain copies of authorized forms for comparison with Form G reports. Management will also establish new procedures to ensure that non-employees providing services to the School of Music are properly classified in the HR system.

- Dance Department Box Office revenue - The Dance Department sponsors four to six concerts yearly. Due to the small size of the productions, ticket sales are handled by the department. Tickets are pre-numbered and sold at the door (no pre-sales); seats are not assigned. A student is hired as a house manager for each concert series. Certain deviations from best business practices were noted:
 - o Unauthorized Cash Fund – The Dance Department withholds \$85 - \$100 from ticket revenue to use as a change fund.
 - o Undocumented Payments to Students – House managers are paid in cash from ticket revenues.
 - o Segregation of Duty – One individual is allowed to perform all of the following: print tickets, collect box office revenue, and access the area where ticket revenue is stored overnight.

Management Plan - Management will request an official imprest cash fund and will pay house managers through the payroll office. They will also revise roles and responsibilities of Dance Department staff to obtain an adequate segregation of duties in the collection of box office revenue.

- Cash tips - During away games, Michigan Marching Band personnel usually tip bus drivers in cash. Per management, School policy states that receipts should be submitted for expenditures over \$75. The tips given to the bus drivers usually exceed this threshold and cannot be verified.

Management Plan - Management will establish guidelines for tipping bus drivers. These guidelines will in part be based on management's investigation of how other departments at the University handle this and similar situations.

- Personal use policy - Department-specific policies and procedures on the personal use of University-owned personal computers did not exist for the School of Music.

Management Plan - The IT manager has prepared these department-specific policies. Specifically, guidelines for personal use (on or off UM premises) of 'usual' computer resources such as desktop computers, word processing, database, and spreadsheet software, printers, email, etc., were created in agreement with the Standard Practice Guide to avoid potential conflict of interest and inappropriate use issues. Policies state that UM resources cannot be used for personal financial profit or for unethical or illegal activities. Departmental policies will be published on the School of Music website. **This issue is closed.**

- Contingency plan - The disaster recovery plan that was documented in the School of Music's Business Contingency Plan' was created as a part of Y2K preparation. It had not been updated since its development. It is important that the contingency plan reflect current operations, new technology, responsible staff, and new business applications.

Management Plan - The Business Contingency Plan was updated to reflect administrative, procedural and personnel changes. A copy is stored electronically on a local secure server and as a hardcopy document in the Dean's Office. Hardcopy documents are also stored in the Business and IT Offices located in the Moore Building and the Michigan League. **This issue is closed.**

- Backup storage - The offsite remote location for storage of backup medium at the time of the audit was in the home of an IT staff person.

Management Plan - The School of Music has two server sites. They also have two sets of backups; one for each server site. The most recent monthly backup tapes are now being stored in different buildings on campus. **This issue is closed.**

Generally, the controls over key processes appear to be appropriate. A follow-up review will be conducted of the open issues during the second quarter of fiscal year 2007.

Management of Employees with Close Personal Relationships (CPR)

#2006-108

Issued June 6, 2006

Standard Practice Guide sections 201.23 Appointment of Relatives or Others with Close Personal or Business Relationships (Nepotism) and 201.65-1 Conflicts of Interest and Conflicts of Commitment provide guidance and authorized methods to manage CPR and ensure University interests are protected. University procedures emphasize:

- Disclosure of the relationship (if/when it exists)
- Evaluation of the work relationship by an objective party
- Establishment of an approved plan to manage the relationship

Based on data obtained from Human Resources Information Systems (HRIS), 868 pairs of employees from 232 different departments in 53 major units live at the same home address and also share primary appointments in the same Ann Arbor campus department. This constitutes approximately 4% of Ann Arbor University employees (including Hospital personnel). The University of Michigan is the largest employer in Washtenaw County; as such, the employment of relatives and friends is expected and normal in the course of business.

The University relies on individual departments to identify CPR and ensure appropriate management and resolution. A sample of 72 employee pairs from 15 departments in 5 major units was selected for detailed review. Each sample pair was discussed with unit administration to determine specific employee reporting relationships. Approximately 18% (13/72) of the pairs selected had either a direct supervisor/employee relationship or common supervisor.

Control issues:

1) Plans to manage Close Personal Relationships (CPR)

- In certain instances, temporary and other employees were hired to work for University personnel who shared the same address without a written or approved plan to manage the relationship. Written plans were available for 6/13 (46%) relationships identified. Of those obtained, only 1/6 was approved by both the unit head and Human Resources and Affirmative Action (HRAA). University Standard Practice Guide section 210.23 indicates relatives shall not work for the same immediate supervisor without prior written approval of the administrative head of the organizational unit and of the appropriate Human Resources Director.
- Procedures have not been consistently adopted by departments to periodically review management plans for appropriateness and continuity. One plan observed during the audit was more than six years old and was no longer being followed. The reporting relationship that originated the management plan was the same.
- Management plans examined during the audit included statements addressing reporting relationships and other personnel related issues for individuals in a CPR; however, plans were silent on issues relating to the approval process for expenditures, travel, or other routine day to day activities. While we did not observe problematic transactions in our review, an opportunity exists for this to occur due to the decentralized delegation of responsibility to faculty and staff.

- 2) Human Resources Information Systems (HRIS) home address - In nineteen instances, University work addresses were posted as the employee home address in M-Pathways HRIS. Anesthesiology and Athletics were the only departments in which this situation occurred. Anesthesiology has revised its batch process to post "dry (unfunded) appointments" to ensure the

actual home address is utilized. Athletics has agreed to contact individual employees to request that the home address field be changed.

- 3) Employment applications - Hospital units do not receive the employment application prior to interviewing prospective employees so they are not able to review it for potential nepotism situations. Separate disclosures may be made during the interview process; however, this central mechanism to obtain disclosure information has not been readily available. Based on discussions with Human Resources and Affirmative Action (HRAA) personnel, the new eMploy on-line applicant/employment system has the capability to enable individual unit access to the employment application information.

Management Plan - HRAA will distribute a communication to the deans, directors and department heads regarding CPR and general procedures to establish and implement an approved management plan. Standard Practice Guide section 201.23 will be evaluated and revised to address plan content and review cycle. Opportunities to support departments in the eMploy system will be researched by HRIS. Education and/or training will be provided to support their access to disclosure and other employment information. Bid information submitted by applicants in eMploy will require disclosure of related parties when applying for a position. HRIS will attempt to monitor home address fields periodically to identify inappropriate use of University work address.

University Audits will continue to monitor employee relationships and their specific impact to the control environment as it performs department audits within the University. All issues identified will be reported to departmental management and HRAA.

Library Special Collections

#2006-205

Issued June 16, 2006

Although many University of Michigan libraries have special collections, this audit focused on the Bentley Historical Library (Bentley Library), an independent library, and the University Library's Special Collections Library (SCL). Our objective was to evaluate the controls over the acquisition, processing, and use of special collections.

Controls issues:

- SCL – Storage and processing space - The rapid growth of the Special Collections Library presents a problem because there is not sufficient storage space for the materials. Staff areas and many aisles are stacked with boxes. There is not sufficient room for proper processing as materials come in.

Materials should be stored in a manner that protects them from environmental damage and physical loss. Consideration should be given to fire code regulations and an environment that does not pose a risk to the safety of staff, patrons, or emergency personnel.

Management Plan - The University Library and Special Collections Library managements agree with the recommendation. Use of library space in general is a topic at the forefront of our planning issues for the future, especially in view of increased access to many books and periodicals in digital format. With the arrival of a new University Librarian, we expect to turn our attention to space use in the Hatcher Library. Prominent among the needs already identified is improved and increased space for the Special Collections Library, both in its stack areas (including storage of non-book materials) and in staff work areas. In the short term, these needs will be addressed by continuing rotation of lesser used materials in the Special Collections Library from the stacks at Hatcher to the remote shelving facility at Buhr and taking additional materials from Buhr to the temporarily available space at Bentley Library. We will also identify secure space for storage of unprocessed materials and for work space for processing materials so

that visitors to the Special Collections Library will no longer have access to the unprocessed materials. In order for more materials to be processed, there must be adequate staffing and sufficient secure space. The long term solution for this problem will require large-scale planning and likely need significant outside funding, and will be brought into future budget discussions for the Library. We are aware of similar constraints and needs within the Clements Library and will explore closer collaboration to see if there are mutually beneficial solutions that could be pursued.

- SCL – Special Collections cataloging and processing backlog - The Special Collections Library has a backlog of approximately 40,000 volumes of uncataloged published materials such as books, serials, pamphlets and approximately 600 linear feet of unprocessed archival material. This is the result of high donor activities and a lack of sufficient staffing to complete the labor-intensive nature of cataloging and processing to add them to the collection. Although a backlog of uncataloged and unprocessed materials will always exist, the University Library should develop a plan to significantly reduce backlogs.

Management Plan - The University Library and its Special Collections Library managements agree with the recommendation. We believe that we must coordinate efforts between Special Collections Library staff and Technical Services staff to develop a more effective tiered system where materials receive differing levels of detail in the cataloging or processing record, and where the maximum number of items can come under some sort of inventory control. Without a more effective system of tiered cataloging or description, the backlogs are continuing to grow, increasing the risk of loss of materials and increasing the potential of alienating patrons who cannot view unprocessed materials that are known to be in the collection. The University Library launched a programmatic review last year that includes a special study of the cataloging function throughout the library. In the next few months, a consulting firm specializing in technical services workflow, will be working with Library management to develop and make recommendations for cataloging and description. We hope to implement their recommendations in the Library at large beginning in the fall. This process will also influence the issues in the Special Collections Library, but we may bring in more specialized consultants to help us with specific issues there. We hope that one outcome will be increased attention to the Special Collections Library backlogs and more effective collaboration between Special Collections Library staff and Technical Services staff, particularly with regard to those materials that are unique in the country.

- SCL/Papyrology vault issue - The University Library's Papyrus Collection consists of approximately 10,000 ancient Egyptian papyri and a reference collection of several thousand books. The papyri, along with the medieval and Islamic manuscript collection, are maintained in an environmentally controlled vault. The vault's current mechanical system has been experiencing intermittent outages, placing the environmentally sensitive collection at risk. In March 2005, an outside vendor was awarded the bid to design a new humidity control system for the vault. There have been delays in beginning the project. Currently, construction is expected to begin in summer 2006. The University Library's staff should monitor progress of the design phase and continue throughout construction to ensure that the project is completed as quickly as possible.

Management Plan - University Library management agrees with the recommendation; they will continue to work with Architectural Engineering Services and the vendor to ensure that the construction work and change over to the new system is done efficiently to minimize stress to the papyri.

Bentley and University Libraries insurance issues - The University Library's Papyri collection is not included on the University's Fine Art insurance coverage in the belief that each individual

fragment of Papyri is irreplaceable. Some of the historical artwork and furniture is also not covered. Management should consider reviewing insurance needs.

Management Plan - The University Library management agrees with the recommendation as it relates to the Papyri. They will confer with the Risk Management department, peer institutions, and Papyrology organizations to determine whether other Papyri collections in this country are insured and, if so, how current values for insurance purposes were set.

Bentley Library management agrees with the recommendation and will contact the Risk Management department to discuss the feasibility of insuring their artwork and fine furnishings.

- Disaster recovery plan testing issue - The Special Collections Library is included in the overall disaster recovery plan for the University Library. The Bentley Library has its own disaster recovery plan. Each library's disaster recovery plan should be expanded to include periodic testing to enhance the plan's effectiveness.

Management Plan - Both University Library and Bentley Library managements agree with the recommendation. Disaster plan testing teams will be formed following each library's disaster training session.

Both libraries have similar basic processes for acquisition, processing, and use. These processes are well controlled. A follow-up review of the open issues will be conducted during the third quarter of fiscal year 2007.

Men's Basketball and Other Sports Event Ticket Counts FY 2006

#2006-414

Issued June 14, 2006

The Big Ten Conference requires its member institutions to prepare a "Big Ten Conference Basketball Ticket Sales and Financial Settlement Report" (settlement reports) for each 2005/2006 home Big Ten men's basketball game. The Settlement Report shows:

- The Conference share for visiting Big Ten Teams
- How the amount was calculated

The objective of this audit was to verify the accuracy of 2005/2006 Settlement Reports for home Big Ten men's basketball games. Verification that the amount of ticket revenue was actually received and deposited into Intercollegiate Athletics (ICA) accounts is beyond the scope of this audit. External auditors include revenue in their annual certified audit of ICA.

Procedures used to verify the accuracy of Settlement Reports included reviewing ticket stock manifests received from the printer, counting unsold tickets and verifying all computations. University Audits signed each Settlement Report attesting to its accuracy. We reviewed 2005/2006 ticket sales reports for other ICA events because individual game tickets for all sports use a common ticket stock.

The audit for football ticket sales settlement reports was previously issued on March 9, 2006, Audit #2006-413.

Summary

The amount of ticket revenue due the Big Ten Conference was accurately reported on all 2005/2006 Settlement Reports for home Big Ten men's basketball games.

Information Technology

Radiology IT Security

#2005-338

Issued May 23, 2006

This audit was conducted to assess the adequacy and effectiveness of policies, procedures, and controls in the Department of Radiology at the University of Michigan Hospital in ensuring the security, integrity, and availability of three key Radiology information systems. The systems are Radiology Information System (RIS), Picture Archiving and Communication System (PACS), and voice-recognition dictation system.

Control Issues:

- File room access – The room can be entered from a public corridor through an unlocked door intended exclusively for staff use. The room is in use 24 hours. There is a security camera on the entry way. The other main entrance is secured by a proximity card reader that is locked down during non-business hours.

Management Plan – A work order has been submitted for the installation of a card reader on this door.

- Password security – Password controls in the RIS, PACS, and dictation systems can be improved. The table below describes the state of password controls on these systems. An unqualified 'Yes' notation indicates a fully functional and effective control. 'Available' controls are capabilities that exist in the system, but are currently inactive.

CONTROL TYPE	CONTROL ACTIVE IN SYSTEM		
	RIS System	PACS System	Dictation System
Length	No, available	No	Yes
Complexity	No, available	No, allows blank	No
Encrypted transmission	No, implementing	Yes	No
Expiration	Yes, new accounts only	No, available	No, available
Password history	Yes, new accounts only	No	No
Account lockout	Yes	Yes	No

Management Plan - Radiology will notify users and activate the following password strength requirements by July 1, 2006:

RIS - Length requirement, complexity requirement, expiration date

Dictation - Length requirement, expiration date

PACS - The new PACS will be required to use Level 2 authentication or equivalent authentication, which will enforce strong passwords and force the user to change their initial password. This requirement is in the RFP. Replacement is anticipated to occur by 2008. In the interim, Radiology will conduct periodic checks for blank PACS passwords on a monthly basis. Radiology has also developed a new process for assigning initial PACS passwords, whereby randomly generated passwords will be issued to new users. The initial passwords will consist of eight mixed-case, alphanumeric characters.

Radiology will activate password expiration of PACS accounts on a limited testing basis by August 1, 2006 and thereafter evaluate its feasibility for full implementation.

- Generic user accounts – The department uses two generic user accounts to correct dictation system errors and manage the flow of reports as needed. From a control perspective, identifying all users individually supports accountability and change control.

Management Plan – One generic account has been replaced. Efforts are underway to replace the other account.

- Review of unused and idle accounts – The PACS is not checked for unused or idle user accounts. The RIS and dictation systems are reviewed for such accounts. Unused or idle accounts are more likely to have poorly maintained passwords, increasing the risk of unauthorized access.

Management Plan – Radiology will develop a process for reviewing all user accounts on the PACS for idle or unused accounts. Review will occur twice a year.

- Periodic review of system access privileges – System access privileges are not periodically reviewed for users of the RIS, PACS, and dictation systems. Role changes are generally infrequent. One exception is the regular upgrade of residents' privileges when they become faculty. The infrequency of role changes decreases the probability but does not eliminate it.

Management Plan - Radiology will develop and document a process for reviewing user access to its information systems. The first review will take place by December 31, 2006.

- Documentation of increases in system access - When system access privileges for an existing user are increased, the Access Coordinator/Administrator follows an undocumented practice of requiring the authorizing manager to submit a request form just as is done for new users. Some managers have challenged this practice, preventing validation and record keeping activities from being accomplished in a timely manner.

UMHS Policy 01-04-510 IV.6(d)(2) requires Access Administrators to "(keep) (a)n audit trail...of all adds, modifications and deletions of a UMHS systems user's access." The account request form used by Radiology Computing Services is the best available means of documenting not only the change in access privileges, but the authorizing manager's approval.

Management Plan – Radiology will develop and document a process for reviewing user access to its information systems. The first review will take place by December 31, 2006.

- Review of the institutional termination list - Radiology performs a limited review of the daily MCIT institutional employee termination list. The list is searched for "Radiology" department affiliations and is scanned briefly for non-standard department affiliations that are connected to Radiology, like Nuclear Medicine. Radiology Computing Services has indicated they are unable to dedicate the labor-hours needed to perform more detailed comparisons, such as checking all the Uniqnames on the list individually.

While the current review is conducted in a timely and efficient manner, it could overlook non-Radiology staff with access to Radiology systems, or staff with incorrect department affiliation information. This increases the risk of unauthorized access by a terminated employee.

Management Plan – Staff time has been allocated to study the feasibility of writing scripts or software to accomplish this.

Radiology and its Computing Services team are knowledgeable and proactive regarding information security. RCS expressed interest in finding better means to enforce security and internal control over Radiology systems and data. They are willing to press their system vendors on security issues, and if necessary, to implement critical security improvements without vendor assistance. This lack of vendor cooperation is a problem many UMHS IT service providers face.

A formal follow-up review to the outstanding issues will be conducted in the first quarter of fiscal year 2007.

Health Care

Medical Center Information Technology Financial Internal Control Assessment Issued June 16, 2006

#2005-367

The objective of this audit was to identify significant financial processes within MCIT and review them to determine if they include proper and effective internal controls. University Audits performed a risk analysis to identify significant areas of financial activity. Based on this review, the following processes were deemed significant and reviewed as part of this audit:

- **Asset Management**
 - An important part of MCIT's function is procuring computers, related peripherals and software. 83.8% of MCIT plant fund expenditures are used for computer purchases and subsequent distribution to UMHS departments. The departments receiving assets then transfer funds to MCIT to cover cost of computers.
- **Payroll**
 - 81.3% of MCIT operating fund expenditures are spent on payroll and benefits for MCIT employees.
- **Contracted Services**
 - 5% of MCIT operating expenditures are classified as fees and services.
- **Purchasing**
 - 5.0% of MCIT operating expenditures are classified as general expenses.

No other expense categories represent greater than 1.9% of MCIT's total operating budget.

Control issues:

- Safeguarding of capital assets – There is no written policy for the tagging of capital assets. Currently, information on the purchase order for an asset determines whether it should be tagged. Several assets that should have been tagged were not tagged.

Management Plan - Capital Budgets/Asset Management and UMH Accounting jointly agreed to create written policies and procedures to address the issue of tagging capital assets. The policies will include input from areas that have unique tagging requirements, i.e. MCIT. Capital Budget/Asset Management and UMH Accounting will set up meetings with other units to document the entire capital process.

- Capitalization of Assets - While reviewing equipment purchases against the capitalization criteria documented in the MCIT Handbook, University Audits noted an asset for consultant travel related to Report2Web training that was capitalized. This was contrary to the policy in the handbook that states “training costs may not be capitalized”. Further investigation revealed that this asset was properly capitalized in accordance with the most current UMH Accounting guidelines that allow capitalization of training costs when the training is necessary to support IT assets with a future economic benefit of two or more years. The MCIT Handbook was not in agreement with the UMH guidelines and was in error.

Management Plan – The MCIT Handbook has been revised. **This issue is closed.**

Based on the audit work conducted, University Audits found MCIT fiscally responsible and exercising appropriate financial controls over the financial areas examined. University Audits will review the remaining open issue during the second quarter of fiscal year 2007.

FOLLOW-UP REPORTS

Institute for Social Research IT Controls

Original Report issued January 30, 2006

#2005-307

Follow-up Report issued May 11, 2006

- **Access Review**: Formal procedures have been documented to review and terminate access to sensitive data. A report of all inactive accounts is generated quarterly and sent to each department for review. Inactive accounts are either deleted or inactivated based on the status of employee. This process was completed recently. Accounts needing to be suspended will be handled on an individual basis. **Closed**
- **Cables Not in Raceways**: Raceways were installed where feasible for computer and electrical cables in the communications closets at ISR to help manage cables, reduce the possibility of shock, and decrease the time it takes to troubleshoot problems. In instances where it was not feasible to install raceways, because of the interference with other cables when performing maintenance, the cables have been organized and secured. **Closed**

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

UMHHC Front-End Redesign

Original Report issued October 24, 2005

#2005-111

Follow-up Report issued May 11, 2006

The Business Operations Design Team (BODT), led by the BODT Steering Committee Chairs, developed a detailed corrective action plan to address the opportunities identified in the audit. The following is the status of the corrective actions taken by management.

The complete corrective action plan is linked on the BODT website (www.med.umich.edu/i/acs/bodt/). The results of the audit as well as the progress to the plan are discussed routinely in various meetings including BODT Committee meetings, Clinic Operations Manager's Forums, and Chief Department Administrator's meetings. The BODT website will be used as a tool for re-education and all Front-end redesign principles will be documented on the site.

Front-End Redesign Procedures

The Cash Collections Enhancement Subgroup, with HRD consultants, are identifying the barriers for collecting cash and building a performance model that will provide competencies to be used in hiring and measurements to be used in performance evaluations. There is a pilot being conducted which puts counselors on the second floor of Taubman so that patients can be immediately directed for assistance with payment plans, etc.

Exception Process

A standardized exception form has been developed and is on the BODT website. The BODT Steering Committee will review and approve any necessary exceptions to Front-end redesign principles submitted by clinic managers.

Training Requirements

The MLearning tracking tool is now available and can assist managers in tracking course attendance and completion. The ACS Training Department also keeps a record of outpatient office assistants and associates that attend Front-end redesign classes.

Cash Controls

All managers have been provided education on proper cash procedures and processes. A resource has been identified to conduct spot checks of cash controls. Results of these reviews will be shared with BODT in an ongoing way.

Management has taken appropriate steps to outline a detailed plan and corrective action is proceeding as documented. There appears to be significant oversight to ensure that corrective action continues as needed. **This audit is closed.**

Dearborn Athletics and Recreation Department
Original Report issued December 9, 2005

#2005-234
Follow-up Report issued May 23, 2006

- Financial Information: Athletics implemented a process to use separate account codes for recording sales activities. Comparison of actual revenues with budgeted amounts is planned for fiscal year 2006. **Closed**
- Central Cashier Function: The Department purchased a cash register that will be located at the Wellness Center and used to process all transactions generated by the department's various programs. The target date for the central cashier function to be operational is July 1, 2006. **Closed**
- Wellness Center: Senior officers will make a final decision in fiscal year 2007 about whether to increase membership dues and use infrastructure funds to establish an equipment replacement fund. The tax section of Financial Operations has been contacted about the taxability of excluding the value of using the Wellness Center from employee wages. **Closed**
- Business Contracts: Procedures were implemented to ensure that contracts are received timely and all provisions are enforced. The Office of General Counsel is reviewing all contracts for potential updates. **Closed**
- Gym Rental Income: A checklist is now used to ensure that all gym rental customers are billed. **Closed**
- Gate Receipts: Internal controls were strengthened to provide accountability for all gate receipts. **Closed**
- Operation Adventure: Management is working with the Dearborn Human Resources Department to create a regular appointment for the Operation Adventure Coordinator effective July 1, 2006. **Closed**
- Payroll Time Reports: Payroll time reports for all Athletic and Recreation department staff members are now prepared, approved, and retained. **Closed**
- Procurement: Travel reimbursement delays were eliminated after University purchasing cards were issued to coaching staff members. A question about canceling purchasing card authorizations is included on an Employee Departure Checklist that is being finalized by the Athletics and Recreation and Human Resources departments. **Closed**
- Cash Depositing: Internal controls were strengthened to ensure that all facility rental, summer camp, and wellness center revenues are deposited intact and on a timely basis. **Closed**

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

International Center Student and Exchange Visitors Information System (SEVIS) #2006-110
Original Report issued February 24, 2006 Follow-up Report issued May 25, 2006

- Hard Copy Records Security: File cabinets are locked when not in use and the main corridor access door is closed and locked at all times. **Closed**
- Improved File Storage System: Budget documents and presentations have been made requesting funding for software and equipment to support implementation of an on-line imaging system for SEVIS files. A funding decision is expected in July, 2006. **Closed**

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

UMH 340B Drug Purchasing Program

Original Report issued October 24, 2005

#2005-115

Follow-up Report issued May 25, 2006

- **Determination of Eligibility:** All drugs for outpatient pharmacies are now purchased at non-340B program prices and replaced at 340B program discounted prices after patient eligibility is established. **Closed**
- **Support for 340B Purchased Drug Quantities:** Over a period of time, a negative 340B program balance has accumulated with various manufacturers totaling approximately \$233,000. This variance was caused by drugs obtained at discount prices that were not distributed to eligible patients and are no longer purchased by the Pharmacy. Rather than directly reimbursing manufacturers, UHS Pharmacy management has assumed responsibility for offsetting negative balances by foregoing current discounts on other eligible drugs. Records mapping foregone discounts to negative balances will be maintained. **Closed**

This audit is closed.

School of Natural Resources and Environment

Original Report issued December 22, 2005

#2005-217

Follow-up Report issued May 25, 2006

- **Purchasing Card Holders with Travel & Expense Reports:** All SNRE purchasing card holders were reminded by e-mail not to submit travel and expense reports seeking reimbursement for out of pocket travel expenses. SNRE management instituted a policy that travel and expense reports submitted by purchasing card holders would not be approved. **Closed**
- **Imprest Cash Fund:** The imprest cash fund was closed and no other imprest cash funds are currently outstanding. **Closed**
- **Sea Grant Payment Processing Procedures:** Procedures were changed to eliminate the need to retain paper copies of customer information that included credit card information. Older customer files are currently being destroyed. **Closed**
- **Cash Depositing:** Subscription payments for the student run environmental magazine are now kept in a secure area and are deposited on a weekly basis. **Closed**
- **Access to Private Data:** SNRE indicates it is currently not feasible to physically restrict access to the student mail boxes located in the commons area. However, SNRE management has discussed the privacy issues with key staff in their administrative offices and sent an e-mail to SNRE administrative offices to remind them not to place documents with social security numbers in these mail boxes. **Closed**

This audit is closed.

School of Dentistry Fiscal Controls Assessment

Original Report issued November 15, 2005

#2005-213

Follow-up Report issued June 14, 2006

- **Dental Stores Sales & Services:** A new cash register was purchased and sales totals are generated daily and reconciled to cash receipts. The Plant Services Key Office is now used by employees for obtaining and returning building keys. **Closed**
- **Separation of Job Duties:** To eliminate cash handling problems, Post Doctoral Scholar students now make tuition payments at the central campus Cashier's Office. The Office of Continuing Education is now using course tuition reports to verify deposits. Depositing and record keeping duties were segregated in the Outreach Program Office. **Closed**
- **Safeguarding Cash:** Funds received for deposit by the Patient Business Office are now secured until transferred to a nearby floor safe. **Closed**
- **Single Transaction Limits:** An adjusting journal entry for \$5,449 was prepared to capitalize equipment that was previously expensed. **Closed**

- Student Enrollment: A complete list of all students registered in the Post Doctoral Scholar program is promptly sent to the Registrar's Office. **Closed**
- Payroll: Time reports of students assigned to a research project are initialed by a supervisor as evidence that the hours reported were reviewed and approved. **Closed**
- Billing & Collecting Tuition: Tuition invoices are issued to all students registered in the Post Doctoral Scholar program. **Closed**
- Travel Expense Reports: Travel expense reports are no longer accepted from purchasing card holders. Travel Expense reports must now be submitted within ninety days of trip end date to be considered for reimbursement. **Closed**
- Verifying Tuition Records: A transaction based process is still in place for reconciling payment records to course tuition reports. Planned revisions to the web based online registration site include capturing course number information. This will improve the timeliness and effectiveness of the reconciliation process. **Closed**

Management has implemented corrective action. **This audit is closed.**

University Audits – University of Michigan
Open Audits Follow-up Table
June 2006

Audit Title	Report Date	Status	Expected Completion
Utilities Services Energy Billing System 2005-337	11/2/05	Significant progress has been made. One more cycle is required	September 2006
Web Grade Entry 2006-103	3/16/06	Completing a detailed review of access roles and privileges to Student Records	July 2006
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	January 2007
Professional Fee Billing Compliance 2005-126	12/22/05	New organizational structure has been established. Additional controls are being implemented	November 2006
UMHS MLabs 2006-112	1/19/06	Management is implementing corrective action measures	July 2006
UMHHC Vendor Visitation 2006-118	1/30/06	Coordinating with HHC	July 2006
UMH Patient Transfers 2006-124	4/20/06	Multi-disciplinary team has been established to design, implement, and evaluate discharge procedures, roles and responsibilities	January 2007
MCIT Financial Internal Control Assessment 2005-367	6/16/06	Only open issue relates to safeguarding assets	October 2006
Parking Services 2006-202, 2022	1/06/06	Documentation is nearly complete	September 2006
Michigan Public Media Phase I Michigan Public Media Phase II 2006-806	3/24/06 4/24/06	Significant reorganization and implementation of control policies and procedures is in progress	July 2006
Gerald R. Ford School of Public Policy Internal Control Review 2005-219	3/27/06	Departmental purchasing policies will be revised; research center reviews will be initiated	July 2006
School of Information 2005-215, 315	5/1/06	Departmental polices are complete and will be reviewed by Audits	July 2006
Counseling and Psychological Services Purchasing Controls 2006-809	5/12/06	Will be conducting a broader review including other departments under Student Affairs	Second Quarter Fiscal Year '07
School of Music Internal Control Assessment 2005-216	6/6/06	Storage issues are being assessed; roles & responsibilities for the box office revenues are being revised	November 2006
Library Special Collections 2006-205	6/16/06	Library administration is working to strength the controls discussed during the audit	January 2007

