THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents
November 15, 2007

Item for Information

Subject: Report of University Internal Audits
July 2007 – September 2007

Background:

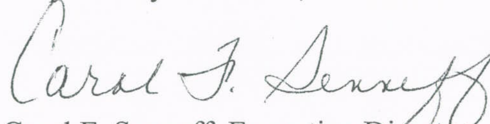
This is the report of the Office of University Audits activities for the period **July 2, 2007 through September 30, 2007**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee 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 **September 30, 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

November 2007

University Audits
July, August and September 2007 – Summary of Reports Issued

ORIGINAL REPORTS

Campus

Office of the Provost and Executive Vice President for Academic Affairs Fiscal Responsibilities #2007-201
Issued July 16, 2007

The primary objectives of the audit were to review the central processes of the Office of the Provost to determine if the policies, procedures and internal control structure established are adequate to support the mission of the Office of the Provost and are in compliance with the policies and procedures of the University.

The review focused on the following:

- Documentation of departmental policies and procedures
- Payroll
- Employment
- Purchasing
- Academic administrative searches
- Financial reporting and monitoring
- Disbursement and authorization of discretionary funds
- Delegated authority

Control Issues:

- Academic Administrative Search Expense – Academic administrative searches are conducted for associate provosts, deans and other academic administrative personnel. Search advisory committees are established consisting of selected members from the University community. The University pays for the expenses incurred by the candidates and consultants for travel, meals and lodging.

  University Audits noted in some instances that expenses incurred by the committees, candidates and consultants exceeded University meal limitations. It was also determined that in some instances alcohol purchases by both candidates and consultants were not identified and were subsequently charged to general fund accounts. In one instance, consultants stopped in Cleveland to meet with a search committee from another institution before arriving in Detroit. A determination could not be made if airfares charged by the consultants were properly allocated between the University and the other institution and were at the coach rate. Furthermore, while a financial commitment is established within the budgeting database maintained by the Office of Budget and Planning for each academic administrative search, a detailed budget is not prepared for searches including a periodic variance analysis and total costs of each search.

  Controls surrounding the search process can be strengthened by:

  - Establishing a budget for each search. Budget variances should be periodically reviewed and explained.
  - Assuring that search advisory committees and consulting firms comply with University travel and hosting policies.
  - Documenting and approving any exceptions to stated policy.
  - Identifying alcohol purchases; charge to non-general fund accounts.

  Management Plan – Management is working to improve controls over academic administrative searches.

- Statement of Activity Reconciliation – Statement of Activity reconciliations are prepared by a person who also makes purchases for the office. The statements, along with the associated reconciliation and supporting documentation, are not reviewed by an independent person.

  Management Plan – The newly hired part-time Financial Specialist will begin reconciling the Statements of Activity. Ordering for the office will continue to be the responsibility of the receptionist, thereby ensuring the proper division of responsibilities. The Chief of Staff will begin reviewing the Statements of Activity after they have been reconciled.

- Reconciliation of Gross Pay Register – Time and attendance reports are entered electronically for the employees of the Office of the Provost by a secretary senior. Once the information is entered, an associate administrative specialist reviews the gross pay register for reasonableness. Hours per the gross pay register are not compared to the original source documents.

  Management Plan – The person responsible for reconciling the gross payroll registers has begun reconciling hours as reported on the gross pay register to the original time documents. **This issue is closed.**

- Lack of Documentation of Policies and Procedures – The Office of the Provost provided University Audits with a copy of the office's policy and procedures manual. Although this document included many procedures, it did not include details on how to perform certain tasks, who should review the work performed and other key guidance. The Chief of Staff indicated that staff within the office are cross trained for key tasks and many employees have notes regarding the procedures.

  Management Plan – Management will begin coordinating efforts to include detailed policies and procedures for:
    - Payroll
    - Purchasing
    - P-Cards
    - Travel and Hosting
    - Discretionary Funds

The overall control environment within the Office of the Provost is sound. Improved controls over academic administrative searches and statement reconciliations as well as improved documentation of policies and procedures will further strengthen the control environment. The Provost and her staff consider internal controls to be very important and are committed to strengthening controls with the central business processes of the office. The Provost has indicated that discussions will ensue with her direct reports as a result of this audit to emphasize the importance of internal controls and the use of sound business practices.

A follow-up to the outstanding issues will be conducted in the second quarter of fiscal year 2008.

Intercollegiate Athletics Academic Support Services #2007-408
Issued July 18, 2007

The Intercollegiate Athletics (ICA) Office Academic Success Program (ASP) is housed in the Stephen M. Ross Academic Center. The Center, which opened in January 2006, was funded privately from donations, Athletic Department funds, and investment proceeds. The ASP's mission is to provide academic support to student-athletes and other University students. The ASP offers many services and programs, including academic counseling, individual and group tutoring, life skills and leadership

development. It also provides specialized services for student-athletes with learning disabilities. The ASP has a dual reporting structure to both the U-M Athletic Director and the Provost Office.

The objective of this audit was to review core business and operational processes at the ASP and determine if there were sufficient internal controls to support the ASP's mission and compliance with current and adopted University and National Collegiate Athletic Association (NCAA) guidelines.

Student Counseling Practices - Control Issues:

1.1 Sharing of Student Login and Passwords – Some ASP counselors have requested student-athletes to give them their (the student's) login ID's and passwords to Wolverine Access – Student Business in order to make changes on behalf of the student to enrollment and class schedules while the student is out of town. NCAA and Big Ten regulations stipulate that student-athletes must be enrolled in a minimum of 12 credit hours per semester to be eligible for practice, competition and financial aid. Password sharing is against University policy. NCAA rules state that student-athletes must take a proactive role in their education decisions.

Management Plan – ASP staff members have destroyed documentation listing student passwords. In consultation with the Registrar, Management will establish alternate procedures for urgent situations due to team travel.

1.2 Student Athlete Privacy - During this audit, University Audits observed the following:

- Some counselors do not lock their office doors when they step out of the office temporarily. Students and other individuals visiting these offices may be able to view sensitive information.
- The ASP office computers do not use password protected screen locks that automatically time out computers when they are left idle for a predetermined amount of time.
- The Academic Advising office (designated for visiting unit advisors, but used by other individuals such as graduate assistants and learning coordinators) contains an unsecured laptop computer – the computer does not have a cable lock (to prevent theft), boots up without a password, and contains sensitive information.
- Some counselors do not lock up documents containing sensitive information overnight. Documents remain on desks or in open and unlocked file cabinets.

Management Plan – Management instructed all ASP counselors to close and lock their doors when they leave their offices. All ASP computers/laptops now have password protected screen locks set at 30 minutes. Management replaced the laptop in the academic advising office with a secure desktop computer. The laptop was cleared of sensitive information. ASP staff members are in the process of reorganizing office files to ensure privacy. Sensitive data will be locked up at night.

1.3 Academic Success Program - Student files maintained by ASP counselors do not contain evidence that students are actively participating in setting their academic goals. NCAA regulations state that student-athletics should play an active role in this process.

Management Plan – ASP counselors will ask 2007-08 freshmen student-athletes to complete an academic goal setting form. They will also ask student-athletes who receive advice regarding class scheduling to complete the Academic Counselor Role Clarification form. ASP counselors will retain both forms in student-athlete files.

1.4 Monitoring Documentation Standards – ASP counselors are responsible for monitoring student-athlete eligibility, progress toward degree, and course work. However, ASP does not have guidelines describing minimal documentation standards to support these activities.

The NCAA has adopted new rules regarding academic support programs that will become effective in 2008. These rules will require ASP to demonstrate they are providing sufficient support services to enhance student-athletes educational objectives.

Management Plan – Management is in the process of revising its policies and procedures manual. ASP will have four notebooks (day-to-day operations, compliance information, recruiting, and ASP staff meetings) in each academic counselor's office that counselors will be required to maintain and update daily.

1.5 Conflicting Practices with ASP's Position Paper on Credit Hours – ASP' Position Statement on Spring/Summer and 5th Year Aid states that counselors will advise and encourage student-athletes to take more than the minimum number of credit hours each semester. In practices, there have been instances where some counselors have recommended that student-athletes take the minimum number of credit hours during certain semesters. University Audits understands that ASP counselors recommend changes to student-athletes' class schedules based on factors such as athletic schedules, class difficulty, and prior academic performances. However, this practice appears contrary to the Position Statement.

Management Plan – ASP will reevaluate and rewrite the 5th year aid policy.

Employment - Control Issues:

2.1 Background Checks – The ASP does not perform background checks, verify the credentials of internal and external job candidates, or formally document reference checks. Student job applicants are not required to provide the ASP written consent to view online transcripts or other academic records.

Management Plan – Management agrees that it has an obligation to protect the welfare of its students and staff. They will contact their Human Resources representative to learn the options available for performing background checks. They will also document information obtained from reference calls and retain this information with employment workpapers.

2.2 Timely Submission of Employment Forms – Athletic Business Office personnel stated that ASP does not always submit hiring paperwork to the Business Office in a timely manner. Student employees sometimes work several weeks before they have been entered into the Payroll system. Occasionally, management submits time reports for work dates that are prior to the start date entered into the Payroll system.

Management Plan – Effective January 2007, ASP revised their practices. Managers may not put new employees on the work schedule until all hiring paperwork has been completed and turned in. Management acknowledges, on occasion, someone may still advertently send paperwork in late. ASP will implement a process to monitor and curtail this practice.

2.3 Employment Eligibility and Identity Processes – University Audits reviewed I-9 forms to verify the hire dates for a sample of student employees. Federal regulations govern the completion, retention, and re-verification of the I-9 form. The following errors were noted on some of the forms:

- Employees and/or employers did not complete I-9 forms on a timely basis
- Employees and/or employers used whiteout on the form
- Certification dates were missing or inaccurate
- Management makes copies of driver licenses, passports, and other identification and attaches those copies to the form
- Management does not maintain a tickler file to notify them of students who need verification

2.4 Student Employee Job Descriptions – Job descriptions assigned to temporary employees are inconsistent. During a review of ASP's hiring practices, University Audits noted that management classifies class checkers as monitors or tutors and building monitors as tutors, monitors, or clerks.

Management Plan – Management has determined how to classify temporary student employees. ASP will apply this classification to current and future temporary employees. **Completed**

2.5 Student Employee Status – ASP hires students to fill specific temporary positions. Management does not monitor student status.

Management Plan – Beginning September 2007, management will require student employees to bring in copies of their class schedules each semester to verify they are registered students at the University of Michigan or another institution of higher learning. Management will also inform them that it is their responsibility to report changes in student status.

2.6 Student Employee Termination – The Athletic Business Office (ABO) forward dates official termination paperwork to ensure they have sufficient opportunity to enter late time data. The ABO acknowledges that ASP occasionally submits time reports (for work performed prior to the employee's termination date) after the employee has been purged from the Payroll system. The ABO cannot enter pay data for employees after they have been purged from the system.

Management Plan – Beginning immediately, ASP will submit termination paperwork timely. **Completed**

Payroll – Control Issues:

3.1 Timekeeping and Payroll Policies and Procedures – ASP does not have written documentation describing its timekeeping and payroll policies and procedures.

Management Plan – Management will document timekeeping and payroll policies and procedures and communicate procedures to personnel as needed.

3.2 Temporary employees complete and sign internal time documents – ASP transfers time data from internal time documents to official time report forms obtained from the U-M Payroll Office. During a review of this process, it was noted that:

- ASP's internal time documents are outdated. They request information that is not required. They also ask employees to provide social security numbers.
- The ASP transfers time data for 40 to 60 employees each bi-weekly pay period. Providing the official time report to the employee for completion may be more time efficient and reduce any errors associated with transferring data to time reports.
- The ASP maintains internal time documents for two pay periods after the pay date. University Standard Practice Guide section 518.1 states that these documents must be retained for seven fiscal years plus the current fiscal year.
- The ASP allows employees to submit hours by e-mail. The best practice to support payroll expenditures is to obtain a time report signed by the employee.

Management Plan – Management has established new procedures for payroll. Official time reports will be maintained in a database software system called Accutrack.

3.3 Monitoring Temporary Employee Hours – Management does not always have direct knowledge that hours reported by temporary employees are accurate.

Management Plan – Management has implemented a process for monitoring work hours. By Fall 2007, ASP will install Accutrack, an ID-based check-in system that monitors activity. In the interim, there will be separate sign-ins for building supervisors and learning coordinators. Class checkers will be asked to record their time data on the daily reports they provide to management.

3.4 Custody of Approved Time Reports – Management returns signed time reports to staff members for delivery to the Athletic Business Office. This practice gives employees an opportunity to alter his/her time report without the approver's knowledge.

Management Plan – Effective immediately, management will no longer return signed time reports to staff members. The co-directors will be responsible for delivering staff time reports to the Athletic Business Office. **Completed**

3.5 Reconciliation of Gross Pay Registers – ASP management does not review the Gross Pay Register. A timekeeper at the Athletic Business Office compares the Gross Pay Register to copies of time reports, but does not have access to original internal time documents.

Management Plan – Athletic Business Office personnel have begun sending copies of the Gross Pay Register to ASP co-directors for their review. **Completed**

Staff Training and Development – Control Issues:

4.1 Documentation of Staff Training – ASP regular and temporary staff members occasionally attend training classes to promote performance improvement and professional development. University Audits noted that:

- ASP does not have documented policies and procedures pertaining to staff training and development.
- ASP does not maintain support documenting rules education and other training classes/courses completed by academic counselors.

Management Plan – Management now maintains a database of all staff development and training. **Completed**

4.2 Staff Evaluations – The ASP does not consistently perform annual performance evaluations.

Management Plan – Management will provide annual staff evaluations. Management will share information with both the Athletic Director and the Provost Office.

4.3 Program Evaluations – University Audits was unable to review evaluations appraising the effectiveness of the Academic Success Program. ASP management stated that program evaluations previously completed by tutors and student-athletes were not retained. ASP is in the process of updating evaluation forms.

Management Plan – Management will survey tutors, student-athletes and coaches each semester on program, building and staff evaluation. Review of all survey information will be conducted annually and survey results will be shared with the Athletic Director and the Provost Office.

The ASP staff is very dedicated to supporting student-athletes. A follow-up to the outstanding issues will be conducted in the second quarter of fiscal year 2008.

Ross School of Business Dean's Office Fiscal Responsibilities #2007-821
Issued July 20, 2007

University Audits completed a review of the central processes at the Stephen M. Ross School of Business Dean's Office after consultation with and at the request of the Dean. The objective of the review was to determine whether or not the Dean's Office has adequate procedures to monitor and control the following central processes:

- Payroll
- Procurement
- Financial reporting and monitoring
- Discretionary funds
- Delegation of authority
- Conflict of interest and commitment
- Ross Marketplace operations (cash handling, merchandise inventory, and credit card processing)

Control Issues:

- P-Card Issues
  - The Assistant Dean for Finance and Planning is responsible for approving 63 P-Card statements monthly.
  - P-Card reconcilers do not print P-Card statements when they don't expect to see activity, in order to confirm that there was no activity.
  - P-Cards are used to purchase supplies and services greater than the $5,000 limit per transaction. Testing revealed 18 purchases during fiscal year 2007 that were split to avoid going through Procurement Services for a purchase order.

  Management Plan – Management agreed to reduce the number of P-Cards approved by one person to less than 25. They will use purchase orders to purchase supplies and services that exceed the $5,000 limit. They will also require P-Card approvers to take the new P-Card training and to review all statements monthly.

- Form G Payments – The Director of Executive Education led various Executive Education programs and was compensated through the Form G during fiscal year 2007. Standard Practice Guide section 201.85 states the stipend should be used for additional non-recurring services and the dean or director normally should not approve special stipend for more than four days in any calendar month without fully explaining the unusual circumstances. There was no documentation to support an approval of the amount from the Office of Academic Affairs and no explanation of the payments for more than four days in a calendar month. The activities noted on the Form G's appear to be continuing.

  Management Plan – We have participated in the planning and design for the new supplemental payment process, and will be a pilot program participant beginning in July. Appropriate staff is currently scheduled for necessary training for the new system.

- Travel and hosting expense documentation was not consistently complete. University Audits noted:
  - Hosting events without a list of attendees or a completed hosting form
  - Hosting receipts which were not itemized in order to identify alcohol purchases
  - Airfare itinerary that did not include the "class"

- Indirect Cost Recovery Excluded Expenses – Indirect cost recovery excluded expenditures are not consistently flagged with the appropriate class ending in "X".

Management Plan – We will circulate the policies and procedures regarding the proper coding of indirect cost recovery expenditures to our managers and staff. The monthly Statement of Activity reconciliations will be used to identify these expenses that have not already been flagged.

- Ross Marketplace Observations – University Audits identified opportunities for improvement over inventory, cash handling and credit card processing controls in the Ross Business School merchandise store:
    - Unauthorized Change Fund – Revenue from merchandise sales is used as a change fund for Marketplace sales. All funds collected should be deposited into an authorized Ross Business School Account.

      Management Plan – The merchandise revenue was deposited. An Imprest Cash (change fund) Agreement Form has been completed, with the designated custodian identified and will be in place prior to the next Marketplace sale in September 2007.

    - Merchandise Inventory Controls – Merchandise inventory is not adequately secured or accounted for on a regular basis.

      Management Plan – Storage capacity has been added and all inventory is now secured upon delivery. A policy to do physical inventory count is in place and will be performed twice per year. The reconciliation will compare the on-hand count with the monthly unit sold data. Inventory procedures will be documented.

    - Cash Handling Controls – To adequately protect cash receipts for the Marketplace table sales, the following controls should be implemented:
        - Limit the number of persons who handle the cash during the sales events to create single accountability.
        - Maintain a pre-numbered cash receipts journal and require that a cash receipt be given to all customers.
        - Reconcile the revenue to cash receipts at the end of each table sale.
        - Separate responsibilities for receiving, reconciling, and depositing cash sales.
        - Document cash handling procedures.

      Management Plan – At the next sale (September 2007) reconciling and deposits will be done by different individuals. Pre-numbered cash receipts will be provided. Cash will be deposited at the end of the day, or the beginning of the next day if the sale extends past normal hours. Inventory reconciliation will be done immediately following the conclusion of the event. Cash handling procedures will be documented.

    - Credit Card Processing – Credit Card refunds are processed by the same individual responsible for sales, without review or approval. Credit card receipts that detail the entire credit card number and expiration date are not secured.

      Management Plan – Each credit card refund will be authorized only by the Marketplace Coordinator (or higher authority) who will verify the original transaction. Credit card receipts will be put in a secured locked box and the terminal is being reprogrammed now to show only the last four digits of the credit card number. Credit card processing procedures will be documented.

- Written Delegation of Authority – Signing authority that has been delegated by the dean to various individuals is not appropriate documented. Delegations of authority should be in writing and include:

- Names and titles of individuals with delegated authority
  - List of delegated responsibilities
  - Guidelines for applying delegated authority
  - Expiration date(s)

  Management Plan – We will implement a listing of all formal delegations by the Dean to his direct reports. Written guidelines will also be provided to those with delegated responsibility. It will be updated on an annual basis by September 1 of each academic year.

- Reconciliations - A high level review of the Gross Pay Register and the Statement of Activity is performed; however, the statements are not reconciled to source documentation and related time reports to verify the appropriateness of time reporting and payroll expenses and help ensure that department's funds are used appropriately and recorded correctly.

  Management Plan – We will reconcile the Dean's Office Gross Pay Register and Statement of Activity to source documentation monthly to verify that payroll expenses, time reporting, and all other transactions are accurate and appropriate.

- Executive Education – Overtime Management – Executive Education policy indicates that overtime should only be worked to cover program classes and events that take place outside of normal business hours, unless there is an exception. To increase assurance that overtime usage is appropriate and approved:
  - Expand payroll procedures to include
    - The policy statement that overtime hours should only be worked to cover program classes and activities that are scheduled outside of normal work hours, unless granted as an exception.
    - A chart pf anticipated overtime hours for scheduled program that can be used for reviewing the reasonableness of overtime hours.
  - Require that supervisors estimate overtime hours needed and complete the overtime approval form.
  - Reconcile hours reported on the time report to the overtime calendar to verify consistency and that overtime hours are reported on the actual day worked.

  Management Plan – Executive Education will immediately put all University Audits recommendations into place. Supervisors and staff members were notified of the policy changes regarding overtime at the June 26, 2007 staff meeting.

In the second quarter of fiscal year 2008, University Audits will verify that changes were made and working as intended.

College of Literature, Science, and the Arts Biological Station #2007-205
Issued August 6, 2007

The University of Michigan Biological Station (UMBS) is a teaching and research facility located approximately 265 miles north of Ann Arbor outside of Pellston, Michigan. It is apart of the College of Literature, Science, and the Arts (LSA). The Station sits on the southern shore of Douglas Lake, covering 10,000 acres of land that includes shoreline, riverfront, marsh, bog, and forest.

The purpose of this audit was to review operational and information technology practices, policies, and processes at the Station. Included in this audit review and testing were the following processes:

- Operations
- Safety and security
- Financial responsibilities

- IT infrastructure

Control Issues:

1. License Information Not Available - The Station uses a standard set of software applications on most of its Mac and Windows computers. LSA has site licenses for most of these applications, and the UMBS system administrators can refer to LSA's license tracking system for complete lists. However, there are some applications that are not covered under LSA's site licenses. While logs of licenses owned, and knowledge of approximate distribution exists, a complete and accurate list of the configuration of specific computers does not exist.

   Management Plan – The UMBS Assistant Director will work with the Resident Biologist, who serves as the System Administrator, to create a comprehensive software list and a method to keep it up-to-date.

2. Data Transmission – Because UMBS has offices in both Pellston and Ann Arbor, a high volume of data is transferred between the locations. Occasionally, the data transferred via e-mail is sensitive in nature. UMBS is currently not encrypting e-mail.

   Management Plan – The UMBS office will work with LSA IT to develop a method for encrypting sensitive e-mail. Until encrypted e-mail is instituted, we will review with out staff items considered sensitive that should not be sent via an unsecured medium like the e-mail system.

3. Backups - Whenever important information is kept on a computer, a backup system is necessary. It is important that measures be taken to ensure that important data is not lost. UMBS does not currently employ a coordinated backup solution.

   Management Plan – The Ann Arbor staff used the LSA servers to backup their files on a daily to weekly basis. Each Pelliston staff member has been trained in the routine use of local backup systems such as USB jump drives, as well as the use of the LSA servers. We will make backup via the servers mandatory for all UMBS staff members.

4. Static IP Addresses – A static IP address occurs when a computer uses the same address every time it logs on to the network. Once assigned a static IP address, registered users can easily connect to the network and be identified by administrators. UMBS currently uses only static IP addresses. This can create a problem for visitors and newly arrived faculty and students. It is also time consuming for staff to assign and track these IP addresses.

   Management Plan – UMBS will implement a Dynamic Host Configuration Protocol group for students and other campus visitors. Expansion to visiting faculty members will be determined by the success of the student implementation.

5. Access – In a networked computing environment, it is important that all users have their own username and password. This is accomplished on the Ann Arbor campus with a Uniqname and a Kerberos password. Unique IDs allow for greater system administrator control of the system, and precise user tracking in case of misuse. It also keeps unauthorized users off the network. UMBS does not currently require users to login to the network to use computer resources.

   Management Plan – We agree that user access controls should be stronger. However, at this time, we do not have the resources available to implement the recommendation, and will temporarily accept this risk. UMBS is in the process of hiring a full time systems administrator and will make this a priority for that individual once they are hired.

6. Atmospheric Tower Safety Form Issue – UMBS has three atmospheric towers that take measurements for a number of different purposes. There are thorough safety guidelines and instruction available at each tower. Staff at the Prophet tower provide a written document to anyone doing work at the tower, and require that users sign a form indicating they have read the document and received safety training. The AmeriFlux and FACET towers do not have these documents.

   Management Plan – Our staff will develop safety and instructional documentation and sign-off forms for the AmeriFlux and FACET towers based on the existing materials at the Prophet tower.

7. Handling of Building Keys - Keys to all UMBS buildings are stored on a peg board in the Facilities Manager's office. This office is kept unlocked. UMBS issues keys to the Station to staff. Full time staff keep their keys year round, and seasonal staff are reissued keys each season. Logs of key assignments are not maintained.

   Management Plan – A lockable key box has been ordered for key storage. Until the key box is installed, and the keys are transferred to it, the Facilities Manager's office will remain locked at all times. We will develop a key log out system for the Station to be implemented next summer.

8. Deposit Transport - UMBS staff transports cash and checks from the Station to National City Bank in Cheboygan for deposit. These funds are carried in regular envelopes.

   Management Plan – Effective immediately, UMBS will use tamper-proof bags to transport deposits to National City. These bags are provided by the U-M Treasurer's Office and comply with the U-M Treasurer's on-campus deposit transport protocol.

9. Segregation of Duties - The UMBS Office Manager is responsible for both reviewing inventory and replenishing inventory. It is important that one person does not have responsibility for purchasing, receiving, tracking and allocation of inventory items. When it is impossible to have a different person oversee each of these steps in inventory management, supervisory oversight is essential. This can be accomplished with monthly inventory reconciliations, statements of activity, exception reporting, and detailed reconciliations.

   Management Plan – Inventory review duties will be moved from the Office Manager to the Office Clerk. In the event that the Office Manager must perform an inventory review, a secondary review will be done by the Associate Director.

10. Inventory Held for Resale - A physical count of inventory at the Station store is performed at the beginning and end of the season. The ending inventory is then compared to the beginning inventory to determine what was sold over the summer. Counts are based upon descriptions of each item, but some can be vague, leading to misidentified stock.

    Management Plan – UMBS is in the process of looking for a new billing system. One of our requirements is the ability to use item numbers along with descriptions for our inventory. UMBS Associate Director will contact U-M Purchasing for recommendations and ideas. If the implementation of the new system is soon, we will use that to address this issue. Otherwise we will add item numbers to our records manually.

11. Credit Card Receipts Used for Reconciliation – P-Card reconciliations should be performed using original receipts containing a list of items purchased. A review of UMBS reconciliation forms shows that reconciliations have been performed based on credit card receipts indicating totals instead of detailed receipts.

Management Plan – We will require both detailed receipts and credit card authorization slips be included in the P-Card reconciliation paperwork.

12. Property Signage – The UMBS covers a large area of land. Some of this land is being used for scientific research. Disturbances to certain areas of the forest could skew the results of this research. Station property also contains land available for hunters and a nature preserve that is off limits to hunters. Because of the size and diversity of the area, and the sensitivity of parts of it, Station management has concerns regarding trespassers, and appropriate use. University Audits examined the signage on the property in proximately to the atmospheric towers with the Facilities Director and found less frequent posting than expected.

    Management Plan – We will meet with the UMBS Land Use Committee this summer to review the location and frequency of land postings on Station property. We will review state regulations for postings, as well. The postings will be added as needed to meet the recommendations of the Land Use Committee and state regulations. We will also create informational signage to post at property access areas.

13. Cash Handling Controls – Due to the small number of office staff at UMBS, there is not always adequate separation of duties when handling cash. When duties can not be separated, compensating controls such as additional transactional review and supervisory oversight should be put in place.

    Management Plan – In Pellston, the Office Manager will open the mail, endorse the checks, and make a list of checks. The Office Clerk will post checks and make the deposits. Both will reconcile the list of checks with the deposit slips. In Ann Arbor, the Assistant for Student Administration will open the mail, endorse the checks, and make a list of checks. Accountant Associate will post checks and make deposits. Both will reconcile the list of checks with the deposit slips. The UMBS Associate Director has oversight responsibility for these functions.

14. Manual Financial Processes – The staff at UMBS maintains detailed records of all financial transactions for the Station. Their current system requires a great deal of manual entry and tracking. For example, all credit card transactions are deposited to the same account and must be separated into their appropriate components.

    Management Plan – We will contact the Associate Director Financial Operations for his ideas concerning the improvement and streamlining of our billing system. We will implement an improved system based on these discussions.

15. Capital Equipment List – UMBS maintains a Capital Equipment List. This list has not been properly reviewed and reconciled. Based on a sample taken from the Capital Equipment Inventory list, items were located and compared to the detailed records. The only item that could not be located was a copy machine acquired in 1989.

    Management Plan – This list will be reviewed annually and items no longer in Pellston or Ann Arbor will be removed. Any inaccuracies in the list will be corrected.

16. LSA Conflict of Interest/Commitment Policy – According to Standard Practice Guide section 201.65-1, "all actual and potential conflicts of interest or commitment must be disclosed to a designated University official; evaluated; and, if found to be significant, eliminated or managed." The U-M College of LSA provides documents to be filled out in the event of the existence of potential conflict of interest situations. Several potential conflict of interest situations had not been disclosed in writing including spouses working at the Station and kitchen staff providing produce to the Station.

Management Plan – We have received copies of the LSA Conflict of Interest and Conflict of Commitment Policies. We will make sure that all potential conflict of interest issues are disclosed in writing to the appropriate UMBS and LSA staff members.

17. Chemical Hygiene Plan – A Chemical Hygiene Plan (CHP) addresses policies and standard operating procedures in specific labs, as well as for the Station as a whole. The lab's CHP should be complementary to the campus plan. This document is used to ensure that employees are protected from harm due to chemicals.

    U-M's office of Occupational Safety and Environmental Health commented in both the 2002 and 2006 inspection reports that the CHP has not been completed. The responses to these reports did not address the CHP issues.

    Management Plan – UMBS Research Lab Specialist will review the CHP for completion and accuracy. We will institute periodic reviews to ensure that the document remains current.

During the third quarter of fiscal year 2008, University Audits will meet with the Biological Station management to review progress made on the outstanding issues.

Intercollegiate Athletics NCAA Compliance – Employment of Student-Athletes #2007-406
Issued August 13, 2007

As a member of the National Collegiate Athletic Association (NCAA), the University of Michigan is obligated to comply with NCAA regulations. This audit focused on Bylaws 12.4 regarding Employment of student-athletes, which stipulates student-athletes can be employed on or off campus at any time during the academic year or during the summer, including vacation periods within the academic year. Student-athletes should be compensated only for work actually performed at a rate commensurate with the going rate in the locality for similar services and not for any benefit to the employer based on the athlete's publicity or reputation. The University of Michigan is expected to have a monitoring program for student-athlete employment which includes education of the employers, boosters and student-athletes regarding NCAA legislation.

The objective of this audit was to determine whether Intercollegiate Athletics (ICA) policies and procedures for monitoring the employment of student-athletes are in compliance with the NCAA legislation governing such employment. University Audits also determined if ICA is maintaining adequate documentation to establish compliance with NCAA Bylaw 12.4. The framework for this audit was developed in part by The Association of College and University Auditors (ACUA). Audit steps included:

- Identifying ICA personnel who have primary responsibility for supervising the University's compliance with NCAA legislation in this area.
- Reviewing documented policies and procedures for compliance with NCAA legislation.
- Reviewing the adequacy of documentation regarding employment of student-athletes.
- Identifying and documenting all educational efforts undertaken by ICA to ensure that student athletes, employers and boosters understand applicable University policy and NCAA legislation.
- Determining compliance of student-athletes employed by the U-M.
- Selecting a sample of employed student-athletes and verifying compliance with NCAA legislation.

Based on audit work performed, it appears ICA has proper policies, procedures and controls in place to promote compliance with NCAA legislation regarding the employment of student-athletes. ICA puts

forth great effort to educate student-athletes, employers, and boosters on the NCAA legislation regarding employment of student-athletes.

This audit is closed and no follow-up is required.

Intercollegiate Athletics Student-Athlete Equipment and Apparel #2007-409
Issued August 24, 2007

University Audits has completed a review of Intercollegiate Athletics (ICA) to determine whether controls are in place to monitor and account for athletic equipment and apparel as required by NCAA regulations. NCAA legislation prohibits the University from providing athletic equipment and apparel to prospects, members of their families, friends or their high school.

NCAA legislation generally allows the University to provide student-athletes with athletic equipment and apparel that are necessary for practice or competition. Student-athletes are usually allowed to keep articles of athletic clothing that have been used and have little value. Generally, they are not allowed to keep items of greater value.

Restrictions apply to the use of a manufacturer's logo on a student-athlete's official uniform and all other competition apparel. A single manufacturer's trademark may be displayed provided it does not exceed NCAA size restrictions.

Equipment and apparel used in the following sports during the 2005-2006 seasons was reviewed for compliance with NCAA regulations:

- Football
- Men's Gymnastics
- Women's Track and Field
- Women's Golf

Audit procedures included interviews with equipment managers, coaching staff, and key personnel in the Compliance Services Office. Other audit procedures included the following:

- Manufacturer trademarks on competition apparel were inspected and reviewed for compliance with NCAA restrictions.
- Policy manuals and inventory records were reviewed to ensure that procedures are in place to maintain control of the distribution, return, and disposal of equipment and apparel.
- Educational programs were reviewed to ensure that coaches and staff understand NCAA equipment and apparel regulations.

Control Issues:

1. Record Keeping Requirements - Standard Practice Guide section 604.1 *Department Record Retention for Business and Financial Records* indicates that records be kept for the current fiscal year and the immediately two preceding years. An assistant track coach reported that she had an electronic file of returned equipment for the 2006 season, but she was unable to access it because her local computer hard drive was recently damaged.

   Management Plan - Equipment managers and coaches plan to modify procedures so that equipment return records will be retained for required retention periods.

2. Competition Apparel - NCAA regulations state that student-athlete competition apparel shall bear only a single manufacturer's trademark regardless of the visibility of the trademark. Our review of a sample of athletic apparel noted that there was a second trademark on certain men's gymnastics, women's track & field, and women's golf apparel items. The second trademark was a very small symbol on a zipper pull or cuff.

Management Plan - The Associate Athletic Director contacted the Director of Membership Services for the NCAA to request a review and decision on whether the additional logos constitute a compliance violation. In response, the NCAA provided a written response stating that they have reviewed the items in question and determined that "it is not necessary to self-report a secondary violation of this issue".

Auditors Comments: We reviewed the NCAA's response, noting that additional logos on zipper pulls and sleeve cuffs appear to be both an industry and institutional standard and per the NCAA, "The issue does not rise to the level of national significance at this time." We commend the Compliance Services Office for their swift action and effective resolution of this matter. **This item is closed.**

Educational efforts undertaken by the Compliance Services Office have been effective to ensure that coaches and equipment managers understand NCAA equipment, apparel, and trademark regulations. We will perform a follow-up to ensure that recordkeeping procedures have been improved during the fourth quarter of fiscal year 2008.

Army ROTC Business Office Internal Controls #2007-818
Issued September 11, 2007

University Audits completed a review of the internal controls related to financial processes at the Army Reserve Officers Training Corp (Army ROTC).

The Army ROTC is a program of leadership and military skills training intended to prepare students for officer responsibilities in the active Army, Army Reserve or Army National Guard following graduation.

With the exception of one University of Michigan (U-M) employee, all Army ROTC personnel are assigned and supported by the Army. Officers generally serve a three-year term at an institution and then rotate to another assignment, as determined by the Army.

The objective of the audit was to determine whether financial internal controls adequately support business operations, safeguard assets, and promote adherence to U-M policies and procedures. The following areas were evaluated:

- Delegation of Authority
- Purchasing Policies and Procedures
- Imprest Cash Fund Management
- Travel and Hosting Policy and Procedure
- Statement of Activity and Gross Pay Register Reconciliation

Overall, the internal control environment at Army ROTC does not provide an adequate level of assurance that assets are protected. Opportunities for improvement are detailed below.

Control Issues:

1. Delegation of Authority - U-M routinely delegates signing authority to the ROTC Chair and Executive Officer. In turn, the Chair can delegate his or her authority to their office administrator who is a U-M employee. The officers usually have little or no prior University experience, and the complex nature of the U-M's financial and procurement systems make it difficult for the officers to effectively monitor purchasing activity for compliance with University policy.

   Management Plan - Both the Department Chair and Executive Officer attended Procurement training and the new Department Secretary received MAISLINC and Procurement training. In

the future, the Department Chair, Assistant Chair and Department Secretary will be required to take Procurement training as part of the orientation process.

2. Purchasing Policy and Procedures - Non-PO vouchers are not being reconciled on a timely basis. Documentation of a clear business purpose is inadequate. The ROTC administrative assistant routed P-Card, Travel Advance and Expense Reports through a higher authority, by-passing the departmental approver, who would have first-hand knowledge of the appropriateness of these expenditures.

   Management Plan - The Department Chair is now in the routing process for all financial transactions including Non-PO vouchers, P-Card, Travel Advance and Expense Reports.

3. Travel and Hosting Policy and Procedure - Management's expectations regarding travel budgets and hosting limits are not clearly defined or enforced. Although management was able to verbally express their expectations for various event budgets, limits were not documented.

   Management Plan - Management will continue to comply with the University's travel and hosting SPG. All Travel and Hosting Forms will require the signature of the Department Chair. Management will start recording actual attendance at larger events in an effort to better estimate the budget required for these kinds of events in the future. U-M Strategic Suppliers will be used whenever possible. Purchases from outside vendors will be made with a P-Card and the individual responsible for purchasing will not reconcile or approve his or her own P-Card statement.

4. Statement of Activity (SOA) and Gross Pay Register (GPR) Reconciliation - The Army ROTC's SOA and GPR are not being regularly reconciled. These reconciliations are key financial controls that should be performed as soon as possible to ensure proper management of the unit's resources. Per the University's Statement on Stewardship, it is the fundamental responsibility of the unit administrator to "Monitor your current expenditures and revenues regularly for accountability purposes including the proper reporting of time and effort and correct payment of wages to employees and payments to vendors."

   Management Plan - Effective with the July 2007 SOAs and GPRs, a cadre member without purchasing authority, will reconcile the statements monthly. The Executive Officer (EO) is the only instructor with purchasing authority. Instructors other than the EO will be charged with reconciliation responsibilities.

A formal follow-up will be conducted during the second quarter of fiscal year 2008 to ensure internal controls have been strengthened and are working appropriately. The follow-up review will include testing of the newly implemented procedures at the Army ROTC office as well as the offices of the Air Force ROTC and the Navy ROTC.

Intercollegiate Athletics Booster Clubs #2007-4101
Issued September 28, 2007

The objective of this audit was to determine whether ICA maintains adequate control over a sample of booster clubs and that each club in the sample complies with applicable NCAA Bylaws and regulations. The clubs included were The University of Michigan Club of Greater Northville, The University of Michigan Club of Toledo and the Bob Ufer Quarterbacks Club.

All financial records and statements of disclosure were complete and supported by adequate documentation. ICA's Compliance Services Office and Business Office provide booster clubs with information regarding NCAA regulations for student-athletes. They review and approve club transactions for all awards and team banquets.

Based on our review, ICA maintains adequate control over the three selected booster clubs and the clubs comply with applicable NCAA Bylaws and regulations.

Healthcare

UMH Operating Rooms – University Hospital Supply Chain Management #2007-108
Issued August 17, 2007

University Audits conducted an audit of the internal controls over supply chain management in UMH Operating Rooms – University Hospital (UH OR). Operations are performed at numerous locations throughout the Hospital. There are 36 operating rooms at the main complex (University Hospital, Mott and Cancer Center), 24 of which are located in UH OR. Various surgical procedures are performed in UH OR, including neurological, orthopedic and general surgical procedures. Four operating rooms are located at Kellogg Eye Center. Livonia Surgery Center and East Ann Arbor ambulatory surgery centers provide an additional nine operating rooms. Eight operating rooms were added with the completion of the new Cardiovascular Center.

Operating room supply expenses comprise over 50% of the Hospital supply budget and approximately 10% of the UMHHC annual budget. Inventory for the Operating Rooms (OR) is currently manually maintained; however, UH OR has begun a multi-phase implementation of the GE Healthcare Systems Centricity™ Operating Room Management Information System (ORMIS). The base system, including security, interfaces, reporting, doctor preference cards and the OR scheduling module, was implemented in March 2006. Implementation of phase II, clinical documentation, is underway and projected to be complete in August 2007. Phase III funding for implementation of electronic inventory management has been approved as part of the fiscal year 2008 budget. It is estimated for completion in fiscal year 2009.

University Audits examined the following processes to evaluate the adequacy and effectiveness of controls governing OR supply chain management:

- Procurement
- Purchasing, receiving and invoicing
- Inventory management, including implant devices
- Charge capture
- Vendor access to operating rooms
- Budget monitoring

Best Practice:

Purchase Transaction Reconciliation - OR Purchasing Services reconciles all supply invoices to the packing slip and original supply request to ensure all billed items were appropriately received within the OR. OR nurses submit supply requisition forms to OR Purchasing Services to request products, and purchasing clerks order requested supplies from vendors. All OR supplies are received within the purchasing office, which is located in the OR administrative area. Purchasing clerks rotate the responsibility of opening received packages and verifying contents to the supply requisition form. OR Purchasing Services also matches paid vouchers and attached invoices to the supply requisition form and packing list received for each shipment.

The three-way match procedure substantiates existence and appropriate authorization of purchased products. Matching package contents to the packing list and supply requisition form ensures legitimacy of delivered packages and decreases the risk of undetected loss or theft. Considering the sensitive and vital nature of OR inventory, UMH Operating Rooms management is commended for executing detailed reconciliation of the purchasing process.

Control Issues:

- Product Recall Follow-up - UMHHC Policy 05-02-007, Product Recall/Hazard Warning Control Program, details the process for communication of and response to product recalls. UMH Value Analysis, a part of the UMHS supply chain process, is responsible for obtaining and distributing product recall information to affected departments. The policy specifies that affected departments are responsible to promptly respond to recall notices, indicating whether the recalled product is present in their area. Based on a review of the Product Recall List that is maintained by Value Analysis, UH OR had not responded to several aged recalls. The process for responding to product recall notices is not formalized within UH OR.

  Management Plan - OR management will formally document response procedures to product recalls/hazard warnings received from Value Analysis or directly from manufacturers via mail or email. Lead and back-up persons responsible for initial response, recalled product disposition and follow-up reporting to Value Analysis will be identified. Management will provide training on the reporting process as necessary to designated respondents. Implementation of these corrective actions will help UH OR to:

  - Maintain compliance with UMHHC Policy 05-02-007, Product Recall/Hazard Warning Control Program
  - Prevent use of potentially defective medical supplies and implants
  - Identify recipients of products/implants that may cause adverse reaction

- Formal Documentation of Supply Chain Procedures - Procedures are not formally documented for OR supply chain processes, including purchasing, receiving, invoice approval, inventory and implant management, charge entry and correction and vendor access to operating rooms. Informal procedures exist for many processes; however, formal procedure manuals are not available. Documented procedures provide a standard source of information, which contributes to training and communication, aids in consistency among teams and facilitates the information update process.

  Management Plan - OR management will develop formal documentation for purchasing, receiving, invoice approval, inventory and implant management, and charge entry and correction processes. In addition, management will flowchart the process to show how it impacts other areas outside of the Purchasing area. This document will be used for training purposes as well as setting performance expectations. The established policy for Vendor Access to the OR, developed by OR nursing staff management, will be reviewed and included with OR Purchasing documentation. Providing a training manual for new staff members will build confidence and maintain consistency for OR Purchasing business practices.

- Decentralized Manual Inventory Maintenance - Inventory procedures are not formally documented, and are highly manual and decentralized within the OR. Inventory is maintained within each surgical service area of the OR. Informal inventory procedures, including reorder levels, storage and rotation, have been developed within each area. Inventory logs are manually maintained and updated with physical inventory counts. Decentralized inventory management could result in redundant purchasing and managing efforts. Without appropriate collaboration, volume discounts on inventory purchases may not be maximized.

  Management Plan - With the implementation of ORMIS Phase III, the ORs will have the capability to actively manage inventory levels, establish proper reorder points, and monitor expiration dates in an electronic fashion that should address many, if not all, related audit issues. Note that suture/surgical staple inventory is centrally managed using established par level order forms by inventory location. Counts and orders are transmitted to vendors electronically via handheld devices. Proper control of inventory will eliminate waste and provide usage rate information during vendor contract negotiation.

- Communication of Conflicts of Interest - UMHS employees are required to disclose potential or existing conflicts of interest annually via M-Inform. Departments are responsible for managing disclosed conflicts of interest. Standard language used in purchasing contracts indicates that suppliers are responsible to inform the University of known actual or potential conflicts of interest. However, a formal process does not exist within University units for communication of disclosed conflicts of interest to UMH Contracts and Procurement. Buyers may not be aware of existing conflicts of interest with potential suppliers or vendors. This issue is not specific to UH OR and is relevant to the entire Hospital system, as UMH Contracts and Procurement manages most UMHS vendor contracts.

  Management Plan - The UMHS annual code of conduct statement and certification process includes reporting conflicts of interest via M-Inform. In addition, all UMHS staff are required to complete the UMHS Mandatory Competency Program upon hire and annually or as needed in subsequent years. Conflict of interest, outside employment and corporate compliance are among Mandatory Program topics.

  The UMHS Compliance Program will continue to work with Procurement Services and UMHS Contracts and Procurement to develop strategies for communicating conflicts of interest and commitment, as necessary. Prospective reviews of conflicts of interest will be performed for members of purchasing committees within UMHS. The Compliance Program will review conflicts of interest reported in M-Inform, and report any conflicts noted with vendors under consideration by the committee to UMHS Contracts and Procurement or Procurement Services, as appropriate.

Based on the audit work completed, internal controls over OR supply chain management provide reasonable assurance that procurement, purchasing, charge capture and inventory management processes are adequately administered. University Audits will perform a follow-up review in the fourth quarter of fiscal year 2008 to ensure corrective actions were implemented appropriately.

Adult NeuroRehabilitation Business Processes #2007-820
Issued August 24, 2007

University Audits conducted a review of the Adult NeuroRehabilitation Day Treatment Program (Day Program) at the request of the Associate Director of UMHHC and Chief Administrative Officer of Children's and Women's Programs.

The Day Program is part of the Department of Physical Medicine and Rehabilitation. It offers cognitive, emotional, and physical rehabilitation for adult patients with a wide variety of disabilities. The Day Program provides an array of services including: one day rapid assessments; two week comprehensive assessments; psycho-social transitional programming; and full day treatment programming. The program accepts patients at every function level. The major goal of the program is to assist patients in their return to the community. The following services are represented: physical therapy, occupational therapy, psychological counseling, social services, and speech therapy. Currently, the Adult Day Treatment Program shares business operation with the Pediatric Day Treatment Program, which offers the same services listed above, but is separately managed.

The purpose of the audit was to determine the adequacy and effectiveness of internal controls governing clinic business operations of the Day Treatment Program, including:

- Patient access
- Scheduling and checkout
- Charge capture
- Medical and billing record documentation

Control Issues:

1. Patient Arrival - The UMHHC Ambulatory Care Services Clinic Business Procedures (Clinic Business Procedures) provides guidance on scheduling patients in the Enterprise Wide Scheduling system (EWS), including procedures for "arriving" patients into the facility, ensuring required forms are completed by the patients and informing patients of any outstanding balances on their accounts. The following practices are not consistent with Clinic Business Procedures:
    a. *One Scheduled Visit Representing Multiple Visits.* One appointment per patient is scheduled in EWS which accounts for several provider visits during the day. Individual appointments are maintained outside of EWS, using GroupWise calendars. The facility has not established a schedule change control process, resulting in an inability to track whether a patient was seen by all scheduled therapists. Failure to schedule all appointments in EWS results in an inability to track patient and provider activities and ensure that all charges were captured for each clinic visit.
    b. *Lack of Arrival Processes.* A robust process to ensure that patients are properly "arrived" to the facility for treatment does not exist. Patients are "arrived" to a facility for a scheduled appointment by electronically changing a scheduled appointment to "arrived". Patients are not consistently "arrived" in EWS upon entry into the facility. This could result in a failure to account for therapies provided to each patient and assurance that all necessary forms have been completed. During our testing, University Audits identified two instances where the General Consent form was unsigned by the patient, a process that should occur upon arrival for patient services.

    Management Plan - We have worked with the UMHHC EWS team to build resources for each provider and hired an additional Patient Services Assistant (PSA) to absorb the significant work to schedule each patient's multiple provider sessions for each day of their treatment program. The PSA will be located at the MedRehab front desk along with existing staff who currently work with physical therapy (PT), occupational therapy (OT) and speech-language pathology (SLP) patients. Patients will be instructed or redirected upon their arrival to check in with the MedRehab front desk each day. The front desk staff will "arrive" each patient in EWS generating a Patient Encounter Form (PEF) for each patient/provider session for that day. The PEF's will be placed in provider specific folders in a pick-up basket for completion during or just after their encounter with the patient.

    Occasionally, a patient who has been "arrived" in EWS will leave the program during the day for various reasons. When this occurs, a process will be implemented to inform the MedRehab business team and Day Treatment Team via an e-mail group to note the missed sessions(s) in EWS as no-show and the Program Case Manager will attempt to backfill the session slot with another patient. When this occurs, Day Treatment staff will be informed via a group e-mail to enter a provider session in EWS for the open slot and "arrive" the new patient in EWS to create a new PEF. This PEF will be placed in the provider folder for completion during or just after the session.

    Integrating the Day Treatment Arrival function with the existing front desk function at MedRehab will provide for backup coverage and consistency with Ambulatory Care Business Operations Design Team (BODT) business standards.

2. Patient Checkout - No checkout process exists in the Day Program clinic. Patients are not consistently checked out of the clinic at the end of their visit. In addition, Patient Encounter Forms (PEFs), which detail the therapies provided, are not consistently collected from the providers at the end of the day. As a result, patient activity can not be tracked and chargeable activity is not always accounted for.

Management Plan - While the nature of the patient population and operation of the Day Treatment Program do not fit with a standard physician clinic check-out process where the patient turns in their own PEF, co-pays are collected, receipts provided, follow-up visits are scheduled and tests and ancillary treatments are coordinated; there will be a process to ensure that all provider completed PEFs are collected for all patient encounters and charges entered into C-Cubed at the end of the business day. See #3 below.

3. Charge Capture - The charge capture process in the Day Program facility lacks completeness and accuracy controls. Reconciliation processes are not sufficient to ensure proper input of clinical charges. A reconciliation of "arrived" patients to patient charges cannot be performed because a separate provider appointment is not scheduled for every therapy. In addition, during our testing, clinic staff were unable to locate three PEFs for billed psychological services appointments due to a lack of controls over the filing process.

   Management Plan - Upon completion of each patient session, the provider will complete the PEF for that session and deposit in a box designated for the Day Treatment Program in their area of the MedRehab facility. At designated times during the day the MedRehab checkout/charge entry staff will collect the completed PEFs for entry into C-Cubed. The clinical staff will be aware of these times and will deposit all PEFs through that time into the drop boxes in time for the checkout/charge entry staff to collect them. The checkout/charge entry staff will ensure that each PEF is completed properly and enter them into C-Cubed to generate a charge for each encounter. It is the clinician's responsibility to ensure the PEF is coded properly and the checkout/charge entry staff is only responsible for entering the data given properly. We will be working with consultants from Ernst and Young to train the clinical staff in the Day Treatment Program to assure that PEF forms are coded accurately. The standard internal control function of checking the C-Cubed census list for PEFs not entered into the system will be handled by the Senior Administrative Assistant the next morning as is current practice for PT, OT and SLP activity at MedRehab.

   We are currently working with the UMHS Compliance Office to ensure that our charge capture and service billing policies are in full compliance with CMS and other third party regulations. Any future Compliance Office recommendations that may require modifications to the process as stated above will be implemented accordingly.

4. Medical Record Documentation - UMHHC utilizes a single medical record that contains all information regarding the patient care in the inpatient and ambulatory care settings. This ensures that all information in the medical record is made available to care givers no matter where located or in what specialty. It also ensures compliance with regulatory, accreditation and third party payor requirements. Shadow medical records are maintained at the Day Treatment Program and records are not consistently updated to CareWeb and/or the central record repository on a complete and timely basis.

   Management Plan - The HHC Senior Associate Director has approved funding for laptop computers to enable all providers in the Day Treatment Program to enter their patient care documentation directly into CareWeb. This will eliminate the need for any shadow records. Any working notes maintained by individual providers will contain no information that is not also documented in CareWeb. Until funding for laptops is secured, the Program will institute a system whereby all manual patient care documentation will be imaged into CareWeb within the time limits set by UMHHC Policy 03-09-001. The manual notes along with any materials from outside the institution will be placed into one of two bins for imaging. Bin #1 will be items that once imaged will be stamped "Imaged" and returned to the provider for their working file. Bin #2 will be for items that do not need to be returned and after being imaged will be recycled through the HHC secure recycling program. All documentation will be entered into CareWeb within the timeframes stated in UMHHC Policy 03-09-001. After laptop

funding is secured, the imaging bin system will be retained for hard copy items that must become part of the medical record. Any imaged documents returned to a provider will be retained in that providers work notes until the patient is discharged from the program and then recycled through the HHC secure recycling program within 90 days of discharge. For certain adult and pediatric patients who return for ongoing therapies during summer months or after anticipated gaps in service, work notes may be retained longer than a total of 90 days but no longer than 90 days after the patient's treatment has been terminated.

Business and operational controls at the Adult NeuroRehabilitation Day Treatment Program need improvement. Management needs to develop controls in patient scheduling and accountability, charge capture and medical record documentation. Day Program procedures should be formally documented and communicated to all management and staff.

University Audits will conduct a follow-up review in the second quarter of fiscal year 2008 to assess progress of action plans.

U-M Physical Medicine and Rehabilitation Orthotics and Prosthetics Center #2007-107
Issued September 24, 2007

The University of Michigan Orthotics and Prosthetics Center (UMOPC) is a division of the Department of Physical Medicine and Rehabilitation (PM&R). UMOPC provides state-of-the-art services to adults and children requiring orthotic and prosthetic devices. Orthotic devices support, align, prevent or correct deformities, and improve the function of movable parts of the body. Prosthetics are artificial devices that replace missing body parts. UMOPC services include custom prostheses, custom and off-the-shelf orthoses, post-mastectomy products, and soft goods such as compression garments and stockings. Practitioners, technicians, and the facility are accredited by the American Board for Certification in Orthotics and Prosthetics, Inc. (ABC). Orthoses were first fabricated at the U-M in 1912. In 1936, The Brace Shop was formally established. Prosthetic services were added to UMOPC in the 1950's when PM&R was established as a department.

The primary objective of this audit was to evaluate UMOPC's outpatient charge capture processes to determine if current practices are appropriately controlled and comply with the Ambulatory Care Business Procedures Manual and UMOPC's documented procedures. University Audits reviewed processes associated with scheduling and pre-patient arrival, patient check-in and check-out, appointments with practitioners, cash handling, and charge entry. Inventory management was also reviewed on a limited basis.

1. Charge Entry Control Issues:
   1.1 Open and Unbilled Patient Encounter Forms - UMOPC does not track its open (unbilled) Patient Encounter Forms (PEFs) to verify that patients are billed and that PEFs are processed timely. PEFs are billing forms used in outpatient care to document services rendered. They are system generated from the U-M Hospitals scheduling system and remain open until charges are posted against them or they are voided.

   Investigating and accounting for missing (unbilled) PEFs is an important step in the charge capture process. It provides a means for ensuring complete and accurate charge capture for services rendered.

   Management Plan - UMOPC will review open PEFs (generated within one calendar year) for completeness and any unbilled goods or services will be billed. All other open PEFs, including PEFs generated more than twelve months ago, will be voided from the system, as this period of time is generally past most payer aged billing limits. UMOPC management has implemented a process to monitor open PEFS going forward to verify they are resolved timely.

UMOPC also assembled a team, which included assistance from a member of UMH Ambulatory Care Services Reimbursement, to redesign the PEF process to minimize future PEF duplication. It will be piloted in mid September and should be operational in November. New and revised processes will be documented in UMOPC's policies and procedures manual.

1.2 Patient Encounter Form Issuance and Control - UMOPC has twelve PEF configurations, based on the type of service. Practitioners occasionally do not receive the correctly configured PEF at the time of clinical service. The lack of a correct PEF for the type of service rendered leads to delayed billing and missed revenue, as the practitioner must complete the PEF "after the fact" instead of at time of service. The generation of incorrect PEFs also leads to the proliferation of open unusable PEFs on the Open PEF report.

UMOPC occasionally uses backup patient encounter forms when the scheduling system is down and PEFs cannot be printed. Backup forms cannot be tracked by the scheduling system. Front desk staff maintains logs to document which practitioners received backup forms. However, no one tracks these forms to ensure they are entered into the charge capture system.

Management Plan - PEF redesign is discussed in issue 1.1. The new design eliminates the need for backup patient encounter forms. Management is currently educating practitioners about UMOPC's new process for requesting and accounting for PEFs.

1.3 Prior Authorizations - UMOPC must obtain prior authorization from some insurance companies before providing deliverables to patients. During a review of a sample of patient billing forms, University Audits noted several instances in which practitioners provided deliverables to patients before the insurer authorized treatment. Insurers may reject claims when this occurs.

Management Plan - Management will review with all practitioners to reinforce the issue of lost revenue and the necessity of authorizations to receive payments. This information is also in the monthly staff meeting minutes for reference.

1.4 Charge Entry Accuracy - During a review of patient working files, University Audits noted several keying errors in billing documentation, including:

- Missing data from multiple page PEFs
- Missing data from the front and back sides of the PEF
- Incorrect quantity entered

Keying errors may occur for several reasons, including interruptions and illegible, minuscule, or obscured writing. UMOPC needs better controls to provide assurances that PEFs are entered accurately.

Management Plan - UMOPC management revised the PEF print layout and gave charge entry staff and practitioners guidelines that will improve charge capture efficiency (e.g. use of visual aids to make charges more noticeable). Management is in the process of developing self-review and management-review processes. New processes will be documented.

1.5 Reconciling Inventory to Billing Data - UMOPC appears to have processes in place to report inventory usage and maintain inventory at desired levels. However, UMOPC does not have a process to ensure that supply utilization rates appear reasonable and that all

chargeable items were captured in the billing system. Comparing inventory usage to the billing system forms a basis for discovering shrinkage and unbilled revenue.

Management Plan - Management is in the process of developing and documenting new inventory policies and procedures. The first step is to implement changes in the fabrication area using LEAN techniques and a new pull system with new management oversight. They also plan to use an inventory system similar to the one used at offsite locations to track off-the-shelf (OTS) products given to patients. This system tracks paperwork (e.g., PEFs) against inventory to manage inventory usage. In the future, UMOPC hopes its new online inventory system will provide further assistance in managing materials and OTS products.

2. Cash Handling Control Issues:

2.1 Cash Handling Procedures - UMOPC does not have sufficient cash handling controls:

- Front desk staff give pre-numbered receipts to patients when they make payments toward outstanding HealthQuest balances, but do not give them to patients who purchase OTS goods.
- Front desk staff sometimes use pre-numbered receipts out of sequence.
- Pre-numbered receipts are not reconciled to deposits.
- OTS sales are not reconciled to deposits.
- Cash on-hand is not adequately secured:
  - Patient payments and UMOPC's change fund are not maintained in a locked drawer during the day.
  - At the end of the day, payments are left in an unlocked bag in an open bin, accessible to the public, until picked up by the supervisor for deposit.
- There are insufficient segregation of duties in the review and reconciliation of cash and credit card receipts to the Statement of Activity.

Critical controls such as limited access, adequate safeguarding, segregation of duties, and regular reconciliation are needed to ensure cash is not misappropriated.

Management Plan - Management will implement the following controls:

- The cash bag will be kept in a locked drawer until the end of the day.
- Clerical staff will issue receipts for all patient payments and distribute pre-numbered receipts in sequential order.
- Payments will be reconciled at the end of the each day.
- UMOPC will reconcile patient payments to actual charges in the billing system. Discrepancies will be investigated.
- The front desk clerical staff will give the cash-on-hand deposit bag directly to the impress cash fund (ICF) custodian. If the custodian is not available at the end of the day, clerical staff will maintain the cash in a safe overnight.
- The ICF custodian will be responsible for making daily deposits.
- An alternate will be designated to deposit cash when the ICF custodian is not available.

UMOPC management is in the process of determining who will reconcile payments to the Statement of Activity. A second safe is also being moved to the Administrative Specialist's office. Cash control practices will be updated in UMOPC's policy and procedures manual.

2.2 Change Fund - UMOPC maintains an Imprest Cash Fund (established as a change fund) in a safe. The safe is located in a closet near the front entrance, accessible to staff, patients, and visitors. A review of the fund revealed that the fund is not maintained at the

established amount and that three or more individuals have access to the fund. The individual listed as the fund custodian does not have access to the fund.

Standard Practice Guide section 501.2-1 describes the University's policy for maintaining change funds. It states, "Imprest Cash must be kept in a securely locked compartment not accessible to anyone other than the fund custodian. Two or more individuals having access to any Imprest Cash Fund is prohibited." UMOPC should maintain its change fund in accordance with this policy. The safe should be restricted from public access.

Management should consider moving the safe to a less conspicuous location in the building. UMOPC should change the safe combination periodically and only share it with key individuals. Management should also change the combination after staff turnover.

Management Plan - UMOPC will maintain the fund in accordance with U-M guidelines. The administrative specialist will be the new custodian. The fund will be maintained in a second safe located in the administrative specialist's office. UMOPC will follow recommendations for safeguarding the safe combination.

3. Quality Assurance Program - UMOPC does not currently utilize quality assurance processes to review the accuracy of clinician coding or verify the accuracy and completeness of other documents maintained in the patient's working files. Implementing a quality assurance program would provide tangible evidence that clinicians and other employees are performing their tasks in accordance with established procedures.

   Management Plan - UMOPC will resurrect its quality assurance program to review patient working files. They will also consider hiring an outside party to review patient working files on a quarterly basis to determine whether they are maintained in accordance with UMOPC and UMHS guidelines.

In general, UMOPC follows internal and UMHHS Clinical Business Procedures, and effectively schedules patient appointments using the Enterprise Wide Scheduling system. UMOPC staff reconciles Clinical Charge Capture System charges to HealthQuest reports on a daily basis and University charge posting reports show that lag time between charge entry and charge posting is reasonable. Improving controls in charge capture, billing documentation, and cash handling will ensure complete charge capture and enhance revenue streams. Opportunities also exist to improve inventory monitoring.

A formal follow-up to the outstanding issues will be conducted in the third quarter of fiscal year 2008.

University of Michigan Hospitals and Health Centers Permanent Art #2007-827
Issued September 26, 2007

University Audits recently completed a limited review of the University of Michigan Hospitals and Health Centers (UMHHC) permanent art. Interior Design–UMH Facilities Planning and Development in partnership with Gifts of Art, is responsible for reviewing works of art for appropriateness prior to their UMHHC acquisition and for curating and maintaining it. Interior Design has oversight for all interior aesthetics in UMHHC as part of its role in facilities planning and development. Gifts of Art brings the world of art and music to UMHHC through its numerous programs. Their joint public art mission is enhancing the environment of care to help calm, comfort and engage patients, visitors and staff.

UMHHC permanent art is typically acquired through interior design functions as part of new building or remodeling projects and is displayed in public spaces. Art valued at approximately $428,000 was acquired as part of the new Cardiovascular Center facilities project, increasing the total UMHHC permanent art value by 70% from approximately $614,000 to $1,042,000. On-going facilities projects,

including the Women's and Children's Replacement Hospital will continue to expand permanent art and increase the need for management and oversight.

This review was prompted by recommendations provided in a Gifts of Art Security Survey Report issued by the U-M Department of Pubic Safety (DPS) Hospital Division in September 2006. Based on a cost-benefit risk analysis of other art programs managed by Gifts of Art, the scope of the review was limited to a review of acquisition, maintenance and inventory controls of UMHHC permanent art. University Audits reviewed acquisition and inventory procedures and available documentation and interviewed Gifts of Art, Interior Design, UMHHC Operations and Support Services management, and UMHS Facilities Planning management.

Control Issues:

- Roles and Responsibilities - There is a need for clarification and coordination of roles and responsibilities related to acquisition and maintenance of UMHHC permanent art. The scope and charge for the U-M President's Advisory Committee on Public Art published by the President's Office in October 2006 and UMHHC Policy 05-03-011–Art Selection, Donation and Exhibition Guidelines indicate potential overlapping or complementary acquisition and maintenance responsibility for UMHHC permanent art.
  - Acquisitions - As announced in the President's Advisory Committee scope and charge, public art includes public lobby spaces. The Committee is currently developing policy and procedures for the review of proposed gifts of public art and proposed installations of public art in coordination with the University Planner and other relevant offices and committees. The UMHHC policy stipulates that all original artwork displayed in UMHHC public areas must be reviewed by Interior Design and Gifts of Art for appropriateness prior to acquisition. Art valued at more then $428,000 acquired as part of the new Cardiovascular Center was not made available to Interior Design and Gifts of Art for review prior to acquisition.

  - Maintenance - UMHHC policy indicates that permanent art is curated and maintained by Interior Design and Gifts of Art. The Advisory Committee on Public Art was charged to make recommendations concerning on-going institutional support of public art, taking into consideration maintenance of the current base of installed public art. To-date there has been no formal discussion between UMHHC management and the Advisory Committee Chair specifically regarding the maintenance and security of UMHHC public art. This could result in maintenance and security gaps.

  Management Plan - The Associate Director of Operations and Support will meet with the Committee Chair of the President's Advisory Committee on Public Art to clarify how the Committee will be engaged in UMHHC permanent art. He will review UMHHC permanent art policy and current practices and determine where inconsistencies require realignment.

- Permanent Art Inventory Maintenance and Valuation - There is no up-to-date centralized inventory listing, including current values for UMHHC permanent art.
  - Inventories of public art work with acquisition costs have been documented in various paper listings but have not been reconciled at periodic intervals to physical inventories or updated to current values.
  - Estimated permanent art acquisition costs provided by Interior Design and Gifts of Art for the University Hospital, Taubman Health Care Center, East Ann Arbor Health Center, and the Rachel Upjohn Building were almost $574,000. Cancer Center values were unavailable but estimated to be another $40,000. The Cardiovascular Center recently acquired approximately $248,000 in permanent art, but no listing was provided to Interior Design or Gifts of Art.

- Auditors observed unsecured art work in main lobbies during the Cardiovascular Grand Opening.

  Management Plan - The Associate Director will work with the Interior Design Manager and Gifts of Art Director to develop a process for completing and maintaining a central database of permanent art with updated values, including identification of resources and documentation of the inventory maintenance process. He will consult with the U-M Health Systems Facilities Planning Director regarding UMHS facilities project coordination with Interior Design and Gifts of Art to ensure inventory, maintenance and security of UMHHC permanent, public art.

- Risk Management - There is no documented HHC plan for managing the risk of UMHHC permanent art losses and current insurance coverage for mitigating the risk of loss may not be optimal. UMHHC permanent art is currently covered under the University's property insurance. In the case of total loss, property insurance provides for replacement property based on like kind and quality without depreciation. Documentation of original cost would need to be provided to Risk Management at the time of total loss. Property insurance does not cover the intrinsic value of a unique work. There is a $1,000 deductible per occurrence for theft losses. In addition, property insurance excludes fine art, rare books, jewelry, precious metals and precious stones.

  The University also subscribes to a fine arts insurance policy that could be extended to UMHHC permanent art. It covers the intrinsic value of art work. The value of permanent art would be based on a scheduled inventory of items with declared values submitted by UMHHC to Risk Management Services at the time of subscription. Annually, Risk Management Services would request an attested update to the schedule for those individual items with values that may have appreciated. In the case of claims, payment for art work donated or provided to the University at reduced cost would be based on the scheduled inventory value, including updated appreciated values. There are no deductibles on theft claims and there is no minimum value requirement for inclusion of objects in the policy. In addition to other permanent University collections, temporary exhibits including Gifts of Art galleries where inventories have been submitted prior to display and faculty and student art work around campus are covered by this policy. The estimated recharge rate for $1 million of coverage for a collection of items would be approximately $1,000 annually.

  Management Plan - The Associate Director will work with Interior Design, Gifts of Art and Risk Management to develop a documented, cost-beneficial risk management plan for insuring UMHHC permanent art. The working group may consult with the Committee Chair of the President's Advisory Committee on Public Art.

- DPS Security Report - The DPS Gifts of Art Security Survey Report was issued September 2006. As of July 2007, communication between Gifts of Art and DPS regarding the status of recommendations remained open.

  Management Plan - The Associate Director of Operations and Support Services will review the report and work with Gifts of Art and DPS to complete communications and reach consensus regarding security measures needed.

University Audits will conduct a follow-up review in the third quarter of FY 2008 to assess progress on action plans implementation.

FOLLOW-UP REPORTS

Library Special Collections – Second Follow-up #2006-205

Original Report issued June 16, 2006 Follow-up Report issued September 10, 2007

The Library Special Collections: Bentley Historical Library and Special Collections Library (SCL) original audit report was issued on June 16, 2006. A first follow-up review was issued on April 24, 2007. One issue remained open at that time. All other issues had been satisfactorily addressed during the April review. A second follow-up review has been conducted. The results of that review are as follows:

- SCL – Storage and Processing Space
  At the time of the original audit, the staff area and many aisles of the Special Collections Library's stacks were lined with piles of boxes of uncataloged and unprocessed materials. This exposed the unprocessed materials to access by any person entering the Reading Room. Such unprocessed material needs to be stored in a manner that protects them from environmental damage and physical loss. Library Management committed to 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. A satisfactory proposal has been submitted to the Library's Executive Council. The solution proposes that additional space in the Buhr building be used as an archival and processing space. This is still in the planning stage, but represents positive action on this issue and addresses the reason University Library asked us to leave the issue open.

All issues have been satisfactorily addressed. **This audit is closed.**

UMMS Surgery Research Labs IT Security Follow-up #2006-403

Original Report issued February 28, 2007 Follow-up Report issued September 26, 2007

A follow-up review was conducted by University Audits. Although corrective actions are not yet complete in some areas, substantial efforts are underway to plan and implement them.

1. Critical data stored on workstations: The Department of Surgery had planned to request and advocate for increased storage space on centrally supported servers, and for modifications from MCIT to their standard desktop computer image to facilitate the use of non-MCIT networked storage resources.

   Surgery met with MCIT and MSIS leadership to discuss these issues. MSIS has agreed to launch a pilot project offering central file storage at a very affordable cost. Surgery plans to purchase this service for its Finance area first to evaluate its performance and usability. The MCIT-supplied storage space freed up in Surgery Finance will be reallocated to Surgery Research to provide short-term relief from space shortages. Surgery ultimately hopes to extend the MSIS storage service to its Research area as well. MSIS plans to broaden the service's availability.

2. Encryption of mobile data: The Department of Surgery had planned to request and advocate for centrally managed encryption of mobile data files and devices.

   Surgery indicates that MSIS has identified a server-managed disk encryption system for laptop computers, but is attempting to align with MCIT laptop encryption plans before offering the service. Surgery expects to adopt such a product once it is offered. MCIT has issued an RFP for laptop disk encryption solutions, and anticipates selecting a product by late fall.

Surgery, MSIS, and MCIT remain concerned for travelers who may need to take encrypted laptops abroad. Information from the U.S. Department of Commerce[1] suggests that travel to most countries, including China, may fall under one or more exceptions to export controls. We recommend consulting the Office of General Counsel for further guidance.

3. Data backups: By increasing the networked file storage space available to its research area (see Item 1), Surgery anticipates reducing the need for individual lab workstation backup and associated process improvements. While this is a reasonable assumption, it should be verified by re-surveying lab file storage practices several months after the increased storage space has been offered.

4. Skilled systems administration: The Department of Surgery had planned a number of actions to increase uptake of skilled systems administration services and general internal awareness of IT security risks:
   - Team with MCIT desktop services assigned to research to visit each research lab that is not currently using MCIT services and analyze the potential of switching to MCIT desktop support.
   - Develop a policy for IT controls within labs that cannot (for technical reasons) utilize MCIT support. This policy will provide guidance on security and backup of data, and will be drafted and communicated prior to July 1, 2007.
   - Share the audit report with all sections within the Department to increase awareness of the risks.
   - Continue engaging the research labs and IT service providers to identify and implement solutions to data security issues.

   Surgery has written a departmental information security policy directing all department employees to comply with UMHS institutional information security policies not only for patient data, but also research data. This policy has been published in the Department's online procedure manual, and is featured prominently on the Department's internal web home page.

   Surgery's director of research is working with the department's Research Advisory Council (RAC) to develop specific, appropriate departmental guidelines from the UMHS information security policies. Surgery research labs that do not receive central IT support will be the primary target audience. These guidelines are expected to help the individuals in these labs to understand and implement the UMHS policy in their environment.

   The audit report was shared and discussed both with section administrators within Surgery, and with chief administrators of other Hospital departments.

   Surgery indicates that MSIS is in the preliminary stages of offering server hosting/collocation services to research labs. The RAC has agreed to work to promote researchers' adoption of this service, to better protect lab servers from environmental and physical security risks.

UMCE Cosign Web Authentication Follow-up Review #2006-303
Original Report issued November 28, 2006 Follow-up Report issued September 27, 2007

Management has taken appropriate corrective action on audit recommendations as described below. Although corrective actions are not yet complete in some areas, substantial efforts are underway to plan and implement them. **This audit is closed.**

[1] http://www.bis.doc.gov/Encryption/lechart1.htm

1. Password Transmission
   The central cosign servers require the users' passwords for validation against the Kerberos servers. These passwords could be compromised if the central Cosign servers were compromised. In the original audit, University Audits recommended that transmission of Kerberos passwords be discontinued, if possible. If not, options to authenticate using Cosign without transmitting the Kerberos password, including PKI and/or SPNEGO, were to be explored. PKI is now being investigated by ITCS, in cooperation with MAIS, as a campus-wide enhancement to password security. The Cosign development team has scheduled SPNEGO to be added to Cosign.

2. Server Location
   All four Cosign servers were in the same physical location. University Audits recommended that management address the relevant firewall issues and move at least one Cosign server to a location separate from the others. Plans have been made by UMCE to address the issue of distributing the Cosign servers across the network.

3. Policies and Procedures
   Although comprehensive system documentation existed for the Cosign application at the time of the original audit, enhancements were needed to unit level documentation. University Audits recommended that management ensure that all relevant department-level policies and procedures are documented and communicated to Cosign support staff. As part of our follow-up review, University Audits requested and obtained the latest ITCS Security Plan which supports and supplements the required documentation. This plan, prepared as part of the Information Technology Security Services (ITSS) University-wide security program, includes steps to address departmental procedures within UMCE.

MCIT Taubman Machine Room Follow-up Review #2007-306
Original Report issued February 28, 2007 Follow-up Report issued September 27, 2007

University Audits performed a follow-up review of actions taken by Medical Center Information Technology (MCIT) management. MCIT Management has implemented a number of positive changes as described below. **This audit is closed.**

Computer Workstations
University Audits indicated that computer work spaces in the machine room should be free of all clutter which creates a potential fire hazard. MCIT eliminated hazardous clutter from all computer workspaces in the machine room.

Material Hazards
MCIT improved conditions in the computer room. They completed general clean-up of the computer room, including elimination of cardboard boxes.

Fire Extinguishers
MCIT placed two additional fire extinguishers in the computer room and marked their locations with ceiling signs.

Shut-down Procedures
MCIT reviewed the top mission-critical applications. They developed and documented a process to shutdown non-mission-critical systems in a disaster situation.

UMH Quality Improvement – Office of Patient Relations Follow-up Review #2007-816
Original Report issued March 14, 2007 Follow-up Report issued September 28, 2007

Management has significantly improved internal controls over Office of Patient Relations business processes. **This audit is closed.**

1. Gift Card Pilot
University Audits examination of the processes for acquiring, storing, safeguarding, distributing, and accounting for gift cards revealed significant weaknesses. At the time of the audit, management suspended the Patient Relations Gift Card Program. It will not be reinstated.

2. Control of Petty Cash Processes
The Petty Cash account in the Office of Patient Relations is used for non-routine service recovery payments. University Audits found inadequate controls over the processes for requesting, recording, disbursing, and reconciling petty cash. To address these weaknesses, the Director of Quality now reviews all payments and pre-approves all requests in excess of $100. Patient Relations has developed a new "Mileage/Service Recovery Reimbursement Form" to replace the Petty Cash Form used at the time of the audit. The new form incorporates a checklist for required documentation, patient address/mailing information, and a dated signature of an authorized signer. University Audits examined a sample of transactions documented using this form and determined that its use strengthens controls over the Petty Cash process. Additionally, the Director's Executive Assistant is effectively monitoring the Petty Cash account on a monthly basis.

3. Specific Petty Cash Issues
University Audits detailed review of service recovery transactions from the Petty Cash account revealed several instances where questionable payments occurred. These payments were the result of undetected errors caused by ineffective payment controls. We recommended that management establish additional controls over payments from the Petty Cash account in the Office of Patient Relations. Development of the new Mileage/Service Recovery Form by Patient Relations Coordinators has strengthened controls over the Petty Cash process. University Audits review of sample transactions indicated that these forms are used properly. The transactions reviewed are consistently supported by signed and dated forms indicating the patient's name, registration number, case number, and a description of the reimbursed item(s). Payments to outside service providers now include the specific provider's name, address, and any additional pertinent information on the form.

4. Control of P-Card Processes
University Audits indicated that additional controls over use of P-Cards in Patient Relations were necessary to ensure that all purchases were approved in advance, supervisory review of purchases was adequate and purchases were not made in excess of approved amounts. Quality Improvement Operations management has limited Patient Relations to one P-Card, retrained the P-Card holder in use of the card, and instituted a process where Coordinators without P-Cards must provide proper support to the P-Card holder prior to purchases. The Director of Quality Improvement Operations also reviews and approves these transactions. University Audits examined sample P-Card transactions and found the new controls to be working effectively.

5. Purchase of Postage
The Office of Patient Relations incurs significant postage costs corresponding with patients, guests, and service providers. During the audit, University Audits found inappropriately large quantities of stamps were purchased from the U.S. Postal Service and retailers. The Director of Quality Improvement Operations is now approving all purchases of stamps and reviewing the monthly budget statements which include postage expenditures. These controls adequately address this issue.

6. Recharges of Service Recovery Payments
The Office of Patient Relations needed to strengthen their processes for recharges and develop guidelines for applying and documenting the charges incurred in service recovery and recharged to other departments. Quality Improvement Operations management has developed standard operating procedures and guidelines and discussed them with Patient Relations Coordinators at staff meetings. The Director of Quality Improvement's Executive Assistant is now responsible for processing all recharges which are reviewed with the budget statements by the Director. Patient Relations has modified documentation to facilitate timely acquisition of information necessary to process recharges. University Audits review of recharge transactions indicates that these controls are functioning as designed.

7. Managerial Review of Expenditures
The Office of Patient Relations needed to create appropriate procedures and controls to monitor departmental financial activity. Statements of Activity from the U-M Hospitals and Health Centers Data Mart are now being reviewed monthly by the Director of Quality Improvement Operations Executive Assistant with oversight from the Director.

8. Integrity of the Service Recovery Database
Service recovery payments are recorded in a database by Patient Relations Coordinators. University Audits recommended that the Office of Patient Relations verify the integrity of the service recovery database and restrict access to the database to those with a business need for access. The Director of Quality Improvement is actively reviewing the event log associated with the service recovery database to monitor appropriate access and completion of specific work activities by appropriate Patient Relations Coordinators and other staff. University Audits witnessed the Director's review of the log and learned of appropriate personnel actions that have resulted from this review.

9. Sensitive Data Collection
The Petty Cash Forms used by the Office of Patient Relations at the time of the audit requested Social Security Number (SSN) as an identifier for patients or other recipients of service recovery reimbursement without a UMID. The Petty Cash form has been replaced by a new Mileage/Service Recovery Reimbursement Form that contains only the patient registration number and case number. Social Security numbers are no longer used in this process.

University Audits – University of Michigan
***Open Audits* Follow-up Table**
September 30, 2007

Audit Title	Report Date	Issues	Expected Completion
U-M Computing Environment Kerberos Passwords 2007-304	6/22/07	Completion of the upgrade of Kerberos; implementation of pre-authentication; patch tracking; controlling Keytabs; potential for duplicate identities	December 2007
UM-Dearborn College of Engineering and Computer Science Departmental System Administration 2007-308	6/28/07	Vulnerabilities based on the periodic scanning of CECS servers	October 2007
Digital Media Commons CTools 2007-301	6/29/07	Controlling administrator privileges; restricting persistence of login sessions; log review, controlling 'friend' accounts; updating and signing the C-Tools SLA and formalizing the upgrade process	December 2007
Urban Health and Wellness Center – Flint 2007-207	3/8/07	MOU with UMHS renewed; improvements in clinic operations	October 2007
Department of Neurology Sleep Disorders Center 2007-206	6/22/07	Security issues; financial controls; charge capture timeliness; and data maintenance and backup procedures	December 2007
UMH Operating Rooms – University Hospitals Supply Chain Management 2007-108	8/17/07	Product recall follow-up; consistent and documented inventory practices; and conflict of interest communications	May 2008
Adult NeuroRehabilitation Business Processes 2007-820	8/24/07	Patient access controls; charge capture; medical record documentation timeliness	December 2007
U-M Physical Medicine and Rehabilitation Othotics and Prosthetics Center 2007-107	9/24/07	Charge capture and cash handling controls; quality assurance processes	March 2008
Hospitals and Health Centers Permanent Art 2007-827	9/26/07	Coordination of roles and responsibilities; inventory maintenance and security follow-up	March 2008
Michigan Public Media Phase II 2006-806	4/24/06	Documentation and implementation of internal control policies and procedures	First follow-up was completed May 2007 Second follow-up November 2007
Intercollegiate Athletics Sports Camps 2006-410	7/28/06	Second follow-up scheduled to ensure operational improvements were successful for the summer camp season	First follow-up was completed May 2007 Second follow-up October 2007
College of Engineering – Minority Engineering Program Office 2006-813	9/29/06	CoE and MEPO jointly developing and implementing a management plan	December 2007

Procurement Services Procurement Card Program 2007-115	2/5/07	Phase I - Utilize data mining tools and reduce transaction based monitoring; additional focus on training and accountability of P-Card approvers, provide guidelines for card issuance; utilize electronic resources. Phase II – annual monitoring of card activity by dept.	Phase I – December 2007 Phase II – March 2008
Recreational Sports Business Office Internal Controls Review 2007-813	2/20/07	IM Building procedures were reviewed; action plans to be implemented in all Recreation Services locations	October 2007
Plant Operations Zone Maintenance Purchasing Controls 2007-812	4/24/07	Purchasing. New methods for handling inventory receiving and tracking	October 2007
Office of Technology Transfer Key Processes 2007-105	4/30/07	Accounts receivable best practices; royalty report review process will be formalized	October 2007
Institute for Social Research, Cash Receipts Process 2007-815	5/25/07	Improved cash, check and credit card receiving procedures; documentation of business office accounting procedures.	November 2007
Matthaei Botanical Gardens & Nichols Arboretum, Business Office Internal Control Review 2007-817	6/19/07	Phase I – cash handling, instructor payment, and credit card refund controls. Phase II - unnecessary sensitive data in files.	Phase I November 2007 Phase II January 2008
Office of the Provost and Executive VP for Academic Affairs Fiscal Responsibilities 2007-201	7/16/07	Lack of certain written Polices and Procedures; oversight controls related to academic administrative searches	December 2007
Intercollegiate Athletics Academic Support Services 2007-408	7/18/07	Student counseling practices; employment and payroll controls; staff training and development	December 2007
Ross School of Business Dean's Office Fiscal Responsibility 2007-821	7/20/07	Purchasing; financial monitoring of their merchandise store; formalizing authority delegation; Statement of Account and Gross Pay Register reconciliations; employee overtime	December 2007
College of Literature, Science, and the Arts Biological Station 2007-205	8/6/07	IT controls, physical security and business processes	January 2008
Intercollegiate Athletics NCAA Compliance – Student-Athlete Equipment and Apparel 2007-409	8/24/07	Record retention	June 2008
Army ROTC Business Office Internal Controls 2007-818	9/11/07	Orientation training for new Army Executive Officers to include: University purchasing, hosting, traveling, and reconciliation processes	December 2007