

UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents

April 15, 2010

Item for Information

Subject: Report of University Internal Audits
February 2010

Background:

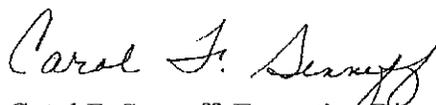
This is the report of the Office of University Audits activities for the month of **February 2010**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summary the audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **February 28, 2010**.

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

Respectfully submitted,



Carol F. Senneff, Executive Director
University Audits

University Audits
February 2010
Summary of Reports Issued

ORIGINAL REPORTS

Health System

University of Michigan Medical School Internal Medicine, Division of Hematology/Oncology
Southwest Oncology Group Review #2010-501
Report Issued February 25, 2010

The Southwest Oncology Group (SWOG) is one of the largest national cancer clinical trials organizations in the country. SWOG administratively reports to the division of Hematology/Oncology, Department of Internal Medicine, at the Medical School. The Chair's office in Ann Arbor, staffed by U-M faculty and staff, is responsible for the executive leadership and oversight of SWOG clinical trial and research activities. The Department of Internal Medicine has functional supervision over SWOG financial management and business operations.

SWOG studies many adult cancer types, including breast, gastrointestinal, genitourinary, gynecologic, and lung cancers, as well as melanoma, myeloma, leukemia, and lymphoma. Approximately 120 clinical trials are underway at any given time.

More than 5,000 physician researchers practicing at 516 institutions make up SWOG's member network. Physicians must meet strict medical and ethical requirements to become members and conduct protocols. Among the types of medical practices represented are university teaching hospitals, community hospitals, community-based physician cooperatives, and individual physician offices.

Due to the cooperative, multi-site nature of SWOG, there is a significant amount of federal dollar subrecipient pass-through activity. A subrecipient is an entity that receives sponsored program dollars via a pass-through organization to conduct a portion of the research of a specific project. In fiscal year 2009, there was approximately \$12 million in pass-through activity.

University Audits evaluated the adequacy and effectiveness of controls governing the following processes:

- **Subrecipient Monitoring Controls**
 - Federal award information and compliance requirements for subrecipients
 - Subrecipient monitoring activities
 - Monitoring and oversight mechanisms for research trials
 - Disclosure and management of subrecipient conflicts of interest

- **Business and Operational Controls**
 - Purchasing
 - Payroll functions, including supplementary pay and bonuses
 - Effort reporting, including tracking, certification, and notice of effort changes
 - Financial reporting and budgetary functions

Risk and Control Discussion:

- Subrecipient Monitoring Controls - University Audits reviewed a sample of subcontracts with activity during fiscal year 2009 and noted that the subcontracts' statements of work were well developed with specific requirements, including effort, key personnel, and duties. Only allowable activities as noted in the award documents were approved for payment.

There is evidence of sufficient oversight and governance of subrecipient activity, through codification of policies and procedures, regular meetings, both informal (weekly) and formal (twice yearly), and on-going reporting to the sponsor. Regulatory compliance is well-represented through multiple committees and functions, such as clinical trials monitoring and conflict of interest subcommittees.

Clinical trials monitoring is robust. There are seven full-time dedicated employees, clear evidence that trials are monitored on a rotational basis, top-level oversight at committee and board level, well-documented policies and procedures, and a quality assurance function that is consistent with NIH/NCI policies and procedures. In addition, there is appropriate management and oversight of conflicts of interest related to clinical trials, evidenced by policies that conform with federal regulations, established the Conflict of Interest Subcommittee, and regular reporting to the SWOG Board of Directors.

Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* requires institutions that expend more than \$500,000 a year in federal awards to have a single or program-specific audit conducted on an annual basis. Institutions that sub-award federal dollars to other institutions are required to ensure that the subrecipient had required audits performed and determine whether timely and appropriate corrective action was taken on all audit findings. Required A-133 reports were not consistently requested or monitored for subrecipients of SWOG federal grants due to a misunderstanding of roles and responsibilities between U-M Contract Administration and SWOG. Going forward, Contract Administration is taking on the responsibility of monitoring federal A-133 requirements for all SWOG subrecipients.

- Business and Operational Controls - Business and operational controls are a shared responsibility between SWOG, Hematology/Oncology, and Internal Medicine management. In general, the organization has strong business and operational controls.

SWOG Business and Operational Controls

- Purchases were properly approved and supported by sufficient documentation. Some misclassified hosting expenses were noted on federal grants. These clerical errors have been corrected. Budget to actual variance analysis and budget projections are performed regularly.
- Management performs a high-level review of monthly expenditures and at the time of the audit, was already evaluating using eReconciliation to facilitate detailed reconciliations for all grants.
- Several retroactive grant adjustments occurred after the University 120-day limit. Management's plan to adopt eReconciliation will ensure timely detection of necessary grant adjustments.

Internal Medicine Business Controls

- Employee timesheets are reviewed and approved by supervisory personnel. There were some instances of late submission of employee time sheets, primarily due to the recent

implementation of electronic time reporting. Management has already taken steps to correct this situation and bring all payroll timekeeping up-to-date on a department-wide basis.

- At the time of this review, annual effort certification was not up-to-date for certain employees. The majority were employees who had left the University. Internal Medicine is developing a strengthened process to ensure effort certification is completed timely.

Management Response - It was noted as part of the audit that opportunity exists to expedite Statement of Activity reviews and limit grant adjustments after the University 120-day limit. SWOG has been evaluating use of eReconciliation since prior to the audit with several accounts currently using this system. This is a system recognized campus wide as a best practice approach to this important work and facilitates detailed reconciliations by streamlining the process and reducing the amount of data input, which allows for shorter turn-around time and early detection of any required grant adjustments. All accounts will be up on the system by May 2010, and we fully anticipate this implementation will strengthen our efforts for timely and accurate Statement of Activity reconciliation. The Department of Internal Medicine has implemented this system in several divisions with excellent results and continues to evaluate implementation in additional areas.

The Department of Internal Medicine recognizes the importance of providing oversight and management reports to those responsible for approving employees' time. Beginning January 1, 2010, the Department of Internal Medicine initiated a weekly process, whereby the Department's HR Office notifies supervisors of missing timesheets and timesheets that lack appropriate signoff. The HR Office is responsible for timely follow up on those timesheets that remain un-submitted or unapproved with escalation to Division Administrators and the Department Administrator, when appropriate.

A review of annual effort certifications that were not submitted timely or were incomplete revealed that the vast majority were for terminated employees. The Department of Human Resources office has added effort certification to the termination checklist to ensure effort certifications are completed for all terminated employees. For all other faculty and staff, the Department has a notification process in place that involves several e-mail reminders. Reports are created to identify those who have not certified, with escalating notification ultimately to the Department Chair if effort remains uncertified. The Department is in the process of reviewing this practice to identify additional steps to ensure timely reminders to faculty and staff and monitoring of noncompliance. These enhancements will be in place for the fiscal year 2010 effort reporting cycle. Effort certification reports for each of the terminated employees are being prepared and will be submitted to the Cost Reimbursement Office for processing.

Overall, Internal Medicine and SWOG management have developed a robust monitoring and business practices environment, including strong oversight of subrecipient activities. Improvements, which are detailed in a separate memorandum, are recommended in timekeeping, effort reporting, and project/grant statement of activity reconciliation. University Audits will conduct a follow-up review in the first quarter of fiscal year 2011.

Follow-up Reviews

Deposit Process Follow-up Review
Original Report issued July 20, 2009

2009-103
Follow-up Report issued February 5, 2010

The Treasurer's Office has taken measures to strengthen controls and is currently working on the remaining outstanding items. University Audits will conduct a second follow-up review during the third quarter of fiscal year 2010. See summaries below:

- Monitoring - The Treasurer's Office has established monitoring and review procedures over frequency of deposits, bank errors, and unit errors and adjustments. To accomplish these tasks, Treasury has created a number of tools and reports. Examples of this include reports that indicate deposit activity by month or by day of the week for each deposit location, reports that summarize percentage of bank errors and adjustments, and deposit frequency analysis reports. Some of these tools continue to be refined. Treasury holds Checkpoint Meetings with schools, colleges, and departments. These meetings will continue to be the primary means of discussing frequency and adjustment related issues. The Treasurer's Office plans to discuss specific issues and concerns on a case-by-case basis with the appropriate administrative levels in each unit. Monitoring procedures over foreign checks are pending final details of an agreement with Bank of America. University Audits will assess the status of monitoring processes for foreign checks and review evidence of monitoring for deposit frequency and deposit adjustments during the second follow-up review.
- Automated Deposit Station Security - The Treasurer's Office has taken the following actions:
 - A schedule has been setup to review the video feed of surveillance cameras at deposit stations on a routine basis to ensure the views are clear and unobstructed.
 - The Treasurer's Office contacted the manufacturer of the deposit stations to determine the feasibility of an emergency button procedure. This procedure could not be implemented because of equipment limitations. Similar procedures were considered; however, they would have significant cost implications as well as potential undesirable effects, such as a large number of false alarms. Therefore, the Treasurer's Office has taken the following alternative measures:
 - Ensured the deposit training materials include safety guidelines for depositors.
 - Developed additional protocols for Treasury employees servicing the deposit stations, including having someone observe the live camera feed or informing the building manager of the servicing activity.
 - The Treasurer's Office is still working to improve security measures at one deposit station.
- Treasurer's Office Procedures Documentation - The Treasury Manager has drafted procedures for missing or tampered deposit bags, unsealed deposit bags, and loose coins found in the deposit stations. The procedures have been provided to staff responsible for supporting the depository process. The Treasury Manager is working on finalizing the drafted procedures. University Audits will review the status of this item during the second follow-up review.

School of Kinesiology Fiscal Responsibilities Follow-up Review
Original Report issued April 14, 2009

#2009-203
Follow-up Report issued February 25, 2010

This review included the School of Kinesiology as well as two units operating under its direction - the Health Management Research Center (HMRC) and U-Move. Management has taken appropriate action and implemented controls are functioning as intended, as summarized below. **This audit is closed.**

- Effort Certification Process
 - Kinesiology unit - The HR Generalist utilizes the Effort Certification Status report to proactively identify individuals who have not yet certified their effort, immediately prior to and after the deadline. The contracts and grants administrator, who reports to the Associate Dean of Research, assists by meeting individually with faculty to review their effort, if needed.
 - HMRC unit - The HMRC director now provides input each quarter as to the appropriateness of salary distributions for staff at the HMRC.
- Statement of Activity and Gross Pay Register Reconciliation and Review
 - HMRC unit - The Kinesiology Dean's Office business administrator associate performs a final review of the Statements of Activity, following the review performed by the administrative specialist. Timesheets are consistently completed, properly authorized, and used to reconcile data entered into M-Pathways. The review of the Gross Pay Register is documented by the reviewer. The Kinesiology Dean's Office business administrator associate performs a consistent high-level review.
 - U-Move unit - Both the preliminary and final reviewers of the Statements of Activity and the Gross Pay Registers document their review by signing and dating the report cover page. The Kinesiology Dean's Office business administrator associate regularly performs a high-level review.
- Unsecured Credit Card Terminal
 - HMRC unit - The credit card terminal has been removed from the employee common area and relocated to a second floor office. The administrative specialist initials all refunds.
- Imprest Cash Fund and Cash Deposits
 - U-Move unit - All funds received are deposited the day of receipt. The refund policy for students is well documented. The U-Move imprest cash fund has been formally established with Accounts Payable.
- Sensitive Data Record Retention
 - U-Move unit - U-Move office staff regularly and promptly remove sensitive data from KidSport enrollment files.
- KidSport Background Checks and Hiring Documentation
 - U-Move unit - Hiring documentation for KidSport instructors is routed to the Kinesiology Dean's Office business administrator associate first to ensure all pertinent documentation has been obtained. All KidSport employees now have background checks processed. A checklist is used to ensure all necessary paperwork is obtained prior to the start of employment.

University of Michigan Health System Cardiovascular Center Supply Chain Follow-up Review #2009-105
 Original Report issued May 15, 2009 Follow-up Report issued February 26, 2010

- Blanket Purchase Orders - Blanket purchase orders are routinely used to purchase EP (Electrophysiology) implantable devices from vendors. University Procurement discourages the

use of blanket purchase orders. At the time of the audit, University Audits recommended the use of blanket purchase orders be discontinued and replaced by an inventory management system already in use at the health system.

The launch of the QSight Inventory Management system for EP related supplies was delayed until January 2010 because of technical issues not within the control of EP management. Full implementation and elimination of blanket purchase orders is expected by April 2010. **Work on this issue continues.**

- EP/Cath Inventory Shrinkage Tracking - University Audits recommended that periodic physical counts of inventory and reconciliation of inventory records should be conducted to monitor inventory. Inventory adjustments, shrinkage, and aging reports should be monitored frequently to identify any unusual loss, slow moving items, or adjustments that require follow-up. Physical inventories and cycle counts are currently in place and the department is developing a monitoring process for inventory adjustments, shrinkage, and aging. **Work on this issue continues.**
- Drug Management - Omnicell drug storage units are used by the hospital Pharmacy to store, dispense, and track drugs at the unit level. University Audits recommended that employees who reconcile the discrepancy reports should provide sufficient, detailed explanations for variances to ensure appropriate management and oversight of drugs, especially controlled substances. Additional training has been provided and nursing staff are providing more complete explanation of variances. An additional drug management tool, the Omnicell Medication Surveillance Service (MSS) was recently implemented and training will be provided to EP, Cath, and IR (Interventional Radiology) personnel by May 1, 2010. MSS will allow nursing and pharmacy personnel to better monitor and detect unusual trends or suspicious transactions. **This issue is closed.**
- Concentration of Duties - EP Implantable Devices - With the implementation of QSight Inventory Management system, the duties of ordering, receiving, and tracking EP implantable devices have been transferred to the inventory control staff. The accountant continues to approve invoices prior to forwarding the invoices to Accounts Payable for payment. An updated job description has been developed that better describes the accountant's duties. Also, another employee has been identified and trained as the back-up to the accountant for business continuity purposes. The concentration of duties no longer exists. **This issue is closed.**
- Patient Procedure Late Charges - The Department of Internal Medicine has instituted an escalating reminder process that ensures posting and billing of charges within payer specified time frames. Management stated the success of this process can be demonstrated by the fact that only 0.01% of YTD charges, which is only \$10,000 of \$60,000,000, were unable to post this fiscal year. The department continues to strive to improve performance relative to the UMHHC goal of all charges posted within 14 days of service. **This issue is closed.**
- Bill Coding Errors - Review of a sample of patient accounts related to CVC chargeable supplies identified two bill coding errors. University Audits recommended that the coding errors be corrected and resubmitted for claims processing. The bill coding errors were corrected. Additional employee training was administered, charge master codes are up-to-date, and QSight was implemented in January 2010, which will further improve billing integrity. **This issue is closed.**

- Cath-related Codes Not in QSight - Charge master billing codes for Cath lab chargeable supplies were not maintained in QSight at the time of the audit. University Audits recommended that QSight be implemented to full functionality. QSight has been implemented and the Cath lab codes are up-to-date. **This issue is closed.**
- Systems Access - QSight and Omnicell contain sensitive patient information and, in the case of Omnicell, direct access to drugs, including controlled substances. A review of QSight and Omnicell security administration in IR and EP/Cath identified opportunities to better control user access. QSight Security administrators are conducting periodic, formal user access reviews. Also, a more robust process is in place to notify security administrators about personnel movement so user access can be updated promptly. In addition, on a health-system wide basis, Pharmacy and MCIT are developing an interface between Omnicell and HR systems that will deny access to the cabinets for users who have left employment or changed jobs. The interface is expected to be launched in the fourth quarter of fiscal 2010. **This issue is closed.**
- Supply Chain Policy and Procedures - A review of Cath/EP/IR supply chain procedures identified that written, formal procedures for managing the supply chain generally did not exist at the unit level. University Audits recommended that formal written procedures be developed for each unit. The procedures are still in various stages of development. Management states that the procedures are now more than ninety percent developed and the project will be completed by mid-March 2010. **Work on this issue continues.**

Not all issues from the audit have been closed. A second follow-up review will be conducted during the first quarter of FY2011.

University of Michigan Hospitals and Health Centers Payroll and Timekeeping Processes Follow-up Review #2008-110
 Original Report issued January 30, 2009 Follow-up Report issued February 28, 2010

Management has satisfactorily completed two of four action plans. The remaining two are in progress. University Audits will report on the status of in-progress action plans during the first quarter of fiscal year 2011. Details regarding action plan implementation are noted below.

- Human Resource Management System Access Controls - Human Resources (HR) management reviewed and modified system access for staff identified during the audit who no longer required HR system access. Management also developed an action plan to verify the appropriateness of access granted to UMHHC employees and enhance monitoring to ensure access modifications and terminations are completed timely. More specifically, management will:
 - Select a departmental HR contact for each department
 - Charge contacts with the following responsibilities:
 - Submit original access request forms (for new staff) to the central UL (Unit Liaison)
 - Review and request access modifications for staff changing positions/roles within the department
 - Submit access termination forms for staff transferring out of the department
 - Submit access termination forms for staff terminating employment with the University
 - Distribute appropriate sections of Information Technology Services security reports to department contacts twice a year (or as distributed by ITS) and ask them to review the reports for appropriateness

Management estimates appropriate documentation of roles /responsibilities and guidelines for central Unit Liaisons and department contacts will be complete and distributed by April 30, 2010. Ongoing, management will distribute the same to all staff granted new access and with each ITS security report. **University Audits will assess the status of this action plan during our second follow-up review.**

- Systematic Data Integrity Controls - Management, in collaboration with Information Technology Services (ITS), strengthened controls over time reporting code usage as follows:
 - ITS inactivated temporary and outdated time report codes.
 - ITS moved several manual payroll queries to the query schedules so they would run automatically.
 - Payroll staff reviewed processes for monitoring the usage of certain time reporting codes (i.e., PTB – PTO Buy Back, PHP – PTO Supplemental Half Pay) and, where practical, enhanced monitoring practices.

In January 2010, HR created a monthly report to help HR consultants ensure departments do not exceed the suggested guideline for annual usage of Time-Off Awards. **University Audits will assess the progress of HR's monitoring efforts for these awards during our second follow-up review.**

- Payroll Expenditure Analysis - Management implemented additional guidelines to monitor and control payroll expenditures. A new policy establishing guidelines for calculating overtime went into effect in November 2009. Management also implemented guidelines that facilitate accounting for season day usage and established additional oversight for departments that pay overtime to exempt employees. HR consultants *will continue to monitor payroll expenditures* to ensure department administrators and timekeepers understand and follow payroll guidelines. Management has made significant progress toward controlling payroll expenditures and has a process in place to monitor compliance with the new payroll guidelines. **This issue is closed.**
- Roles and Responsibilities - Management has updated task calendars and work schedules to ensure routine payroll tasks are assigned and performed as scheduled. Management also documented procedures for reviewing work performed by payroll staff. HR is in the process of revising its termination checklist. The checklist will be placed on HR's website by the end of February 2010. Management has made significant progress toward implementing this action plan. **This issue is closed.**

**Open Audits Follow-up Table
February 28, 2010, 2010**

Audit Title	Report Date	Issues	Expected Completion
College of Engineering Research Computing 2008-302	10/29/08	Unsupported devices; users with system administrator privileges	First Follow-up September 2009
			Second Follow-up December 2009
			March 2010
Housing Information Technology Office Residential Housing Network 2009-309	5/28/09	Registration scans; patching through portal; vulnerable systems; traffic analysis; incident response procedure; signed service agreements	March 2010
ITS Virtual Firewall 2009-307	11/20/09	Security and contingency planning; data backups testing; change control	March 2010
Architecture, Engineering and Construction AEAction 2009-303	11/23/09	Business continuity planning	March 2010
University of Michigan Hospitals and Health Centers Cashier's Office 2008-206	10/17/08	Segregation of duties; bank statement reconciliation and check writing practices; follow-up of outstanding vouchers; duplicate facility refunds	First Follow-up June 2009
			May 2010
UMHHC Payroll and Timekeeping 2008-110	1/30/09	Human Resource Management System access; systematic data integrity	First Follow-up February 2010
			August 2010
Medical School Administrative Internal Control Review 2008-208	1/30/09	IT strategic planning; reconciliations; gift fund usage; IT security; fire drill regulations	April 2010
Children's and Women's Hospital Construction Audit 2009-601	4/02/09	Establishing guaranteed maximum price; sales and use tax; retaining payment documentation	March 2010
University of Michigan Health System Cardiovascular Center Supply Chain Audit 2009-105	5/15/09	Blanket purchase orders; inventory tracking; policies and procedures	First Follow-up February 2010
			August 2010
UMHS Clinical Research Billing 2009-402	9/30/09	Research Planning; integrated solutions; interim solutions; policies and procedures	June 2010
University of Michigan Medical School, Otolaryngology Departmental Review 2009-843	10/30/09	Grant management; non-certified effort reporting; financial results and internal control assessment certification	March 2010

University of Michigan Health System Office of the Executive Vice President for Medical Affairs Operational Review 2009-205	11/17/09	Procurement and payroll training; excluded costs; segregation of duties; reconciliations	June 2010
University of Michigan Medical School Michigan Institute for Clinical Research and Health Research Grant Management 2009-106	11/30/09	Non-certified effort reporting; grant adjustments; Veterans Administration Hospital appointments; expense classification; compliance with P-card Guidelines; business continuity plans	August 2010
University of Michigan Medical School Internal Medicine, Division of Hematology/Oncology Southwest Oncology Group Review 2010-501	11/25/10	Retroactive grant adjustments; detailed financial reconciliations; late submission of timesheets; up-to-date effort certifications	August 2010
Plant Operations Construction Services 2008-602	11/4/08	Project management reporting	First Follow-up June 2009
			March 2010
School of Music, Theatre & Dance Fiscal Responsibilities 2008-815	11/26/08	Financial oversight and monitoring; several procurement and payroll observations; documented procedures; written delegation of authority; imprest cash management	First Follow-up August 12, 2009
			March 2010
William L. Clements Library 2008-212	1/26/09	Grant compliance; endowment agreements; collection management; insurance coverage; physical safety and security; reconciliations; recharge rates	April 2010
University Press Inventory and Receivables 2008-203	1/30/09	Accounts receivable; inventory (U-Press continues to implement internal controls in many areas, including those noted in the audit report)	October 2010
Benefits Administration Office 2009-101	4/30/09	Logical access to benefits data; addition to discrepancy reporting; invoice error reporting; flexible spending account payment reconciliation; compliance monitoring	First Follow-up September 30, 2009
University of Michigan – Flint Office of Development and Alumni Relations and University Outreach 2009-811	5/15/09	Relationship with University Development; performance standards; prospect management; coordination with Schools; cash handling; pledges; budget process; business continuity/disaster recovery plan	March 2010
			March 2010
University Unions Focused Review 2009-809	6/01/09	Cash management; payroll observations; statement of activity reconciliation; computer access	March 2010

Chemical Biology Doctoral Program Interdepartmental Degree Program 2009-812	6/30/09	Program reporting and oversight; compliance with procurement and hosting guidelines; effort certification; record retention; service level agreement; conflict of interest and conflict of commitment (Follow-up review will be conducted after the new chair is named)	July 2010
Deposit Process Audit 2009-103	07/20/09	Tracking of bank errors/adjustments; foreign checks; automated deposit stations security; treasurer's office procedures	First Follow-up February 2010
			April 2010
Dearborn Early Childhood Education Center 2009-110	09/30/09	Aged A/R; timeliness of deposits; physical security of cash; reconciliations; receipts; hosting events documentation; voucher review; privacy of employee records; double-time; IT security	March 2010
U-M Dearborn Grade Changes 2009-109	11/5/09	Faculty grade change notification; access to supplemental grade reports and the grade change system; management review of system access reports; registration and records policy and procedures; baseline controls in units	May 2010
University Housing Fiscal Responsibilities 2009-814	11/9/09	Various controls related to purchasing, financial reporting, discretionary funds, payroll and time reporting, cash operations, internal control gap analysis, travel and hosting, business continuity and disaster recovery plans, conflict of interest/conflict of commitment	June 2010
Center for Human Growth and Development 2009-206	11/17/09	Security/maintenance of sensitive data; monitoring grant budgets; imprest cash fund management/subject fee payments; disaster recovery/business continuity planning; statement of activity reconciliation/segregation of duties	June 2010
Taubman College of Architecture and Urban Planning 2009-202	11/20/09	International program administration; safety and security; shared access; faculty data backup; cash management; inventory management; recharge rates	May 2010
Information Technology Central Services 2009-838	12/02/09	Inventory management; billing for services; monitoring services quality and demand; financial monitoring; human resources processes; facilities; procurement	June 2010
School of Art & Design 2009-201	12/08/09	International programs; supplemental system; statement of activities reconciliation; P-cards; payroll; cash handling	June 2010
University of Michigan- Dearborn Department of Public Safety 2009-210	12/22/09	Documentation of administrative and financial procedures; financial shadow system; segregation of duties;	June 2010

Wire and ACH Transfer Process 2009-112	01/06/10	Security of sensitive vendor data; compliance with OFAC; strategic vendor payment processing; unallocated fund management; authorized user list; transaction limits; wire transfer policy	June 2010
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REGENTS COMMUNICATION

Item for Information

Subject: Report of University Internal Audits
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Background:

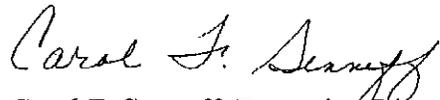
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Respectfully submitted,



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- Several retroactive grant adjustments occurred after the University 120-day limit. Management's plan to adopt eReconciliation will ensure timely detection of necessary grant adjustments.

Internal Medicine Business Controls

- Employee timesheets are reviewed and approved by supervisory personnel. There were some instances of late submission of employee time sheets, primarily due to the recent

implementation of electronic time reporting. Management has already taken steps to correct this situation and bring all payroll timekeeping up-to-date on a department-wide basis.

- At the time of this review, annual effort certification was not up-to-date for certain employees. The majority were employees who had left the University. Internal Medicine is developing a strengthened process to ensure effort certification is completed timely.

Management Response - It was noted as part of the audit that opportunity exists to expedite Statement of Activity reviews and limit grant adjustments after the University 120-day limit. SWOG has been evaluating use of eReconciliation since prior to the audit with several accounts currently using this system. This is a system recognized campus wide as a best practice approach to this important work and facilitates detailed reconciliations by streamlining the process and reducing the amount of data input, which allows for shorter turn-around time and early detection of any required grant adjustments. All accounts will be up on the system by May 2010, and we fully anticipate this implementation will strengthen our efforts for timely and accurate Statement of Activity reconciliation. The Department of Internal Medicine has implemented this system in several divisions with excellent results and continues to evaluate implementation in additional areas.

The Department of Internal Medicine recognizes the importance of providing oversight and management reports to those responsible for approving employees' time. Beginning January 1, 2010, the Department of Internal Medicine initiated a weekly process, whereby the Department's HR Office notifies supervisors of missing timesheets and timesheets that lack appropriate signoff. The HR Office is responsible for timely follow up on those timesheets that remain un-submitted or unapproved with escalation to Division Administrators and the Department Administrator, when appropriate.

A review of annual effort certifications that were not submitted timely or were incomplete revealed that the vast majority were for terminated employees. The Department of Human Resources office has added effort certification to the termination checklist to ensure effort certifications are completed for all terminated employees. For all other faculty and staff, the Department has a notification process in place that involves several e-mail reminders. Reports are created to identify those who have not certified, with escalating notification ultimately to the Department Chair if effort remains uncertified. The Department is in the process of reviewing this practice to identify additional steps to ensure timely reminders to faculty and staff and monitoring of noncompliance. These enhancements will be in place for the fiscal year 2010 effort reporting cycle. Effort certification reports for each of the terminated employees are being prepared and will be submitted to the Cost Reimbursement Office for processing.

Overall, Internal Medicine and SWOG management have developed a robust monitoring and business practices environment, including strong oversight of subrecipient activities. Improvements, which are detailed in a separate memorandum, are recommended in timekeeping, effort reporting, and project/grant statement of activity reconciliation. University Audits will conduct a follow-up review in the first quarter of fiscal year 2011.

Follow-up Reviews

Deposit Process Follow-up Review
Original Report issued July 20, 2009

2009-103
Follow-up Report issued February 5, 2010

The Treasurer's Office has taken measures to strengthen controls and is currently working on the remaining outstanding items. University Audits will conduct a second follow-up review during the third quarter of fiscal year 2010. See summaries below:

- Monitoring - The Treasurer's Office has established monitoring and review procedures over frequency of deposits, bank errors, and unit errors and adjustments. To accomplish these tasks, Treasury has created a number of tools and reports. Examples of this include reports that indicate deposit activity by month or by day of the week for each deposit location, reports that summarize percentage of bank errors and adjustments, and deposit frequency analysis reports. Some of these tools continue to be refined. Treasury holds Checkpoint Meetings with schools, colleges, and departments. These meetings will continue to be the primary means of discussing frequency and adjustment related issues. The Treasurer's Office plans to discuss specific issues and concerns on a case-by-case basis with the appropriate administrative levels in each unit. Monitoring procedures over foreign checks are pending final details of an agreement with Bank of America. University Audits will assess the status of monitoring processes for foreign checks and review evidence of monitoring for deposit frequency and deposit adjustments during the second follow-up review.
- Automated Deposit Station Security - The Treasurer's Office has taken the following actions:
 - A schedule has been setup to review the video feed of surveillance cameras at deposit stations on a routine basis to ensure the views are clear and unobstructed.
 - The Treasurer's Office contacted the manufacturer of the deposit stations to determine the feasibility of an emergency button procedure. This procedure could not be implemented because of equipment limitations. Similar procedures were considered; however, they would have significant cost implications as well as potential undesirable effects, such as a large number of false alarms. Therefore, the Treasurer's Office has taken the following alternative measures:
 - Ensured the deposit training materials include safety guidelines for depositors.
 - Developed additional protocols for Treasury employees servicing the deposit stations, including having someone observe the live camera feed or informing the building manager of the servicing activity.
 - The Treasurer's Office is still working to improve security measures at one deposit station.
- Treasurer's Office Procedures Documentation - The Treasury Manager has drafted procedures for missing or tampered deposit bags, unsealed deposit bags, and loose coins found in the deposit stations. The procedures have been provided to staff responsible for supporting the depository process. The Treasury Manager is working on finalizing the drafted procedures. University Audits will review the status of this item during the second follow-up review.

School of Kinesiology Fiscal Responsibilities Follow-up Review
Original Report issued April 14, 2009

#2009-203
Follow-up Report issued February 25, 2010

This review included the School of Kinesiology as well as two units operating under its direction - the Health Management Research Center (HMRC) and U-Move. Management has taken appropriate action and implemented controls are functioning as intended, as summarized below. **This audit is closed.**

- Effort Certification Process
 - Kinesiology unit - The HR Generalist utilizes the Effort Certification Status report to proactively identify individuals who have not yet certified their effort, immediately prior to and after the deadline. The contracts and grants administrator, who reports to the Associate Dean of Research, assists by meeting individually with faculty to review their effort, if needed.
 - HMRC unit - The HMRC director now provides input each quarter as to the appropriateness of salary distributions for staff at the HMRC.
- Statement of Activity and Gross Pay Register Reconciliation and Review
 - HMRC unit - The Kinesiology Dean's Office business administrator associate performs a final review of the Statements of Activity, following the review performed by the administrative specialist. Timesheets are consistently completed, properly authorized, and used to reconcile data entered into M-Pathways. The review of the Gross Pay Register is documented by the reviewer. The Kinesiology Dean's Office business administrator associate performs a consistent high-level review.
 - U-Move unit - Both the preliminary and final reviewers of the Statements of Activity and the Gross Pay Registers document their review by signing and dating the report cover page. The Kinesiology Dean's Office business administrator associate regularly performs a high-level review.
- Unsecured Credit Card Terminal
 - HMRC unit - The credit card terminal has been removed from the employee common area and relocated to a second floor office. The administrative specialist initials all refunds.
- Imprest Cash Fund and Cash Deposits
 - U-Move unit - All funds received are deposited the day of receipt. The refund policy for students is well documented. The U-Move imprest cash fund has been formally established with Accounts Payable.
- Sensitive Data Record Retention
 - U-Move unit - U-Move office staff regularly and promptly remove sensitive data from KidSport enrollment files.
- KidSport Background Checks and Hiring Documentation
 - U-Move unit - Hiring documentation for KidSport instructors is routed to the Kinesiology Dean's Office business administrator associate first to ensure all pertinent documentation has been obtained. All KidSport employees now have background checks processed. A checklist is used to ensure all necessary paperwork is obtained prior to the start of employment.

University of Michigan Health System Cardiovascular Center Supply Chain Follow-up Review #2009-105
 Original Report issued May 15, 2009 Follow-up Report issued February 26, 2010

- Blanket Purchase Orders - Blanket purchase orders are routinely used to purchase EP (Electrophysiology) implantable devices from vendors. University Procurement discourages the

use of blanket purchase orders. At the time of the audit, University Audits recommended the use of blanket purchase orders be discontinued and replaced by an inventory management system already in use at the health system.

The launch of the QSight Inventory Management system for EP related supplies was delayed until January 2010 because of technical issues not within the control of EP management. Full implementation and elimination of blanket purchase orders is expected by April 2010. **Work on this issue continues.**

- EP/Cath Inventory Shrinkage Tracking - University Audits recommended that periodic physical counts of inventory and reconciliation of inventory records should be conducted to monitor inventory. Inventory adjustments, shrinkage, and aging reports should be monitored frequently to identify any unusual loss, slow moving items, or adjustments that require follow-up. Physical inventories and cycle counts are currently in place and the department is developing a monitoring process for inventory adjustments, shrinkage, and aging. **Work on this issue continues.**
- Drug Management - Omnicell drug storage units are used by the hospital Pharmacy to store, dispense, and track drugs at the unit level. University Audits recommended that employees who reconcile the discrepancy reports should provide sufficient, detailed explanations for variances to ensure appropriate management and oversight of drugs, especially controlled substances. Additional training has been provided and nursing staff are providing more complete explanation of variances. An additional drug management tool, the Omnicell Medication Surveillance Service (MSS) was recently implemented and training will be provided to EP, Cath, and IR (Interventional Radiology) personnel by May 1, 2010. MSS will allow nursing and pharmacy personnel to better monitor and detect unusual trends or suspicious transactions. **This issue is closed.**
- Concentration of Duties - EP Implantable Devices - With the implementation of QSight Inventory Management system, the duties of ordering, receiving, and tracking EP implantable devices have been transferred to the inventory control staff. The accountant continues to approve invoices prior to forwarding the invoices to Accounts Payable for payment. An updated job description has been developed that better describes the accountant's duties. Also, another employee has been identified and trained as the back-up to the accountant for business continuity purposes. The concentration of duties no longer exists. **This issue is closed.**
- Patient Procedure Late Charges - The Department of Internal Medicine has instituted an escalating reminder process that ensures posting and billing of charges within payer specified time frames. Management stated the success of this process can be demonstrated by the fact that only 0.01% of YTD charges, which is only \$10,000 of \$60,000,000, were unable to post this fiscal year. The department continues to strive to improve performance relative to the UMHHC goal of all charges posted within 14 days of service. **This issue is closed.**
- Bill Coding Errors - Review of a sample of patient accounts related to CVC chargeable supplies identified two bill coding errors. University Audits recommended that the coding errors be corrected and resubmitted for claims processing. The bill coding errors were corrected. Additional employee training was administered, charge master codes are up-to-date, and QSight was implemented in January 2010, which will further improve billing integrity. **This issue is closed.**

- Cath-related Codes Not in QSight - Charge master billing codes for Cath lab chargeable supplies were not maintained in QSight at the time of the audit. University Audits recommended that QSight be implemented to full functionality. QSight has been implemented and the Cath lab codes are up-to-date. **This issue is closed.**
- Systems Access - QSight and Omnicell contain sensitive patient information and, in the case of Omnicell, direct access to drugs, including controlled substances. A review of QSight and Omnicell security administration in IR and EP/Cath identified opportunities to better control user access. QSight Security administrators are conducting periodic, formal user access reviews. Also, a more robust process is in place to notify security administrators about personnel movement so user access can be updated promptly. In addition, on a health-system wide basis, Pharmacy and MCIT are developing an interface between Omnicell and HR systems that will deny access to the cabinets for users who have left employment or changed jobs. The interface is expected to be launched in the fourth quarter of fiscal 2010. **This issue is closed.**
- Supply Chain Policy and Procedures - A review of Cath/EP/IR supply chain procedures identified that written, formal procedures for managing the supply chain generally did not exist at the unit level. University Audits recommended that formal written procedures be developed for each unit. The procedures are still in various stages of development. Management states that the procedures are now more than ninety percent developed and the project will be completed by mid-March 2010. **Work on this issue continues.**

Not all issues from the audit have been closed. A second follow-up review will be conducted during the first quarter of FY2011.

University of Michigan Hospitals and Health Centers Payroll and Timekeeping Processes Follow-up Review #2008-110
 Original Report issued January 30, 2009 Follow-up Report issued February 28, 2010

Management has satisfactorily completed two of four action plans. The remaining two are in progress. University Audits will report on the status of in-progress action plans during the first quarter of fiscal year 2011. Details regarding action plan implementation are noted below.

- Human Resource Management System Access Controls - Human Resources (HR) management reviewed and modified system access for staff identified during the audit who no longer required HR system access. Management also developed an action plan to verify the appropriateness of access granted to UMHC employees and enhance monitoring to ensure access modifications and terminations are completed timely. More specifically, management will:
 - Select a departmental HR contact for each department
 - Charge contacts with the following responsibilities:
 - Submit original access request forms (for new staff) to the central UL (Unit Liaison)
 - Review and request access modifications for staff changing positions/roles within the department
 - Submit access termination forms for staff transferring out of the department
 - Submit access termination forms for staff terminating employment with the University
 - Distribute appropriate sections of Information Technology Services security reports to department contacts twice a year (or as distributed by ITS) and ask them to review the reports for appropriateness

Management estimates appropriate documentation of roles /responsibilities and guidelines for central Unit Liaisons and department contacts will be complete and distributed by April 30, 2010. Ongoing, management will distribute the same to all staff granted new access and with each ITS security report. **University Audits will assess the status of this action plan during our second follow-up review.**

- Systematic Data Integrity Controls - Management, in collaboration with Information Technology Services (ITS), strengthened controls over time reporting code usage as follows:
 - ITS inactivated temporary and outdated time report codes.
 - ITS moved several manual payroll queries to the query schedules so they would run automatically.
 - Payroll staff reviewed processes for monitoring the usage of certain time reporting codes (i.e., PTB – PTO Buy Back, PHP – PTO Supplemental Half Pay) and, where practical, enhanced monitoring practices.

In January 2010, HR created a monthly report to help HR consultants ensure departments do not exceed the suggested guideline for annual usage of Time-Off Awards. **University Audits will assess the progress of HR's monitoring efforts for these awards during our second follow-up review.**

- Payroll Expenditure Analysis - Management implemented additional guidelines to monitor and control payroll expenditures. A new policy establishing guidelines for calculating overtime went into effect in November 2009. Management also implemented guidelines that facilitate accounting for season day usage and established additional oversight for departments that pay overtime to exempt employees. HR consultants will continue to monitor payroll expenditures to ensure department administrators and timekeepers understand and follow payroll guidelines. Management has made significant progress toward controlling payroll expenditures and has a process in place to monitor compliance with the new payroll guidelines. **This issue is closed.**
- Roles and Responsibilities - Management has updated task calendars and work schedules to ensure routine payroll tasks are assigned and performed as scheduled. Management also documented procedures for reviewing work performed by payroll staff. HR is in the process of revising its termination checklist. The checklist will be placed on HR's website by the end of February 2010. Management has made significant progress toward implementing this action plan. **This issue is closed.**

Open Audits Follow-up Table
February 28, 2010, 2010

Audit Title	Report Date	Issues	Expected Completion
College of Engineering Research Computing 2008-302	10/29/08	Unsupported devices; users with system administrator privileges	First Follow-up September 2009
			Second Follow-up December 2009
			March 2010
Housing Information Technology Office Residential Housing Network 2009-309	5/28/09	Registration scans; patching through portal; vulnerable systems; traffic analysis; incident response procedure; signed service agreements	March 2010
ITS Virtual Firewall 2009-307	11/20/09	Security and contingency planning; data backups testing; change control	March 2010
Architecture, Engineering and Construction AEAction 2009-303	11/23/09	Business continuity planning	March 2010
University of Michigan Hospitals and Health Centers Cashier's Office 2008-206	10/17/08	Segregation of duties; bank statement reconciliation and check writing practices; follow-up of outstanding vouchers; duplicate facility refunds	First Follow-up June 2009
			May 2010
UMHHC Payroll and Timekeeping 2008-110	1/30/09	Human Resource Management System access; systematic data integrity	First Follow-up February 2010
			August 2010
Medical School Administrative Internal Control Review 2008-208	1/30/09	IT strategic planning; reconciliations; gift fund usage; IT security; fire drill regulations	April 2010
Children's and Women's Hospital Construction Audit 2009-601	4/02/09	Establishing guaranteed maximum price; sales and use tax; retaining payment documentation	March 2010
University of Michigan Health System Cardiovascular Center Supply Chain Audit 2009-105	5/15/09	Blanket purchase orders; inventory tracking; policies and procedures	First Follow-up February 2010
			August 2010
UMHS Clinical Research Billing 2009-402	9/30/09	Research Planning; integrated solutions; interim solutions; policies and procedures	June 2010
University of Michigan Medical School, Otolaryngology Departmental Review 2009-843	10/30/09	Grant management; non-certified effort reporting; financial results and internal control assessment certification	March 2010

University of Michigan Health System Office of the Executive Vice President for Medical Affairs Operational Review 2009-205	11/17/09	Procurement and payroll training; excluded costs; segregation of duties; reconciliations	June 2010
University of Michigan Medical School Michigan Institute for Clinical Research and Health Research Grant Management 2009-106	11/30/09	Non-certified effort reporting; grant adjustments; Veterans Administration Hospital appointments; expense classification; compliance with P-card Guidelines; business continuity plans	August 2010
University of Michigan Medical School Internal Medicine, Division of Hematology/Oncology Southwest Oncology Group Review 2010-501	11/25/10	Retroactive grant adjustments; detailed financial reconciliations; late submission of timesheets; up-to-date effort certifications	August 2010
Plant Operations Construction Services 2008-602	11/4/08	Project management reporting	First Follow-up June 2009
			March 2010
School of Music, Theatre & Dance Fiscal Responsibilities 2008-815	11/26/08	Financial oversight and monitoring; several procurement and payroll observations; documented procedures; written delegation of authority; imprest cash management	First Follow-up August 12, 2009
			March 2010
William L. Clements Library 2008-212	1/26/09	Grant compliance; endowment agreements; collection management; insurance coverage; physical safety and security; reconciliations; recharge rates	April 2010
University Press Inventory and Receivables 2008-203	1/30/09	Accounts receivable; inventory (U-Press continues to implement internal controls in many areas, including those noted in the audit report)	October 2010
Benefits Administration Office 2009-101	4/30/09	Logical access to benefits data; addition to discrepancy reporting; invoice error reporting; flexible spending account payment reconciliation; compliance monitoring	First Follow-up September 30, 2009
University of Michigan – Flint Office of Development and Alumni Relations and University Outreach 2009-811	5/15/09	Relationship with University Development; performance standards; prospect management; coordination with Schools; cash handling; pledges; budget process; business continuity/disaster recovery plan	March 2010
			March 2010
University Unions Focused Review 2009-809	6/01/09	Cash management; payroll observations; statement of activity reconciliation; computer access	March 2010

Chemical Biology Doctoral Program Interdepartmental Degree Program 2009-812	6/30/09	Program reporting and oversight; compliance with procurement and hosting guidelines; effort certification; record retention; service level agreement; conflict of interest and conflict of commitment (Follow-up review will be conducted after the new chair is named)	July 2010
Deposit Process Audit 2009-103	07/20/09	Tracking of bank errors/adjustments; foreign checks; automated deposit stations security; treasurer's office procedures	First Follow-up February 2010
			April 2010
Dearborn Early Childhood Education Center 2009-110	09/30/09	Aged A/R; timeliness of deposits; physical security of cash; reconciliations; receipts; hosting events documentation; voucher review; privacy of employee records; double-time; IT security	March 2010
U-M Dearborn Grade Changes 2009-109	11/5/09	Faculty grade change notification; access to supplemental grade reports and the grade change system; management review of system access reports; registration and records policy and procedures; baseline controls in units	May 2010
University Housing Fiscal Responsibilities 2009-814	11/9/09	Various controls related to purchasing, financial reporting, discretionary funds, payroll and time reporting, cash operations, internal control gap analysis, travel and hosting, business continuity and disaster recovery plans, conflict of interest/conflict of commitment	June 2010
Center for Human Growth and Development 2009-206	11/17/09	Security/maintenance of sensitive data; monitoring grant budgets; imprest cash fund management/subject fee payments; disaster recovery/business continuity planning; statement of activity reconciliation/segregation of duties	June 2010
Taubman College of Architecture and Urban Planning 2009-202	11/20/09	International program administration; safety and security; shared access; faculty data backup; cash management; inventory management; recharge rates	May 2010
Information Technology Central Services 2009-838	12/02/09	Inventory management; billing for services; monitoring services quality and demand; financial monitoring; human resources processes; facilities; procurement	June 2010
School of Art & Design 2009-201	12/08/09	International programs; supplemental system; statement of activities reconciliation; P-cards; payroll; cash handling	June 2010
University of Michigan-Dearborn Department of Public Safety 2009-210	12/22/09	Documentation of administrative and financial procedures; financial shadow system; segregation of duties;	June 2010

Wire and ACH Transfer Process 2009-112	01/06/10	Security of sensitive vendor data; compliance with OFAC; strategic vendor payment processing; unallocated fund management; authorized user list; transaction limits; wire transfer policy	June 2010
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