

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents

June 16, 2006

**Item for Information**

Subject: Report of University Internal Audits  
**March 2006 – April 2006**

Background:

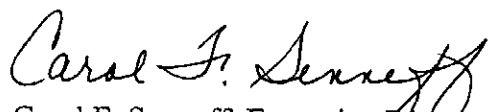
This is the report of the Office of University Audits activities for the period **March 1, 2006 through April 30, 2006**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee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

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **April 30, 2006**.

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

Respectively submitted,

  
Carol F. Senneff, Executive Director  
University Audits

June 2006

## ORIGINAL REPORTS

### Campus

#### Football Settlement Reports and NCAA Form 05-A FY 2006

#2006-413

Issued March 16, 2006

The Big Ten Conference requires its member institutions to prepare a "Football Ticket Sales and Financial Settlement Report" for each of the 2005/2006 home football games. The Settlement Report shows:

- The amount of ticket revenue owed to non-Big Ten visiting teams
- The Conference share for visiting Big Ten teams
- How the amount was calculated

NCAA Bylaw 20.0.6.3.1.1.1, effective for the 2005/2006 academic year, requires member Division I institutions to have an annual certified audit verifying its football attendance minimum average attendance of 15,000, reported on NCAA Form 05-A. Both the ticket settlement review and the verification of football game attendance were conducted simultaneously.

The amount of ticket revenue due the visiting team was accurately reported on all 2005/2006 Settlement Reports for home football games. The related NCAA Form 05-A, Football Paid Attendance Summary, was properly supported by the Settlement Reports. **This audit is closed.**

#### Michigan Public Media – Phase I Review

#2006-806

Issued March 24, 2006

The purpose of this review was to evaluate controls over the following key administrative processes:

- Management of in-kind trade underwriting agreements
- Reconciliation of on-air announcements
- Commission/bonus schedules and payments
- Procurement card (P-Card) transactions including travel

Control issues:

- Oversight and Accountability of In-Kind Trade Agreements - There is not sufficient oversight and accountability for transacting in-kind trade agreements. There is not a consistent process for:
  - Supporting the business purpose/rationale for the trade
  - Establishing the fair value
  - Managing custody of the trade
  - Documenting authorization and utilization of the trade
- Management of On-Air Announcements
  - On-air announcements were programmed without verification that an underwriter had an authorized contract in effect for sponsorship.
  - There was not a reconciliation between the continuity request for air time, written contract agreement, and payment history.
  - There were many instances in which significant air time was provided to businesses without an exchange of equivalent value (cash or trade)
- Pricing of Air Time - There was not consistent pricing of on-air time or documentation and approval for deviations from the standard rate cards.
- Bonus Payments - Bonuses have been awarded to underwriting personnel without adequate authorization and/or support of their achievement at the time of payment.

- Purchasing and Inventory Management - There is not sufficient documentation to support the service and/or cost benefit of using external vendors and suppliers when University resources and/or select vendor discounts were available.
- Appropriate Documentation and Oversight of Expenses
  - Financial transactions do not regularly undergo a management and compliance review to ensure appropriateness and consistency with University policies and procedures.
  - In many instances, there was no signature of higher authority or someone who knew the purpose and/or utilization of expense items.
  - There was not documentation of roles and responsibilities for reviewing and approving financial transactions to support staff knowledge and performance of assigned duties.

**Response and Corrective Action by Management:**

**I. Policies**

Management has begun to draft or revise policies that supplement the University Standard Practice Guide to strengthen financial controls and operate the broadcast stations in an effective, efficient, and ethical manner. Implementation will include significant staff education. Policies will cover topics such as:

- Conflict of interest and gifts
- Acceptable in-kind trade practices, authorities and oversight
- Assessment of bonuses as proper compensation in a philanthropic environment
- Bonus qualifications and required approvals
- Consistent air time pricing
- Purchasing and inventory management
- Improved recordkeeping, including reconciliations and cross checks
- Approval and authority levels needed to transact business
- P-Card approvals and processing requirements
- Hosting
- Subscriptions

Particular attention will focus on policies concerning corporate underwriting and on-air inventory. In addition, management will develop a substantial and thorough code of ethics to be shared with staff members, donors, underwriters, and will be prominently posted online.

**II. Processes**

Management is reviewing all existing processes and will implement new processes necessary to accomplish the policy goals and correct all present deficiencies, including all processes outlined in this report.

**III. Organizational Structure**

There will be an examination of the Michigan Public Media personnel and reporting structure to revise as necessary and ensure that qualified organization and personnel are in place to execute consistent oversight in support of this plan.

A follow-up review to the Phase I issues will be performed to evaluate the implementation of agreed-upon corrective action measures during the fourth quarter of fiscal year 2006.

**Gerald R. Ford School of Public Policy Internal Control Assessment**

#2005-219

Issued March 27, 2006

The Gerald R. Ford School of Public Policy (Ford School) is a graduate school that provides professional training to students interested in public policy and other careers in public affairs. Planning is underway for an undergraduate degree program. In November 2004, the Ford School broke ground for the Joan and

Sanford Weill Hall, an 80,000 square foot facility. The new home for the Ford School is expected to open in September 2006.

This audit focused on the internal controls supporting financial and administrative processes. The control environment within the Ford School is basically sound and functioning well. There were several areas where controls can be strengthened to reduce risk:

**Control Issues:**

- Purchases Over the \$5,000 Threshold – In one instance, a single purchase that was greater than \$5,000 was divided and billed on three separate invoices. Purchases over \$5,000 must be bid competitively and must be requisitioned through Purchasing Services. Management discovered this issue after the purchase had been completed. Controls were not strong enough to prevent this type of error before it happened.

**Management Plan** – Ford School management addressed this concern verbally with the staff member who initiated the purchase. Management is revising the Faculty/Staff handbook to include stronger language pertaining to purchasing policies and practices. Ford School administrators will also perform periodic reviews of vendor reports to assist in identifying deviations from standard practices.

- Higher Administrative Authority – P-Card Account Statement and Reconciliation Forms were authorized by an individual with a lower level of authority than the individual who initiated the purchase. The administrative manager authorized purchases made by the dean's assistant, which sometimes included travel expenditures for the dean and other expenditures initiated by the dean.

**Management Plan** – The director of the Office of Budget and Planning agreed to review and sign the P-Card statements of the dean's assistant.

- Managing Research Projects – Ford School is home to or co-sponsor of several research centers that focus on specific policy concerns. Their administrative office has varying degrees of oversight over these research centers. Ford School management reviews monthly reports prepared by administrators from the Center for Local, State, and Urban Policy Research and enters electronic data for the National Poverty Center. They also review and approve many transactions from these research centers including appointment changes for temporary and hourly employees, P-Card statements, travel and hosting expense reports, and Form G requests. Ford School management does not perform detailed on-site examinations of research center paperwork and internal research center business processes. Increased oversight will provide better governance over the research centers' resources.

**Management Plan** – Management will review research center activity in greater detail. University Audits will provide input regarding internal controls as the Ford School extends their plan for monitoring research center activity.

University Audits will review the implementation of management's plan for strengthening the internal control environment during the fourth quarter of fiscal year 2006.

**Information Technology**

**MAIS Change Management System**  
Issued March 15, 2006

#2004-305

Michigan Administrative Information Services (MAIS) has the responsibility of supporting M-Pathways, the University's administrative information system.

Change management is the process by which changes are planned, scheduled, applied, tested, accepted, distributed, and tracked. This applies to the development/conversion of a new system or the modification of existing program code for M-Pathways. The MAIS Change Management System consists of a client-server application named STAT and a back-end Oracle database.

This audit included an assessment of the following risks:

- Unauthorized program change
- Defective program change
- Malicious program change
- Poorly documented program change
- Unauthorized modification of STAT access
- STAT password sharing or theft
- Environmental system failure
- Physical and network-based attacks

The following specific controls were tested:

- Confirmed reliance on PeopleSoft access controls
- Verified employment status of holders of STAT user accounts
- Verified STAT user privileges were necessary and appropriate
- Verified STAT administrator accounts were distributed judiciously
- Verified validity and completeness of selected program change orders
- Confirmed security of stored copies of PeopleSoft system passwords

MAIS demonstrates a firm organizational commitment to the principles of change management. Based on the audit work, there is reasonable assurance that STAT and related procedures provide adequate internal control over programmatic changes to the M-Pathways system. **This audit is closed.**

### Web Grade Entry Project

#2006-103

Issued March 16, 2006

The Web Grade Entry application project rolled out across campus during the Fall 2005 term. The project was a joint effort of the Michigan Administrative Information Services (MAIS) Student Records, Curriculum, and Academic Advising unit of the Student Administration Division and the Office of the University Registrar. This new system provides for entering and approving grades electronically by authorized faculty and staff in all schools and colleges. The primary objective of this audit was to determine if appropriate internal controls are in place to prevent the system and data from being compromised.

There were no major control weaknesses identified. There are several opportunities to strengthen procedures.

Control Issues:

- Access Controls – Most privileges were current and properly authorized. There were several exceptions:
  - A former MAIS product manager and one business systems analyst at MAIS who had access no longer needed to be able to update Student Records in production. Elimination of this access was missed during prior cleanup but the rights were promptly removed when management reviewed access privileges during the audit period.
  - Two application developers assigned to support the Student Records module have update access to production data. This access is used to resolve emergency situations during on-call periods. This is the accepted practice in MAIS for all applications including Web Grades.

**Management Plan** – Access for business systems analysts and developers will be discussed with the Registrar’s Office to determine whether continuing access is necessary and appropriate. In addition, a detailed review of access roles and privileges to Student Records will be completed for MAIS staff. The Student Team will prepare and distribute a security report of access to production data to data owners for their review.

- Post Implementation Review – At the conclusion of significant projects such as Web Grades, a post implementation meeting is typically held by the project team with primary system users. Suggested topics for this project include system performance, the development process, documentation, security and controls, project duration and costs, training effectiveness, “lessons learned”, future system support and monitoring requirements, and enhancements. The Registrar’s Office and MAIS met in January 2006 to discuss status, project support, training effectiveness, and “lessons learned”.

**Management Plan** – MAIS is holding weekly meetings with the Registrar’s Office targeting production support requirements. The remaining two items are to decide which of the enhancement requests should be addressed and to rollout authentication.

- Record Retention – Currently, grade rosters are retained on paper forever. The Registrar’s Office images transcripts. There is no procedure or plan for addressing future long-term archival and purging. In absence of a policy, MAIS will not purge any student records.

**Management Plan** – For electronic records, the Registrar’s Office would like to archive records with controlled backup procedures and access. They will determine purge parameters as appropriate and will work with MAIS when MAIS is ready with a viable process for student administrative data. Requirements for paper documents are on the schedule with the Registrar’s Office.

The Product Manager confirmed that MAIS will not purge any Student Records data without instructions from the Registrar’s Office. MAIS can do some archiving, but there is currently no standard method or mechanism available in M-Pathways. PeopleSoft and MAIS are researching options. Currently and in the foreseeable future, there are no problems anticipated with the amount of data being stored for Student Records.

- Identifying Unauthorized Grade Changes – There is no review done in the Registrar’s Office specifically designed to identify unauthorized grade changes. There are approximately thirty staff members in the office with authority to modify grades after they are posted. Although there has been no evidence of impropriety at the University of Michigan, employees in Registrar’s offices at two other universities were recently cited for changing student grades as favors or for money.

**Management Plan** – Management agrees and will implement a process to identify and review grade changes of at least one grade. Under consideration is a procedure to send an email confirmation to the person who approved the original grade. Management is also aware of the necessity of designing security controls into the automation of the grade change process.

- Password Management – In the Registrar’s Office, the network password for user authentication at the workstation level has a minimum length of six characters, no complexity requirements, and no restriction on reusing the same password. There are several mitigating controls in place including forced change after 62 days and locking after three invalid logon attempts. Password protection would be strengthened considerably if the network passwords had more defined requirements.

**Management Plan** – Management agrees and will discuss options to enhance password controls with the Registrar’s Office.

- Grade Approval – Testing showed that instances where graduate student instructors had access that allowed inputting, approving, and submitting the grade roster for posting in M-Pathways. A Graduate student instructor should only be able to input grades and the faculty member should approve and submit the grades.

**Management Plan** – Registrar’s Office agrees with the need for a stronger policy in this area. They will discuss this issue with the Provost and the Provost’s Office will distribute new policy or procedures.

Internal controls give reasonable assurance that data and systems are protected from unauthorized access. The audit showed that minor changes will improve processes related to access, transaction monitoring, and communications. A follow-up review of open issues will be conducted during the first quarter of fiscal year 2007.

### **FOLLOW-UP REPORTS**

#### **M-CARE Sales Commission Follow-up Review**

Original Report issued April 26, 2005

#2005-121

Follow-up Report issued March 24, 2006

- Commission Payment Methodology – Commission agreements have been evaluated and changed as necessary. Documentation is being retained in agent files to support payment authorizations that vary from the commission schedule. Finance is being notified of all exceptions in advance. A commission payment methodology policy was established that outlines grandfathered and newly negotiated commission rates. An annual review of commission schedules will occur. **Closed**
- License Suspensions – M-CARE has established a policy that outlines specific procedures to monitor agent licensing status including terminations and suspensions. Management has prohibited payments to agents if the license is terminated, suspended at the time of the sale or suspended in excess of ninety days. The commission agreement has been revised to reflect the procedures established. **Closed**
- Documentation of Authorized Agents – M-CARE has established a policy that specifically defines the circumstances in which an agent of record letter is required and where and how this is to be documented. Processes have been established to verify appropriate documentation prior to payment. **Closed**
- Commission Documentation – Management is utilizing the Goldmine system to record and maintain agent information. The commission designation form and agent agreement have been consolidated. Mandatory and optional information fields have been clearly defined and communicated to agents. Hardcopy documentation to support activity is being maintained for each agent. **Closed**

The new internal controls are in place and appropriate. **This audit is closed.**

## ORIGINAL REPORTS

### Campus

#### School of Social Work Financial Controls

#2004-250

Issued April 20, 2006

The University of Michigan School of Social Work offers graduate level degree programs and non-degree programs as well as continuing education. This audit covered administrative processes for the fiscal year 2006. Processes included were payroll, purchasing, administration of the awarding of scholarships and fellowships, centralized management, monitoring and communication of project grants.

Overall, departmental processes are designed well and controls are working as intended. There was one issue that was brought to the attention of management.

#### Control Issue:

- Continuing Education Procedures - The School of Social Work Office of Continuing Professional Education uses participants' social security numbers as the primary identifier for maintaining the list of participants' Continuing Education Units.

**Management Plan** – The Office of Continuing Professional Education will maintain their participants' Continuing Education Unit listings by a serial number generated by their internal software.

The conversion away from social security numbers occurred during the course of the audit. University Audits reviewed the updated database and verified that this change has been properly implemented.

Management in the School of Social Work is committed to sound fiscal responsibility. Based on the audit work conducted, it appears that business processes support the mission of the School, are well documented, and are in compliance with the policies and procedures of the University. **This audit is closed.**

#### School of Information – Financial and IT Controls

#2005-215, 315

Issued May 1, 2006

The University of Michigan School of Information offers graduate level programs focused on the role of information in society through research and instructional programs. The Information Technology group within the School is made up of eleven people.

This audit addressed specific departmental business and information technology operations at the School, evaluating internal controls over:

- Payroll
- Purchasing
- Project grant administration
- Petty cash disbursement and reimbursement
- Supplemental systems used for reconciling, monitoring, and reporting financial activity
- Information technology



Control Issues:

- Imprest Cash Accountability – Imprest cash funds are distributed to research assistants for the purpose of paying subject fees. While the name of the person and the amount of funds distributed is written on a white board and entered into an Excel spreadsheet, there is no signed acknowledgement to formally document the receipt/disbursement of funds.

**Management Plan** – Management has developed a form which is signed by the person receiving the funds, detailing the amount distributed and the responsibilities of the person taking the money. The form also has an acknowledgement for the return of the excel funds and/or receipts which is signed by the custodian of the imprest cash fund.

University Audits has reviewed the new form. This form provides a strong new internal control over cash and improves accountability for the department and the individuals handling the cash. **This issue is closed.**

- Imprest Cash Reconciliation – The School’s central imprest cash fund is reconciled by the person who manages and distributes the central funds. The total value of the fund at any given time is approximately \$4,000. Segregating the management of the funds from the reconciliation process is the best control, but may not be efficient given the dollar value of the total fund. It is important to implement a mitigating control. Surprise cash counts by an independent party was discussed with management.

**Management Plan** – Management has developed a procedure for surprise cash counts.

- Monitoring Computer Resources – The School does not have written procedures for managing and monitoring University resources as stated in Standard Practice Guide Section 601.3-1. This includes all computing software. Software licenses are maintained for workstations; however, there is no enforcement of policy on laptops which are distributed with administrative rights to the faculty, staff, and students.

**Management Plan** – An Administrative Rights Service Level Agreement is signed for all laptops. The Agreement reference the University policy regarding personal use. Procedures are being developed to monitor and maintain computing software in accordance with University policy.

- Data Security – The School of Information does not have a written department-specific policy for data security. Standard Practice Guide section 601.12 requires numerous specific steps to protect data. It also gives guidance on the protection of data integrity.

**Management Plan** – The School of Information IT administrator will develop department-specific policies regarding data security. A meeting was held with the security team of Information Technology Security Services regarding training and the necessity of performing a risk self-assessment. The administrators felt they could not spare one person for the eight days of training that is required. They are trying to negotiate other arrangements and plan to perform an assessment in the future. The IT Manager felt that they lack the knowledge, in-house, to perform such an extensive review. There is discussion regarding outsourcing to a third party.

- Information Technology Threat Assessment – Standard Practice Guide section 601.12 also addresses the need for a comprehensive assessment of the data architectural environment. This is intended to protect data from “deliberate, unintentional, or unauthorized alteration, destruction and/or inappropriate disclosure. The School of Information has not done this type of assessment.

**Management Plan** – Management will determine a means of performing the review.

- Backup and Recovery – A written backup and recovery plan does not exist for the School of Information’s departmental IT resources. A written disaster recovery plan helps to ensure that hardware, software, facilities, and people are available to reestablish critical business systems in a timely manner in the event of a major disaster.

**Management Plan** – IT management will work with the business units and data owners to develop a plan.

- Departmental Procedural Manual – Key departmental procedures are not documented. Written procedures provide consistency and continuity in operations. Employees know what is expected and have a reference when there is uncertainty or a change in responsibilities.

**Management Plan** – Management is currently working to document additional policies and procedures.

Most administrative processes are well controlled. Reviews are timely, reconciliations of budgets and expenditures are performed well, there is follow-up and resolution of exceptions. Management periodically reviews departmental processes to ensure internal controls are working as intended.

Currently, some of the recommendations have been implemented, others are in progress. A follow-up review will be conducted during the fourth quarter of fiscal year 2006.

**Michigan Public Media – Phase II**  
Issued April 24, 2006

#2006-806

The audit of Michigan Public Media was performed in two phases. Phase I evaluated specific internal control issues related to underwriting, on-air programming and bonuses. The Phase I report was issued on March 24, 2006. The Board of Regents Finance, Audit and Investment Committee requested that additional audit work be performed to ensure a thorough review of all major business practices within the organization. The purpose of the Phase II audit was to determine the adequacy and effectiveness of existing practices over:

- Individual giving
- Timekeeping, payroll and special pay
- Cash management
- Grant management
- Purchasing and expense management
- External contractor relationships
- Business continuity
- Accounting oversight and monitoring

In both Phase I and Phase II audits, we observed an inadequate control environment and “tone at the top” to support prudent and ethical business activities. Control weaknesses were identified broadly across the organization. While the overall control environment must be strengthened, the Phase II audit did not identify additional misconduct or misuse of University assets.

Control Issues:

- Assessment of Leadership Performance and Responsibilities – Performance evaluations had not been conducted for various members of the leadership team in several years; in some cases, it does not appear that evaluations had ever been done.

**Management Plan** – A written policy statement will be written and distributed to all managers and supervisors. The policy will require that evaluations with specific performance metrics be written and presented to employees annually at a minimum. The annual evaluation will be given

between July and August, and will include an evaluation of past performance and expectations for future performance. Additional written/presented evaluations will be required for individuals requiring additional direction and to those individuals whose responsibilities substantially change. Bonuses will be paid only when supporting documentation demonstrates the achievement of individual goals.

- Accounting Oversight and Support - Several key accounting and operational reconciliations are not being performed at Michigan Public Media. Reconciliations provide assurance regarding the accuracy and authorization of posted transactions. The following reconciliations have not been performed:
  - Reconciliation of statement of activity (Ann Arbor)
  - Reconciliation of individual giving
  - Reconciliation of pay register with time reports

**Management Plan** - Accounting personnel will prioritize and perform reconciliations of all appropriate centrally produced financial reports and related financial records, as well as unique financial reports and schedules produced by Michigan Public Media. The director will periodically review and ensure that reconciliations are complete and current.

- Financial and Operational Policies – Michigan Public Media has not established a central policies and procedures manual detailing steps required to perform specific financial and operational tasks including:
  - Cash processing
  - Gifts and gratuities
  - Expense processing and authorization (including purchasing)
  - Conflicts of interest and commitment
  - Employee check-out procedures
  - Travel reimbursement (including mileage)
  - Volunteers and temporary workers
  - Contractors/consultants

**Management Plan** - Michigan Public Media senior staff, together with outside consultants, have reviewed current policies and processes, or lack thereof and have drafted proposed policies and procedures to strengthen internal controls. Formal policies and procedures will be substantially completed in April 2006. They will be centrally maintained both electronically and on paper. Policies and procedures will be available with read only access to all staff on a shared drive. Training sessions will be held with personnel, as appropriate during FY 2006.

- Pay practices - In limited sampling, multiple time reports were unsigned by certain employees and/or a supervisor to attest to the accuracy of time reported and paid. Time reports are returned to many employees after they are approved by their supervisor. We observed various white-outs and other corrections to time documents that may/may not have occurred after approval.

A central mechanism has not been adopted to document/track staff time when they are working off-site. We observed numerous instances in which staff/supervisors were unaware of the actual location of account executives and engineering personnel during the course of the audit.

**Management Plan** - Time reports will be consistently signed and approved effective immediately. Time reports are no longer being returned to employees once they are signed by the supervisor. A central calendar system is currently being piloted. A formal calendar system and companion written policy will be implemented.

- Management of Premium Gifts - Membership discount cards, videos, DVDs, mugs and other items are offered to individual sponsors when they make a donation to the Radio or Television stations. We observed that persons responsible for ordering the premium gifts in Ann Arbor and Flint are also responsible for receiving the gifts and distributing them to sponsors without secondary review or approval. In addition, premium gifts are not all locked in a secure area and an inventory is not kept to account for the total number of gifts on-hand at any given time.

**Management Plan** - All premium items will be secured in a locked area with limited access by May 15. Inventory lists will be maintained and updated regularly to provide greater accountability for tracking and monitoring purposes. A premium usage form will be designed and implemented. Appropriate segregation of duties will occur to ensure that one person does not manage all aspects of the process from purchase to distribution.

- Inventory Practices – During a physical observation of broadcast areas, we observed a substantial inventory of music CDs (>8,000) on-hand. A formal inventory isn't maintained to track this asset or ensure appropriate management. The CDs are not being used in the current talk radio format; however, changes do occur and the collection has value. Based on discussions with staff, a previous music collection was not valued for financial statement purposes despite its considerable worth.

In addition, procedures to manage equipment and inventory items vary between Ann Arbor and Flint. Tagging and tracking of equipment and inventory is inconsistent. A central repository of equipment on-hand, the location and condition is not maintained.

**Management Plan** - A standard approach will be written and implemented as part of a more inclusive asset management policy statement. Formal inventories will be maintained for non-capitalized property. Staff will receive training and a formal written policy will be established. The policy will outline staff responsibilities and require periodic physical validation.

- Grant Management - The project director is not specifically identifying the grant to which certain expenditures should be charged. While grant objectives have been met, we observed that the chief financial officer makes the primary decisions about grant expense allocations. These allocations may be accurate; however, accounting personnel do not possess specific knowledge about actual expenses or their appropriateness.

**Management Plan** - Staff members will receive additional education regarding grant management strategies and day-to-day review and monitoring activities from Sponsored Programs and the Division of Research Development and Administration as appropriate. Grant proposals are now being reviewed by the business office and approved by the director up-front, with particular attention paid to the proposed budget.

- Conflict of Interest - Based on interviews and discussions with staff members, several employees have or had external relationships or positions that could present a conflict of interest or commitment with their responsibilities at Michigan Public Media. Disclosure forms are not routinely completed and there are no specific work plans to address each situation.

**Management Plan** - A conflict of interest/commitment disclosure form will be created for and signed by all staff. Signature will attest to having read and understood the statement, and committing to reporting all conflicts of interest and commitment. Formal work plans will be established and approved by the director when disclosures are made. Senior leadership will monitor periodically. Disclosure statements will be circulated for staff signature at least two times per fiscal year.

- Relationships with Third Parties - Relationships with third party vendors were not well documented and controlled in all instances. Several businesses routinely obtain or utilize sensitive member information such as names, addresses and/or credit card numbers in their work; however, there was no formal agreement in place to address confidentiality, ownership, retention or disposal of data.

In addition, documentation was not consistently available to support the specific nature and work of contractors hired to work on various productions. Invoices were not always signed by the worker/supervisor and specific documentation regarding the worker's qualifications or references were not centrally available. A few workers were paid in excess of \$5,000 a year; however, service agreements or other written documentation was unavailable to outline the terms and conditions of the relationship or reasonableness of fees.

**Management Plan** - The director will approve all proposed expenditures in excess of \$2,500 before commitments are made. All existing and future contracts will be stored in the business office. The business office will review all contracts to ensure they are complete and include proper terms and conditions. The business office will review expenditures to ensure they are supported by written contracts when appropriate. A log of contracts will be maintained by the business office to include a follow-up date when consideration should be given to contract extension, replacement, or expirations. Michigan Public Media will work with Purchasing, the General Counsel's Office and other University departments to ensure appropriate terms and conditions are included in written agreements.

- Business Continuity - Specific security measures are not utilized to prevent unauthorized persons from entering broadcast rooms or the radio audio processing and distribution equipment room where computer servers are maintained. Volunteers, temporary staff and visitors can enter these areas without restriction. In addition, a written disaster recovery/business continuity plan has not been established for the radio or television stations. While individual back-up and emergency procedures exist, a comprehensive plan has not been created which designates specific employee responsibilities, authorized command center, and priorities to support the radio and television station staying "on the air."

**Management Plan** - Effective immediately, management will require the hallway and shop entrance doors to be locked except when authorized persons are in the rooms. Management will complete a feasibility study of adding a security access door to the general radio broadcast area, to include maximum ease of egress in the case of a fire or other emergency. Management will formalize its existing disaster plans for both radio and TV and will conduct a gap analysis to establish an appropriate disaster recovery capability and plan for the organization.

- Allegiance Access and Security Rights - The Allegiance database is used to track and monitor all membership data for the Radio and Television Stations. User accounts for the database have not always been unique and we observed at least one shared account. There are several accounts that have been set up for temporary workers where the user name and password are the same. Security levels have not been established to prevent unauthorized persons from changing information input into the database. All users are able to create, change and delete data in Allegiance database.

**Management Plan** - Management will establish appropriate access and security privileges for the Allegiance database. Unique passwords will be utilized in all instances and appropriate monitoring will occur to ensure transactions are reasonable.

## MANAGEMENT SUMMARY RESPONSE

The executive management team of Michigan Public Media is committed to aggressive implementation and continued adherence of the solutions proposed from the Phase I and Phase II audit reports. The corrective action plan includes clearly defined milestones, specific responsibilities and itemized incremental action steps toward total compliance deadlines. Recognizing the resources committed to this project, the management of Michigan Public Media is dedicated to resolve these deficiencies and to change the operational culture to one of accountability and responsibility. With input from University Audits and Plante & Moran, we have collaboratively framed a well-defined action plan that will install improved systems and generate clear policies and procedures. The net result will be a multimedia operation that will deliver credible results with confidence and integrity.

## AUDITOR'S SUMMARY

Observations made during both the Phase I and Phase II review demonstrate the need for additional oversight and monitoring over basic financial and operational activities. Greater administrative guidance and support is needed to ensure that day to day transactions are accurate and well controlled. The organization lacks clear operational policies and procedures and roles and responsibilities have not been sufficiently defined or monitored. Weaknesses were also observed in inventory management, grant activities and employee and third party relationships. Management has developed a corrective action plan and begun to address the issues identified in this report.

A follow-up review will be performed to evaluate the implementation of agreed-upon corrective action measures during the first quarter of fiscal year 2007.

### Healthcare

#### University of Michigan Hospitals Patient Transfers

#2006-124

Issued April 20, 2006

Patient transfers from University of Michigan Hospitals to other facilities or home care services are managed by Discharge Planning staff within Patient Care and Nursing Services. In FY 2005, approximately 30% of all inpatient activity resulted in discharge planning referrals. University Audits performed a review of internal controls designed to ensure the quality and effectiveness of Discharge Planning including patient safety and service, discharge coding, medical record documentation, and discharge process assessment. Center for Medicare and Medicaid Services (CMS) Interpretive Guidelines for Discharge Planning were used as a standard for the review as a "best practice" model. The review was not designed to assess compliance with Medicare Billing requirements. A stratified sample of 27 patient discharges to post acute facilities or home services occurring between January 1 and September 30, 2005 was selected across clinical services.

#### Control issues:

- Accurate Discharge Planning Codes - Discharge disposition code revisions have not been adjusted in the Transition Quality (TQ) and Care Web systems to accommodate CMS revisions effective on October 1, 2005. An increased number of billing adjustments may be required if incorrect discharge planning codes are paired with DRGs that result in reduced reimbursements.

**Management Plan** – Discharge disposition codes are being revised and will be embedded in the on-line Care Web final discharge plan documentation. The DRG Policy Committee will meet in April 2006 to ensure DRG process compliance for transfer guidelines to alternate levels of care including coordination with the Compliance Office and appropriate coding and billing units.

- Post Discharge Changes to Discharge Disposition Code – Discharge Planning staff does not regularly confirm implementation of their post discharge plans for patients including home

services and transfer placements to other facilities. Incorrect discharge information could impact patient care and safety as well as accurate discharge disposition code assignment.

**Management Plan** – Management is establishing a team that will develop a process to address use of a tracking tool for confirming the post discharge level of care and to update patient information to physicians and coders through documentation.

- **Blank Discharge Disposition Code Fields** – There is no system requirement or reinforced timeframe for including the discharge planning code in the TQ or Care Web systems. When the final discharge disposition code field is empty, coders review other parts of the medical record to assign the discharge disposition code. Inaccurate documentation or lack of documentation may result in subsequent reimbursement adjustments.

**Management Plan** – For those patients who receive discharge planning services from the PMC, a standard will be established for documenting the final plan with the level of care and corresponding discharge disposition code within 24 hours of discharge or next business day.

- **Coordination between Hospital Services** - Coordination of Hospital services for discharge planning is not optimized.
  - Discharge Planning management indicates that PMCs are not consistently initiating or fully engaging in multi-disciplinary care conferences. There was little evidence in medical record testing that multi-disciplinary discharge planning occurred.
  - Criteria for PMC discharge planning interventions and formal protocols for contacting Discharge Planning have not been established and provided for educating nurses or physicians in new doctor orientation, new services orientation for residents or for attending staff. Specific procedures for contacting discharge planners regarding post discharge changes to discharge plans have not been communicated.

**Management Plan** – Specific criteria for multidisciplinary conferences will be established. A multidisciplinary team will be established to design, implement, and evaluate case conference process including criteria for referral, team member roles and responsibilities and guidelines for participation.

- **Documentation of Patient Services** – Medical records testing identified a significant number of patient assessments and discharge plans had been performed but were not included in the medical record.

**Management Plan** – Performance of CMS service requirements has been embedded in the Standards of Practice as part of on-line medical record documentation in Care Web. Beginning in March 2006, there will be a “choice among home care providers” pilot in Admissions and in the Emergency Department to provide information to patients and obtain consent from those patients who choose UMHS to provide home care services.

- **Consistent Information Source** – A consistent source of post acute discharge planning information is unavailable in the medical record to support patient care and transfer processing. Discharge information recorded by various clinicians resides in different documents and may not be complete or readily available.
  - The Physician’s Plan of Treatment Continuing Patient Care form (CPC) assumed by Discharge Planning management to be included in the medical record was not found in any of the sample test records.

- The Discharge Navigator template used by clinicians to record discharge information does not include detailed information about post discharge facilities such as location, phone number, or home care plans.
- Care Web physician discharge summaries do not provide specific information regarding transfer facilities and may be validated by the physician up to 30 days after the patient discharge.

**Management Plan** – The CPC will be established in either on-line documentation in Care Web or as a web-based referral. Extended care facility information will be included in Care Web on-line documentation. Documentation standards will be established for PMCs in the Discharge Navigator template.

- Discharge Planning Process Assessments - The discharge planning process including patient assessments, standards of practice and professional performance is not regularly and reliably evaluated. Sufficient analytical data has not been available to support reliable assessment and maximum process performance.
  - Patient assessments and discharge plans are not regularly evaluated for quality, timeliness and accurate discharge plan coding to ensure quality patient care, provide feedback for PMC development, and ensure compliance with payer guidelines. Review of patient medical records and TQ records identified instances where required discharge assessments were not performed in accordance with CMS discharge planning guidelines.
  - Standards have not been formalized and used for measuring individual staff competency. Department-specific core competencies need updating to include on-line standards of practice documentation, payer requirements, and clinical criteria for identifying alternate levels of care and barriers to discharge. Service profiles are being developed, but have not been reviewed with all PMCs.
  - There is no process for assessing post discharge placement success rates and identifying placement issues.
  - Use of patient satisfaction survey data is not optimized. The survey question most related to discharge planning relates to assistance with planning home care services. Individual survey comments have been received but analysis of collective data has not been obtained.

**Management Plan** – Management will establish:

- Concurrent and retrospective department data needs and sources including daily reports of readmissions, length of stay and admissions that do not meet criteria, and discharge disposition coding.
- Standards of practice and documentation of these for accuracy and timeliness by individual PMC and aggregate and customer satisfaction with home care planning.
- Department-specific competences for outcomes measurement by individual PMC or aggregate and include them in Orientation and Annual Performance Evaluation.
- A quarterly data analysis and review process will be implemented to measure individual PMC and department aggregate performance related to:
  - Quality, accuracy and timeliness of discharge planning documentation and discharge disposition coding.
  - Compliance with standards of practice for on-line documentation in Care Web.
  - Appropriateness of alternate level of care placements or success rates.
  - Extended Care Facility satisfaction with post acute care placements.
  - Patient satisfaction with home care planning.



Over the last 18 months, Discharge Planning management has aggressively pursued opportunities to improve the quality and effectiveness of their services and various projects are in progress. Management's plans for the issues in this audit will support efforts already underway. A follow-up review will be conducted during the third quarter of fiscal year 2007.

### **FOLLOW-UP REPORTS**

#### **College of Pharmacy Financial and IT Controls**

Original Report issued January 31, 2005

#2004-251,351

Follow-up Report issued April 20, 2006

- **Reconciliation** - Reconciliation of credit card batch totals to bank statements and to University Statements of Activity are conducted monthly by the College's business office. **Closed**
- **Bank Deposits** - The College's homecoming event registration process has been outsourced. This has improved the timeliness of registration and processing payments made by check or credit card and has allowed staff members to concentrate on program content. **Closed**
- **Disaster Recovery Plan** - At the time of the audit, the College of Pharmacy did not have a written disaster recovery plan. Based upon our examination of a current draft, the disaster recovery plan is essentially complete and addresses requirements that hardware, software, facilities and people are available to reestablish critical business systems in the event of a major disaster. **Closed**
- **Computer Facility Adequacy** - During the audit, the College had contracted for suitable space for their computing resources, but they had not begun to occupy the space. As of this review, the majority of servers and computer room equipment have been relocated to a more adequate secure space at the School of Information on north campus. **Closed**
- **Software Inventory** - Audits recommended that a departmental software inventory should be performed in the College of Pharmacy. The business manager of the College of Pharmacy currently maintains an inventory of all specially-licensed software and CDs. **Closed**

The opportunities for improved internal controls have been implemented and working as intended. **This audit is closed.**

**University Audits – University of Michigan  
Open Audits Follow-up Table  
April 2006**

<b>Audit Title</b>	<b>Report Date</b>	<b>Status</b>	<b>Expected Completion</b>
Utilities Services Energy Billing System 2005-337	11/2/05	Writing formal policies and procedures; Business Continuity Plan; IT Disaster Recovery Plan	June 2006
Web Grade Entry 2006-103	3/16/06	Completing a detailed review of access roles and privileges to Student Records	July 2006
University of Michigan Hospitals and Health Centers: Front-End Design 2005-111	10/24/05	Working to achieve consistent practices across ambulatory clinics	May 2006
University of Michigan Hospitals 340B Drug Purchasing Program 2005-115	10/24/05	Management is reviewing final processes	May 2006
Professional Fee Billing Compliance 2005-126	12/22/05	New organizational structure has been established. Additional controls are being implemented	November 2006
UMHS MLabs 2006-112	1/19/06	Management is implementing corrective action measures	June 2006
UMHHC Vendor Visitation 2006-118	1/30/06	Coordinating with HHC	June 2006
UMH Patient Transfers 2006-124	4/20/06	Multi-disciplinary team has been established to design, implement, and evaluate discharge procedures, roles and responsibilities	January 2007
School of Dentistry Fiscal Controls Assessment 2005-213	11/15/05	Addressing central administrative controls	June 2006
UM-Dearborn Athletics and Recreation Department 2005-234	12/9/05	Management is implementing corrective action measures	May 2006
School of Natural Resources and Environment Financial Controls 2005-217	12/22/05	Awaiting first quarterly access review and changes to cable raceways	May 2006
Parking Services 2006-202, 2022	1/06/06	Management is implementing agreed-upon corrective action measures	June 2006
International Center Student and Exchange Visitors Information System (SEVIS) 2006-110	2/24/06	Management has begun to address security issue identified	May 2006
Michigan Public Media Phase I Michigan Public Media Phase II 2006-806	3/24/06 4/24/06	Significant reorganization and implementation of control policies and procedures is in progress	July 2006
Gerald R. Ford School of Public Policy Internal Control Review 2005-219	3/27/06	Departmental purchasing policies will be revised; research center reviews will be initiated	June 2006
School of Information 2005-215, 315	5/1/06	Departmental policies will be developed and implemented	June 2006