

UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents
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Item for Information

Subject: Report of University Internal Audits
March and April 2010

Background:

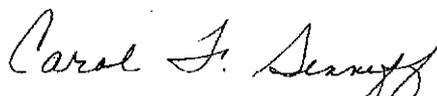
This is the report of the Office of University Audits activities for the period **March through April 2010**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- 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, 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
March - April 2010
Summary of Reports Issued

ORIGINAL REPORTS

Campus

International Programs Student Safety Preparedness
Report Issued March 15, 2010

#2009-111

The University of Michigan offers many international opportunities for undergraduate and graduate students. Programs for education, research, internships, and employment are available through U-M units or partnering institutions across the globe.

U-M is committed to student health and safety - whether the student is in Ann Arbor or elsewhere in the world. Due to the autonomous structure of University schools, colleges, and units, international programs are highly decentralized at U-M, ranging from fully staffed offices to individual program administrators with part-time duties. Recently, the Council on Global Engagement, a University-wide group focusing on streamlining processes and procedures related to travel abroad experiences, was tasked with evaluating international programs on campus, promoting these experiences to students, and exploring ways to coordinate activities between units.

The objective of this audit was to review documentation and procedures for students' health and safety during international travel. The review incorporated a sample of University units on the Ann Arbor campus; programs at UM-Dearborn and UM-Flint were not included. Consideration was given to the HTH travel abroad health insurance program, travel to high-risk areas, pre-departure planning, emergency coordination, and communication between University units and between the administering program and the traveling student. Our assessment focused on University-sanctioned travel (e.g., semester abroad courses, independent study, and department-sponsored trips). Some units tested do not distinguish between University-sponsored travel and other international travel, such as travel with student groups/organizations, or personal student travel.

International program departments exist across campus, including program offices within many schools and colleges. This audit included the review of five international programs, specifically the Graham Environmental Sustainability Institute, Museum Studies, the Center for Global and Intercultural Study, the International and Economic Development Program, and Global REACH. Each unit received a separate memorandum detailing recommendations for improvement for health and safety controls specific to that unit.

Recommendations to improve University-wide health and safety controls, as well as a summary of the individual program evaluations, are included below.

1. Coordination of Effort - A portion of the review focused on the assessment of opportunities to achieve operational efficiencies by combining certain administrative functions into a central administrative area. Historically, individual units have been given the discretion to define all aspects of their international programs. This decentralization has resulted in the duplication of many activities across campus. Additionally, many smaller program offices lack the administrative resources to devote sufficient time to these duties, leaving many crucial elements as the student's responsibility.

2. International Travel Oversight Committee Travel Registry - The International Travel Oversight Committee (ITOC) maintains a travel registry for all University faculty, staff, and students. The University's International Safety and Security Travel Policy requires those traveling abroad to provide itinerary and contact information on the ITOC travel registry. This registry serves to document travel location of University-affiliated individuals in a centralized area, allowing for efficient, timely reporting in the event of emergencies. University Audits noted the following:
 - In most units, the students are responsible for submitting information to ITOC, and units conduct no follow-up to ensure the students fulfill this obligation. Between September 1, 2008 and August 31, 2009, 1,251 were registered on ITOC, but more than 2,389 University members enrolled in HTH insurance. These figures indicate that any reporting generated by ITOC is not representative of actual travel locations.

Units stated that because they are in possession of students' travel plans, there is little need to include that information in a central repository. However, in the event of a disaster, University administrators would need to reach out to each individual travel administrator to compile a complete report of University involvement in the disaster area. This could prove to be unacceptably time-consuming during critical events.

- The ITOC travel registry webpage informs readers that "all personal information is deleted automatically 30 days after return to the US." However, review of data stored within the travel registry revealed complete records for travel dating back to 2002. A Rackham information technology specialist, who has responsibility for maintaining the database, confirmed that a data purge has not been performed.

The Council on Global Engagement has created a working group subcommittee to redesign the ITOC travel registry website. The new design will incorporate data from many new sources, such as student emergency contact information in M-Pathways and itineraries from Studio Abroad¹, so a student's travel information will automatically flow from these systems to the travel registry and ensure the registration is completed. In the short term, units should be advised to either register students directly, or require students to confirm that registration has been completed.

In addition, ITOC leadership should review and evaluate reporting needs and determine an appropriate data purge timeline. The website should be updated to reflect this information, to ensure accurate information is presented to travel registry users.

3. HTH Travel Abroad Health Insurance and Graduate Students - Most units on campus require all travelers, regardless of status, to obtain HTH travel abroad health insurance. The coverage provided by this insurance was customized specifically for the University of Michigan, and provides exceptional assistance for travelers. The University requires all undergraduate students to obtain this coverage, but there is no similar mandate for graduate students.

As a best practice, University Audits suggests a central policy for all students to obtain HTH travel abroad health insurance for any international travel. This policy should include clear guidance for students with personal travel insurance.

4. University Oversight for Student-Designed Programs - Many offices allow students to design their own international study/work abroad experience. These students are not necessarily

¹ Studio Abroad is a software product designed to facilitate administration of study abroad programs. Based on analysis performed by the Council on Global Engagement and Information & Technology Services, Studio Abroad will be implemented campus-wide during fiscal years 2011 and 2012.

also be beneficial, but any policies with University-wide impact should originate from a central office with authority to mandate such changes.

The observations and recommendations from this audit report will be shared with the Council on Global Engagement. University Audits will perform a follow-up review to determine the status of plans related to student safety in the second quarter of fiscal year 2011.

University of Michigan Dearborn School of Education
Report Issued April 26, 2010

#2010-205

The University of Michigan – Dearborn (UM-Dearborn) School of Education (SoE or the School) is an accredited program through the Higher Learning Commission of the North Central Association of Colleges and Schools. In fall 2009, SoE welcomed approximately 600 undergraduate and 500 graduate students, supported by 12 administrative staff and nearly 70 faculty and members represented by the Lecturers' Employee Organization. Transfer students from other educational institutions account for almost half the student population. Students play an active role in the School, comprising several programmatic advisory committees and participating in the Student Michigan Education Association. The School offers seven undergraduate programs and eight graduate programs.

The School of Education has established relationships with many local school districts and public agencies to provide students and faculty with opportunities to refine their skills in real life teaching environments. For students, these experiences are required as part of their student practicum.

University Audits examined processes and controls in the following areas:

- Field placement
- Agreements with external entities (joint ventures and articulation agreements)
- Purchasing
- Financial reporting
- Student services
- Payroll, including overtime and supplemental pays
- Information technology
- Cash/check management
- Grant management
- Employment controls

The review was accomplished by interviewing key SoE employees and examining relevant School policies and procedures. University Audits performed analysis and testing, on a sample basis, of deposits, expenditures, payroll, employment records, financial reports, and student teacher records. Opportunities to improve procedures and strengthen internal controls are discussed below.

Risk and Control Discussion

1. Agreements with External Entities - The School has a variety of agreements with external entities, including area school districts, community colleges, and various not-for-profit agencies. Each relationship has an agreement that outlines, to varying degrees, the expectations and responsibilities of each partner. University Audits noted a wide range of formality in each agreement. Some agreements dictate official meetings or reports. However, SoE indicated a more casual communications process is used.

As agreements are renewed, management should take care to incorporate or apply the following:

electronic conflict of interest/conflict of commitment web application should have been notified to update the Dean's information. However, the School was unaware they needed to provide this notification. Any conflicts reported by faculty or staff during this timeframe would have gone undetected by the School's leadership. University Audits was able to confirm no conflicts were reported during this timeframe.

Management Plan - The School will utilize hiring checklists from other departments as templates to create a checklist specific to the School. In the short term, the Budget Analyst has set a reminder to update the Dean when the position becomes permanently filled.

5. Check Copying Practice - Three offices in SoE routinely make copies of checks received from students. One office scans the copies and keeps them on a network drive. Making and storing check copies increases the risk of identity theft through inadvertent disclosure of a person's banking information.

Management Plan - Management has determined that copies of checks are not necessary. Effective immediately, no further checks will be copied. All checks will be removed from files and shredded by the end of March 2010.

6. Use of Signature Stamp - The Budget Analyst uses the Dean's signature stamp on certain materials, such as authorizations for supplemental payments, student certificates, and letters to employees represented by the Lecturers' Employee Organization (LEOs). SPG Section 601.24, *Delegation of Authority to Bind the University to External Agreements on Business and Financial Matters*, indicates that signature stamps are prohibited. An exception may be granted in writing from either the Associate Vice President for Finance or the Vice President and Chief Financial Officer. Use of a signature stamp decreases accountability for transaction processing.

Management Plan - The signature stamp was immediately returned to the Dean upon notification of this issue. Management will draft a policy on utilizing electronic signatures for student certificates, informational fliers, or other promotional materials. An electronic signature will not be used for official business (payroll, human resources, etc) or any financial transaction. Any existing signature stamps will be destroyed.

Our review indicated that most policies and procedures throughout the School are well-designed and offer reasonable assurance that internal controls are working as intended. A formal follow-up to the outstanding issues will be conducted during the first quarter of fiscal year 2011.

Matthaei Botanical Gardens and Nichols Arboretum
Report Issued April 29, 2010

#2010-202

Established in 1907, University of Michigan Matthaei Botanical Gardens and Nichols Arboretum (MBGNA) provide a unique combination of public and University conservation, education, and research programs and opportunities. MBGNA manages over 700 acres of gardens, a variety of research areas and natural preserves that include outdoor display gardens, conservatories, greenhouses, laboratories, teaching and meeting spaces, nature trails, and natural displays of Michigan native plants and plants from around the world. MBGNA's mission is to care for nature and enrich life by connecting people with nature, sustaining the earth, tending natural heritage, sharing knowledge, and promoting learning. MBGNA reports to the Provost's Office through the Vice Provost for Academic Information.

- Supply chain activities that range from procurement of rare plants to merchandise, educational materials, and nursery supplies
- Fluctuating payrolls and a large mix of volunteers and temporary employees
- Diverse programs with dissimilar cost structures

Community Programs

MBGNA manages a wide array of community programs, from Shakespeare in the Arboretum to student and adult classes and field trips to fundraising activities. It also has a growing event program, where the University and community at large can rent various venues for private parties or meetings.

Risk and Control Discussion

1. Safety and Security

- Fire Safety - In previous inspection reports, the OSEH Fire Safety Inspector raised several concerns that at the time of this audit were unresolved:
 - Propane is improperly stored inside a building. Propane should be stored in locking, non-combustible storage cages, located at least 20 feet from exits and other combustible materials. Appropriate signage should be provided.
 - A diesel storage tank is located in the loading dock area. While this does not present imminent danger, a fire in the loading dock involving the diesel fuel would burn very hot and would prove difficult to extinguish. Consider locating the tank a safe and secure distance from the facility.
 - The existing fire alarm system in the building only rings within the facility, and does not send an alarm to Department of Public Safety and/or a local Fire Department.
 - The botanical gardens complex does not have automatic sprinkler protection. If it were built today, current codes would require full automatic sprinkler protection.
 - Fire extinguisher and fire prevention training is not provided on a regular basis. Because MBGNA has a high rate of employee/volunteer turn over, OSEH recommends that the fire extinguisher training be conducted annually, and for each new employee upon hiring.

Management Plan - Management is working with OSEH to ensure fuel storage is safe. We are assessing cost effective methods of upgrading the diesel tank and have scheduled fire extinguisher and fire prevention staff training for June 2010.

Management will continue exploring with OSEH and DPS whether a cost effective solution exists for fire alarm notification. Automated sprinkler systems are not required unless there is building renovation, which is not currently planned.

- Heavy Equipment Operation - Employees and contractors operating certain University owned or leased heavy equipment are required to carry valid permits during the operation of such equipment. These requirements are administered by OSEH and are based on MIOSHA (Michigan Occupational Safety and Health Administration) regulations. As of the time of the audit, three MBGNA employees have job responsibilities that require heavy equipment operation. Their permits are expired and need to be renewed.

Management Plan - MBGNA Management will remind subject employees to renew licenses and monitor on-going compliance.

Management Plan - We have implemented the recommendations pertaining to underlying cash handling processes, such as segregating cash handling responsibilities, securing the credit card machine at night, and immediately securing and depositing all funds. We are in the process of developing written policies and procedures to reflect updated processes.

- b. Procurement - In fiscal year 2009, approximately 60% of procurement spending was obtained using non-POs and P-Cards. Most of the P-Card purchases were for supplies and services. Travel and hosting expenditures are minimal. Purchases made with non-PO vouchers and P-Cards cannot always effectively leverage University discounts and buying power and often have sales tax erroneously applied to the purchases.

During the audit, the following items were noted that deviate from University procurement policy:

- Hosting forms and list of attendees are not consistently submitted for hosting
- Sales tax was paid for some purchases that should have been tax-exempt
- Travel expense forms are not always completed for mileage reimbursement
- Costume expense was misclassified as mileage
- Business purpose of some expenditures was not clear

U-M Procurement can provide MBGNA in-depth analyses of procurement spend and make recommendations to lower supply chain costs, including source consolidation. Minimizing the use of P-Cards and non-PO activity will produce savings and provide a stronger control environment.

P-Card reconcilers and approvers need additional training on appropriate documentation and allowable expense.

Management Plan - Management is in the process of implementing all recommendations. We will ensure that staff and P-Card approvers understand what documentation is required and are vigilant in not paying sales tax. We will seek U-M Procurement advice on opportunities to leverage contracts and strategic vendors to reduce use of P-Cards and non-PO vouchers.

- c. Inventory - The MBGNA gift shop is a significant source of revenue for the unit. MBGNA purchases more than \$40,000 of gift shop inventory on an annual basis. Most of the inventory is purchased using P-Cards. At the time of the audit, there was incomplete tracking of inventory movements and inventory on-hand. MBGNA management is now in the process of developing a system to track inventory.

Management Plan - The Visitor Operations Manager has completed an initial inventory. Management will conduct regular physical inventories at least twice a year.

The Visitor Operations Manager is in the process of selecting a reasonably priced Point-of-Sale system, in consultation with other U-M units. The system will track sales, purchases and inventory, and provide management reporting.

- d. Human Resources - Several areas in human resources need development:

- f. Management Reporting - MBGNA uses an Access database to track non-financial data such as admissions, course attendance, and donor information. The database is antiquated and does not provide useful management information. Management needs reliable operational data for program evaluation and resource allocation determination. Consider a long-term investment in a more viable, commercially available management information system.

Management Plan - Management continues to seek cost effective solutions for improving operational data and reporting.

3. Community Programs

- a. Rental Program - MBGNA rents indoor and outdoor spaces to internal and external customers. During fiscal year 2009, MBGNA generated over \$100,000 from the rental program, a significant percentage of which was from external customers.

MBGNA management publishes external and internal rental rates; however, these rental rates were not approved by the Office of Financial Analysis or the Tax Department as required by University policy. Further, rental fees charged to community groups do not consistently follow published rental rates. MBGNA provides some community groups a discounted price, but has no standard discount policy or management approval. Application of varying discount rates without clear guidelines can lead to client dissatisfaction and favoritism. Providing below market rates to external customers may also have potential tax consequences.

MBGNA does not have a process in place to reconcile their rental calendar to revenues collected to ensure that all rental events are billed accurately and rental fees for all events are collected in a timely manner. Without an efficient contract management system MBGNA management is unable to ensure that rental revenues and expenses reported are reported in M-Pathways. Such practice increases the opportunity for asset (cash) misappropriation.

Management Plan - Management will implement recommendations related to rental programs. As of March 31, 2010, rental program payments are run through the cash register and deposited with the daily deposits. Then Rental Program Manager no longer handles the payments directly. We have met with the Office of Financial Analysis and the Tax Department and will work with these units to ensure full implementation of the audit recommendations.

- b. Community Education Instructor Payments - MBGNA conducts community education classes throughout the year. Adult education classes include lecture series, field classes, and garden related topics. There are also programs for scouts and other children's groups.

University Audits noted no contract exists to formalize the instruction and payment information for the MBGNA community education class instructors. The Community Education Coordinator discusses the per hour instruction rate verbally and approves the payment at the end of the instruction period when the instructor provides an invoice. Because of these informal processes, several instructors receive a rate higher than the hourly rate for instruction noted in the MBGNA Community Education program

are located at Schembechler Hall, the Fleming Building, Michigan Stadium, the Public Safety Building, the Electron Microbeam Analysis Laboratory (EMAL) on North Campus, and several Housing facilities.

Most of the video systems examined were comprised of cameras connected to digital video recorder (DVR) devices using coaxial cabling; a common setup used for closed circuit television (CCTV) installations. In these systems, the DVR is attached to the network to allow users access to the system from their workstations.

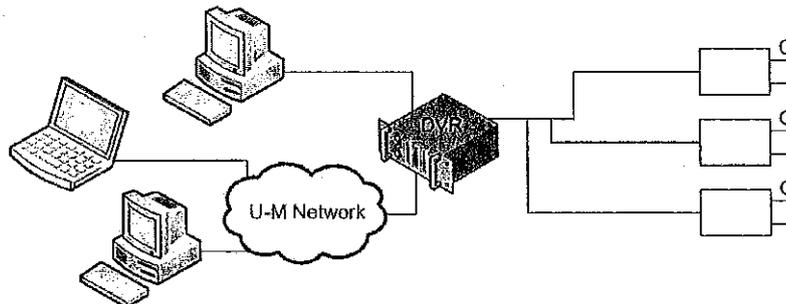


Figure 1: Closed Circuit Television Configuration (Note: C denotes individual cameras)

In other systems reviewed, the CCTV configuration employs cameras connected directly to the network via Ethernet cabling. Instead of dedicated coaxial cable, these cameras use the network itself to transmit

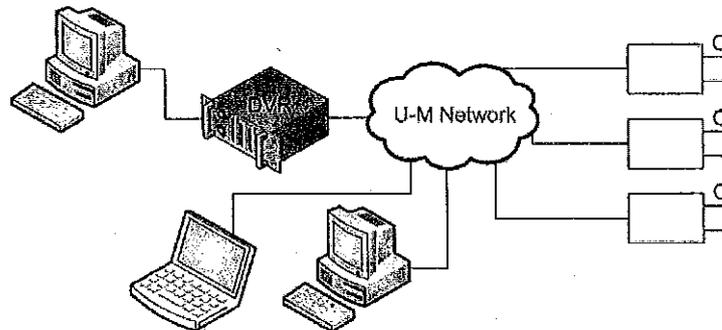


Figure 2: Direct to Network Configuration

video to the DVRs. This configuration is often used with newer, more advanced cameras and is the industry-wide trend for new video surveillance installations.

This configuration allows each camera to be accessed and managed independently of a central DVR unit. This allows the administrator of the surveillance system to have more control for fine tuning. Any point of access in the network is inherently a potential attack vector, so more access means additional risk.

In a third type of system reviewed, the DVR acts as a standalone device and users must physically access the DVR to use the surveillance videos.

This audit examined a variety of video surveillance systems on the Ann Arbor campus. It did not address use or distribution of video from surveillance systems, or controls over the computers used to manage them.

In networked video surveillance systems, DVRs, cameras, monitoring stations, and video storage units should be considered specialized computers. Therefore, they are subject to many of the same security concerns as other computers and the controls applied to address these concerns. This includes shutting down unnecessary services and programs running in the background, and closing unnecessary network ports providing communications channels. As with regular computers, the risk inherent on a device is directly related to the data on the machine, and the systems that machines accesses. Some of the machines scanned stored video and were of greater risk, while other machines scanned were only interfaces to the system and were a lesser risk.

In an effort to limit the potential avenues of attack by malicious individuals, the person(s) responsible for the surveillance system and local information technology support should perform a security assessment of each DVR to discover if these types of vulnerabilities exist. Identified vulnerabilities should be addressed, and the DVR adequately hardened by closing unnecessary ports and turning off unnecessary services. These assessments should be performed on a regular schedule to ensure that each DVR remains secure.

- Video Quality - Cameras should collect video or images that meet the specific requirements they were installed to address. In a few isolated instances, the quality of the video recording was adversely affected by the placement of cameras in direct sunlight or positioning the cameras in areas with limited fields of vision resulting in video that was difficult to use for its intended purpose. A number of factors including lighting, camera position, and weather can cause poor video quality.

In instances when the video quality does not meet the needs for its intended purpose, video surveillance administrators should attempt to rectify the problem by adjusting current hardware and/or software configurations, repositioning the camera, or improving the lighting conditions. To further improve the system, when new cameras are installed or when old cameras are replaced, department management should consider the intended purpose of the camera and its location while making purchase decisions.

- Video Handling - A comprehensive video handling policy governing all video systems within each area is important because of differing system purposes, needs, and configuration options. Without clear direction on management of video systems, the potential exists for inappropriate use. This policy should address use, distribution, and retention of video. Some of the systems University Audits reviewed lacked a video handling policy.

Department management, department IT, and the team managing each video system need to work together to develop a comprehensive video handling policy, including appropriate video retention guidelines for the department. Best business practice indicates that video should be retained for fifteen to thirty days at full resolution but retention times may differ depending on the purpose of the video system. This provides adequate time for review if an incident is discovered after an extended time. Access to the stored video files must be limited to authorized individuals and distribution should be restricted to law enforcement agencies.

- Video Storage - Surveillance video is generally stored on DVRs. Loss of video data could mean a loss of evidence in a criminal investigation. Video data and DVRs are subject to normal data protection issues such as crashes, drive failures, and data corruption associated with data and file servers. Regular backup on all DVRs can prevent loss of video. None of the units reviewed by University Audits performed regular backups on the surveillance systems.

A follow-up to the outstanding issues will be conducted with the schools, colleges, and departments reviewed during September 2010.

Health System

University of Michigan Medical School Department of Psychiatry Review
Report issued April 22, 2010

#2010-210

The Department of Psychiatry is part of the University of Michigan Health System and is home to the Depression Center and the Molecular and Behavioral Neurosciences Institute

The scope of the audit excluded the adult and pediatric inpatient units and the Molecular and Behavioral Neurosciences Institute and focused primarily on overall department administration, and outpatient business operations, including the Depression Center.

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

- Charge capture and charge entry
- Payroll function, including supplemental pay and bonuses.
- Conflict of interest/conflict of commitment management
- Security and management of cash and cash equivalents
- Financial reporting and budgetary functions, including grant management
- Compliance with gift and endowment policies as well as donor intent
- Purchasing

Controls over business processes were strong and conformed to University standards in all areas reviewed:

- Through observation and testing, it was noted that the charge capture and entry process adheres to the University of Michigan Hospitals and Health Centers' Ambulatory Care Services (ACS) Clinic Business Manual and related policies and procedures. The ACS Clinic Business Manual describes in detail, among other things, the proper charge capture and entry process in an outpatient, clinical setting.
- The timekeeping process was well controlled and included key controls such as supervisor approval of reported time, manager gross pay register review, and pre-approval for overtime and supplemental pay.
- Conflict of interest/conflict of commitment policies were communicated to all faculty and staff and are in compliance with University guidelines. The Medical School Conflict of Interest Committee manages identified conflicts. There were no undisclosed conflicts of interest identified during the audit.
- Departmental management takes an active role in the financial reporting, monitoring, and budgetary processes by developing realistic budgets and holding frequent progress meetings with faculty and staff. Statements of activity are reconciled timely and duties are appropriately segregated.
- Grant management controls are well developed. Unallowable grant expenditures are identified timely and transferred off federal grants, well within the University 90 day requirement. Research faculty and staff were up-to-date in effort reporting.
- Review of the department's gift and endowment fund expenditures indicated that statements of activity are reconciled timely and that expenditures are consistent with the donor intent.

attempted to access the residential network. The system was properly redirected to the portal page, but not all patches could be successfully applied. University Audits recommended the patch process be reviewed, appropriate changes be made, and periodic testing be implemented. HITO has updated the patching process. This was done with the updated scanning procedures in mind so that any patches required by the scan will be available through the portal. The patching process will be updated annually in concert with the ITS scan sets. HITO is developing a process to automatically test this at each update.

- Vulnerable Systems - Information Technology Security Services (ITSS) conducted a security scan for HITO to search for in-house system vulnerabilities. Vulnerabilities were identified in multiple systems including network management systems. Some of the vulnerable systems did not have security updates available because the software supplier had not made patches available. HITO has documented these systems and is monitoring them. Other system's vulnerabilities had not been addressed despite the fact that patches for the identified vulnerabilities do exist. University Audits recommended that HITO staff should investigate all systems identified as vulnerable, patch the ones that can be, and document those that cannot.

HITO has performed updates wherever possible. Systems that could not be updated due to patches being unavailable have been moved to a private network to mitigate the risk. HITO staff are documenting the systems that have been moved to the private network.

- Traffic Analysis - ITCOM's UMNnet group is using PeakFlow to passively monitor network traffic on the Housing residential network to provide data to HITO for analysis. UMNnet makes this monitoring data available to network administrators. To complement this, HITO implemented two methods of monitoring the network using system logs and traffic data from their switches. University Audits recommended that HITO perform regular traffic analysis to establish network norms, identify trends, and plan for network growth to keep use from outpacing capacity.

HITO has implemented PeakFlow to give them more information about the traffic on their network. They are currently researching other solutions (including Cricket that is also provided by UMNnet) that will give them an even more detailed look at their traffic patterns.

- Incident Response Procedure - HITO's incident response procedure lists a number of individuals along with their job titles and the roles they play in incident response. University Audits recommended HITO review these lists, update them using job titles instead of names, and implement a process to do this regularly.

HITO has reviewed and updated their incident response documentation. All names have been changed to job titles. HITO will be conducting a regular review of this documentation to ensure it is kept current.

- Documentation - Having accurate, up-to-date, documentation helps ensure staff performs their duties accurately and consistently. It also helps new employees learn their job functions rapidly, and assists employees who act as backup for their coworkers complete tasks quickly and more accurately. University Audits recommended that HITO management perform an extensive review of the department's documentation making updates as necessary, and implement a regular review process.

- Distributing a memo to all UU units explaining unit management's responsibilities related to payroll procedures to confirm accuracy, validity, and appropriate segregation of duties.
 - Requiring all unit managers and supervisors to reconcile the punch detail report (an internal report from the electronic timekeeping system) to employees' schedule and actual time worked in the unit.
 - Advising unit managers and supervisors to reconcile the Gross Pay Register (GPR) on a regular basis. According to newly implemented UU payroll procedures, unit managers and directors not responsible for reconciling the GPR are required to review the GPR reconciliation. GPR reconcilers and reviewers are directed to initial and date supporting documentation as evidence of the reconciliation and review process.
 - The Event Services Coordinator reconciles the hours reported on punch detail reports directly to the weekly work schedule and actual hours worked to confirm accuracy of time reporting. The Event Services Director performs a detailed review of the GPR. The Event Services Director and supervisor initial and date supporting documentation. At Mujo Café, the Store Manager reconciles the GPR and the Food Services Associate Director performs a detailed review of the reconciliation. University Audits encourages Mujo management to initial and date the supporting documentation to increase accountability.
3. Statement of Activity Reconciliation - The UU Associate Director has communicated expectations for proper review of the Statement of Activity to all UU unit managers and supervisors and explained the process. The Mujo Manager reconciles the Statement of Activity on a regular basis, and the Food Services Associate Director performs a detailed review of the reconciled Statement of Activity.
 4. I-9 Form Storage - To ensure proper handling of I-9 Forms, UU policy advises all hiring units to submit I-9 Forms to the Division of Student Affairs Human Resources office. UU policy clearly states that under no circumstances should I-9 Forms be copied and stored at the unit level. Presently, UU units are not copying, retaining, or storing I-9s. All units have destroyed their previously stored copies of I-9 Forms.
 5. Computer Access - To enhance operational efficiency, UU management provided the Mujo Manager with a laptop and workspace adjacent to the store. The Mujo Manager is now able to supervise store operations while performing job responsibilities that require computer use, including ordering inventory, preparing schedules, and communicating payroll reports to the UU Payroll Office.

School of Music, Theatre & Dance Fiscal Responsibilities – Second Follow-up Review #2008-815
 Original Report issued November 26, 2008 First Follow-up issued August 12, 2009
 Second Follow-up issued April 15, 2010

University Audits recently completed a second follow-up review to assess the status of internal control improvements. Management has taken appropriate steps to address and/or mitigate risks identified during the audit. Summaries of management's actions are detailed below. **This audit is closed.**

- Financial Oversight and Monitoring - To improve financial oversight and monitoring at SMTD:
 - Management re-mapped each budget line to a new reporting structure that allows for multi-level reporting capabilities using reports from the University's M-Pathways systems.

- Invoice Error Reporting - An initial invoice error report and evaluation of results were performed for Blue Care Network (BCN) and Blue Cross Blue Shield of Michigan (BCBSM) health, Delta Dental, SHPS flexible spending accounts administrators, and SXC prescription administrators. Based on very low error results, the Benefits Assistant Director, who manages Benefits Administration Office (BAO) system reporting, recommends performing additional reports and evaluations for BCN and BCBSM for several more quarters to ensure consistent results before determining the cost-benefit of continued routine reporting and audit. The remaining vendor reports indicate extremely low potential dollar value recovery and would not be cost-beneficial to report and evaluate at routine intervals. If these vendors change, or other indications of error develop, error reporting will be reconsidered. The Associate Director, Benefits – Operating concurs with the recommendation.
- LTD Participation in Discrepancy Reporting - A preliminary Long Term Disability (LTD) payroll deductions discrepancy report was performed manually. Plans were in place to determine the cost-benefit of Payroll and ITS support for adding a routine electronic LTD report to the Payroll Deductions Discrepancy reporting process. However, recently the LTD payroll deduction structure changed and the LTD supporting system application was redesigned. The BAO Assistant Director recommends developing and performing a quarterly LTD discrepancy report beginning in December that is compatible with the new deductions structure and system application redesign. The majority of discrepancies occur in fall and winter semesters due to retroactive enrollment changes. By December, data for a full semester will be available. The cost benefit of performing on-going LTD reporting will be determined at that time. The Associate Director, Benefits - Operating agrees with the recommendation. BAO management is committed to completing a second report and cost-benefit analysis.
- Compliance Monitoring - The "Major Laws and Regulations" matrix has been updated and the "Maintenance of Benefit Laws Matrix Procedures" has been implemented. The matrix is a working document with key information related to each law or regulation relevant to the University's benefits program. It includes the name of the key responsible person, U-M standards, and BAO procedures for ensuring compliance. The maintenance procedures document lists roles, time lines, and specific tracking procedures to ensure the matrix is updated at least annually.

University of Michigan Medical School Department of Otolaryngology Follow-up Review #2009-843
 Original Report issued October 30, 2009 Follow-up issued April 27, 2010

Based on a recent follow-up review, the issues and corresponding corrective actions taken by management are as follows:

- Grant Management - The original review of grants and Statement of Activity reconciliations identified expenses that did not conform to the federal government Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*. There also was evidence of retroactive grant adjustments for technical core personnel effort. The unallowable expenses have now been transferred and additional training has been provided to staff regarding allowable expenses on federal grants. A system was developed to track the technical core personnel effort. This new system will minimize retroactive payroll adjustments.

Open Audits Follow-up Table
April 30, 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
			May 2010
ITS Virtual Firewall 2009-307	11/20/09	Security and contingency planning; data backups testing; change control	May 2010
University of Michigan Video Surveillance Systems 2009-311	4/14/09	Network connectivity; unnecessary ports, services, and shares; video quality; video handling; video storage; process documentation; cross-training	September 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	June 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 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

Dearborn Early Childhood Education Center 2009-110	9/30/09	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	June 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	June 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