

UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents
September 16, 2010

Item for Information

Subject: Report of University Internal Audits
May and June 2010

Background:

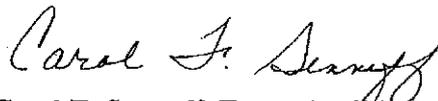
This is the report of the Office of University Audits activities for the period **May through June 2010**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee meetings.

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 **June 30, 2010**.

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

Respectfully submitted,



Carol F. Senneff, Executive Director
University Audits

University Audits
May - June 2010
Summary of Reports Issued

ORIGINAL REPORTS

Campus

Office of University Development Life Income Gifts Program
Report issued June 11, 2010

#2010-806

Life Income Gifts are contractual agreements between a donor and the University. The donor gives assets in exchange for a promise from the University to make payments to one or two income beneficiaries for their lifetime or an agreed upon time period. When the lifetime or time period ends, the remaining gift amount is given to the donor-specified University department. Three types of gift options are administered through the Life Income Gifts program. They are listed here with the total number of beneficiaries and total market value as of February 28, 2010:

1. Charitable Remainder Trusts (CRT): 159 beneficiaries--\$64,948,213
2. Charitable Gift Annuities (CGA): 244 beneficiaries--\$25,310,296
3. Donor Pooled Income Fund (DPIF): 96 beneficiaries--\$5,765,121

The Office of Gift Planning is the primary administrative unit that manages the Life Income Gifts program. Financial Operations-Investment Reconciliations, and Tax Resources and Reporting are key support units in the process. Although they are separate and independent units, each one is responsible for a part of the life income gifts process. The Office of Gift Planning coordinates support of all service units, executes agreements, calculates business terms such as beneficiary payments and rates of return, and manages donor/beneficiary contact, including beneficiary payment distributions. Financial Operations-Investment Reconciliations verifies the accuracy and completeness of custodian bank accounting records, which serve as the book of record for life income gift accounts, and provides support for life income gifts financial reporting. Tax Resources and Reporting provides tax code expertise and review, and files federal and state tax forms for individual beneficiaries and for the University. Life income gift processes performed by these three units are the focus of this report.

Although each unit has a separate area of responsibility and expertise, the work flow between them requires synchronized and accurate information exchange and a mutual understanding of each other's procedures to ensure an efficient and effective process. With this objective, the units decided to engage in an assessment of the life income gifts process as a whole. They asked University Audits to partner with them to streamline their current process, identify opportunities to maximize technology, and compare their practices with best practices among peers.

As part of the review, University Audits conducted a benchmark study of the University's life income gifts administration to peer institutions' best practices. The benchmark study included:

- Telephone interviews with planned giving personnel at selected universities:
 - Big Ten Universities: The Pennsylvania State University, Michigan State University, The Ohio State University, and University of Minnesota
 - Public Institutions: University of Virginia, The University of North Carolina at Chapel Hill, University of Washington, and University of California, Los Angeles
 - Private Institutions: Princeton University, Stanford University, Cornell University, and Massachusetts Institute of Technology
- Consolidation and evaluation of interview information

ASSESSMENT SUMMARY

The following outline is a summary of issues and opportunities for improving Life Income Gifts processes.

UNIT ROLES: There are opportunities to improve coordination of unit roles. The Office of Gift Planning, Financial Operations-Investment Reconciliations, and Tax Resources and Reporting are not aware of all the procedures performed among them. As a result, there is uncertainty regarding other units' procedures and outputs, redundant procedures are performed across departments, and procedural controls might be placed more efficiently and effectively among units.

Recommendations: To address these opportunities, form an inter-department team with representatives from the Office of Gift Planning, Financial Operations-Investment Reconciliations, and Tax Resources and Reporting to collaborate on the following processes:

- A. Document Role Definitions and Procedures: Develop written, agreed-upon unit role definitions and written process procedures, to be maintained in a common repository with read access for each unit. Include succinct internal controls procedures for documents, agreed-upon error tolerances, and other process outcomes within the working document. Alternatively, reference procedures in a common repository to provide assurance to units that rely on the accuracy and completeness of the process product. See SHARING INFORMATION below for repository information.
- B. Realign Unit Roles: Examine current roles and associated procedures with agreed upon role definitions as guidelines. Determine as a team how to streamline procedures by ensuring that authority and associated accountability for process outcomes are appropriately assigned and consistent with role definitions.
- C. Review Reconciliations and Recalculations: To avoid errors identified in downstream units that are sent back upstream for corrections and return, move the control procedures for identifying the errors as close to the accountable unit as possible while ensuring appropriate segregation of duties. Discovery of errors at the source will help avoid time-consuming, close-to-deadline date issues. Implementing the assurance recommendation in A. above will also support reliance by downstream units.

SHARING INFORMATION: Life income process documents are the product of donor information gathering, financial calculations, legal agreements, and other procedures. Multiple copies of the same documents, both electronic and paper, are distributed to and reside in different unit-specific hardcopy and electronic folders. This increases the risk of untimely or missed updates, resulting in inaccurate information and inefficient use of resources to distribute and maintain separate copies of the same information. At least twenty-two different documents are distributed and maintained in three to seven different locations. There are also instances where iterations of a document may be distributed back and forth a number of times.

Recommendations: To minimize risk of outdated information and inefficiencies, manage process documents in a central repository with timely updates to a trusted, single document by the document/data authority. Provide well-secured, easy access to individuals with a need to use the information. Adopt common document naming conventions among units in the central repository. A naming convention that starts with YYYY/MM/DD date form orders same name documents in calendar order. Their repository location could be referenced in the process grid (described in ASSESSMENT OUTCOMES below) along with a schedule for any deadlines.

PROCEDURAL EFFICIENCIES: Opportunities to improve procedure efficiency were identified across units. For example:

- The Controller manually signs more than two hundred tax forms; half of them are copies of the originals.

Recommendation: Tax Resources and Reporting could consider requiring signatures on originals and then copying them, or determine if an electronic signature is possible. The practice began when Tax Resources and Reporting reported to the Controller. Re-evaluate whether the Controller is the appropriate person to sign the forms.

- The U-M Internal Bank advances CRT administrative fees for trusts to Mellon and charges interest to individual trusts; however, there is a significant time lag in the fees being charged. The Internal Bank charges the same interest rate as they pay on deposit. When a trust terminates, the Office of Gift Planning processes repayment to the internal bank from the individual trust. Financial Operations-Investment Reconciliations tracks fee accruals and calculates interest for each trust on a monthly basis. This is a time-intensive process requiring detailed recordkeeping and reporting.

Recommendation: The Life Income Gifts inter-department team should reevaluate the current procedures for paying and allocating bank administrative fees to identify a more efficient process.

SYSTEMS OPPORTUNITIES: There are opportunities to increase efficiency by leveraging systems capabilities. They include:

Interfaces between:

- Gift Wrap and DAC/DART for uploading donor and gift information.
- Gift Wrap/DAC-DART/M-Pathways for uploading journal entry batches.
- Gift Wrap and Performance Plus to populate records for more than 220 individuals' tax information.

Exception Reporting based on matching routines to identify and investigate differences between:

- Gift Wrap and DART beneficiary active/deceased status and addresses.
- Mellon Quarterly Scheduled Payments Spreadsheet and the Office of Gift Planning Gift Wrap Report of Quarterly Payments.

Cost-benefit analysis of obtaining data downloads from:

- Mellon Bank Statements of Activity for specific data, rather than scanning hundreds of pages for that data which is hand-keyed into reconciliation spreadsheets.
- M-Pathways records as a Business Objects report or an M-Report of Life Annuities Market Value by Department.

ASSESSMENT OUTCOMES

An in-depth report has been distributed to the Office of Gift Planning, Financial Operations-Investment Reconciliations, and Tax Resources and Reporting. In addition to the summary report, it contains:

- A listing of each detailed issue and opportunity.
- A process grid of procedures by gift type with document descriptions; information distribution recipients and methods; unit role authority, responsibility, and accountability definitions that are specific to each document or process; and issues and opportunities. This is intended as a working document for use by the Life Income Gifts Program inter-departmental team as they work together to improve coordination of their roles and streamline their processes.
- Flow charts of each department's procedures.
- Information gathered through benchmarking by topic and by institution.

An initial inter-department meeting was held with the Office of Gift Planning Senior Associate Director for Planned Services, Financial Operations-Investment Reconciliations Investment Operations Manager, and Tax Resources and Reporting Manager. They committed to working together as a Life Income Gifts process team. They have:

- Made plans to meet one hour a week between July 1, 2010 and December 1, 2010 to address the issues and opportunities identified during the process assessment.
- Discussed unit roles and agreed to a DRAFT definition for each unit. Further definitions refinement will be agreed upon by the team.
- Agreed to use a central repository for working through the issues and opportunities and for on-going Life Income Gifts process efficiency and quality. The Share Point tool and a dedicated inter-department directory were discussed. The repository can also support posting and tracking communications among the units.

BENCHMARKING RESULTS

Benchmarking interviews for the twelve peer institutions focused on core life income processes, including life income gift services offered, gift administration and processing, bank services, and tax preparation. The following observations were noted:

LIFE INCOME SERVICES OFFERED

- Six of the twelve institutions invest their CRTs in their endowment.
- Most schools no longer promote their DPIFs.

GIFT ADMINISTRATION AND PROCESSING

- Only four of twelve institutions have more than two internal departments assisting with life income gifts.
- Most institutions have moved administrative support for life income gifts out of the Development Office.

BANK SERVICES

- BNY Mellon (six of twelve) and Kaspick & Company (4 of 12) were the most common banks used.
- Most institutions utilize additional services from their custodian bank such as
Tax preparation
Identifying deceased beneficiaries

TAX PREPARATION

- Only one of twelve peer institutions prepares taxes in-house.

University Audits will review the status of report issues and opportunities in the third quarter of fiscal year 2011.

School of Social Work
Report issued June 18, 2010

#2010-813

The University of Michigan School of Social Work (SSW or the School) offers a program for a fully accredited master's degree in social work with a wide range of specializations and options for dual-degrees. Since 1957, SSW has offered a joint doctoral program in social work and social science.

SSW has developed a research and training center, the Vivian A. and James L. Curtis Center. The Center's goal is to assist SSW researchers in identifying and securing funding for research, training, and

evaluation projects. Currently, over twenty projects are funded, ranging in focus from economic development to domestic abuse studies. The School is involved in training programs and community-based research initiatives such as the Good Neighborhoods Initiative in Detroit. These types of community programs provide SSW students with a chance to work in the field.

The School heavily integrates hands-on field experience into every student's curriculum. SSW's Field Operations and Global Activities Offices collaborate to offer students numerous field placement opportunities, both domestic and international, in addition to a number of study abroad options.

SSW is in the process of developing a continuing education program in response to recent changes in the regulation of the social work profession requiring licensure and continuing education. The program currently offers mini-courses, workshops, and certification programs approved and accredited through the Association of Social Workers Boards. More courses are in development and an application for international accreditation is pending.

SSW leadership has recently changed. The new Dean requested an audit of key processes to assist with the transition.

The primary objective of the audit was to determine if SSW policies, procedures, and other internal controls are in place and working appropriately to ensure adherence to best practices and compliance with University guidelines, and state and federal regulations. Included in this review:

- Research grant administration
- Study abroad and global activities
- Community service
- Field placement
- Continuing education
- Financial reporting, monitoring, and analysis
- Delegation of authority
- Cash handling
- Accounts receivable and billing
- Conflict of interest and commitment
- Continuity planning and disaster preparedness
- Inventory management

Risk and control issues:

- Gift Fund Management - Efficient stewardship of endowed funds is crucial to maintaining a positive relationship with donors. In the current economic climate, effective fundraising is critical to maintaining or increasing funding for scholarly activity. Management effectively stewards most of its true endowments, with the exception of endowed professorships. Only fifty percent of the annual endowment distributions for these funds are applied to faculty salaries, which means the expendable balances related to these professorships will continue to grow.

SSW also has a number of large, strategic, quasi-endowments. Plans for future use of these funds are needed. University Audits recommends that Social Work Management:

- Increase the percentage of each faculty's appointment on awarded professorships to the maximum amount supported by the endowment distribution. Renegotiation of donor intent for some professorships may be necessary if guidelines are too restrictive or no longer relevant.
- Prioritize efforts to identify or develop initiatives that could be supported by distributions from the School's strategic fund. Management may consider temporary

reinvestment of quasi-endowment distributions depending on management's plans for future use. Financial Operations can provide further guidance in this area, if needed.

Management Plan - The percent of faculty salary on endowed professorship funds will be increased to maximize use of the endowment distribution. Management is in the process of identifying the appropriate initiatives to support with distributions from strategic, quasi-endowment funds and will consult with Financial Operations if temporary reinvestment of expendable balances is necessary.

- **Supplemental Information Systems** - PeopleSoft is the University's official book of record for financial information. It should be the goal of all units to use this centrally supported system for all of its financial reporting and data analysis needs. Since PeopleSoft was implemented in phases and continues to be enhanced, units like SSW found it helpful to develop supplemental systems to manage internal operational processes not yet available through PeopleSoft.

SSW's Administrative Director has created an extensive series of interlinking Filemaker databases to automate operational processes and facilitate decision-making. Faculty and staff interviewed found these databases helpful in streamlining processes and sharing information. In addition, the SSW Research Office has been using a supplemental Excel-based research grant management system to reconcile research grants, report to faculty, and provide timely, ad-hoc analysis. A University employee outside the SSW developed this system and has maintained it for the last five years. During the course of the audit, SSW management hired this individual to manage the Research Office.

SSW is highly dependent on their internal systems, and the experts that created them. If the person who maintains each of these systems were to leave the University or stop supporting the SSW systems, the risk to business operations and continuity would be substantial. Specific risks identified include:

- **System maintenance** - Each system's infrastructure is currently maintained and developed by one individual. It is critical that management prioritize efforts to document processes for developing and maintaining each system, and begin cross training employees on these processes to ensure business continuity.
- **Efficiency** - Most of the information contained within the Filemaker system is supplemental in nature with the exception of student data downloaded from M-Pathways. However, management self-identified redundancies in effort within the system. For example, course scheduling information is developed and finalized within the Filemaker system, then re-keyed into M-Pathways, and again re-keyed into the unit's calendaring system to reserve classrooms.
- **Security of sensitive information** - Considerable security measures exist to safeguard sensitive data housed within both supplemental systems. However, interviews identified a few additional opportunities to boost security to the level of centrally supported systems. These controls include:
 - A systems scan of transmissions between the Filemaker application and network server to identify vulnerabilities.
 - Transition from the use of local logins to domain logins to eliminate control weaknesses such as the use of shared passwords.

During the course of the audit, University Audits worked with Information Technology Systems (ITS) to provide SSW management with viable, centrally supported, alternatives to the School's supplemental systems. In addition, ITS offered to work with SSW to develop or modify

centrally-supported systems to accommodate SSW's operational needs, and to help mitigate the risks associated with both of SSW's internal systems.

Management Plan - Current cross-training efforts will be expanded to include maintenance and repair of all of the School's supplemental systems. The SSW Office of Computer and Technology Services (CATS) will conduct a scan of transmissions between the Filemaker application and the network with support, as required, from University Audits. CATS will also work with ITS to transition to a domain login environment as soon as possible. Management will work to replace supplemental systems with central systems as they are developed.

- **Family Assessment Clinic** - The Family Assessment Clinic (FAC) provides services to the community by evaluating and treating situations involving possible or actual child maltreatment. Although a multi-disciplinary team including faculty and staff from the Law School, the UMH Child Protection Team, and the Psychology Department among others supports the Clinic, there is very little communication between the Clinic and the University's central service units such as the Office of the General Counsel, the UMH Compliance Office, and the Office of Risk Management. For example, the UMH Compliance Office did not have the Clinic on its list of HIPAA-related organizations at the University.

Management Plan - Management will contact the Office of Risk Management, the Office of the General Counsel, and the UMH Compliance Office to set up introductory meetings. FAC leadership will also seek out opportunities to collaborate with central service units and actively foster ongoing relationships with these areas to ensure FAC is properly represented within the University's clinical community and included in any relevant policy discussions on campus.

- **Inventory Management** - SSW's inventory management controls are not strong. Documented policies and procedures do not exist. Testing showed that updates of the unit's capital inventory do not include critical information such as the name of the last individual to update or modify the inventory. Nor does SSW maintain an inventory of non-durable goods beyond computer equipment. Tracking related to cost, use, location, and disposition of remote-use computers is incomplete.

Management Plan - The Administrative Director will assign responsibility for management of the School's inventories, both capital and non-durable goods, to one individual. That individual will work to develop a comprehensive policy and procedure for inventory management. Inventory templates will be expanded to include inventory review date and reviewer name. The Business Operations Manager and the CATS Manager will review financial records and receipts to identify all remote-use computers purchased during the last three years and determine their location and/or disposition.

- **Technical Tools Policy** - The University has provided guidance to assist units with reporting taxable income due to the personal use of mobile communication technology equipment, including cell phones, pagers, and in some cases, remote use laptops, by their employees to help ensure compliance with federal and state tax regulations and protect employees from personal tax risk. To reduce tax risk and lessen administrative burden, the policy allows for the value of the technology tool and any applicable service contract to be included in the employee wages. Each unit is given the choice of two funding mechanisms:
 - The allowance method: the unit gives an allowance or stipend to the employee who, in turn, purchases the related service contract.
 - The purchase method: The unit purchases the tool and makes service contract arrangements.

The funding mechanism used by SSW is not in line with either of the two options given by the University. Instead, faculty and staff are allowed to purchase remote-use computers with personal funds and request reimbursement from the School through their discretionary research fund accounts. Reimbursements are then reported as taxable income to the faculty member and the computers are treated as faculty property. It is inappropriate to use discretionary funds as income and assets purchased with discretionary funds should remain University property.

Management Plan - Management will consult with the Tax Office on the proper funding mechanism to use for the purchase of remote use computers, and to determine next steps related to computer reimbursements already processed.

- **Signature Authority** - One staff member authorizes all journal entries for the entire School. If this individual is out of the office, small pieces of paper with that individual's signature are left in the care of another staff member. If a journal entry (JE) must be processed during the individual's absence, the staff member is instructed to tape the signature to the JE, scan the paperwork, and then submit the JE electronically. It would be difficult for a reviewer to tell that the signature was taped on to the JE. This is an inappropriate method for delegating signature authority.

Management Plan - Delegation of authority over journal entries has been expanded to include the Assistant Director of Human Resources during planned absences of the Administrative Director. Documentation will be added to our delegation of authority memo.

- **Segregation of Duty** - Although segregation of duties for most processes at SSW is adequate, one of the business office staff members is occasionally required to review and approve her supervisor's JEs. This is not an appropriate segregation of duties. Management identified this internal control weakness in the unit's gap analysis but did not develop a corrective action plan.

Management Plan - Management has strengthened segregation of duties by re-assigning responsibilities so that no employee is required to authorize JE's created by their supervisor. Corrective action plans will be developed for all control weaknesses identified in future internal control gap analyses. Any decision to accept a risk associated with an internal control gap will be approved by a person of higher authority than the individual responsible for completing the gap analysis and documented in writing.

- **Documented Procedures** - The majority of SSW's policies and procedures are well documented and in line with University guidelines. All SSW employees have access to this documentation via the School's intranet. However, SSW needs standardized documented policies in the following areas:

- Cash handling
- Accounts receivable and billing

SSW may have self-identified these control gaps through the gap analysis process, but documentation was not available for University Audit's review.

Management Plan -The Administrative Director will work with the Business Operations manager to develop department-specific cash handling policies and procedures and standardize procedures related to accounts receivable and billing across the School.

University Audits will conduct a follow-up review during the third quarter of fiscal year 2011.

CSCAR (Center for Statistical Consultation and Research) is a service and research unit of the University of Michigan that administratively reports to the Office of the Vice President for Research (OVPR). CSCAR offers key support to the University's educational and research mission by providing statistical services to faculty, graduate students, and staff. Some statistical services are offered free of charge and others are reimbursed by the requesting unit. CSCAR also offers consulting to the research community outside of the University of Michigan. CSCAR is funded with general funds provided by OVPR and revenue received from grants, other units within the University, and external clients.

CSCAR emphasizes an integrated, comprehensive, statistical consulting approach, covering all aspects of a quantitative research project ranging from the initial study design to the presentation of the final research conclusions. CSCAR is comprised of thirteen professional staff members and offers the following services:

- Proposal Presentation and Design
 - Consulting services on the statistical aspects of research grants and/or contract proposals
 - Design and sampling methods, power and sample size calculations, and choice of statistical methodology
- Dataset Consulting
 - Advice on database design and management
 - Consulting for transferring datasets across platforms and software
- Use of Statistical Software
 - Assist researchers in implementing statistical methodology using one or more of the standard statistical computer programs
 - Support for each platform used, including Windows, UNIX, and Macintosh
- Interpretation of Results
 - Assist researchers in interpreting the results of various statistical methods and in determining what conclusions are statistically justifiable
- Collaborative Research
 - Submission of joint, collaborative research grant/contract proposals
 - Subcontract agreements that may cover any or all of the various statistical/quantitative aspects of the research

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

- Cash handling procedures
- Effort and time reporting
- Recharge rates
- Revenue streams
- Conflict of interest and commitment
- Grant financial reporting and monitoring

Risk and Control Discussion:

- Consulting Recharge Rate - CSCAR is an internal service unit providing consulting services to other University units. Federal and University regulations require that service units price their internal services at cost. The costs for providing the service is billed using an approved rate per

unit called a recharge rate. Recharge rates are developed using actual cost data and reviewed every two years to ensure that costs are appropriately allocated and charged to other units.

A recharge rate for consulting services was established in 2008. The established recharge rate needs recalculation; a disproportionate allocation of supplies was included and some relevant costs such as administrative support were excluded.

Management Plan - A new rate structure is currently undergoing final OVPR reviews and will be submitted to the Office of Financial Analysis. See OVPR Shared Staffing Program information below for ongoing oversight plan for recharge rates.

- **Workshop Fees** - CSCAR offers several workshops each year that teach statistical methods and statistical software. These workshops are open to the University and outside community. On average, CSCAR charges external clients approximately twice the rate of internal clients.

Workshop fees have not been reviewed or updated for several years and current fees may no longer cover costs or provide funding for future educational programming.

Management Plan - A new workshop rate structure is currently undergoing final OVPR reviews. See OVPR Shared Staffing Program information below for ongoing oversight plan for workshop rate determination.

*Note: Management Plans for the next two issues, External Consulting and Unit Operations are included under the heading **Management Plan: OVPR Shared Staffing Program Overview.***

- **External Consulting** - CSCAR provides consulting services to clients outside the University. During the audit, the following issues were identified:
 - **Verbal Agreements** - CSCAR makes verbal agreements with clients regarding services and cost. Standard Practice Guide Section 601.24, *Delegation of Authority to Bind the University to External Agreements on Business and Financial Matters*, states that only a few specific persons have the authority to bind the University into a contract, including verbal agreements. Employees from CSCAR have not been granted this authority.

CSCAR should discontinue the practice of entering into verbal agreements with clients and seek assistance from Contract Administration and the Office of General Counsel for the development of approved performance agreements. Management can expedite processing individual agreements by developing standard language templates. University Audits recommends developing memorandums of understanding or service level agreements for consulting activities within the University community.
 - **Competitive Rates** - Outside clients are billed the internal recharge rate plus 30% overhead. This pricing does not cover all costs or include a reasonable profit.
 - **Fixed Fee Contracts** - CSCAR negotiates fixed fee consulting contracts with certain clients and inappropriately runs the cost of providing consulting services through the recharge process. The current recharge process is restricted to charging revenue on an hourly basis rather than on a fixed fee. If fixed fee contracts are used, CSCAR should work with DRDA to set up a separate project grant.

- Segregating Revenue - University recharge policies require revenue received in excess of costs from external clients to be transferred to designated funds. CSCAR does not segregate excess revenue.
- Unit Operations
 - Segregation of Duties - Currently the business administrator is responsible for invoicing clients, recording receivables, receiving and depositing funds, and reconciling transactions. No single individual should have control over two or more phases of a transaction or operation. Segregated roles aid in detection of errors and reduce the risk of unapproved transactions. Ongoing management review and monitoring of financial transactions provides additional control.
 - Effort Reporting - The University maintains an employee effort certification system to ensure an accurate percentage of effort is charged to sponsored projects and other functional activities. Annually, all CSCAR employees certify that their effort is correct. The audit identified one employee who certified to incorrect effort for fiscal year 2009. The error occurred because an appointment was not adjusted appropriately causing total effort to be greater than 100% for three months. The error was detected during the audit and this appointment has subsequently been corrected. Robust management review of effort would have detected the error before the annual certification process.
 - Time Reporting - CSCAR personnel spend time on multiple activities such as consulting, providing grant support, teaching, and running workshops. Payroll appointments are based on estimates of the amount of time personnel spend on each activity instead of utilizing time reporting tools to provide accurate and timely information. Estimating activities can lead to incorrect client charges and inaccurate effort reporting. In addition, data is not readily available to analyze the unit's functions and develop accurate recharge rates. Management should consider implementing a time reporting system that tracks how much time is spent on various activities daily.
 - Policies and Procedures - There are no written policies and procedures for CSCAR administrative processes including recharge billing and budget management. CSCAR management relies on the experience and cumulative knowledge of the business administrator. Documented policies and procedures provide a standard structure to support business processes in the event that unexpected changes in personnel occur.
 - Supplemental System - CSCAR has developed an Excel worksheet used for financial reporting and monitoring. This system is maintained parallel to M-Pathways, the University's financial system. Every financial transaction posted to M-Pathways is manually copied into the Excel worksheet. The business administrator regularly reconciles the Excel worksheet to University M-Pathways reports. This supplemental system assists CSCAR with monitoring budget-to-actual expenses including encumbrances, preparing financial reports, and tracking expenses by account subcategories. Recent improvements to M-Pathways, particularly Real Time Financials, offer departments new options to achieve these same objectives using the University's centralized system. This supplemental Excel system creates inefficiencies, particularly the redundant entry of financial transactions, increases the risk for inaccuracies, and should only be used when the University's financial system cannot accomplish the unit's objectives.

Management Plan: OVPR Shared Staffing Program Overview

Implementation of control recommendations and ongoing oversight will be part of the OVPR Shared Staffing Program. The OVPR Reporting Units consist of eleven administrative/service/incubator units and four academic research units of varying sizes. These units are geographically distributed across the Ann Arbor campus and in local rental space. The geographical distribution and variable unit size creates a recurring problem in providing the appropriate level of administrative support to our units that is consistent with the University's expectations for separation of duties and internal controls. Only one unit, the UM Transportation Research Institute (UMTRI), is able to support an administrative structure that allows us to completely address all separation of duties and internal control issues. The remaining OVPR units are currently supported in the following models:

1. Support provided by a hosting non-OVPR unit.
 - Arts of Citizenship (AoC) - hosted by the Ginsburg Center
2. Unit has secretary and all other support provided by central OVPR staff.
 - Institutional Review Boards (IRB)
 - Office of Human Research Compliance Review (OHRCR)
3. Unit has support provided by another OVPR unit.
 - Business Engagement Center (BEC) - supported through OTT
 - Center for Advancing Research & Solutions for Society (CARRS) - supported through IRWG
4. Unit has single administrative support person providing full scope of activities.
 - Center for Statistical Consulting and Research (CSCAR)
 - Functional Magnetic Resonance Imaging Facility (fMRI)
 - Michigan Memorial Phoenix Energy Institute (MMPEI)
 - UM Substance Abuse Research Center (UMSARC)
 - Women in Science and Engineering (WISE)
5. Units with multiple administrative staff, but insufficient to meet all separation of duties and internal control issues.
 - Center for Human Growth and Development (CHGD)
 - Division of Research Development and Administration (DRDA)
 - Institute for Research on Labor, Employment and the Economy (IRLEE)
 - Institute for Research on Women and Gender (IRWG)
 - Office of Technology Transfer (OTT)

To address these issues and enhance the overall unit administration/oversight OVPR is creating a Shared Staffing Program (SSP) that will work collaboratively with unit personnel to provide uniform financial and HR services across units, with enhanced reporting, separation of duties, and internal control oversight. OVPR has hired a highly-skilled business administrator to develop and manage the SSP starting in September 2010. This is a hands-on position with primary responsibility for consolidating and performing the financial, business information, and human resource functions of the OVPR reporting units. This position reports to the OVPR Director of Budget and Administration.

Specific tasks for the SSP:

- Provide a unified financial system for the OVPR reporting units.
- Carry out financial planning, budgeting, and financial management to meet OVPR and unit needs, ensuring that University financial and administrative processes and policies are followed.

- Work with the Office of Financial Analysis to develop and maintain recharge rates for approved recharge operations.
- Assist unit administration in providing financial data, budgets, and administrative plans for research proposals.
- Assist unit administration with facility issues/administration.
- Assist OVPR in the management of human resource functions for the OVPR reporting units.
- Serve as financial, human resources, and research Unit Liaison for the M-Pathways business systems.

The program will be phased in across the units to ensure appropriate staffing levels and development of best practices. It is anticipated that the division of tasks between the unit and SSP will vary by unit. Collaboration between various University units including Financial Operations, LSA Shared Staffing, and University Audits is anticipated in developing best practices and appropriate structures for separation of duties and internal controls.

Unit staff levels, both in the number of administrative staff and the classification levels will be adjusted over time as the recurring unit duties/needs are determined.

The initial units that the SSP will concentrate on are f-MRI and CSCAR.

University Audits will conduct a follow-up review during the third quarter of fiscal year 2011.

Center for AfroAmerican and African Studies
Report issued June 25, 2010

#2010-820

The Center for AfroAmerican and African Studies (CAAS or the Center) was established in 1970 in the College of Literature, Science, and the Arts (LS&A). CAAS's curriculum incorporates African history and culture as well as more diverse studies of those of African descent. This has enabled CAAS to engage faculty and students in key projects in the United States and South Africa, and attract a wide variety of visiting scholars and dignitaries. Currently, CAAS offers both undergraduate and graduate courses along with a graduate certificate program.

The director role at CAAS is assigned on a rotational basis to a faculty member as a five-year appointment. Faculty appointments in CAAS are typically in conjunction with appointments in another department in LS&A. Although LS&A maintains some involvement in certain business and academic processes, the Center is largely self-sufficient.

The objective of this review was to evaluate the Center's business practices and management control in the following areas:

- | | |
|-----------------------|--------------------------|
| - Purchasing | - Information technology |
| - Payroll | - Academic processes |
| - Cash management | - Hosting activities |
| - Financial reporting | - Event planning |
| - Grant management | - Travel administration |
| - Employment | |

University Audits conducted interviews with key department staff and conducted analysis of recent transactions. This assessment determined controls within CAAS are ineffective at preventing or detecting inappropriate or fraudulent activity. Observations include:

- Poor oversight of department activities, including financial and operational processes
- Ineffective financial monitoring
 - Statement of Activity reports had not been reconciled for at least one year
 - Unusual trends in P-Card activity were not identified or investigated
- Lack of segregation of duties, particularly in purchasing and payroll
- Excessive expenditures with no business purpose
- Key financial transactions were not appropriately approved
- The internal control gap analysis and subcertification of the 2009 Certification of Financial Results and Internal Controls did not accurately describe business processes
- Poor stewardship of University resources

CAAS leadership, with support from LS&A, is currently restructuring many of its processes and procedures. The purpose of this report is to share these observations with management, along with recommended control improvements, so they may be incorporated into improved business processes and procedures.

Risk and Control Issues:

General Control Environment

- Changes in leadership represent an optimal time to reinforce fiscal responsibilities and set an appropriate tone at the top. Management within both LS&A and CAAS should actively identify opportunities to reiterate the importance of controls and financial stewardship.
- New appointments to the CAAS director role must have a clear understanding of their fiscal responsibilities and administrative duties. Additional training and periodic meetings with LS&A management could be used to enforce this accountability.
- CAAS leadership should evaluate and document overall roles and responsibilities for all employees, verifying no person is responsible for a transaction from start to finish.

Financial Monitoring and Oversight

- Ensure staff members are trained on proper account reconciliation procedures, including reconciling to original documentation and reconciliation deadlines.
- Appoint a financial contact within LS&A to conduct a high-level review of CAAS financial activities on a monthly or quarterly basis.

Purchasing

- All purchases should support CAAS business needs. Purchases in certain categories such as computer equipment, travel, and hosting should be pre-approved by the director.
- Verify all employees who are P-Card purchasers or approvers have completed the mandatory P-Card training for their respective responsibilities. Require annual refresher trainings for P-Card purchasers (approvers are already required to take an annual training).
- Management should enforce rules prohibiting sharing of P-Card numbers (either by providing numbers to another employee or allowing another employee physical use of the card).
- Whenever possible, use a U-M strategic supplier to leverage negotiated discounts.
- Original receipts should be obtained whenever possible. Handwritten “tear-tab” style receipts should not be accepted for hosted meals.
- The use of gift cards as incentives or rewards should be carefully monitored; actual signatures of card recipients should be obtained for documentation purposes.

Travel Administration and Expenses

- Travel should be approved in advance and only allowed with a legitimate business purpose. As a best practice, documentation of approval should be retained.

- CAAS management should review travel advance procedures to validate faculty members' rationale that international locations would not accept P-Cards.
- Travel expenses for staff and faculty should be analyzed and monitored regularly, so unexpected increases/decreases in travel can be reviewed in further detail.

Hosting Activities/Event Planning

- All hosting activities must have a detailed business purpose included on the hosting form. When CAAS transitions to Concur for reporting expenses, the hosting information should be included in the expense report.
- Meeting attendees should individually sign the department's hosting form, as appropriate, to increase accountability. Sign-in sheets or other signed documents can be attached as supporting documentation in Concur.
- Employee-hosting events, such as staff luncheons, should be carefully considered to ensure appropriate stewardship of department funds. These activities are not meant to regularly substitute for food employees are normally expected to provide for themselves.

Program Management

- Multiple programs or initiatives are grouped under unique project/grant numbers. This greatly increases the difficulty in monitoring budget activity for individual department projects. *Additional project/grant numbers should be requested so programs may be uniquely identified.*
- The faculty member responsible for each program or initiative should receive training on reviewing the program's financial activity in M-Reports. Alternatively, they could be provided timely reports from the key administrator. Regular communication between the key administrator and faculty regarding program financial activity would also be beneficial.

Payroll

- Gross Pay Register reports should be reviewed or reconciled by a higher authority than the department timekeeper for adequate segregation of duties.
- Time logs for staff are currently logged in a spiral notebook, then re-entered into M-Pathways. Consider using the Self Service feature for employee electronic time entry or another more efficient method.
- If paper time sheets are maintained, obtain both the employee's and the supervisor's signature on all time sheets.

Employment

- UM and LS&A Conflict of Interest/Conflict of Commitment (COI/COC) policies should be reviewed with all employees as soon as possible and annually thereafter. They should also be included in new hire training and the staff/faculty handbook. Preliminary reviews by University Audits identified several situations not reported as a COI/COC, such as CAAS employees who are also CAAS vendors in areas of catering, construction, or interior design.
- CAAS management should review Standard Practice Guide Section 201.23, *Appointment of Relatives*. Both CAAS and LS&A management should evaluate situations where related parties report to one another or to the same supervisor.
- Employees with supervisory responsibilities should be coached on establishing effective work performance reviews. Work plans should both further the employee's development and align with the employee's job duties.

Academic Programs

- Units that specialize in administering international programs, such as LS&A's Center for Global and Intercultural Studies, are more knowledgeable and better equipped to administer CAAS' study abroad courses.
- Study abroad programs should have fully documented fee structures and course syllabi.
- CAAS leadership should re-evaluate the current process of paying for all students' study abroad trips, and subsequently collecting reimbursements directly from the student. This inserts CAAS unnecessarily into a student billing matter. This may also circumvent certain controls in Student Financial Services (where student account billing and collection is centralized) that prevent release of a diploma or transcript if there is an outstanding balance.

Inventory

- Some CAAS employees have received UM equipment to be used off-campus (e.g., home office equipment). The Property Control Office provides a form to be used by all employees to document off-campus equipment usage. This form must be used consistently to achieve desired property controls.
- The CAAS suite features many pieces of artwork (i.e., posters, prints, photographs, artifacts) but ownership of many of these items is unclear. A catalog process would allow CAAS to distinguish its collection from an employee's, and establish an inventory value.
- Computers and peripherals (i.e., iPods, digital cameras, Blackberries) should be tracked to protect assets and increase accountability. Collection of these items should be added to an offboarding checklist to be used when employees leave the department.

Cash Management

- Department procedures should be reviewed to ensure an appropriate segregation of duties related to acceptance of payments. The same individual should not be responsible for any two of the following without an additional level of review: 1) accepting payments; 2) depositing payments; and 3) reconciling payments to the Statement of Activities.
- All employees handling funds should complete the Treasurer's Office web-based cash-handling course (*TME 103, Treasury Management – Cash Handling*, available in My LINC). This training covers topics such as security of funds, UM's deposit policies, and other cash/check-handling internal controls.
- Since cash collections are limited, CAAS leadership should reconsider acceptance of currency as a payment method.

Information Technology

- Review IT best practices for security controls with all employees, such as password security. During preliminary meetings with CAAS employees, it was noted many store Kerberos or Windows passwords on post-it notes next to their computer monitor or keyboard.

In addition to the areas described above, there are additional business processes that were not reviewed but may have opportunities for strengthening internal controls. Recommended control enhancements include:

- The grade change process should be fully documented, detailing which administrative staff members are involved in the process, their responsibilities, and any secondary level of authorization required.
- The process for paying honorariums should be evaluated to identify opportunities for efficiency. Adjustments to these procedures would decrease the likelihood of honorariums paid late.

Management Response

The LS&A Dean's Office is very appreciative of the considerable time and effort that the University Audits staff has devoted to this review. There are several high-level process improvements that we have begun implementing recently, or that we are prepared to initiate, which should address many of the issues raised in this report.

- In addition to the standard designation of an LS&A Dean's Office Financial Analyst for the unit, we have recently assigned the Dean's Office Senior Business Manager to financial review and oversight for CAAS. This person is an experienced CPA and former auditor. The Senior Business Manager will be working through the financial restructuring and will consult closely with the new unit leaders. The current CAAS Director's term is ending as of June 30, 2010 and a new CAAS Director will be starting July 1, 2010. A new CAAS Key Administrator will be hired after a full standard search process, which is going on currently. The search committee will include business operations content area experts from the Dean's Office, Key Administrators from similar sized units, and incoming CAAS leadership.
- CAAS has transitioned over the past two months into the use of LS&A Shared Services for their financial and HR transactional work. The support staff position in CAAS responsible for processing financial transactions has been eliminated and the use of shared services will allow us to strengthen internal controls through separation of duties and adherence to College best practice in these areas.
- College-wide, we have strengthened our end-of-year unit level financial and internal controls certification process for the end of FY 2010. For the last three years, we have required units to certify their review of management reports, internal control gap analyses, and COI/COC in a process that mirrors that annually required of the Dean. However, although our process in 2007 included a mandatory meeting between the LS&A Financial Analyst and the Key Administrator, we have since allowed the meetings to be optional. This year and annually going forward, the meetings will be mandatory for all LS&A units and will include the Chair/Director, Key Administrator, LS&A Financial Analyst, and the LS&A Director for Budget and Finance. The agenda will include review of the certification questions, supporting reports, as well as a review of relevant UM Standard Practice Guidelines and LS&A Policies and Procedures.
- LS&A New Chair/Director Training in September has historically included a section on budgetary and financial responsibilities. In addition, these topics are regularly on the agenda of our monthly Chair/Director Information Sessions and bi-monthly Chair/Director/Key Administrator meetings. We will be expanding that orientation and training in the coming year to include a more detailed and lengthy individual financial/internal controls/budget discussion with the incoming Chair/Director and Key Administrator. We will also be working with University Audits to provide a training session on financial oversight and internal controls for all of our Chairs and Directors this coming fall.
- We are also in the process of initiating a required quarterly financial review between the Chair/Director, Key Administrator, and the assigned LS&A Financial Analyst to review management reports, variances, and trends in each unit. As part of this process, the Key Administrator and/or Chair/Director will be required to explain and document variances and issues identified by the LS&A Financial Analyst.
- We have had in place for the last few years, a requirement that the LS&A Financial Analyst in the Dean's Office co-sign approval, along with the unit Key Administrator, on all Chairs/Directors P-Cards. This last semester we initiated a new requirement that all Key Administrator P-Cards must be co-signed by the Dean's Office Financial Analyst (previously only the Chair/Director's approval was required).
- Finally LS&A is in the midst of a significant change to our budgeting process (started in FY09), that reduces the fungibility and size of discretionary budget categories within each unit and will

require a greater use of separate project grants for individual budget categories. This will improve our ability to proactively budget and to identify spending variances at a finer level of detail.

We are very committed to improvements in the administrative operations in CAAS and in assuring that, going forward, this unit is working to College and University best-practice standards. The LS&A Dean's Office will be collaborating with the new CAAS leadership team on staff training, work planning and performance management, and review of business practices on a regular basis to ensure success.

A detailed follow-up review will be performed in the second quarter of fiscal year 2011.

Intercollegiate Athletics NCAA Compliance Review
Report issued June 28, 2010

#2010-401

As a member of the National Collegiate Athletic Association (NCAA), the University of Michigan is obligated to comply with NCAA rules and regulations. University Audits performed a review of key NCAA compliance areas to provide assurance that compliance programs have adequate controls to assure the University is following these rules and regulations. Currently, this review is completed annually and incorporates all sports over a five-year cycle. Procedures also include a review of select external camps and booster clubs to confirm an adequate system for tracking financial activity. Booster clubs and external sports camps are also reviewed on a five-year cycle.

The review for the 2009/2010 academic year included the following:

Sampled Sports	External Camps		Booster Clubs
Football	<i>Follow-up Camps - Financial Review Only</i>	<i>Financial and Compliance Review</i>	U-M Diamond Club
Men's Basketball			U-M Dekers Club
Women's Basketball			
Men's Track/CC	Michigan Baseball Wolverine Distance Women's Gymnastics Wolverine Swim	Field Hockey	<i>Follow-up Review Only</i>
Women's Track/CC		Football	
Men's Golf		Women's Basketball	U-M Club of Greater Chicago
Field Hockey		Men's Golf	

Compliance Review Procedures

This section outlines detailed procedures performed for each compliance area. Unless specifically noted otherwise, procedures are for the 2009/2010 academic year.

Rules Education

- Reviewed Athletics Compliance Services Office (CSO) rules education packets for the coaches' meetings held during fall 2009 and winter 2010 to ensure coverage of key NCAA rules and regulations.
- Confirmed that the master schedule for rules education meetings includes coaches, other Athletics staff members, other U-M non-Athletics department staff members, student-athletes, and representatives of the University's athletic interests.

Playing and Practice Seasons

For the sampled sports:

- Confirmed that all Countable Athletically Related Activity (CARA) Forms were submitted to CSO with appropriate signatures and within the appropriate timeframe per CARA Policy.

- Reviewed the practice logs for one week during the playing season for designated day off and weekly/daily hour limits for countable athletically related activities.
Note: This step was completed for all Football practice logs not previously included in one of University Audits reviews and five weeks of Men's Basketball logs.
- Reviewed the practice logs for one week during the off-season for designated two days off and weekly hour limits for countable practice activities.
Note: This step was completed for all Football practice logs not previously included in one of University Audits reviews and three weeks of Men's Basketball logs.
- Reviewed the declaration of playing season forms to verify compliance with first practice and competition dates, as well as the length of the playing season as applicable.

Coaching Staff Limits

For the sampled sports:

- Confirmed the number of coaches in each category reported on the coaching staff lists is within NCAA limits.

Financial Aid

Individual Limits

For the entire student-athlete population:

- Verified that total financial aid and athletic-based financial aid reported in the University's system for the fall 2009 and winter 2010 terms was within NCAA limits.
- Confirmed the financial aid amounts in the University's system were not greater than the amounts actually reported to the Big Ten on the squad lists.

Team Limits

- Verified compliance with NCAA team limits for the sampled sports.

Eligibility

For the sampled sports (terms: fall 2009 and winter 2010):

Initial Eligibility

For a small, random sample of student-athletes entering U-M during the 2009/2010 academic year:

- Verified initial eligibility report was obtained from the NCAA Eligibility Center and certification was completed within NCAA required timeframes.
- Confirmed enrollment in a full-time program leading to a degree.

Continuing Eligibility

For a small, random sample of student-athletes who entered U-M prior to fall 2009:

- Verified enrollment in a full-time program leading to a degree.
- Confirmed student-athletes were within the NCAA prescribed number of seasons of eligibility.
- Verified student-athletes had an Attestation of Eligibility form on file and met NCAA and Big Ten progress toward degree and minimum grade point average requirements.

Transfer Eligibility

For a small, random sample of student-athletes who transferred to the U-M during the 2009/2010 academic year:

- Reviewed transcripts and other supporting documentation for a sample of transfer student-athletes to confirm the eligibility determination, including the one-year residency requirement, where applicable.

Camps

For selected camp (2009 camp sessions):

- Reviewed compensation documentation submitted to Athletics to confirm that compensation for coaches and student-athletes is reasonably consistent with other counselors of like teaching ability and camp experience.
- Confirmed that free or reduced admissions were recorded on appropriate CSO forms and compliant with NCAA regulations.
- Reviewed bank statements and supporting documentation to ensure transactions are reasonable, have a clear business purpose, and appear to be related to the operation of the camp.
- Confirmed reasonableness of amounts reported on the Athletics Financial Disclosure form, based on documentation provided.

Boosters

For selected booster clubs (fiscal year 2009):

- Reviewed bank statements and supporting documentation to ensure transactions are reasonable, have a clear business purpose, and appear to be related to the operation of the booster club.
- Confirmed the amounts reported on the Athletics Statement of Disclosure form, based on documentation provided.

Complimentary Tickets

Reviewed the adequacy of the process for ensuring complimentary tickets provided to Athletics employees for individual games are included in the employees taxable earnings.

For one football, men's basketball, and ice hockey game during 2009/2010 academic year:

- Selected a small, random sample of complimentary tickets for guests of student-athletes, non-U-M coaches, and prospects. Reviewed supporting documentation to confirm:
 - Recipients were clearly identified and authorized on the pass list.
 - Number of complimentary tickets were within NCAA limits.
 - Complimentary admissions were supported by properly executed documentation.

For one 2009/2010 men's basketball post-season game:

- Selected a small, random sample of complimentary tickets for guests of student-athletes. Reviewed supporting documentation to confirm compliance with regulations bulleted above.

Recruiting

For a small random sample of prospects selected from the lists of prospects that made an official visit for each of the sampled sports:

- Reviewed the coaches' logs to confirm that off-campus contacts and evaluations were made during the appropriate periods and did not exceed NCAA limits.
- Reviewed the official visit form and related expense receipts to confirm:
 - Official visit took place after the first day of classes of the prospect's senior year
 - Prospect's file contains academic documentation used by the CSO for granting prior approval of the visit
 - Visit lasted no longer than 48 hours
 - Lodging, meals, and entertainment were consistent with NCAA regulations
 - Prospect signed the Official Visit Form at the end of their visit

The process for monitoring recruiting telephone calls is now automated using actual telephone data from Athletics' office and cell phone bills. The CSO makes all the necessary data available to University Audits by the 10th of each month. University Audits uses analytical software to run a script that automatically saves a report of potential telephone and text message exceptions for each of the sports to

a protected directory on Athletics shared drive by the 17th of each month. The CSO investigates and resolves all potential discrepancies, working with the coaches and taking necessary action. Coaches are required to provide explanations and sign a document stating their explanations are factual and they have provided all the necessary prospect telephone numbers.

For the sampled sports:

University Audits confirmed that potential text messaging and recruiting telephone call exceptions from September 2009 through March 2010 had been either adequately explained or appropriately reported to the NCAA.

Compliance Observations

Overall, Athletics has adequate compliance monitoring programs for the areas included in this review. A separate memorandum will be shared with each camp director and booster club highlighting opportunities to improve business practices with copies to Athletics management. University Audits identified the following exception to NCAA rules during the testing outlined in the "Compliance Review Procedures" section of this report.

Complimentary Tickets to High School Coaches

While reviewing the process for providing complimentary tickets to student-athletes, prospects, and non U-M coaches, University Audits observed that a high school coach was provided three complimentary tickets to an Ice Hockey game. NCAA Bylaw 13.8.1 Entertainment Restrictions states "Entertainment of a high school, preparatory school or two-year college coach or any other individual responsible for teaching or directing an activity in which a prospective student-athlete is involved shall be limited to providing a maximum of two complimentary admissions (issued only through a pass list) to home intercollegiate athletics." The Pass List for the game indicated the coach was to receive two tickets; however, when the coach picked up the tickets, the number of tickets provided was increased to three.

Recommendation: This exception was shared with the CSO the same day it was identified. The CSO immediately began the process of self-reporting to the NCAA. To help ensure that high school coaches, student-athlete guests, and prospects receive the appropriate number of complimentary tickets to University events:

- Educate game day temporary ticket staff responsible for distributing complimentary tickets on relevant NCAA rules as part of their employment orientation
- Require ticket office staff to obtain appropriate authorization before increasing the number of tickets; document the authorization on the postcard

Management Plan: A high school coach was inadvertently provided three complimentary admissions to a hockey game because a Ticket Office staff erroneously assumed the extra ticket was for a recruit. The CSO processed this violation with the NCAA. As part of institutional action, the Ticket Office will ensure that there is a listing of complimentary ticket recipients that includes their status as either a recruit or high school coach, located at both ticket venues within Yost. Furthermore, radios will be purchased for Ticket Office staff to enable them to communicate with each other when additional tickets are requested to ensure Ticket Office supervisor approval (per current protocol).

Summary

Based on the documentation and processes reviewed, Athletics has adequate controls in place to monitor compliance with NCAA rules pertaining to rules education, playing and practice seasons, complimentary tickets, coaching and staff limits, financial aid, eligibility, recruiting, external camps, and booster groups. Educating game-day ticket staff and ensuring a higher level authority approval for additional complimentary tickets would further improve the process for distributing these tickets. Procedures for the next NCAA Compliance Review will be discussed in the second quarter of fiscal year 2011.

Information Technology

Dearborn Office of Cashiers/Student Accounts TouchNet
Report issued June 3, 2010

#2010-303

The Office of Cashiers/Student Accounts (OCSA) assists students in managing their bills and payments with the University of Michigan Dearborn (UM-D). OCSA collects payments in the form of cash, check, and credit cards. They also assist students in setting up payment plans and resolving past due accounts. OCSA is the first point of contact for students in relation to their financial responsibilities to the University. To manage these tasks online, OCSA utilizes the TouchNet system.

TouchNet is a web based application (meaning it is accessed entirely through a user's web browser) used to manage student accounts. It integrates with the Banner system employed on the UM-D campus for tracking student information. TouchNet provides students the ability to pay fees online via credit card or electronic bank transfer. It gives staff the ability to track payment histories, set up custom payment plans, and generate a variety of reports. The system automatically adjusts payments and statements to reflect changes made to the student's account and sends alerts to help students remember when payments are due.

All tuition and fees payments made by credit card in TouchNet are performed by a TouchNet product called PayPath¹. This allows UM-D to avoid many PCI/DSS² compliance issues. Staff members have access to a PayPath management site where they can process refunds and address any problems incurred by students.

While credit transactions are processed offsite, the TouchNet servers are housed on campus and supported by the Dearborn Information Technology Services (ITS) department. ITS is responsible for the day-to-day management of the system. They are also responsible for upgrades, troubleshooting, and user support. All error reports and logs for TouchNet are produced in a proprietary format, which is unreadable by ITS. Because of this, all of ITS's support efforts must be routed through TouchNet.

The TouchNet system is currently utilized by approximately 6,100 of UM-D's 8,700 students.

This audit included an examination of the hardware and software that comprise UM-D's TouchNet application. University Audits also examined policies and procedures that directly affect the application. This audit did not address the systems managed by third parties that interact with TouchNet or contain data used by TouchNet.

The objective of the audit was to ensure that user access, data management, and system security are well controlled by assessing processes and procedures:

- Relating to application security
- Controlling user access to the system
- Regarding data management

Failure to manage risk effectively for TouchNet could result in:

- Loss of student financial data

¹ TouchNet's PayPath Convenience Fee Service lets colleges and universities offer constituents the option to pay tuition and fees via credit card.

² Payment Card Industry Data Security Standards (PCI/DSS): a worldwide information security standard created to help organizations that process card payments prevent credit card fraud through increased controls around data and its exposure to compromise.

- Compromise of student financial data
- Inappropriate changes to student financial data

Risk and Control Issues:

- Application Hosting - The computer systems that run TouchNet are housed on campus in an ITS data center. Because they are hosted on site, UM-D assumes the management and risk responsibilities for these systems (i.e., system security, network security, and some PCI compliance). This means that all hardware and software maintenance is the responsibility of ITS staff. Any upgrades or changes to the software or hardware must be made by ITS staff.

It is estimated that the System Administrator primarily responsible for the operation of TouchNet spends 10 to 15% of their total time annually on TouchNet. This time is incurred in large blocks, especially when updates become available and changes need to be made. Because the administrators do not regularly work on the system, these upgrades and changes take longer to make since they must re-familiarize themselves with the system each time. The last update that was applied took three attempts before a successful installation was completed.

TouchNet's use of a proprietary error and logging format also adds to the time demand on ITS administrators. Because they are unable to read log files and errors, ITS administrators must route these through TouchNet support staff. While TouchNet has been responsive to requests from ITS administrators, this extra step adds to the time required of them to support the system.

TouchNet offers a hosted solution for its customers. In this solution, UM-D would contract with TouchNet to house, manage, and assume the risk of hardware and software used by the TouchNet application.

ITS should investigate the option to have the TouchNet system hosted by the vendor. This would free up the time the primary administrator spends on the system, decrease delays for upgrades, and remove the PCI risk of housing confidential data on the system locally. Moving TouchNet to a hosted application also removes nearly all network and system security risks, which are a particular concern since ITS has no dedicated security staff. Hosting at the vendor's facility makes the security of the systems running TouchNet and the networks they operate on the responsibility of the vendor.

Management Plan - OCSA is researching the viability of the recommendation. Quotes have been requested from TouchNet. OCSA has acquired a list of institutions currently utilizing the hosted solution and is contacting them for input on their experience with the hosted solution.

- Application Vulnerabilities - Cross-site scripting (XSS) is a digital attack that takes advantage of dynamically generated Web pages. In an XSS attack, a Web application is sent a script that activates when an unsuspecting user's browser reads it. A successful XSS attack can give an attacker the ability to change user settings, hijack accounts, poison cookies³ with malicious code, expose SSL⁴ connections, access restricted sites, and even launch false advertisements. Using an application vulnerability scanner, University Audits found multiple points within TouchNet where an XSS attack might be successful.

³ A cookie is a file stored on a user's machine by the web browser. This file contains unique user data tied to a certain web site. Cookies allow browsers to identify their users to their associated web site.

⁴ SSL creates a secure connection between a client and a server, over which any amount of data can be sent securely.

Management Plan - OCSA has contacted TouchNet regarding these vulnerabilities. TouchNet has responded and is currently investigating the problem.

- **Change Control** - ITS currently does not have a documented change control process for TouchNet. To ensure smooth transitions between versions of software like TouchNet, it is important to have a thorough change control process. The process for each upgrade is dictated by TouchNet. The guides they provide are focused on Windows-based systems. TouchNet is run on Sun Solaris systems at UM-Dearborn. This creates a gap between the process that is provided and what needs to be done. Having good change control documentation will keep small, but important, steps from being missed during the upgrade.

The current process being utilized by ITS staff has worked well to fill in the gaps in the TouchNet documentation and yielded no significant problems during upgrades. ITS should document their current process to ensure their continued success, and for guidance in case the primary TouchNet administrator is unavailable when an upgrade is necessary.

Management Plan - ITS will create documentation detailing known differences between the instructions provided by TouchNet and the steps necessary on the local systems.

- **User Roles** - OCSA grants access to TouchNet based on the roles individuals perform. Individuals with the same job title may have very different access needs and rights because of differing performance functions within the system. OCSA does not currently have documentation tying user access to specific job functions.

Management Plan - OCSA will create a document detailing each job function and the access needed to perform it. This document will be reviewed annually.

University Audits will perform a follow-up review during the second quarter of fiscal year 2011.

Health System

U-M Hospitals and Health Centers Omnicell Pharmaceutical Distribution System
Original Report issued June 16, 2010

#2010-305

University Audits has completed an audit of the Omnicell medication dispensing system at the U-M Hospitals and Health Centers (UMHHC). UMHHC uses the Omnicell system to distribute and dispense select medications, including controlled substances. Over 130 Omnicell cabinets located in various inpatient and outpatient units are stocked by Pharmacy Services with medications needed for patient care. These cabinets are designed to allow ready access to caregivers while providing security and inventory controls. Additional cabinets will be installed to support the new C.S. Mott Children's and Von Voigtlander Women's Hospitals, opening in late 2011. University Audits previously examined aspects of the Omnicell system, most significantly in a 2004 audit focused on general information technology (IT) controls. This audit, in contrast, focuses on operations, use, and oversight in select inpatient units.

Omnicell servers stored in a UMHHC data center monitor cabinet stock level and usage, and load each cabinet with a list of patients currently treated in each unit along with medication orders. Nurses log in with a unique user ID and password, indicate the patient for whom they are withdrawing medication, the medication and amount withdrawn. Controlled substances also require a "countback" whereby the nurse indicates the amount of medication present before the medication is removed.

Pharmacy Services oversee the Omnicell cabinets. Pharmacy implemented the Omnicell Medication Surveillance Service (MSS) in February 2009. Nursing has overseen the education and training of MSS users within inpatient areas. MSS is designed to provide managers with timely and insightful information on Omnicell dispensing activity, which helps improve drug-stocking decisions and identify inefficiencies and potential policy violations. Nursing expects managers of all units where nurses access Omnicell cabinets to be using MSS. This audit focused on inpatient units in which MSS is well established.

Medical Center Information Technology (MCIT) manages the servers, and administers the application under the direction of Pharmacy Services. MCIT is planning a new system interface between Omnicell and the UMHS Level-2 user directory, which will automate provisioning of Omnicell access and is intended to keep Omnicell access consistent with the user's job responsibilities. The new interface is targeted for activation during the summer of 2010. The audit considered transitional issues that could impact user access.

Omnicell is a valuable tool for the Hospitals and Health Centers. It gives nurses, pharmacists, and other users immediate access to the medications they need while maintaining strong physical security for the institution and providing valuable insight into dispensing patterns. Omnicell oversight is achieved through successful collaboration between Pharmacy and Nursing. Pharmacy is leading the deployment of the MSS monitoring tool while collaborating with Nursing. Adoption of MSS monitoring signifies management's full commitment to patient safety by monitoring and deterring inappropriate and/or wasteful drug usage.

Risks:

Dispensing and administration of Schedule II-IV⁵ controlled substances poses significant inherent risks that are managed and mitigated by UMHHC management:

- Many UMHHC patients require controlled substances to manage severe and debilitating conditions. Without adequate control and oversight of controlled substances, these patients may not receive safely prescribed and administered doses of critical medications.
- Federal law mandates that only individuals licensed by the Drug Enforcement Agency be permitted to handle controlled substances. Federal law also requires secure storage and detailed transaction records.
- Hospital accreditation standards include medication management and provision of care standards that require control and oversight of medications, including controlled substances.

Drug diversion is a common concern among health care facilities⁶. In addition to the obvious concerns of criminal theft and institutional compliance violations, drug diversion poses serious risks to patient care and safety. These include inadequate pain management, sudden dosing changes, and infection from contaminated delivery devices. The Omnicell system employed at UMHHC is designed to enhance control and oversight of medications, including controlled substances.

The overall objective of the audit was to examine Omnicell system design, operation, and use to determine whether management has successfully mitigated the identified risks. More specifically, this audit:

⁵ Drugs with a potential for abuse leading to physical or psychological dependence are listed in numbered schedules under the Controlled Substances Act. Drugs with a currently accepted medical use in treatment in the United States appear on Schedules II-V. UMHHC only stocks narcotics from Schedules II-IV.

⁶ Hulse, Kathy, Liz Edmundson, and Robin Carroll. "Diversion of Controlled Substances: A Catalyst for Change." *Journal for Healthcare Quality* (2004). *National Association for Healthcare Quality*. Web. 1 Feb. 2010. <http://www.nahq.org/journal/ce/article.html?article_id=217>.

- Examined Omnicell user accounts and MCIT management processes to ensure access is commensurate with job responsibilities
- Reviewed the process for resolving discrepancies in controlled substance inventories, and inspected records to verify clear and timely explanations and effective escalation of unexplained incidents
- Assessed managerial reporting and review processes to determine whether they ensure timely identification and correction of inappropriate Omnicell use
- Analyzed medication over-ride activity and assessed monitoring processes to ensure adequate oversight
- Reviewed a sample of non-patient-specific transactions and monitoring processes to ensure their use is minimal and appropriate
- Analyzed a sample of controlled substance waste transactions to verify conformance to policy and established practice

This audit neither sought nor found evidence of drug diversion at UMHHHC. Its purpose was to assess the controls in and around Omnicell intended to mitigate risks. The audit focused primarily on inpatient units where the MSS monitoring system is well established.

Risk and Control Issues:

- Scope of User Access - The current approach to assigning and managing nurse access to Omnicell cabinets could be improved.

Nurses, including registered nurses and licensed practical nurses, are granted access to all drugs in all cabinets throughout the Health System. This broad access dramatically increases opportunities for undocumented use and misappropriation. Multiple factors contribute to this design:

- Omnicell's historically limited ability to configure access on a cabinet-by-cabinet basis for large numbers of users. Omnicell now has more capability to manage access on a per cabinet basis.
- Flexible staffing practices in which nurses may be asked to cover any one of several assigned areas on a shift-by-shift basis
- Central Staffing Resource (CSR) nurses who float between a number of units within a specified Clinical Cluster
- The need to obtain drugs from a nearby area when the local cabinet is out of stock or undergoing maintenance (stock-outs)

Secondary controls, including patient profiles and medication over-ride limitations, provide some compensating control. However, numerous exceptions to these controls are permitted, which require scrupulous management review.

Users with nurse-level access comprise 66% of all Omnicell user accounts. These 3,000+ accounts, which have access to controlled substances, are not audited by Pharmacy or Nursing on a regular basis to verify that the access is still merited. Examination of a 50% sample of users' roles found significant inconsistencies in the assignment of 'NURSE' type access, which suggests that comprehensive user access audits are necessary. A new account provisioning scheme under development, in which Omnicell user types will be linked directly to job titles managed by Health System Human Resources in the UMHS Level-2 Directory, will provide additional tools for managing and controlling access. This system is expected to be implemented by July 2010.

Recommendation: Consider grouping cabinets by venue type, physical campus location, or other stable criteria, and restricting nurses to the cabinet group matching their assignments to reduce the risk of diversion. For example, if cabinets were grouped into inpatient units (IPU) and inpatient-like venues (ILV), nurses who work in IPU areas could be granted access solely to IPU cabinets, which would support staffing and stock-out needs.

Continue efforts to minimize stock-out conditions, which impact the productivity of nurses and nurse managers. Stock-outs increase cross-unit/cross-cabinet activity, increasing manager workload in monitoring and investigating cabinet usage by unknown staff outside their unit.

As part of the implementation of the new Level-2 interface, all user access to Omnicell, particularly nurse-level access and above, should be reviewed to verify it is appropriate.

Management Plan - MCIT will have in production the Level-2 interface for Omnicell access by July 2010, which will mitigate risks associated with inappropriate provisioning based on a workforce member's job requirements. This will not impact any reporting capability that is currently in place so that appropriateness reviews can be conducted by the business.

In conjunction with the clinical areas, a workgroup to evaluate the feasibility of this recommendation will be formed. MCIT will evaluate what capabilities and resources would be needed to support implementing provisioning taking into consideration the venue type, physical campus location, or other criteria based on the outcome of the clinical workgroup. If the evaluation of limiting access can meet requirements for both usability and safety, we will move forward with improving the control of access across the system.

- Inconsistencies in User Access Privileges - Some Omnicell user accounts were not consistent with policy defined role-based access standards and inactivity limits.

Nine Omnicell users out of 2,588 tested have extensive privileges, including access to controlled substances, which do not align with their job titles in M-Pathways. Some of these job titles suggest the user should have no access to Omnicell; others suggest the user should have a lesser role.

One account with nurse-level access remained active three days after the user's appointment expired. Appointment lapses and terminations should trigger revocation of Omnicell access within 24 hours.

Three other accounts remained active despite users having been absent (on leave) for greater than 90 days. Omnicell is generally configured to delete any account not used for 90 days.

Management Plan - The issues identified in the audit were reviewed by Nursing and Pharmacy, and the users' access levels were corrected as needed to align with their job roles. With the new Level-2 interface deployment, MCIT will systematically terminate access immediately once notified through the PeopleSoft interface that a specific workforce member has terminated their relationship with UMHS. MCIT will continue to manually terminate access upon notification, including for leaves of absence, as received from appropriate authorized signers according to UMHHC Policy 01-04-511 *Assignment and Retrieval of UMHHC Information Technology Access and UMHHC Property*.

- Discrepancy Reporting and Escalation - Omnicell cabinets maintain a precise count of the medication contained in each bin. The cabinet requires each person replenishing or withdrawing

a controlled substance to count the quantity present before adding or removing anything to/from the bin. If the next user's count does not match the cabinet's calculation, the cabinet records a discrepancy.

Discrepancies can result from errors in counting or dispensing practice, accidents or spoilage (e.g., dropped pill), or theft. Nursing and Pharmacy have established a formal, documented process for resolving discrepancies. At the end of each shift, the charge nurse in an area reviews all discrepancies that occurred during the shift. If the discrepancy can be explained through discussion with staff, the charge nurse marks it "resolved" on the cabinet and provides an appropriate reason code. Discrepancies that cannot be explained by the charge nurse are submitted to the nurse manager of the area for further investigation with Pharmacy support.

Discrepancies traced to counting errors by Nursing staff are handled within the unit. Those traced to restock errors are handled by Pharmacy. These comprise the bulk of discrepancies.

Standard discrepancy reporting forms state that discrepancies that are unresolved after 24 hours must be reported to Hospital Security for inquiry.

University Audits reviewed a one-week sample of 214 discrepancies in all inpatient units and noted:

- o 176 were satisfactorily resolved.
- o 20 were resolved more than 24 hours after identification.
- o 18 remained unresolved as of February 19 two to three weeks after identification. Reports should have been filed with Hospital Security for the 38 exceptions. Analysis of Security records through March 11 revealed only one was reported.

Discrepancies resolved as "Unexplainable loss - see report" are reported to Security at the nurse manager's discretion. There is no clear guidance for nurse managers to follow when doing so.

University Audits reviewed a seven-week sample of 25 discrepancies in a specific hospital inpatient unit:

- o Twenty-two were satisfactorily resolved.
- o Three were resolved as unexplainable losses within the 24-hour window, but were not reported to Security.

Management Plan - The Department of Nursing will comply with the current Pharmacy Omnicell policy regarding the management of discrepancies. In addition, we will further define the procedural, role-based steps for the reporting of unexplained losses and retention of records used when resolving discrepancies.

- Discrepancy Investigation Recordkeeping - All discrepancy investigation records, including charge nurse notes, nurse manager findings and conclusions, and supporting documentation from other UMHS record systems, are maintained on paper by nurse managers in their offices. Organization, retention period, and physical security are likely to vary. Reports to Security consist of printed forms filled out by hand and faxed to the Security office. These reports are often vague and highly variable. This limits Security's ability to effectively investigate drug discrepancies.

Timely, thorough, and adequately documented discrepancy investigations would be better assured through a central recordkeeping system. Consider collecting in a central repository all charge nurse notes, nurse manager findings and conclusions, and supporting documentation from

other UMHS record systems. These records could be routed to Security within a central record keeping system.

Management Plan - The Departments of Pharmacy, Nursing and Security will work together to define the core elements of investigation and determine the process for how to best share and archive investigatory records, and implement the process that is developed by the multidisciplinary team.

- Misleading Disposition of Discrepancies Undergoing Review - Procedures for handling discrepancies are clear and well defined. The process is designed to ensure timely resolution of discrepancies and escalation of unexplainable discrepancies for managerial review. However, system limitations reduce the transparency of the review process.

Escalation and managerial review are not documented in Omnicell. Omnicell cannot indicate that a discrepancy is in the process of being investigated by management, that it has been completed, or its outcome. Once a staff nurse (or other user) “resolves” the discrepancy in Omnicell during the shift, Omnicell considers the incident closed.

The lack of review status and completion notation in Omnicell does not affect management’s ability to review discrepancies in a timely manner. However, it does make it more difficult to verify that appropriate reviews are occurring.

Management Plan - Pharmacy will review with Omnicell the options for noting pending status for discrepancy resolution on the cabinets. Omnicell is expected to require at least six months to furnish any new features. Pharmacy will update University Audits if implementation requires additional time. Pharmacy and Nursing will define role-based (staff and managerial) process steps for investigations of Omnicell discrepancies.

- MSS Administration and Enhancements - The Medication Surveillance System (MSS) provides timely information on Omnicell user activity to appropriate nurse managers or designees. Some opportunities are available to improve usability, administration, and oversight of MSS.

Management reported a delay of up to one week in updating MSS access to reflect the transfer of nurse managers between areas. Unit activity occurring in the interim is not receiving adequate and timely review by the newly assigned manager.

Policy and procedures have not been established to govern MSS administration and use. Pharmacy Services indicated they would work with Nursing Services to develop them.

Observation of MSS report review practices revealed the system does not provide managers with a way to record that they reviewed a report or their review notes. This must be captured and retained outside the system in a separate file. Managers can query MSS to cover longer reporting periods, but cannot overlay current period data with prior periods for easy visual comparison. This is important for identifying variances in user and unit behavior.

Management Plan

- Develop administrative policy outlining MSS Manager Review process.
- Propose frequency of bi-weekly review of MSS.
- Perform regular monitoring of manager MSS login activity. The data will be requested from Omnicell by the Pharmacy Associate Director and shared with the Nursing Staff Specialist. Nursing and Pharmacy data will be available from this report.

- Floor Charges for Controlled Substances - A process is in place for daily and monthly managerial review of floor charges for controlled substances. Analysis suggests that these reviews are not entirely effective.

An Omnicell transaction report for the "Floor Charge" patient in inpatient units for the period January 1, 2010, to January 31, 2010, listed several examples of controlled substances being issued under Floor Charge rather than to specific named patients. Management indicated they accept this under certain limited (and usually temporary) circumstances, such as dispensing drugs that a patient will need on arrival before the patient is listed on the cabinet. Once the patient has arrived, the nurse is expected to "return" the item to Floor Charge and "dispense" it under the patient's name.

Analysis found:

- Controlled substances issued to Floor Charge but not subsequently returned, which is not consistent with accepted practice.
- Controlled substances wasted under Floor Charge without having been issued under Floor Charge. These items were likely issued to and billed to a specific patient.
- Controlled substances returned under Floor Charge without having been issued under Floor Charge, which could result in patients being billed for medication they did not receive.

A small number of these transactions occurred on January 1, the start of the reporting period. It is possible that an earlier, related transaction could have been unfairly excluded from the analysis. Most, however, occurred comfortably within the reporting period.

Recommendation: Strengthen monitoring of Floor Charge activity and enforcement of Floor Charge guidelines to ensure that its use does not impair the traceability of controlled substances or the accuracy of patient billing.

This could be aided by more intelligent reporting that identifies questionable issue/waste/return patterns involving items in the same proximal time frame at the same or nearby cabinets.

Also, consider collecting the name or ID of the intended patient when drugs are dispensed as a Floor Charge. This would make it easier to audit these transactions and verify the necessary adjusting entries were completed.

Management Plan

- Re-educate nurse user about Floor Charge function within Omnicell
 - Floor Charge report will be reviewed by managers within MSS, and transactions reconciled as needed
- Improve Oversight of 'Temporary Patient' Charges - Most Omnicell cabinets are "profiled," meaning the patients located in that area are listed on the cabinet along with their ordered medications. This information flows in through interfaces to other hospital systems. If the patient is not listed on the cabinet, nurses are permitted to create a "temporary patient." Distribution of medication to temporary patients are reviewed each day by Pharmacy, and reconciled to patients of record through an Omnicell-assisted "Temp Billing reconciliation" process.

Temporary patients that cannot be matched to a patient of record, even after investigation, are cleared from the review list, and the charges borne by Pharmacy. Pharmacy management indicated that they do not keep statistics on drug dispenses to unmatched temporary patients.

Matching temporary patient transactions to patients of record on a daily basis is a good way to ensure accurate billing and medical records. However, a recurring pattern of non-matched temporary patients created by a particular user that cannot be explained by workflow could indicate misuse or abuse of the Temporary Patient feature. This activity could cross unit boundaries, making the patterns less apparent to management.

Management Plan - An examination of the feasibility to match these transactions will be undertaken. It may be possible to link charges back to patients in a different way on an exception report that is currently used.

- Controlled Substance Not Wasted According to Procedure - UMHS policy and Federal law require that licensed individuals “waste” (securely dispose of) controlled substances in the presence of a witness. For controlled substances dispensed at UMHS through Omnicell, the witness attests by authenticating to the Omnicell cabinet with their username and password. The name of the witness is included in the transaction record in the Omnicell database.

Examination of waste transactions in inpatient units from December 2009 found one instance in which no witness name was listed. This particular medication, a mixture of controlled and non-controlled substances, should have required a witness to waste. Pharmacy analysis suggests that the user may have erroneously wasted the drug as a patient-specific narcotic IV, rather than its proper component parts. The latter process would have prompted for witnessing.

Management Plan - MCIT Pharmacy has reviewed and verified that controlled substance co-signature flags have been activated for all controlled substances level II-IV in all cabinets. Going forward, it will be ensured that all cabinets have the controlled substance co-signature flags activated for new cabinets and additions of medications.

University Audits will conduct a follow-up of Management’s progress on action plans in the second quarter of fiscal year 2011.

Follow-up Reviews

Plant Operations – Construction Services Audit Follow-up Review

#2008-602

Original Report issued November 4, 2008

First Follow-up issued June 23, 2009

Second Follow-up issued May 10, 2010

In June 2009, the first follow-up review of Construction Services was conducted to determine the status of management’s action plans. At that time, two of five action plans were completed. System related changes had been delayed and were rescheduled to be completed by December 2009 because resources were focused on the implementation of FMAX, a new Plant Operations facilities management system. During a second follow-up review in March 2010, it was noted that substantial progress was made on the three remaining action plans. **This audit is closed.**

- WinEstimator Comparison to FMAX – WinEstimator was initially implemented to download estimate data to either a delimited file or an Excel spreadsheet, making comparison reports between FMAX and WinEstimator difficult. The IS manager has implemented a database download option to provide better support for detailed reporting.

- Project Management Reports and Procedures – The IS manager developed a reporting function that compares WinEstimator estimated costs to FMAX actual costs at the project and work code level, with the option of downloading results into Excel spreadsheets for further analysis. He also developed a report of FMAX actual costs without comparison to WinEstimator to support historical cost information for projects performed prior to implementation of WinEstimator. The Construction Services Director will work with available resources to develop criteria for additional detailed reports that will provide budget performance by various project components.
- IT Manager Support – In March, the IS manager began meeting with Construction Services management to learn how work is managed and to make initial recommendations for technology practices and skills improvements. However, the IS manager is no longer employed with Plant Operations. Management plans to fill the vacant position by July 2010, and this support endeavor will become the responsibility of the new IS manager. As part of our ongoing relationship with Plant Operations, University Audits will inquire about status of IS management recommendations and subsequent training to be held by Plant Academy for Construction Services management in fiscal year 2011.

Virtual Firewall Service Follow-up Review
Original Report issued November 20, 2009

#2009-307
Follow-up issued May 10, 2010

A follow-up review of the Virtual Firewall (VFW) was conducted to assess the corrective actions taken. A discussion of the outstanding audit issues and corresponding corrective actions taken by management is presented below. Appropriate corrective actions have been taken on all audit recommendations. **This audit is closed.**

- Security and Contingency Planning - During the audit it was determined that the VFW service had not been included in comprehensive contingency planning, and security assessments of the VFW systems had not been performed.

In response to the findings, ITSComm (Information and Technology Services Networking and Telecommunications) management planned to incorporate the VFW into ITS (Information and Technology Services) contingency/disaster recovery plans for the U-M backbone network and/or data centers. Management also planned to enhance the VFW service agreement by indicating how ITCom could support VFW customers' investigation of security incidents traversing their firewall(s).

During the follow-up, ITSComm shared a draft "Business Continuity/Recovery Assessment" most recently revised in March 2010. This document includes the VFW service as management had planned. Management should consider it an early draft still requiring key elements such as recovery time/point objectives, contact lists, references to detailed procedures, and testing exercises.

ITSComm also provided an updated version of the service agreement. This version did not include language addressing their support of security incident investigations. However, management has identified suitable language to be added in due course. We reviewed this language, and it appropriately addresses the incident handling concern in keeping with University policy.

- Data Backups Testing - The audit determined that VFW server configurations and data were backed up on a regular basis, but back ups were not periodically tested to validate integrity. In response, ITSComm management planned to resume monthly testing of VFW management backups utilizing lab infrastructure, and document completion of the backup testing with MRequest maintenance tickets.

As evidence of testing, ITSComm presented a list of MRequest tickets indicating backups were tested monthly from November 2009 through March 2010 (most recent available). This appropriately addresses the concern raised during the audit.

- Change Control - At the time of the audit, an overall change management process that includes how changes are proposed, tested prior to deployment, approved by the Business Owner (Infrastructure and Information Assurance), and scheduled for deployment had not been established. ITSComm management planned to review the change management tools and processes available via the ITS service management methodology and migrate to the solution that is adopted for the U-M backbone infrastructure and other network-related services.

ITSComm presented a document indicating they are adopting the existing ITS Change Management system for the VFW. To accommodate upgrade schedules for the Virtual Firewall and the Change Management system, the teams have agreed to a late summer or fall implementation.

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

#2009-103
First Follow-up issued February 5, 2010
Second Follow-up issued May 18, 2010

University Audits recently completed a second follow-up review to assess the status of management's corrective action plans. The Treasurer's Office has taken appropriate steps to mitigate the risks identified during the audit. **This audit is closed.** See summaries below for additional information.

- Monitoring - The Treasurer's Office has made significant progress toward enhancing monitoring procedures. Specifically:
 - A deposit frequency analysis tool has been created and populated with actual deposit data from M-Pathways. Treasury will update the information on a monthly basis and review results for compliance with University policy. Treasury staff will contact leadership at deposit locations that appear to be not making timely deposits.
 - At this time, Bank of America could not provide the specific service and supporting reports that Treasury needs to monitor foreign checks. Banking Services will assist Treasury with monthly reports of foreign checks presented to the bank. The number of foreign checks presented to the bank for deposit over the last year has been minimal.
 - Treasury will continue to monitor deposit adjustments and discrepancies in aggregate for the University. Details of deposit discrepancies for each deposit location are posted in M-Reports for each fiscal year so units can monitor their own activity.
- Automated Deposit Stations Security - Security of one deposit station has been enhanced by upgrading to a live-feed surveillance camera. In addition, security procedures for Treasury staff who service the deposit station have been increased.
- Treasurer's Office Procedures Documentation - The Treasurer's Office has documented procedures related to unsealed and missing deposit bags and miscellaneous funds found in the

deposit stations, as discussed during the audit. University Audits encourages Treasury to continue the good practice of formally documenting protocols and procedures for other deposit-related activities, including, but not limited to the monitoring of deposit frequency, adjustments, and foreign checks, and the enhanced security protocols for servicing the deposit station.

Research Computing at the College of Engineering Third Follow-up Review

#2008-302

Original Report issued October 29, 2008

First Follow-up issued September 3, 2009

Second Follow-up issued December 22, 2009

Third Follow-up issued May 27, 2010

University Audits recently completed a third follow-up review of Research Computing at the College of Engineering. Management has addressed the remaining open issues through implementation of positive changes that will strengthen internal controls. Some issues are still being addressed, but measurable progress has been made.

- Unsupported Devices - An unsupported device is anything that uses the network but is not directly supported by information technology (IT) staff. In the CoE, this includes sensors, measuring devices, various laptops, and smart phones (i.e., Blackberry and iPhone). While these devices are not actively supported by CoE IT, they make active use of the network and, in some cases, carry U-M data. University Audits recommended that CAEN and CoE department IT groups create a best practices document to provide guidance for the users of unsupported devices. CAEN has developed a best practices document and is working with CoE IT departments to finalize it. University Audits has reviewed a draft copy of the document and is very encouraged by the progress made. **This item is closed.**
- Users with System Administrator Privileges - Security best practice states that users should be given restricted accounts on their computers. This practice prevents users from accidentally making critical changes, inadvertently installing malicious software, or harming other systems on the network. From time to time, a user's needs create the necessity to give that user administrator-level privileges. University Audits recommended the implementation of a process to track which users are given administrator access and for what purpose. CAEN has subscribed to Information and Infrastructure Assurance's (IIA) RECON as a Service (RaaS) offering, which will result in full RECON assessments of each CoE department being performed. One of the items identified by RECON is users with administrator-level privileges. Once these users are identified, CAEN will share them with departmental IT staff for appropriate tracking. **This item is closed.**

This audit is closed.

University of Michigan –Dearborn Department of Public Safety Follow-up Review

#2009-210

Original Report issued December 22, 2009

Follow-up Issued June 21, 2010

A follow-up review of the University of Michigan-Dearborn (UM-Dearborn) was conducted to determine management's progress toward strengthening internal controls weaknesses identified during the audit. Management has taken corrective action on all audit recommendations as outlined below.

This audit is closed.

- Documentation of Administrative and Financial Procedures - Although the department had a comprehensive repository of operational policies for topics such as police investigation reporting, documentation of administrative policies was not sufficient to ensure business continuity.

Management responded to audit recommendations by expanding the department's administrative guide to include documented policies and procedures for the following:

- Budget-to-actual analysis and reporting
- Maintenance of service level agreements with auxiliary units such as Parking Services
- Department-specific hiring practices including background investigations, drug testing, and psychological exams
- Employment termination procedures including an off-boarding checklist that addresses the safeguarding of firearms, sensitive data, and building access

- Financial Shadow System - DPS was using an Excel-based shadow system to reconcile and analyze financial data. Issues observed during the audit included:
 - Duplication of effort
 - Increased risk of error due to manual manipulation of data
 - Lack of procedural documentation including password security protocols
 - Lack of cross-training

The DPS Business Office has transitioned their account reconciliation efforts to Real Time Financials (RTF), a centrally supported reconciliation system in M-Pathways. Management added documentation related to these procedures to the administrative guide mentioned above. With the support of the Assistant Controller in UM-Dearborn's Financial, Budget and General Services office, DPS has committed to moving their budget tracking and analysis to RTF as system enhancements allow. DPS has made considerable progress in eliminating their shadow system.

- Segregation of Duties - The audit showed that the Business Administrator reconciled all Statements of Activity while also managing the majority of the department's purchasing. Management implemented a review process to improve segregation of duties. The DPS Director now reviews statement reconciliations for anomalies or errors, follows-up with the Business Administrator as necessary, and then initials and dates the reconciliation once any issues are resolved.

School of Art & Design Follow-up Review
Original Report issued December 8, 2009

2009-201
First Follow-up issued June 29, 2010

University Audits recently conducted a follow-up review of the School of Art & Design (A&D or the School) to assess the status of management's corrective action plans. A&D management has made significant progress towards the implementation of adequate controls. Some items are still in progress. University Audits will perform a second follow-up review in the second quarter of fiscal year 2011 to assess the status of open issues. See summaries below for additional information.

- International Programs - While a central University policy for student international travel is not available at this time, it is the responsibility of the schools, units, and departments to ensure adequate controls over international trips for students. The A&D International Committee has met several times to begin documenting policies and procedures, clarifying administrative roles, and establishing emergency procedures related to student international travel. This work is still in progress. University Audits will review the status of this item during the second follow-up review.

- Supplemental System - The A&D Finance Office has planned a phased approach to explore opportunities for using Real Time Financials (RTF) to assist with the financial and budget monitoring. The short-term goals have been met. Management has taken appropriate measures to strengthen controls related to their supplemental system. Specifically:
 - Procedures for using the system are documented.
 - The database is maintained on the A&D server, which is backed up nightly.
 - Staff members are trained to use and maintain the system, so that it is not dependent upon one individual.
 - Sensitive information is not maintained in the database.

The A&D Finance Office has selected a number of accounts that will be moved to RTF in July 2010. These accounts will be monitored in the next few months to determine how effectively and efficiently RTF works with current School business processes. The Finance Office has indicated they intend to continue to work with Information and Technology Services (ITS) as necessary to explore customized budget and financial reports that will accomplish the needs of A&D faculty and staff. University Audits will assess progress on this item during the second follow-up review.

- Statement of Activities Reconciliation - The Assistant Director for Finance reconciles the Statement of Activities (SOA) to original source documentation to verify the appropriateness of transactions. This individual no longer has purchasing roles in the system, thus ensuring proper segregation of duties. A&D will use available online tools to reconcile the SOA starting in June 2010. During the second follow-up, University Audits will review the status of this item to ensure that online reconciliation is working efficiently.
- P-Cards - A&D has improved controls over P-Card expenditures. The Chief Administrative Officer (CAO) continues to review and approve all P-Card statements. In addition, several supervisors review their staff members' P-Card purchases before CAO final approval to make sure use of funds is appropriate. **This issue is closed.**
- Payroll - To ensure accuracy of payroll data, the Assistant Director of Finance reconciles the Gross Pay Register to the employee timesheets. The Assistant Director does not approve or enter time in the system, which ensures proper segregation of duties. A&D appropriately maintains support documentation as well as evidence of reconciliation in the Finance Office files. **This issue is closed.**
- Cash Handling - A&D has documented policies and procedures related to cash management. The Assistant Director of Finance, who does not have cash collection or depositing responsibilities, reconciles cash received to cash deposited. **This issue is closed.**
- Summer Programs - Policies and procedures for A&D summer programs have been documented. University Audits observed that the policies and procedures are thorough and address concerns raised during the audit. A&D summer camps will take place in July and August 2010. During the second follow-up review, University Audits will ensure that procedures developed are working as intended.

University Audits recently conducted a follow-up review to assess the corrective actions taken by management to improve controls and mitigate risks. Appropriate actions have been taken on all audit recommendations. See summaries below for additional information. **This audit is closed.**

- International Program Administration - While a central University policy for student international travel is not available at this time, it is the responsibility of the schools, units, and departments to ensure adequate controls over international trips for students. Taubman College has made good progress towards improving controls over international programs. Specifically:
 - Key policies and procedures and reference documents for students have been developed.
 - The School already had procedures for getting students adequate HTH travel abroad insurance. Now emergency plans are documented and communicated to students for each individual trip.
 - Budget estimates for each program are prepared and reviewed at the department and School level. Taubman College will begin utilizing Real Time Financials for international programs in fiscal year 2011, which will improve monitoring of budget-to-actual at the program level.

- Access Control - Taubman College management has developed a policy for adding, removing, and monitoring access to the FabLab (fabrication lab) equipment. University Audits performed limited additional testing in this area during follow-up and concluded that the procedures are working effectively.

- Information Technology (IT) - Management has made good progress on improving IT controls at the School. Specifically:
 - A system access policy has been developed and is followed so that access given to students and staff is appropriate.
 - Communication to faculty on available data backup procedures has improved.

- Cash Management - Taubman College has made significant improvements regarding their cash management procedures by:
 - Establishing an imprest cash fund with Accounts Payable.
 - Ensuring cash is deposited in a timely manner.
 - Implementing adequate segregation of duties over cash receipts, deposits, and reconciliation.
 - Increasing accountability by assigning only one staff member to handle the cash drawer during a shift.
 - Establishing a return policy that requires receipts.

- Inventory Management - Management has improved inventory controls. Ordering and receiving are assigned to different individuals. Other staff members reconcile invoices to the SOA and the inventory management system. School management should document the procedure for future reference and training purposes.

- Recharge Rates - The recharge rates for the Media Center were approved by the Office of Financial Analysis in November 2009. Management at the School will continue to oversee the rates and work with Financial Analysis to reapprove rates every two years as per University policy.

- Controls over Purchasing Activities - Controls over procurement have been improved. Specifically:
 - The Director and the Business Manager have split the responsibility for approving P-Cards, thereby appropriately reducing the number of P-Cards that each approves.
 - The Business Office has frequent formal and informal communication with staff regarding purchasing policies and procedures.
 - There is increased awareness regarding the need for compliance with University purchasing policies and procedures at the School.

Dearborn Early Childhood Education Center Follow-up Review
Original Report issued September 30, 2009

#2009-110
Follow-up issued June 30, 2010

A follow-up review was recently conducted to evaluate the status of management's action plans to strengthen internal controls. Based on this review, management has made considerable improvements in business processes and satisfactorily addressed the audit issues contained in the report. **This audit is now closed.** A summary of management's corrective actions related to the issues identified in the audit report is below.

- Aged Accounts Receivable - A new collections company has been identified and is now used to contact delinquent accounts. Collections policies have been written and approved and will be included in the next version of the parent's handbook. An aging report in ICare, the new billing and scheduling software, has been identified that will replace the previous report used in the previous billing software.
- Timeliness of Deposits - Checks are now restrictively endorsed immediately upon receipt and deposited according to University policy. Cash-handling training has been completed for front desk personnel.
- Gross Pay Register and Statement of Activity Review - These reports are now reviewed by the Education Coordinator following the Business Manager's reconciliation.
- Customer Payment Receipts - Receipts are now consistently issued for check payments.
- Documenting Hosting Events - Hosting events are clearly coded and hosting forms are consistently used.
- Voucher Review - P-Card expenses and travel reimbursements have complete supporting documentation.
- Privacy of Employee Records - A locking cabinet was repurposed to store sensitive documentation.
- Double-Time Policy - The Center's double time policy was formally documented and approved by management from both the ECCEC and the School of Education. Student staff employees are consistently paid according to the policy's guidelines.
- IT Security - Network passwords are no longer shared between front desk staff. Computer locks were installed on computers in office areas accessible to non-UM employees, and screensaver password protection was enabled on all computers.

The original report offered suggestions for improvement to both the Office of Development and Alumni Relations (Flint Development) and University Outreach (Outreach). University Audits recently completed a follow-up review to determine if adequate controls have been implemented to address risks identified during the audit.

Outreach

Since the audit, there have been changes in leadership within Outreach. Flint Campus Administration has asked for an organizational audit of the unit. This review will result in recommendations for best practices related to Outreach's mission, including the continuation of the unit in its current organizational structure. Based on this information, University Audits is not performing additional follow-up of Outreach at this time.

Flint Development

The Executive Director was appointed at Flint in September 2009. Flint Development 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.**

- **Relationship with University Development** - There has been a renewed effort on the part of Flint Development to work more closely with the Office of University Development (OUD) in utilizing the resources at the Ann Arbor campus.
 - The OUD prospect management team is conducting an extensive portfolio review for all Flint Development major gift officers.
 - The Business Engagement Center liaison is working closely with the Flint Development Corporate and Foundation Relations officer to shape a more consolidated and coordinated strategy for corporate relations on the Flint Campus.
 - The University Annual Giving staff is working closely with Flint Development's Annual Giving Officer in the execution of the 2009-10 annual giving campaign.
 - The University of Michigan Alumni Association staff is working with the Flint Development alumni relations team to explore synergies in local and national strategies.
 - Three of the four major gift officers have attended the Philanthropy Academy this year.
 - Flint Development staff members attend the monthly Development Council meetings.
 - The Executive Director is participating in the Program Managers meetings.

- **Performance Standards** - Performance standards for the major gift officers have significantly improved. The Executive Director and his team documented a thorough strategic plan for the office as a whole with defined objectives that include specific tasks for accomplishing the objectives and target dates for completion. As part of this plan, expectations for the major gift officers have been clarified, documented, and communicated. A formal progress tracking report template was created to review expectations and accomplishments with major gift officers on a quarterly basis.

A new Flexible Scheduling Policy was implemented and documented to better manage flexible schedules and ensure the office is adequately staffed during regular business hours of operation.

- Donor Concerns - A policy for addressing and managing concerns from donors is now documented. The policy is accessible to all Flint Development staff via a shared drive and includes:
 - Who is responsible for responding to donor concerns
 - Requirement that all concerns be reported to the Executive Director in writing
 - Expectation that learning opportunities will be shared at staff meetings and documented in meeting minutes

- Prospect Management - To ensure the Prospect Management System within the University central development system (DAC) is consistently utilized:
 - UM-Flint major gift officers meet biweekly; a regular agenda item for these meetings is an update on prospect visits and the respective reports.
 - Major gift officers meet individually with the Executive Director biweekly to discuss progress with their prospect list.
 - Individual prospect lists were replaced with a Master Assignment Report maintained by the Development Services Manager.
 - The Master Assignment Report was compiled using prospect management queries from DAC and includes all prospects managed by Flint staff.
 - Prospect managers must submit a Prospect Management Change of Assignment Request to update the database. All requests are approved by the Executive Director.
 - The Development Services Manager requests a DAC update for all changes through OUD Development Services and confirms all information is updated accurately before making the change on the Master Assignment Report.
 - The Master Assignment Report is reconciled to DAC quarterly.

Flint Development should continue to assess the need for the supplemental Master Assignment Report and whether or not the University's systems could be used instead to ensure processes are as efficient as possible.

- Coordination with Schools - To improve the coordination and communication with the schools on the Flint campus, one of the Flint Development's strategic goals as a unit is to "Brand the Office with Internal Constituencies." Strategies for achieving this goal include:
 - The Executive Director and major gift officers meeting with deans regularly to provide information about Flint Development's accomplishments and incorporate the dean's ideas into future fundraising plans relative to their schools.
 - Holding staff meetings around campus and inviting departments to provide presentations to the group.
 - Updating their website with pictures of staff members and more detailed descriptions of responsibilities.
 - Sending a quarterly electronic newsletter to faculty and staff.
 - Reporting information about the development program to the faculty and staff on an annual basis.

- Cash Handling - Cash handling controls for processing gifts received by Flint Development have been strengthened. Gift processing responsibilities are divided among staff to separate receiving gifts, processing gifts, and reconciling gifts. Checks are restrictively endorsed "for deposit only" when received. The Treasurer's Office granted an exception to the University's daily deposit requirement. For cost effectiveness, Flint Development gifts are delivered by University courier

three times per week. On days when deposits are not made, gifts are secured in a safe. Cash handling procedures are now documented.

- Collecting/Writing Off Pledges - Flint Development established and documented a formal process for sending pledge reminders and writing off pledges. Printed pledge reminders for the Flint campus are received and logged into the Pledge Reminder Database each month by Development Services. The Pledge Reminder Database is stored on the departmental shared drive and includes the following information: date reminder is received, name, fund, current amount due, action taken, and notes. For each pledge reminder, a representative from Development Services works with the appropriate prospect manager(s) of the donor to determine an appropriate action for the reminder. This action is documented in the Pledge Reminder Database. If a printed pledge reminder is not mailed or distributed to a donor, the reminder is kept on file.

The procedure for writing-off pledges includes guidelines for when a pledge will be removed from the DAC system, rules about who has decision-making authority for writing off pledges, and steps for removing pledges from the DAC system.

- Documented Procedures - Flint Development updated and expanded their procedures manual. The manual is available on a shared drive accessible by all staff. Among others, the manual includes the following:
 - Procurement processes
 - Annual performance review and goal setting procedures
 - References to relevant SPGs

Other updates to the procedures manual are referenced throughout this memo. The procedures manual will continue to be updated and expanded.

- Budget Monitoring - The process for monitoring budgets has improved. Flint Development now uses reports generated from the University's systems to create and monitor budgets. The Office Manager provides the Executive Director with a monthly detailed budget status report. The Flint Chief Financial Officer on campus conducts a quarterly review of Flint Development's budget. Procedures for establishing and monitoring budgets are now documented. The Executive Director plans to expand the procedures to include a threshold for material variances as well as a process for conducting and documenting follow-up on these variances. Major gift officers no longer have individual budgets; their expenses are monitored through preauthorization from the Executive Director.
- Business Continuity Plan - Flint Development now has a documented business continuity plan. The plan includes specific individuals that are responsible for the various functions and covers the key operations of the office.
- Separation of Duties - Due to staff size, Flint Development is not able to completely separate procurement transactions. Some controls noted by the Executive Director include:
 - All procurement transactions above \$5,000 are processed by the Central Flint Procurement Office. All transactions under \$5,000 are initiated by the Office Manager, signed off by the Executive Director, and processed by the Central Flint Procurement Office.

- Mobile devices are ordered by the Office Manager and the requisitions are managed by the Central Flint Procurement Office. The Executive Director provides final approval for vendor contracts.
- The Executive Director will compare totals on the statement of activity reconciled by the Office Manager to totals from the same report obtained directly from the University's system. This will reduce the existing risk of the Office Manager having system access authority to control a purchase under \$5000 from start to finish.

Information Technology Central Services Follow-up Review

2009-838

Original Report issued December 2, 2009

Follow-up report issued June 30, 2010

A follow-up review was conducted to determine management's progress toward strengthening internal controls examined during the audit. Management has taken corrective action on some audit recommendations and made significant progress on others as outlined below.

Information and Technology Services (ITS) is making substantial progress in addressing the audit items during a period of significant transition. University Audits will follow-up again in the second quarter of fiscal year 2011.

- Impact of ITS Merger - In mid-2009, ITCS combined with Information Technology Security Services and Michigan Administrative Information Services to form a new IT service provider, ITS. To accomplish its service goals, ITS began a challenging and lengthy reorganization process that is still not complete.

For the former ITCS organization, the merger has resulted in:

- Transfer of products and services that comprised the U-M Computing Environment to other teams such as Shared Services and Infrastructure Services
- Transfer of User Services units to ITS Administration and Process and Service Management
- Incorporation of ITCS administrative units such as Human Resources into similar areas within ITS Administration
- Assignment of cross-functional processes to new owners

These changes provide opportunities for process improvement. In some cases, however, they have slowed management's implementation of corrective action in response to the audit findings.

Status of Audit Items

- Inventory Management - Computer Showcase - Substantial progress has been made on the action plans. Security improvements are being made to the Retail Management System. ITS is moving from a "store managers" model to a functional model consisting of a retail/marketing/product manager and a business operations manager, which will help ensure consistent adoption of best business practice in both store locations. The new target date is 8/31/10.
- Inventory Management - ITCOM Business Services
Inventory Management - ITCOM Telecom Operations
Management is working to address the audit recommendations, but a detailed update was unavailable. University Audits will inquire further at the next scheduled follow-up.

- Inventory Management - Campus Computing Sites - New procedures have been documented and agreed to by Campus Computing Sites (Sites) and U-M Property Disposition. A Sites staff member independent of the purchase and movement of equipment will confirm directly with Property Disposition that all declared items were delivered, reconciling against signed Declaration of Surplus forms. Records documenting this reconciliation will be retained for at least one year. **This issue is closed.**
- Inventory Management - Software Licensing Campus-Wide - ITS confirmed they have implemented cell locking and password protection. University Audits will verify the changes' effectiveness during the next scheduled follow-up.

ITS has determined they will convert the License Tracking System (LTS) to a separate Software Licensing & Distribution "store" within the Retail Management System (RMS). Staff with the necessary skills have been brought onboard, and the consultant who originally set up RMS has indicated a quick cut-over is possible, speeding conversion. The new target date for migration is October 31, 2010.

- ITCS Recharge Rates - ITS service models are still being determined through a consulting engagement. The choice of funding and service model will heavily influence the calculation and use of recharge rates. In addition, ITS is working to develop an effective costing model with appropriate review by Financial Analysis. To accomplish this, ITS Finance is looking to acquire a more sophisticated costing tool (software). When the consulting engagement concludes at end of summer, University leadership will make service model decisions that will permit costing strategies and recharge rates to be developed further. The target date for implementation of a funding and service model is December 31, 2010. The target date for reviewing and updating recharge rates remains April 1, 2011.
- Computer Showcase Billing - The consultant engaged to assist with the conversion of LTS to RMS is also working on data flow from RMS to other systems. Management estimates the replacement of the manual payroll deduction process is 80% complete. The Service Unit Billing upload process has been updated. Changes to student account billing are still in process. The new target date is July 31, 2010.
- ITCS Service Unit Procedures
ITCom Business Continuity
UMCE Business Continuity
 Disaster recovery and business continuity (DR/BC) planning remains a very high priority for ITS. Leadership has recognized the need for a central point to manage DR/BC planning. Therefore, responsibility for DR/BC has been assigned to Information and Infrastructure Assurance (IIA). A position has been posted internally for a DR/BC manager, and IIA is still working to fill that position. IIA's goal is to implement BC plans in late fiscal year 2011. A more precise target date will become available once a DR/BC manager is hired.
- Financial Reports, Reconciliation Process, Key Performance Indicators - ITS Finance has improved managers' access to financial reports by developing a report repository in SharePoint. This site, activated January 1, provides each manager's Statement of Activity (SOA) detail for the last twelve months, updated each month from BusinessObjects. It also provides budget-to-actual and year-end forecast reports. The information is better organized than before. The new arrangement allows ITS Finance to keep a closer eye on higher-risk units, such as those that generate revenue.

Finance is still working to train managers to review financial reports on a regular basis. This training is part of management's fiscal year 2011 plan. The SharePoint site will help them gauge the frequency of manager review. Legacy reporting terminates July 1, which will help ensure that managers use the new site.

ITS Finance is also meeting with Real Time Financials leadership to determine how ITS can use M-Reports more extensively and be a model for M-Reports and eReconciliation use.

Management is implementing a two-tier process for improved reconciliation. The first tier, which has already been implemented, is the establishment of four business coordinators, each responsible for a different ITS area's budgets, forecast, and monthly SOA detail review. The second tier, which is still in progress, is reviewing a sample of transactions and statements, reconciling where necessary. The sampling methodology is still being developed. ITS Finance expects the first sample to be ready for analysis by July 31, 2010.

- 4-Help and Accounts Office Key Performance Indicators (KPIs) - ITS has consolidated the MAIS and ITCS (4-Help) help desks, as well as ITCS Accounts Office and MAIS Access Services. Management indicates that 4-Help and Accounts Office have implemented some KPIs measuring customer service index activities and are reviewing them on a monthly basis. Management estimates that implementation of KPIs is approximately 80% complete in 4-Help and approximately 60% complete in Accounts Office. Management expects to roll out the remaining KPIs by the end of fiscal year 2011. University Audits will verify progress at the next scheduled follow-up.
- Telecommuting and Flex Schedules - ITS Human Resources provided documented procedures for flex scheduling. Management is still reviewing the ITCS and MAIS telecommuting policies to determine the appropriate direction for ITS.
- Related Employees - Management drafts a Nepotism Letter for a new ITS employee who is related to or has a close relationship with another ITS employee in the same management chain. The Nepotism Letter has been reworked to better reflect the Management Plan terms required under Standard Practice Guide Section 201.23. ITS Human Resources will provide University Audits with examples of the old Nepotism Letter, the new Management Plan, and the Conflict of Interest statement. University Audits will review these documents as part of the next scheduled follow-up.
- Employee Terminations - Starting in July, a FootPrints ticket queue will be used to ensure timely elimination of terminated employee access. For each termination, a ticket will be routed to the various ITS groups responsible for revoking privileges – Access Services, Desktop, and Facilities.
- Procurement - Management indicates that twenty percent of products ordered are received at the ITCom dock at Arbor Lakes. New procedures improve documentation of the distribution of these goods. Dock personnel notify the purchaser of the delivery so the purchaser can notify the orderer. The orderer signs the packing slip when picking up the shipment. Purchasing retains and files the packing slip with the order form or PO.

ITS has begun using Concur to reconcile P-Card charges. P-Card holders must select in Concur an authorized person to approve their purchases. Efforts to produce a list of individuals

authorized to approve expenses, to ensure that approvals are appropriate, are ongoing. The new target date is July 1, 2010.

ITS now bases its P-Card master file on the *BusinessObjects* report of P-Card holders and their privileges. A manager has been assigned the responsibility of reviewing and updating the file on a quarterly basis.

University Audits will verify the new processes during the next scheduled follow-up.

**Open Audits Follow-up Table
June 30, 2010**

Audit Title	Report Date	Issues	Expected Completion
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	First Follow-up June 2010
			December 2010
Wire and ACH Transfer Process 2009-112	1/06/10	Security of sensitive vendor data; compliance with OFAC; strategic vendor payment processing; unallocated fund management; authorized user list; transaction limits; wire transfer policy	July 2010
University of Michigan Video Surveillance Systems 2009-311	4/14/10	Network connectivity; unnecessary ports, services, and shares; video quality; video handling; video storage; process documentation; cross-training	September 2010
Dearborn Office of Cashiers/Student Accounts TouchNet 2010-303	6/3/10	Application hosting; application vulnerabilities; change control; user roles	November 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
			September 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	August 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
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	August 2010
University of Michigan Medical School Internal Medicine, Division of Hematology/Oncology Southwest Oncology Group Review 2010-501	11/25/10	Retroactive grant adjustments; detailed financial reconciliations; late submission of timesheets; up-to-date effort certifications	August 2010

University of Michigan Medical School Michigan Institute for Clinical Research and Health Research Grant Management 2009-106	11/30/09	Non-certified effort reporting; grant adjustments; Veterans Administration Hospital appointments; expense classification; compliance with P- card Guidelines; business continuity plans	August 2010
U-M Hospitals and Health Centers OmniceII Pharmaceutical Distribution System 2010-305	6/16/10	User access; discrepancy reporting and escalation; patient charges; Controlled substance procedures	December 2010
William L. Clements Library 2008-212	1/26/09	Grant compliance; endowment agreements; collection management; insurance coverage; physical safety and security; reconciliations; recharge rates	July 2010
University Press Inventory and Receivables 2008-203	1/30/09	Accounts receivable; inventory (U-Press continues to implement internal controls in many areas, including those noted in the audit report)	October 2010
Chemical Biology Doctoral Program Interdepartmental Degree Program 2009-812	6/30/09	Program reporting and oversight; compliance with procurement and hosting guidelines; effort certification; record retention; service level agreement; conflict of interest and conflict of commitment (Follow-up review will be conducted after the new chair is named)	July 2010
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	July 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	July 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	July 2010
School of Art & Design 2009-201	12/08/09	International programs; supplemental system; statement of activities reconciliation; P-cards; payroll; cash handling	First Follow-up June 2010
			December 2010
International Programs Student Safety Preparedness 2009-111	3/15/10	Coordination of effort; International Travel Oversight Committee travel registry; health insurance; oversight for student-designed programs; individual program evaluations	December 2010
University of Michigan Dearborn School of Education 2010-205	4/26/10	Agreements with external entities; IT risk assessment; documentation for purchase exceptions; conflict of interest contact information	September 2010
Matthaei Botanical Gardens and Nichols Arboretum 2010-202	4/29/10	Safety and security; cash handling; procurement; inventory; community programs;	December 2010
Office of University Development Life Income Gifts Program 2010-806	6/11/10	Unit roles, sharing information, procedural efficiencies, and system opportunities	March 2011
School of Social Work 2010-813	6/18/10	Stewardship of gift funds, segregation of duties, signature authority, policies/procedures, inventory management, relationships with central service units, supplemental systems	February 2011
University of Michigan Center for Statistical Consultation and Research (CSCAR) 2010-809	6/23/10	Recharge rates and workshop fees, segregation of duties, reconciliations, supplemental systems, policies/procedures	March 2011
Center for AfroAmerican and African Studies 2010-820	6/25/10	Significant oversight and other control activities need to be implemented into many processes	December 2010