

UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

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Item for Information

Subject: Report of University Internal Audits  
**July 2008 – September 2008**

Background:

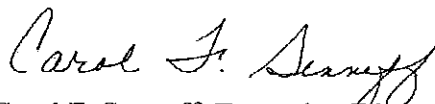
This is the report of the Office of University Audits activities for the period **July 1, 2008 through September 30, 2008**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **September 30, 2008**.

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

Respectfully submitted,



Carol F. Senneff, Executive Director  
University Audits

## **ORIGINAL REPORTS**

### **Campus**

#### **Physical Security at Harlan Hatcher Graduate Library**

#2008-303

Issued September 2, 2008

Situated in the middle of central campus on the “Diag,” the Harlan Hatcher Graduate Library is the largest of twenty libraries in the University Library System. It houses the University of Michigan's primary research collection for the humanities and social sciences, the Papyrus collection, and the University's Special Collections unit.

North Hatcher was designed by renowned architect Albert Kahn, and completed in 1920. In 1970, an eight story addition, South Hatcher, was constructed. This was the first high rise building constructed on campus. In 1971, the entire facility was named the Harlan Hatcher Graduate Library, after the University's ninth president.

The Graduate Library houses a staff of approximately 95 full-time employees; contains roughly 227,000 square feet of usable space; circulates over half a million books a year; and responds to more than 50,000 reference requests a year.

The Graduate Library collection numbers greater than 3.5 million volumes including 10,000 journals and periodical subscriptions written in several hundred languages. The Papyrus collection is the largest in the Western Hemisphere. Special Collections is home to a number of invaluable volumes including Audubon's *Birds of America*, the Library's first purchase, acquired in 1838. In addition, Library patrons have access to over 20,000 online journals and newspapers and over 500 licensed online databases.

The purpose of this audit was to assess safety and physical security at the Hatcher Graduate Library. While the Hatcher Library is physically connected to the Shapiro Undergraduate Library, no Shapiro processes or systems directly affect Hatcher.

This audit examined:

- Access to sensitive areas
- Security alarm systems
- Fire protection, detection, and suppression systems
- Security of sensitive items
- Security at entrances and exits

Control Issues:

#### **Emergency Exits**

- **Emergency Exit Obstructions** – For emergency exits to be effective, it is imperative that they are well marked and easily accessible. During the review, it was noted that items being stored in exit paths obstructed access to some emergency exits.

**Management Plan** - The Library agrees with this issue and continues to monitor obstructions and work with staff to remove obstructions as they are noticed or defined. E-mails will be sent to all staff instructing them to ensure exits remain clear of obstructions. Senior staff will also be instructed to deliver periodic reminders to their staff about obstructions. As our collections grow, this continues to be a problem but it will be monitored and addressed.

- Emergency Exit Alarms - The emergency exit doors at Hatcher are all set to alarm when opened. The alarms sound as soon as the door is opened and stop once the door is closed. These alarms report audibly. All emergency exit door alarms were tested on March 28, 2008. All but the door in the south center stairwell performed as expected.

**Management Plan** - All alarms are now operational and will be tested twice a year to ensure their operational state.

*Auditor Comment:* The alarm in the south center stairwell was repaired during the audit. University Audits has verified that it is now functioning properly. **No further action is required on this item.**

### *Alarms and Monitoring Systems*

- Access to Sensitive Areas - The eighth floor of Hatcher South houses the Papyrology vault and room, the Map room, and the Library's Administrative Offices. There is a single point of entrance to everything on the eighth floor from the elevator lobby. During off hours, this door is locked but not alarmed. Only the fire exits and the Papyrology vault entrance are alarmed on this floor.

**Management Plan** - There is significant traffic on the eighth floor after hours. All of the areas on the eighth floor, the Map Library, Papyrology, and the Administrative Offices, experience staff and escorted traffic during the evening and on weekends. Alarms may be easy to install but the operational protocol would have to be understood, internal to and external of the Library, to reduce the number of false alarms sent to the monitoring location. We are currently discussing the feasibility of installing an eighth floor electronic access card reader for after hour access with Facilities. The possibility of adding an alarm will be included in these talks.

*Auditor Comment:* The installation of a card access system would be an acceptable alternative to a contact alarm at the eighth floor entrance.

- Papyrology Area - The papyrus collection is housed within an environmentally controlled, alarmed vault. The vault is built to be a room within a room. However, the books and equipment used to study the papyrus are kept outside the vault in the Papyrology room. A number of computers, desks, study tables, and bookshelves occupy this area. Papyrology staff uses this area as their office as well as research space. The room also occasionally houses classes. This room is locked when staff are not present. Access is restricted to Special Collections staff and Papyrology staff. There are no alarms aside from the one protecting the vault. An alarm on the entrance to the Papyrology room would reduce the risk of theft of valuable equipment and materials.

**Management Plan** - This is a normal collection area; the exposed material is no more or less valuable than any other part of the browsing collection. It can be argued that the addition of the locked door further protects this collection. As Papyrology is housed on the eighth floor, this collection would potentially benefit from the results of the electronic access study. We are willing to accept the risk of not having the Papyrology door alarmed.

*Auditor Comment:* The electronic access study is addressing the installation of card keys in secure areas. The installation of such a card access system would be an acceptable alternative to a contact alarm on the Papyrology door.

- Security Cameras - The Hatcher Graduate Library is home to a number of valuable University properties. There has been little reported theft of Library property from Hatcher Library in recent history. However, the nature of the facility creates potential for theft of Library property. Although the Library is well marked with signs stating that students are responsible for their own property, the high volume of traffic creates a significant possibility of theft of student property. Such thefts are a much more common occurrence than thefts of Library property. There are a number of unmonitored exits throughout the

Library that provide an easy escape for a potential thief. While many of these exits are alarmed, the alarms go largely unnoticed.

Motion sensitive cameras should be installed in a number of locations on both sides of the Hatcher Library. Locations identified are as follows:

#### Hatcher South

- Fire exit in room 1S22
- Fire exit in room 1S23
- Fire exit in room 1S21
- First floor vestibule (1F21 and 1F22)

#### Hatcher North

- Fire exit in room MBS11A
- Fire exit in room BS12
- First floor vestibule 1F01 (may require multiple cameras)
- Side entrance and fire exit 1F02 (East side of building)

University Audits recommends cameras be mounted inside the building to avoid excessive false positives and inadvertent monitoring of the "Diag." Cameras should be pointed at the door and monitor only traffic coming and going through the door. The video monitoring system can be set to store video fifteen seconds before, and fifteen seconds after motion is detected to eliminate the need for high capacity video storage devices. Stored video need not be kept for an extended period. Cameras monitoring commonly used exits could be turned off during normal business hours. Signage should be posted stating that the cameras are only in use after hours. Cameras monitoring exits not used during normal operation should be monitored twenty-four hours a day, seven days a week.

**Management Plan** - We are very interested in actively participating in the discussion regarding the installation of cameras. The listed inventory of doors needs further review. We will be working with U-M Facilities for operational review and with the Provost's Office for funding support. This item will undergo further review and management discussion before a definite decision is made on how to address this problem.

#### *Fire Safety*

- **Fire Inspection Reports** - The most recent fire inspections of the Hatcher Library were completed on September 11, 2002, for the North building and October 10, 2006, for the South building. University Audits has reviewed these reports. A number of the reports' findings have not been addressed. The Fire Inspection Office reported that there was no response to the reports from Hatcher management on file. A new inspection of both North and South Hatcher was scheduled to be performed on August 1, 2008.

**Management Plan** - The Library Facilities and Operations Manager will work with both the Fire Marshall's staff and Library staff to address any concerns noted in the August 1, 2008 inspection. We will contact the Facilities Business Manager to open discussions about funding projects that arise from the inspection.

#### *Safety of Patrons and Staff*

- **Secluded Areas** - The layout of the Hatcher Library creates a number of areas that are secluded from regular Library traffic. Particularly secluded are the elevator lobbies in the stacks. While having these lobbies isolated from the stacks and study areas helps maintain a quiet environment, it could also create an unsafe condition for someone using the elevators.

**Management Plan** - The Library has approved the installation of phones in each of these areas. This work is currently underway.

- Padding in Stacks - Because of the structure of the building, there are a number of places in the North Hatcher stacks with very low ceilings and pipes running along these ceilings. This combination creates safety hazards where staff and patrons may hit their heads. Many of these hazards are padded to protect people, but some are not, and some of the padding is in poor repair. An extensive review of the padding in the North Stacks should be performed. Areas with inadequate or damaged padding should be noted. Padding should be added and replaced as necessary.

**Management Plan** - We agree with this assessment. Work is currently underway to improve padding throughout the stacks areas.

### *Storage*

- Stacks Crowding - Book trucks are used in the Library to move books between locations, and to assist staff during restacking. Step stools and ladders are provided for patrons to be able to reach the books they need. These items are found throughout the stacks. In various locations multiple trucks, stools, or ladders are crowded together creating an obstruction. Some of the aisles are narrow enough that one truck, stool, or ladder by itself can create an obstruction. Obstructed paths could slow, or prevent, timely exit in the event of an emergency.

**Management Plan** - There are a number of locations on each floor designated for storage of book trucks, stools, etc. As the public uses stools and ladders, this equipment tends to be stored where it was used last. The Director of Onsite Access Services and Distributed Libraries will make contact with staff to remind them to check aisle ways in the stacks for obstructions during the normal course of their days. Continued, but not dedicated, monitoring addresses these obstructions when they occur and when they are discovered. This will remain an ongoing issue as users will leave the equipment where it was used.

- Special Collections Crowding - Special Collections occupies the seventh floor of South Hatcher. The collection is so large that space is at a premium. Boxes are stacked along walls, and sometimes in aisle ways. The poor storage of these materials creates concern not only for the materials, but also for the safety of staff in this area. The crowding in Special Collections could impede or prevent the progress of an emergency responder.

Management needs to review the items kept in the Special Collections areas. Items that can reasonably be removed from the collection and stored elsewhere should be identified and relocated. Special Collections personnel should develop a policy regarding the storage, examine the use of current space, and identify future storage options.

**Management Plan** - We agree with this assessment and are actively looking for ways to alleviate this concern. We are currently reviewing additional opportunities within Hatcher, the Buhr storage facility, and Clements Library. In addition, we are working with Special Collection staff to address aisles, doors, and walkways, working to maintain an obstruction-free work zone. Library management will draft storage guidelines and distribute them amongst Special Collections staff. Again, as our collection continues to increase in size and complexity, this will remain an ongoing issue.

- Loading Dock Storage - Storage space at Hatcher is at a premium. Staff use areas such as hallways as storage areas. The hallways around the loading dock are a prime example of this. Each time University Audits was at the Library, it was noted that boxes and furniture items were being stored in the hallway. There are a number of storage areas in the basement of the Hatcher Library that could be used to alleviate the storage problem. However, much of this space is utilized poorly.

**Management Plan** - The Library Facilities Office is actively working to clean up this area. Library Administration has informed various owners of the items that the hallways are not storage areas. Progress to date, while not complete, has been remarkable. Library management will send a memo to senior

Library staff reminding them that the hallway is not to be used as a storage area, and to remind them of the appropriate process for having items removed from their area. Monitoring and clearing remains an ongoing project.

### *Deferred Maintenance*

- **Exit Sign Locations** - The stacks in Hatcher can be a confusing place to navigate, particularly the stacks in the North building. A number of areas have no signage, and exits are not clearly identified. Signage is necessary to reduce the risk of harm to patrons and staff in the event of an emergency.

A review of exit signage in the stacks areas needs to be performed. Signage should be added as appropriate. Hatcher staff should contact the Facilities Business Manager to coordinate efforts with Facilities.

**Management Plan** - As a General Fund building, this finding will be passed on to funding and building authorities for their review and response; these parties include U-M Facilities and the Provost's Office. We will coordinate efforts with the Fire Marshall to identify areas in need of improved exit signage.

- **Fire Panel Communications** - The Hatcher Graduate Library is protected by three fire panels. One monitors the systems in the North building, one monitors the South building, and the third is tied to U-M Facilities systems in the basement and tunnels beneath the Library. None of these panels currently communicates with the others. That means a fire in North Hatcher would not alarm in South Hatcher, and vice versa, potentially endangering patrons on the opposite side of the facility. Someone triggering a pull station on the non-alarmed side of the facility currently handles notification manually. Problems that originate in the basement would likewise not alert anyone on the floors above, potentially endangering them as well.

**Management Plan** - This is a known and documented issue; this has been presented to and currently resides with U-M Facilities. We will share the results of this audit with them to underscore its findings.

- **Walkway Doors** - There is an elevated walkway between the Hatcher Graduate Library and the Shapiro Undergraduate Library. Employees use the doors on each end of this walkway to seal off one building from the other in event of a fire or other emergency. The doors on the Shapiro side are connected to the fire alarm system. In the event of an alarm, they close automatically. The doors on the Hatcher side were designed to operate in this manner, but they are not equipped with the hardware necessary to perform this function. Currently, someone has to close these doors manually in the event of an alarm.

The doors in Hatcher should be fitted with the necessary hardware, and tied into the alarm system, so that they are capable of automatically closing in the event of an alarm. Hatcher staff should contact the Facilities Business Manager to coordinate efforts with Facilities.

**Management Plan** - It is the desire of Library management that a working, unified system be installed but it is outside the control of the Library as to when or if this should occur. As this is an infrastructure issue, we will work with U-M Facilities to address this concern.

- **Public Address Systems** - Hatcher Library is equipped with a public address system to notify patrons of routine closings and emergency situations. When South Hatcher was constructed, the system was extended to work in both facilities from the single point in the North building. This worked well for quite a few years. About four years ago, announcements from the North building inexplicably stopped being audible in the South building. Announcements must now be made from both locations. There are also areas that either lack speakers (i.e., bathrooms, stairwells) or have an insufficient number to clearly deliver a message. This situation creates concern for the ability of Library staff to broadcast a message to all Library patrons in a timely manner in the event of an emergency.

**Management Plan** - This known, documented issue awaits general funding. We will work with U-M Facilities and the Provost to resolve this issue.

### ***Procedures***

- Procedural Documentation - Documented procedures help ensure employees perform their duties consistently and effectively. Accurate documentation also assists new employees in learning their jobs, and provides experienced employees a check to ensure they continue to perform duties correctly. Safety and security items that are in need of procedural documentation include:
  - Response to fire alarms
  - Response to alarms at entrances and exits
  - Evacuation procedures
  - Response to a reported theft

**Management Plan** - Operational procedures currently exist in training manuals for new staff. These procedures will be compiled into a procedural manual for staff to reference as necessary. A review of these procedures will be performed. Procedures will be created and updated as necessary to ensure the manual is complete.

University Audits found the basic alarm system in place to protect sensitive materials provides a good basis for security. Management should make corrections to, and expand upon, this system to improve protection of the Library as a whole, and the valuable collections housed within. With careful planning this protection can be added while preserving the privacy of staff and patrons.

The multiple fire panels controlling the fire protection systems require correction. These panels do not communicate, which creates a significant safety risk. The public address system also has communication problems. Its inability to broadcast a message to the entire facility from a single point increases the safety risks at Hatcher.

University Audits would like to note the well-controlled environment within the Papyrology storage vault. Access to this area is appropriately restricted. Access alarms are in place and functioning. Environmental controls and alarms are well calibrated and functioned exactly as expected in our tests.

University Audits will perform a formal follow-up to the outstanding issues during the third quarter of fiscal year 2009.

**University of Michigan – Flint Chancellor’s Office**  
Issued September 30, 2008

#2008-205

The University of Michigan-Flint (UM-F) was originally founded as a two-year senior college in 1956. In 1964, the Regents approved the proposal to expand the college to a four-year institution. As such, UM-F received accreditation in 1970 and its first chancellor was appointed the following year.

Since that time, the campus has grown to include four schools and colleges, twelve graduate programs, and one doctoral program. Currently, UM-F is in the process of transitioning from a commuter campus to a residential one. In addition, the campus is experiencing a change in leadership as a new Chancellor’s appointment began on August 18, 2008. In preparation for this change in leadership, the Interim Chancellor requested an audit of the department’s fiscal control environment.

### ***PURPOSE AND SCOPE***

University Audits examined the following processes to evaluate the adequacy and effectiveness of the internal controls governing the Chancellor’s Office:

- Documentation of departmental policies and procedures

- Payroll and special compensation
- Purchasing
- Academic administrative searches
- Financial reporting and monitoring
- Disbursement and authorization of discretionary funds
- Delegated authority
- Conflict of interest policy and procedure
- Information system security

Opportunities to strengthen the internal control environment were shared in detail with the Chancellor and key staff. The following are key areas that must be addressed to improve existing weaknesses in policy or practices. Implementation of recommended controls will support the Chancellor in creating the necessary environment for achieving her goals and objectives.

### Unit Administration

- **All roles and responsibilities** must be clearly defined, or redefined, and documented in writing. Written job descriptions should be used to hold staff accountable for performance expectations and ensure University time and resources are used efficiently and effectively. This analysis of job duties might also assist in more evenly distributing workload among staff.
- **Central services** expertise should be utilized where appropriate. For example, in the past, event planning for the UM-F Chancellor has been handled largely by the Chancellor's staff; however, these duties could be shared with the Development Office as is the standard practice on the Ann Arbor and Dearborn campuses.
- Management should develop a manual of documented office **policies and procedures** and train staff accordingly. The manual should reference University policy as stated in the Standard Practice Guide (SPG) where appropriate and clearly define departmental policy when it is more restrictive than the SPG. Adequate **segregation of duties** should be defined and documented in department procedures particularly related to inventory tracking, P-Card reconciliation, and event purchasing. At a minimum, the manual should address:
  - Discretionary fund requests and authorizations
  - Payroll and time reporting practices
  - Purchasing procedures including travel and hosting limits and authorization
  - Cash handling policies
  - Delegation of authority
  - Reconciliation and segregation of duties
- Existing relationships and transactions that create potential or real **conflicts of interest or commitment** must be adequately disclosed, evaluated, and managed consistent with Standard Practice Guide section 201.65-1. The Executive Assistant has received training on the Conflict of Interest Policy that was recently implemented campus-wide. This training should be formally rolled out to the Chancellor's staff. Signed certifications should be obtained and management plans should be developed for any disclosures made.
- Consistent **employment procedures** should be implemented by the Chancellor's Office, including use of standard pay methodology, regular evaluation of workers, and utilization of performance improvement plans as needed. Measures must be implemented to better monitor and restrict transactions that could result in employees receiving a personal benefit from University transactions they initiate. Examples include excessive mileage or inappropriate overtime.



- Collaboration and communication must continue between the Chancellor's Office and the office of **Financial Services and Budget** regarding the internal control environment, financial transactions, and strategies needed to support the Chancellor. The Financial Analyst from Financial Services and Budget assigned to work with the Chancellor's Office should be sufficiently empowered to take steps needed to ensure propriety of financial transactions and enforce internal control standards.
- A comprehensive **disaster recovery/business continuity plan** for the Office of the Chancellor must be developed. Existing campus continuity plans, including an extensive information technology continuity plan, do not address operational concerns unique to the Chancellor's Office such as chain-of-command and delegation of authority. The Chancellor's staff should work with other key administrators on both the Flint and Ann Arbor campuses on this effort.
- The Chancellor's Office maintains an **addresses database** for various non-UM-F contacts. Management should consider working with the Development staff to maintain this data in the OUD (Office of University Development information system). Working with the OUD, the addresses will be updated on a regular basis, security issues will be addressed, and simple querying will allow the Chancellor's Office to retrieve contacts for varying needs. If the existing address database is retained, training, security, and maintenance issues must be resolved.

### **Fiscal Responsibilities**

- **Reconciliations** of P-Card statements and Statements of Activity (SOA) should be complete and performed timely with thorough investigation of any anomalies. Appropriate supporting documentation should be retained and evidence of review including initials/date, reference to journal entry numbers, etc. should be documented. Expenses, particularly P-Card statements, should be reviewed with particular attention to purchasing trends and habits and not in isolation. Gross Pay Registers should be reconciled to time reports to ensure that time is being correctly entered. Individuals responsible for reconciling should attend training conducted by Financial Services and Budget. Appropriate coaching about how and when to escalate obstacles for assistance should also occur.
- If the **event planning** duties are to remain with the Chancellor's staff, the individual responsible must start documenting budgets and menus, estimating supply costs, tracking an ongoing inventory of event supplies, and reporting significant variances in budget-to-actual expenditures. Hosting meal limits should be observed or explained in an exception memo.
- Thorough **documentation** must be maintained for all travel and hosting, recruiting, community outreach, and other regular expenditures to support the development of meaningful budgets and comprehensive financial analysis. Original receipts, proper authorization, and a clear business purpose for expenditures must be documented. Management should periodically audit summary financial analysis to ensure that purchases are warranted and that expenditures reflect an appropriate and efficient use of University resources.
- **Cash** must be deposited on the date of collection in accordance with SPG section 519.03. Cash handling duties should be segregated appropriately so that the employee that receives the cash is not the same one that deposits it.
- Staff should be retrained on proper University and departmental **time reporting** requirements. Payroll activity, including overtime pay and temporary employment, must be processed in a manner consistent with University guidelines. Overtime should be pre-authorized whenever possible. Individuals authorizing time reports must have direct knowledge of the employee's activities. Employees working remotely or experiencing performance problems should be required to keep a log of their daily activities which should be reviewed along with the employee's time report.

- Management needs to develop policy and procedures around budget setting and expense monitoring for **large position searches**. Specifically, the Provost's Office in Ann Arbor may be able to provide sample budgets and processes used to develop and select from a national candidate pool.
- **Segregation of duties** would be improved if the SOA reconciler did not have purchasing authority on the accounts in the Chancellor's Office. If this is not possible due to the preference for additional back up, there should be sufficient secondary review as a compensating control. One alternative would be to give the new Financial Analyst in Financial Services and Budget the responsibility of auditing/monitoring SOA reconciliations. Financial Services and Budget should continue to audit all Chancellor's Office P-Card statements.
- A complete **inventory** of the University furniture and equipment at Ross House, the Chancellor's residence, should be maintained. This listing should include a description of the item, the date acquired, the value/cost, and location. The Chancellor's Office should coordinate with Facilities personnel to ensure responsibility for tagging and entry of purchases is adequately performed. Items should be appropriately secured and monitored periodically.

The Chancellor's Office organizational structure should support fiscal responsibility and efficiency. Roles and responsibilities must be clear and policies and procedures should be communicated and documented. In particular, controls related to cash handling, account reconciliation, documentation, and segregation of duties need to be strengthened. Greater oversight and accountability needs to be established to strengthen the control environment within the Chancellor's Office.

### ***MANAGEMENT'S RESPONSE***

The Chancellor, Provost, Director of Financial Services and Budget, and Executive Assistant to the Chancellor concur with the audit findings. They will implement corrective action, as detailed below, to address each of the findings.

#### **Unit Administration**

- All **roles and responsibilities** will be clearly defined and documenting in writing.
- Roles and responsibilities will be reviewed and defined taking into consideration opportunities to leverage the expertise of **central services**.
- The Chancellor's Office will work with Financial Services and Budget to develop a manual of documented office **policies and procedures**. Financial Services and Budget will provide the Chancellor's Office the necessary training. **Segregation of duties** will be established by removing purchasing authority from the Executive Secretary and assigning this position reconciliation responsibility. The Departmental Accountant will provide oversight on the reconciliation and reporting process.
- The Executive Assistant to the Chancellor will verify that **Conflict of Interest and Commitment Statements** have been obtained for all employees in the Chancellor's Office and will update this file annually. These statements will be evaluated and corrective plans will be implemented when necessary. Human Resources will provide training on Conflict of Interest and Commitment for Chancellor's Office employees.
- The Chancellor's Office will work with Human Resources to develop and implement consistent **employment procedures**.
- The Chancellor's Office will continue the collaboration and communication with **Financial Services and Budget** regarding the internal control environment, financial transactions, and strategies needed to

support the Chancellor. The Departmental Accountant will be empowered to take steps necessary to ensure propriety of financial transactions and enforce internal controls.

- With the Assistance of the Director of Environmental Health and Safety, the Chancellor's Office is in the final stages of completing a comprehensive **disaster recovery/business continuity plan**.
- The Provost will be assuming interim oversight of Institutional Advancement and has requested a review of this function including the management of **development data**. Utilizing existing University-wide systems is certainly the goal.

### **Fiscal Responsibilities**

- **Reconciliation** of P-Card statements and SOAs will be completed in a timely manner. The Executive Secretary will be assigned all reconciliation responsibilities. Financial Services and Budget will provide training. The Departmental Accountant will provide oversight on reconciliations and will produce and review trend data.
- Review of Institutional Advancement is currently underway. The review will include looking at the services they provide to the campus including **event planning**. The Chancellor's Office will utilize Institutional Advancement in the future for event planning.
- Original receipts, proper authorization, and a clear business purpose will be **documented** for expenditures. This will be emphasized during the reconciliation training conducted by Financial Services and Budget. Financial analysis prepared by the Departmental Accountant will be reviewed routinely.
- A majority of the **cash** received came through University Relations. A part-time accounting position has been added to University Relations and the Executive Secretary is no longer processing these cash receipts. The Executive Secretary will be reminded that all cash or checks must be deposited on the date of collection.
- Financial Services and Budget will provide training on departmental **time reporting** to the staff in the Chancellor's Office.
- The Provost and the Chancellor will develop policy and procedures for **large position searches**.
- **Segregation of duties** will be achieved by removing purchasing authority from the Executive Secretary and making this position responsible for SOA reconciliation with oversight from the Departmental Accountant.
- The Executive Secretary will maintain a perpetual **inventory** record of furniture and equipment at the Ross House. Facilities Management (Receiving Area) will do an annual physical inventory.

University Audits will follow-up on these issues in the third quarter of 2009.

### **Information Technology**

**University Health Service HIPAA IT Security**  
Issued September 2, 2008

#2008-309

University Audits reviewed information technology (IT) systems and practices at University Health Service (UHS) to assess compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA) Security Rule.

UHS currently maintains paper medical records, with some specialty clinics utilizing computerized record systems. UHS has a computerized practice management system used for patient demographics, appointment scheduling, billing, and managing patient accounts. The practice management system (Medical Manager) was installed in 1995, and is nearing end-of-life status with the vendor. Because of its age, Medical Manager was not designed to accommodate all the security controls mandated by HIPAA.

UHS began a search for a new practice management system in 2005. Since then, UHS administration has attempted to compensate for Medical Manager's shortcomings by changing procedures and making as many incremental technical improvements as the system allows. UHS has reached the final stages of selecting a new practice management system incorporating electronic health record functionality. Management expects to implement the new system by mid-2009.

#### HIPAA SECURITY RULE – BACKGROUND AND ENFORCEMENT

The Administrative Simplification provisions of HIPAA require the U.S. Department of Health and Human Services (HHS) to establish national standards for the security of electronic health care information. New technologies developed as the health care industry began to move away from paper processes and rely more on digital records. These technologies necessitated the development of security standards over critical data. Prior to HIPAA, no generally accepted set of security standards or general requirements for protecting health information existed in the health care industry.

The HIPAA Security Rule was published in the Federal Register on February 20, 2003. The final Security Rule specifies a series of administrative, technical, and physical security procedures for covered entities<sup>1</sup> to use to assure the security and confidentiality of electronic protected health information (EPHI)<sup>2</sup>. HHS has responsibility to enforce HIPAA rules. There are civil and criminal penalties for noncompliance. The HHS Office of Inspector General audited the first covered entity in March 2007. The health care industry viewed this as a precursor to HIPAA Security compliance audits at other institutions. In February 2008, HHS issued an updated sample interview and document request list for HIPAA Security onsite investigations and compliance reviews.

#### Control Issues:

- Outdated Practice Management System - The UHS practice management system is not capable of encrypting stored data, including EPHI. Management acknowledges the risk and indicates that encrypted storage will be a requirement for the system UHS selects to replace it. That selection process is underway. Physical security of the UHS Server Room housing the practice management system, including an alarm system, provides compensating control.

UHS Security Policy 4.17.b requires integrity controls in data transmission programs or functions to protect EPHI from improper alteration/destruction during transmission. UHS has partially implemented SSH terminal connections between the workstation and practice management server, providing integrity through encryption. The backend interfaces, however, do not contain integrity controls. Management indicates this is primarily due to the system's age. Candidates to replace the practice management system are currently being evaluated by UHS.

**Management Plan** - The replacement candidates support encrypted data storage and transmission integrity controls. When UHS deploys the replacement system in 2009, these controls will be active.

- Verification of Intranet Access - Standard practice is to revoke UHS Intranet access when a user leaves UHS, as with all internal UHS access. However, access to the UHS Intranet is not regularly reviewed to ensure that users' access levels are currently appropriate. This increases the risk of EPHI being accessed by unauthorized individuals.

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<sup>1</sup> Under HIPAA a covered entity is a health plan, a health care clearinghouse, or a health care provider who transmits any health information in electronic form in connection with a HIPAA transaction.

<sup>2</sup> Electronic Protected Health Information includes medical records and reports, test results, appointment dates, dates of admission or discharge, medical record numbers, account numbers, Social Security numbers, and patient demographic data such as date of birth, date of death, sex, mailing address, and email address.

The UHS Intranet is a website containing links to internal/external information resources and internal healthcare administration tools. Advanced tools involving EPHI include patient lookup (e.g. with Blue Cross) and tuberculosis immunization tracking for international students. Access to these tools is governed by UMICH Kerberos credentials and the CoSign mechanism, and is generally limited to UHS employees and UHS-authorized individuals. Access to most UHS systems is verified by UHS managers on a quarterly basis. UHS IT Services distributes to each manager a list of users in their respective areas and the users' level of access to several UHS systems. This list does not include UHS Intranet access.

**Management Plan** - ITS will include the appropriate UHS Intranet group memberships in the quarterly access reports sent to UHS managers beginning with the November reporting cycle.

- Vulnerabilities in Intranet Tools Server - The ITS Manager shared recent vulnerability assessment reports from U-M IT Security Services. These scans were performed on June 19 from on-campus locations, so the results indicate vulnerabilities exposed within the University - not necessarily exposed to access outside the University network.

A scan that examined the entire UHS network through the UHS firewall found vulnerabilities in the HTTP and HTTPS services on the UHS Intranet tools server. These were the only UHS network services exposed outside the department. The most significant issue the scan identified is an outdated version of PHP. Vulnerabilities in PHP can be exploited to gain control over a web server. The scan also identified two moderate-risk issues. One allows users to connect with inadequate encryption, weakening their protection against eavesdroppers. The other makes it easier for attackers to guess usernames on the web server's operating system, a prerequisite for guessing passwords.

**Management Plan** - UHS will replace this server with a backup server that is fully patched. In the future, all updates will be tested on the backup server before deploying to the new server.

- Emergency Data Access Procedures - UHS security policy requires development of emergency EPHI access procedures, and describes what the procedures must cover. However, no actual emergency access procedures are cited or linked. Without clear and specific procedures, emergency access may not be obtained in a timely manner, proper authorization may not be secured, and adequate records may not be retained.

**Management Plan** - UHS will develop the recommended emergency data access procedures.

- Security Policy Improvements - UHS Security Policy requires that systems be able to automatically disable accounts that are idle or that exceed a pre-determined expiration date. Management indicated that no systems are configured in this manner.

UHS Security Policy 4.13.a.ii requires workstations to be patched for security vulnerabilities through a timely and documented process. The policy does not address servers. The absence of policy addressing servers increases the likelihood of infrequent, incomplete security patching, continued vulnerability, and system compromise.

The practices in place for culling inactive accounts and patching servers are sound, but policy needs to be updated to reflect these practices. For UHS systems that are unable to support automatic disablement of accounts, the UHS Security Policy should allow for manual review and disablement as is currently practiced. Additionally, the Policy should be amended to include patching requirements for servers similar to those in place for workstations, so that existing server patching practices have a basis in policy.

**Management Plan** - UHS will update the Security Policy to implement periodic review of expired accounts rather than automatic disablement, and require the patching of servers.

With the exception of the items listed above, the controls employed by UHS IT Services are consistent with the HIPAA Security Rule requirements. University Audits will review UHS management's progress toward implementing corrective action in the third quarter of fiscal year 2009.

## Healthcare

### Medical School Pulmonary and Critical Care Medicine Operational Review

#2008-207

Issued September 26, 2008

University Audits conducted an operational audit of Pulmonary and Critical Care Medicine, a division of the Department of Internal Medicine. Some operational functions such as human resources, timekeeping, and faculty compensation are managed at the department level. Other operational activities, such as grant management and procurement, are managed at the division level. University Audits assessed the operational controls of one representative division, Pulmonary and Critical Care Medicine (PCC), which includes the related Department of Internal Medicine managed activities.

University Audits examined the following processes to evaluate the adequacy and effectiveness of internal controls over operational responsibilities:

- Faculty compensation
- Payroll controls
- Grant allocations and budgetary controls
- Purchasing controls
- Conflicts of interest and conflicts of commitment

PCC has developed a strong system of controls. Notable features include:

- Processes to facilitate accurate effort reporting by research faculty and staff
- Detailed review and monitoring of expenses charged to grants, including analyses of variances
- Thorough P-Card review, reconciliation, and approval
- Maintenance of sufficient documentation and authorization for faculty compensation payments

Control Issues:

- Grant Key Personnel - Certain grant sponsors require prior authorization if effort by key personnel, as defined by the sponsor, decreases below established guidelines. University Audits identified two exceptions to sponsor requirements. Prior approval was not received in either case. For one grant, effort of the Principal Investigator (PI) had decreased more than permitted by the sponsor. For the other grant, a co-investigator was replaced during the project and the sponsor was subsequently notified. Management noted that the sponsor was transitioning during this period to a new policy of identifying specific key personnel in the grant and there was a lack of clarification in this area. The sponsor subsequently clarified that specific co-investigators were considered key personnel.

In addition, University of Michigan Health System Policy 01-04-007 requires that each unit facilitate a review of effort with all research sponsored employees on a quarterly basis. If the variance between what is reported in the human resource system and actual effort on sponsored grants is three percent or more, an adjustment must be made in the system.

**Management Plan** - The Division Administrator will implement a process to ensure all actual research effort is compared to grant required effort as part of a quarterly review of research effort. The Medical School's Director of Grants Review and Analysis will communicate to all grant administrators the need for compliance with grant sponsor's minimum effort requirements. She will also work with the Medical School Effort Compliance group to develop additional training or communication to department effort specialists.

- Travel and Hosting - Internal Medicine has developed its own Travel and Hosting policy that is more stringent than University requirements. While this creates a stronger control environment, University Audits identified some examples of non-compliance to the Internal Medicine's Travel and Hosting Guidelines. Specifically:
  - Itemized receipts are not always submitted when meals are charged to hotel rooms.
  - Policy states that all hosting requires chair approval, but in the sample selected one hosting form was not approved by the chair.
  - Alcohol was not deducted from a meal cost and thus charged to a grant. The alcohol was reclassified to an appropriate account when this was discovered during the audit.
  - Guidelines regarding meal limits are not always followed.

**Management Plan** - Department of Internal Medicine will review current Travel and Hosting guidelines and practices and will provide additional training, as appropriate, to ensure practices are aligned with current policies. Meetings have been held and a lean project is being developed to address the above issues.

- Timely Submission of Travel and Hosting Expenses - Department of Internal Medicine guidelines state that all expenses must be submitted for reimbursement no more than six months after the date of the transaction. This does not comply with Standard Practice Guide (SPG) Section 501.4-1 *Travel and Business Hosting* Part III A that states that expenses must be submitted within 30 days after expenses are incurred. In addition, part VI of SPG 501.4-1 references procedures which state P-Card statements are due on the 15<sup>th</sup> of the following month. During testing, several late filings of P-Card statements were noted that could result in termination of P-Card privileges.

**Management Plan** - Department of Internal Medicine updated policy to reflect the timeframe stated in the SPG and will ensure the review and approval cycle is shortened to meet University policy. Meetings have been held and a lean project is being developed to address P-Card timeliness.

Based on the audit work conducted, University Audits determined the overall control environment within Pulmonary Medicine and Critical Care Medicine is sound. A follow-up review will be conducted in the third quarter of fiscal year 2009.

## **FOLLOW-UP REPORTS**

**Arbor Lakes Computing Facility Follow-up**  
Original Report issued December 20, 2007

#2008-307  
Follow-up Report issued July 1, 2008

Management has implemented positive changes to address all of the issues discussed in the original audit report with one exception; disaster recovery planning has not yet been formalized. The status of each issue is described below.

- Motion Detectors - The MCIT ALCF has a generator plaza located behind the Arbor Lakes facility. It houses two water pumps, the emergency generator, and the fuel tank for the generator. University Audits recommended the installation of motion detectors that would turn on the plaza lights and alert Technical and Operations Services staff in the monitoring room when it is triggered. MCIT has funded this project. It is currently in the design phase and is scheduled to be completed later this calendar year. **This item is closed**
- Water Pump Valves - The water pumps in the generator plaza have a number of valves on them. These valves were not protected from inappropriate use. University Audits recommended that the valves be locked. MCIT has had locking covers installed on all the valve handles in the generator plaza. These covers are a very effective means of preventing tampering. **This item is closed.**

- Loading Dock Doors - There is a set of loading dock doors leading into the ALCF from outside. The doors are equipped with a contact alarm. At the time of the audit, this alarm was monitored only during non-business hours. UMHHS Security is now monitoring the alarm 24 hours a day.

These loading dock doors were found to be structurally weak. Their lack of reinforcement could have provided an easy point for forced entry. University Audits recommended installation of sturdier doors and a mullion for reinforcement. MCIT did research and found that heavier doors would result in the need to reinforce the frame and were cost prohibitive. A mullion was installed which improves the doors' structural integrity. **This item is closed.**

- Computer Room Access Lists - Three groups share control over access to the ALCF. University Audits recommended that these groups set up regular meetings to ensure that their individual access lists are consistent. A person on the access list who should not have access poses a risk to the security of the Machine Room. In lieu of these meetings, MCIT Compliance has developed a draft Standard Operating Procedure (SOP) for review of these lists. This SOP states that MCIT Compliance will contact each of the units quarterly for their current access list, and then review these lists to look for inappropriate access. University Audits has reviewed the draft of this SOP and finds that implementation of this procedure will help prevent unauthorized individuals from gaining improper access to the Machine Room. **This item is closed.**
- Unlocked Server Cabinets - Server cabinets in the ALCF are kept unlocked. University Audits recommended that policy be changed to require all cabinets to be locked at all times. MCIT has elected to accept this risk. Because of the additional controls placed over access to the ALCF in response to this audit, risks are sufficiently minimized. **This item is closed.**
- Video Monitoring - There are a number of cameras throughout ALCF and the generator plaza. University Audits recommended the implementation of sensor grid technology for the cameras, and increased recording. MCIT has increased the recording and monitoring of cameras at all entry and exit points by sending the video to the UMHHS Facility Control Center (FCC). The implementation of the sensor grid technology is in progress. **This item is closed.**
- Disaster Recovery - Currently MCIT has no formal Disaster Recovery Plan for ALCF. Most of the required information is available but not in one place and is not readily accessible. For example, MCIT has an Emergency Response Plan that encompasses ALCF. There are also "calling trees" and written procedures for responding to outages. Management should collect, coordinate, update, and formalize this information and place it into a central repository.
- Fire Safety - Fire safety within the entire Arbor Lakes complex could impact the data center. University Audits recommended that MCIT and Arbor Lakes Facilities work with the U-M Fire Marshall to discuss improving fire safety. Those three groups met and discussed improvements to detection, suppression, and reporting systems. Arbor Lakes Building 2 is now slated to receive a sprinkler installation in fiscal 2009. The entire Arbor Lakes complex will be protected by sprinkler systems by fiscal 2012. Complex wide detection improvements are also slated to occur during this period. This is a tremendous improvement that will increase safety for both the ALCF, and the entire Arbor Lakes complex. **This item is closed.**
- Fire Panel Upgrades - During the review, University Audits found that the fire panel controlling fire detection and suppression in ALCF was not reporting as designed. University Audits recommended that the panel be made to conform to its original specifications. This required the installation and configuration of two "physical bridge" dedicated lines to connect the panel to the FCC. Both lines have been installed, configured, and tested. The panel is now reporting as designed. **This item is closed.**
- Battery Room Spill Guard - The Uninterruptable Power Supply (UPS) for ALCF is powered by wet cell, acid batteries. University of Michigan Zone Maintenance personnel service these batteries. At the time



of the audit, measures to control leaks from the batteries in the racks and a safety shower were in place. University Audits recommended that a spill guard be installed to confine spills occurring when the batteries are not in the racks in the battery room. MCIT installed rubber blades on the bottom of the doors to prevent spills from leaving the room while the doors are closed. OSEH was consulted prior to the installation and deemed this to be an acceptable method of containment. **This item is closed.**

- Safety Shower Test Requirements - Zone Maintenance needs to test the safety shower in the UPS room periodically. This will ensure that it is functioning properly, and that the water in its pipes is clean. MCIT has created a log to track testing. Zone Maintenance has been performing the tests bi-monthly since January. **This item is closed.**

Follow up on formalizing the Disaster Recovery Plan will be performed during September 2008.

#### Arbor Lakes Computing Facility Second Follow-up

#2008-307

Original Report issued December 20, 2007

Follow-up Report issued September 30, 2008

The Medical Center Information Technology (MCIT) Arbor Lakes Computing Facility (ALCF) audit report was issued on December 20, 2007. An initial follow-up review was issued July 1, 2008, indicating that management had implemented positive changes to address all of the issues discussed in the original report with one exception, disaster recovery planning. This second follow-up review examined the disaster recovery planning issue and corresponding corrective actions. Management is making positive progress towards the resolution of the remaining issue.

Disaster Recovery - MCIT has hired a Data Center Project Manager and Service Continuity Manager. Part of this individual's job is to develop comprehensive disaster recovery procedures and documentation for all of MCIT. While this does not expressly address disaster recovery planning for the ALCF, it will sufficiently improve MCIT's overall disaster recovery posture to address this requirement. Planning and testing that is currently being performed using other data center facilities will provide a foundation for MCIT to build the rest of their disaster recovery plans. **This item is closed.**

Management has taken appropriate corrective action on all audit recommendations. **This audit is closed.**

#### Security Plan Audits Follow-up

#2008-304

Original Report issued March 15, 2008

Follow-up Report issued July 1, 2008

ITSS management's actions demonstrate appropriate progress toward addressing all of the control recommendations. **This audit is closed.**

- UNIT Security Plan Template – A concise and well-documented Unit Security Plan Template was provided to each unit. However, the template needed be revised to require preparers to provide security component details according to their specific units.
- High-level Approvals – Although sign-off approval was required for all Unit Security Plans, ITSS did not stipulate the level of sign-off required within each unit.
- Security Plan Updates - With changes to staff, technology, procedures, applications, hardware, and other variables, security structures change and require modifications to the Security Plan. ITSS did not have an update process for Unit Security Plans.
- Non-conformance to Security Template – Although ITSS provided a comprehensive security plan template, they did not require all units to follow the template in place to address security plans that do not conform to the model.

ITSS is developing a new ongoing process for University units to create an annual security progress report to include:

- An executive summary of major security risks and efforts to control them during the prior year and a high-level project plan for the next year
- A self-assessment questionnaire documenting progress indicators reflecting the degree of adoption of the security program and compliance with security policies
- Various metrics relating to unit security
- Security project plans and schedules including a detailed risk assessment plan

University Audits review of the progress reports under development indicate this new process will create an effective security plan update and will address all open control issues described above. ITSS is working with a few unit security representatives to finalize the contents of the annual progress report, but the development effort is well underway. August 2008 is the target date for providing templates and guidance for preparing the annual report to all University units.

ITSS management's actions demonstrate appropriate progress toward addressing all of the control recommendations. The updated progress reports will be reviewed during other audits of University schools, colleges, and administrative departments' IT operations. **This audit is closed.**

### College of Engineering and Computer Science U-M Dearborn Departmental System

#### Administration Second Follow-up

#2007-308

Original Report issued June 28, 2007

Second Follow-up Report issued July 1, 2008

A first follow-up report was issued March 26, 2008, indicating that all high-risk vulnerabilities identified in network scans of College of Engineering and Computer Science (CECS) had been addressed. University Audits recently conducted another follow-up review of actions taken by management to address the remaining items in the report.

- Off-Site Backups - At the time of the audit, the backups for CECS were located in the same server room with the production server. Weekly data backups are now stored offsite.
- Administrator Documentation - CECS had not documented their process for classifying data. CECS has created documentation for administration of CECS-run services based upon the type of data maintained in each system.
- Administrator Training - Due to a lack of formal system administration training, administrators at the CECS were not always aware of their security responsibilities. During the past year, the System Administrator hired by ITSS has attended two training sessions with a specific focus on information security.
- Risk Assessment Practices - Although risk assessments were performed by CECS, no documentation of the assessments existed for this process. CECS has created a document to specify data and services critical to CECS, identify threats, and document procedures to ensure that systems remain in a proper state of operation and that data is available and has integrity.
- Policies and Procedures - At the time of the audit, there were no written policies or procedures at CECS for maintaining the servers and data security. CECS has created a document detailing basic procedures for how systems are utilized in centrally-run and CECS-run labs.
- Incident Response Plan - Incident response plans were not documented. CECS has worked with Dearborn Information Technology Services and now adheres to their Incident Response Plan.

The College of Engineering and Computer Science has appropriately addressed all the audit recommendations identified in the original audit report and no additional follow-up is required. **This audit is closed.**

**Intercollegiate Athletics – Student-Athlete Equipment and Apparel Follow-up**

#2007-409

Original Report issued August 24, 2007

Follow-up Report issued July 21, 2008

Intercollegiate Athletics management has taken appropriate corrective action to address the audit recommendation. The Athletics Compliance Services Office has provided education to coaches and equipment managers regarding record retention for equipment and apparel through rules education meetings and documentation. Coaches and equipment managers have modified procedures so that equipment return records are maintained for a period of three years, in accordance with University Standard Practice Guide section 604.1. Electronic records are maintained in a central server to facilitate appropriate back-up. **This audit is closed.**

**University of Michigan - Dearborn Office of the Provost Fiscal Responsibilities Follow-up**

#2007-412

Original Report issued March 19, 2008

Follow-up Report issued July 22, 2008

This follow-up review examined open audit issues and corresponding corrective actions as they related to the Fairlane Center. Management has implemented the recommendations as detailed below:

- Management is currently working with the Office of Financial Analysis to review rental rates for space for the entire Dearborn campus and obtain approval for these rates.
- Cash receipts for the Fairlane Center are deposited on a timely basis in compliance with Standard Practice Guide section 519.03, previously Standard Practice Guide section 502.1.

Management has taken appropriate action on all audit recommendations. We give additional recognition to the University of Michigan-Dearborn Office of Financial and General Services for developing an internal control questionnaire that will be distributed to UM-Dearborn departmental administrators to heighten the awareness of internal controls. **This audit is closed.**

**Plant Operations Zone Maintenance Purchasing**

#2007-812

Original Report issued April 24, 2008

Follow-up Report issued August 11, 2008

University Audits conducted a previous follow-up review. At that time, most issues had been appropriately addressed. The remaining open items were reviewed recently in a second follow-up. Plant Operations has completed their action plans to strengthen purchasing approvals. They will continue to improve inventory receiving and tracking procedures. Detailed discussion of corrective actions is included below. **This audit is closed.**

- Purchasing Approval Process: Plant Operations requires preapproval of P-Card transactions above \$500. However, management has determined that this practice is redundant in instances when a purchase originates from the approving supervisor or manager. Thus, they will update the departmental procurement policy to indicate that purchases requested by the approving supervisor or manager do not require a preapproval signature. Audit testing, conducted during this follow-up review, confirmed that the preapproval process is functioning as intended.
- Inventory Receiving and Tracking: Facilities Maintenance, within Plant Operations, is in the process of filling a newly created position for a Tool and Equipment Inventory (TEI) program that will be responsible for tool management and, as an interim measure, inventory receiving and monitoring. Facilities Maintenance management has developed a career-progressive role and responsibility classification series for this position within their TEI program. Management initiated the posting for this position in July 2008, and intends to complete the hiring process in fiscal year 2009.

Facilities Maintenance uses New Employee and Departure Checklists to document information provided to employees. Until the TEI program establishes a permanent solution, employee tools and equipment will also be managed via these checklists. Management reviewed new employee and departure

procedures at a recent leadership meeting and plans to conduct quarterly audits to review compliance with the procedures.

Due to the nature of work within Plant Operations, management prefers to allow items to be delivered directly to onsite work locations throughout the campus, as needed. In absence of a centralized receiving function, management should develop a formal review process to ensure purchased items are appropriately used for facilities and maintenance projects. Plans are underway to upgrade the current facilities management system to include online receiving and inventory monitoring functionality. The upgraded system will be used to record receipt of all shipments, regardless of destination. As Plant Operations plans to implement the system later this fiscal year, Facilities Maintenance management has developed a short-term solution, utilizing the TEI program staff. This individual will perform random field inspections on at least a monthly basis. The field inspections will include review of current deliveries, previous orders, and excess inventory disposition. This physical accountability effort will remain in effect until the upgrade of the current facilities management system establishes a more permanent accountability process.

### UMH Operating Rooms Supply Chain Management

Original Report issued August 17, 2007

#2007-108

Follow-up Report issued August 25, 2008

Management has improved product recall follow-up procedures, communication of conflicts of interest and supply chain procedure documentation. The ongoing Operating Room Management Information System (ORMIS) implementation will address decentralized manual inventory maintenance risks. Status of audit observations and corresponding corrective actions are detailed below. **This audit is closed.**

- Product Recall Follow-Up: UMH Operating Rooms (UH OR) management has developed and implemented product recall follow-up procedures, and efforts to formally document the procedures are underway. Management has designated primary and secondary responders for UH OR. Audit testing confirmed that the process is functioning as intended.
- Formal Documentation of Supply Chain Procedures: Supply chain procedures, including product entry, purchasing, receiving, and invoice payment, have been formally documented for UH OR. Management is also developing step-by-step instructions and flowcharts for specific detailed procedures.
- Decentralized Manual Inventory Maintenance: ORMIS phase I, Clinical Documentation, has been implemented for all OR sites – UH, Mott, Cardiovascular Center, Kellogg, East Ann Arbor and Livonia. Phase II, Instrument Tracking, and phase III, Inventory Management, will be implemented in a staggered approach. Both phases will be piloted in one UH OR surgical service, with implementation throughout the ORs to follow. Management has also commenced planning for centralization of tissue storage via a secured cabinet system.
- Communication of Conflicts of Interest: The UMHS Compliance Program has developed and implemented a process to inform UMHS Contracts and Procurement of disclosed conflicts of interest. Annually, a list of disclosed conflicts is generated from M-Inform and distributed to UMHS Contracts and Procurement and U-M Procurement Services. The UMHS Compliance Program has also designated a contact person to provide UMHS Contracts and Procurement with ad hoc reports from the M-Inform system as needed for contracting purposes.

### Ross School of Business Multidisciplinary Action Projects

Original Report issued January 10, 2008

#2007-103

Follow-up Report issued September 15, 2008

University Audits conducted a follow-up review to assess the status of management's action plans. Ross School of Business management has adequately addressed concerns raised during the audit. See summaries below for additional information. **This audit is closed.**

### International Travel Registration:

MAP management now registers travel information with the International Travel and Oversight Committee (ITOC) for all students participating on an international MAP project. Testing confirmed registration with the ITOC for the 2008 MAP Program.

### Procurement:

MAP management made several changes to help improve controls related to the procurement and expense reporting processes, including:

- Modifying the student's expense reporting guidelines to clarify when receipts are required
- Requesting project sponsors to pay hotels directly for student lodging whenever possible, this significantly reduced the amount of funds advanced to the students for travel, and improved the efficiency of the expense reporting process
- Obtaining approval from Procurement Services for a temporary increase to the Associate Director's monthly P-Card spending limit to appropriately address business needs
- Updating the training for the students to help ensure adequate understanding of the expense reporting process
- Completing the online P-Card approver training
- Participating in the Procurement Services focus group regarding travel and hosting process and system changes

A sample of expense reports reviewed from the 2008 MAP Program revealed:

- Timely reconciliation of travel advances
- Appropriately signed expense reports
- Adequately documented support for currency conversion rates
- Overall consistency with MAP and University guidelines

### Expendable Restricted Funds:

The Map Office now has a record of available documentation showing purpose and restrictions for each project grant with a gift designation used to fund MAP. Management created a summary document used as a resource for verifying appropriateness before expenditures are assigned to any gift project grant. This process is included in the documented program guidelines.

### Documented Procedures:

Formal documentation has been developed for MAP Program guidelines and processes. The guidelines include the following sections:

- MAP Project Acquisition Process
- Project Selection and Team Assignments
- Faculty Assignments and Payment
- Faculty Advising and Grading Process
- Expense Administration
- Travel Requirements and Processes

### University of Michigan Health System Offsite Professional Contracting

#2008-111

Original Report issued February 29, 2008

Follow-up Report issued September 24, 2008

The University of Michigan Health System (UMHS) Offsite Professional Contracts audit report was issued on February 29, 2008. A follow-up review was conducted and confirmed that management implemented the following action plans to address audit issues. **This audit is closed.**

1. Contract Renewal Policy and Procedures: Policy and procedures were enhanced to support appropriate practices for managing contract renewals including approvals, stakeholder communications tracking, and contract lapse.

2. Supervision of Hurley Medical Center Physician Assistants: Separate agreements outlining UMHS contracted physician supervision and Hurley Medical Center physician assistant performance responsibilities are now complete and have been signed by both parties. The Health Service Legal Office developed contract language to address legal risks related to the supervisory relationship and the UMHS Contracting Office has the language on file for use in future contracts.

**ROTC Business Office Internal Controls – Air Force**

#2007-818

Original Report issued September 11, 2007

Follow-up Report issued September 26, 2008

Last year, University Audits reviewed the internal controls in the business office of the Army ROTC (Reserve Officers' Training Corps) on the campus of the University of Michigan. A report was issued on September 11, 2007. The Office of the Provost shared the lessons learned from the audit with the business offices of the Air Force ROTC and the Navy ROTC. Initial follow-up work completed for the Air Force ROTC in May 2008 revealed adequate training for individuals with delegated signing authority, monthly reconciliations of the Statement of Activity and Gross Pay Register, and overall consistency with procurement guidelines.

University Audits recently completed a second follow-up review of the Air Force ROTC business office. Internal controls have been strengthened in:

- Documented procedures for training requirements, procurement processes, and reconciliations
- Timely submission of reconciled P-Card statements
- Appropriate higher authority signature on timesheets prior to entry into the system

Air Force ROTC has adequately addressed concerns raised during the audit. **This audit is closed.**

**ROTC Business Office Internal Controls – Army**

#2007-818

Original Report issued September 11, 2007

Follow-up Report issued September 26, 2008

University Audits recently completed a second follow-up review of the Army ROTC business office. Internal controls have been strengthened in:

- Documented procedures for training requirements, procurement processes including P-Card and travel and hosting, and Statement of Activity and Gross Pay Register reconciliations
- Consistency with procurement guidelines including travel and hosting
- Monthly reconciliations of the Gross Pay Register

Army ROTC has adequately addressed concerns raised during the audit. **This audit is closed.**

**UMHS Human Resources Fiscal Responsibility**

#2008-209

Original Report issued January 21, 2008

Follow-up Report issued September 30, 2008

The original audit report and memorandum identified opportunities for improving payroll practices, procurement controls, and other key processes.

University Audits conducted a follow-up review to assess progress of action plans. Human Resources management strengthened internal controls by improving timekeeping procedures, discontinuing use of P-Cards by multiple individuals, conducting employee training, and documenting key departmental policies and procedures. **This audit is closed.**

**HIPAA IT Security - Dentistry**

#2008-308

Original Report issued June 19, 2008

Follow-up Report issued September 30, 2008

The original audit was a review of compliance with the Security Rule of Health Insurance Portability and

Accountability Act of 1996 (HIPAA) at the University of Michigan School of Dentistry (SoD). University Audits recently conducted a follow-up review of actions taken by SoD management to address open control recommendations from the audit.

**Required Security Policy** - Policy and procedures for monitoring systems and the network needed to be finalized, approved, and disseminated to the appropriate staff. Dental Informatics developed and communicated two new policies: APG016-Net Access and Monitoring and APG013-Audit Controls.

**Personal Storage of Electronic Protected Health Information (EPHI)** - SoD needed to implement security practices and develop policies to ensure students protect patient information in a manner that does not put sensitive data at risk of being compromised. Policy APG008-Workstation and Storage Media Use was updated to address this concern.

Management demonstrated appropriate corrective actions to address the audit concerns. **This audit is closed.**

**University Audits – University of Michigan**  
**Open Audits Follow-up Table**  
**September 30, 2008**

| Audit Title  | Report Date | Issues   | Expected Completion |
|--|-------------|--|---------------------|
| Information Technology Central Services Software Licensing and Distribution Billing Systems and Practices 2007-106 | 2/7/08      | Documentation of procedures for licensing negotiations and billing   | October 2008        |
| Physical Security at Harlan Hatcher Graduate Library 2008-303  | 9/2/08      | Emergency exits; alarms and monitoring systems; fire safety; safety or patrons and staff; storage; deferred maintenance; procedures  | January 2009        |
| University Health Service HIPAA IT Security 2008-309   | 9/2/08      | Practice management system; verification of internet access; intranet tools server; data access procedures; security policy  | February 2009       |
| University of Michigan Hospitals and Health Centers Emergency Department 2008-112                                  | 05/09/08    | Training Action Plan   | December 2008       |
| Patient Privacy 2008-401   | 5/28/08     | Policies and Procedures; training  | December 2008       |
| University of Michigan Hospitals and Health Centers Social Work Gift-Funded Programs 2008-804                      | 5/29/08     | P-Card multiple users; P-Card reconcilers and approvers; gift receipt processing; emergency funds; database documentation; policies and procedures   | October 2008        |
| Medical School Pulmonary and Critical Care Medicine Operational Review 2008-207                                    | 9/26/08     | Grant key personnel; travel and hosting  | March 2009          |
| Matthaei Botanical Gardens & Nichols Arboretum, Business Office Internal Control Review 2007-817                   | 6/19/07     | Strengthen cash handling procedures; instructor payments; credit card refund controls; remove unnecessary sensitive data in files. We will observe and review the annual plant sale in May 2008  | November 2008       |
| Intercollegiate Athletics Academic Support Services 2007-408   | 7/18/07     | Student counseling practices; employment and payroll controls; staff training and development  | December 2008       |
| University Human Resources Family and Medical Leave Act 2007-403   | 12/17/07    | Training; update relevant SPG sections; written notifications  | March 2009          |
| Transportation Services 2007-101   | 1/28/08     | Controls over physical access; system user access levels; commercial driver's license testing; vehicle inventory monitoring; fuel inspection upon delivery; gross pay register review; imprest cash fund; formal policies and procedures | December 2008       |
| I-9 Employment Verification Process 2007-823   | 1/29/08     | Filing timeliness; automation; training  | December 2008       |



| Audit Title  | Report Date | Issues  | Expected Completion |
|--|-------------|---|---------------------|
| Office of the Vice President for Communications Fiscal Responsibilities 2008-211 | 5/29/08     | Segregation of duties; delegation of authority; cash deposits   | November 2008       |
| University of Michigan – Flint Chancellor’s Office 2008-205                      | 9/30/08     | Roles and responsibilities; conflict of interest; disaster recovery; reconciliations; segregation of duties; procedures | February 2009       |