

Audit and Compliance Committee Memorandum
Board of Regents, State of Iowa

Subject: Internal Audit Reports

Prepared by: Andrea Anania

Date Submitted: January 19, 2005

Recommended Action:

1. Receive the following internal audit reports:

UNIVERSITY OF IOWA

University Operations

- Dance Marathon Business Process Review
- Department of Pediatrics
- Office of Animal Resources – Cost Accounting Processes
- Postseason Athletic Participation (Outback Bowl)

Hospital Operations

- 80 Hour Residency Audit

IOWA STATE UNIVERSITY

- Security of Internet-Initiated ACH Transactions

2. Receive the report on the Status of the Internal Audit Follow-up reports, including seven follow-up reports.
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Executive Summary:

Completed institutional internal audit reports are reported to the Audit and Compliance Committee as required by Board policy.

Presented this month:

- Six new audit reports: five from SUI and one from ISU; three are closed - two at SUI and one at ISU.
- Seven follow-up reports: four from SUI and three from ISU; all are closed.

The Status of Internal Audit Follow-Up Table on page 7 identifies 27 internal audit reports, 20 of which require follow-up.

Background:

Internal audits provide appraisals of institutional services to the Board and institutional administrators by measuring and evaluating the effectiveness of financial and managerial controls.

These audits are designed to determine the adequacy of controls and procedures by providing reasonable assurance that assets are properly safeguarded, resources are used economically and efficiently, and compliance is maintained.

The three universities have internal auditors to perform these functions. The University of Iowa internal auditor is responsible for internal audits at the Iowa School for the Deaf. The Iowa State University internal auditor is responsible for internal audits at the Iowa Braille and Sight Saving School.

The Board Office tracks and monitors audit reports indicating a need for corrective action. When all recommendations have been satisfactorily completed, the audits are closed.

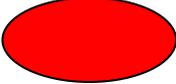
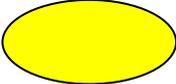
**Dashboard
Data**

At its May 2004 meeting, the Audit and Compliance Committee requested that a dashboard approach be incorporated in the quarterly internal audit report. At the August 2004 meeting, a simplified format was presented for discussion.

At its November 2004 meeting, the Committee discussed the dashboard definitions and the color indicators developed by the internal auditors and the Board Office. The dashboards are an evolving tool for the Committee. One change was made to the definitions as presented and the Committee adopted them by general consent.

As presented at the November Board meeting, a reorganization of the Internal Audit functions will be consolidated into a single department that will serve the Regent institutions. This reorganization is expected to be implemented at the beginning of FY 2006.

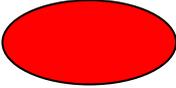
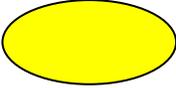
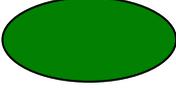
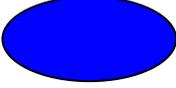
MATERIALITY/CRITICALITY

<p style="text-align: center;">HIGH</p> 	<ul style="list-style-type: none"> • Potential significant impact on enrollment/teaching/research/extension OR • Potential significant impact on people/health/safety OR • Potential exposure to significant financial loss/costly inefficiencies OR • Potential exposure to loss or interception of sensitive electronic data/information OR • Potential exposure to significant legal liability/regulatory penalties OR • Potential significant reputational risk OR • Potential for broad impact of negative event.
<p style="text-align: center;">MODERATE</p> 	<ul style="list-style-type: none"> • Potential for moderate impact on people/health/safety OR • Potential exposure to moderate financial loss/inefficiencies OR • Potential exposure to loss or interception of non-sensitive electronic data/information OR • Potential exposure to moderate legal liability/regulatory penalties OR • Potential moderate reputational risk OR • Potential for localized impact of negative event.
<p style="text-align: center;">LOW</p> 	<ul style="list-style-type: none"> • Low potential for impacting people/health/safety OR • Low potential for loss/liability OR • Low potential for damage to reputation OR • Low potential impact of negative event.

MATERIALITY/CRITICALITY TERMS - Definitions include but are not limited to the following:

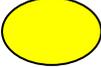
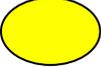
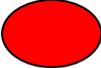
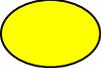
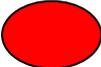
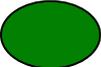
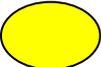
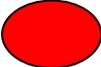
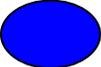
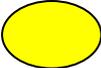
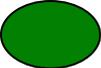
- Enrollment/Teaching/Research/Extension: Recruiting, admissions, financial aid, registrar, curriculum, sponsored programs, extension programs.
- People/Health/Safety: Hospital, clinics, student health center, national security issues, environmental health and safety.
- Financial Loss/Inefficiencies: Improper or inefficient use of money, equipment, human resources, or other assets resulting in lost funds or increased costs.
- Loss or Interception of Electronic Data/Information: Central university and departmental information technology security.
- Legal Liability/Regulatory/Penalties: Violation of laws or regulations resulting in litigation, loss of funding, restriction of programs, fines/penalties.
- Reputational Risk: Negative publicity that could result in loss of public trust, contributions, and other support.
- Significance and Impact: Significant impact of a negative event related to any of the above areas could include large dollar losses, penalties, or other types of harm that could broadly restrict fulfillment of the universities' missions. Moderate impact would include losses or penalties that could restrict specific key activities that are related to the universities' missions.

ASSESSMENT OF CONTROLS/EFFICIENCIES (CEA)

<p style="text-align: center;">HIGH</p> 	<ul style="list-style-type: none"> • Could seriously affect several areas within the University. Exposes the University to unacceptable risks or liability if not corrected OR • Involves difficult issues requiring the attention of executive management OR • Involves compliance with Federal, State, or other laws and could result in serious consequences if not implemented OR • Unacceptable weakness in the internal and/or accounting controls OR • Substantial savings (perhaps millions) can potentially be realized by correcting.
<p style="text-align: center;">MODERATE</p> 	<ul style="list-style-type: none"> • Could seriously affect a department or area within the University OR • Involves a difficult issue requiring the attention of upper management OR • Involves compliance with Federal, State or other law and could result in minor consequences if not implemented OR • Weakness in the internal and/or accounting controls OR • Savings (perhaps thousands) can potentially be realized by correcting.
<p style="text-align: center;">LOW</p> 	<ul style="list-style-type: none"> • Can affect a department or may be common to several areas OR • Could result in improved internal and accounting control OR • Can be corrected relatively easy OR • Could result in improved efficiency or effectiveness of operations OR • No reportable observations or corrective action taken prior to report issuance.
<p style="text-align: center;">CONSULTATION</p> 	<ul style="list-style-type: none"> • Auditors provided consultation only, without thorough assessment • No audit recommendations at this time.

The internal auditors have utilized these colors and definitions in evaluating each comment provided in the audit matrices.

**Internal Audit Reports
January 19, 2005**

	<u>MATERIALITY/CRITICALITY</u>	<u>CONTROL/EFFICIENCY ASSESSMENT (CEA)</u>
UNIVERSITY OF IOWA		
University Operations		
Dance Marathon Business Process Review		
Office of Animal Resources (Cost Accounting Processes)		
Postseason Athletic Participation (Outback Bowl)		
Hospital Operations		
Department of Pediatrics		
80 Hour Residency Audit		
IOWA STATE UNIVERSITY		
Security of Internet-Initiated ACH Transactions		

The internal auditors have utilized the colors for the control/efficiency assessment (CEA) in evaluating each comment provided in the audit matrices.

Follow-Up Issues

	<ul style="list-style-type: none">• Planned corrective action and/or follow-up report not completed within 6 months of originally scheduled date.
	<ul style="list-style-type: none">• Planned corrective action and/or follow-up report not completed within 3 months of originally scheduled date.
	<ul style="list-style-type: none">• Follow-up report completed as originally planned and all issues resolved.
	<ul style="list-style-type: none">• Follow-up report not yet due.

**Status of Internal Audit Follow-Up
January 19, 2005**

University of Iowa

Title	Report Date	Original Follow-Up Status	Expected Completion	Action Status
1. Hospital Mail Room (UIHC) Follow-up Memorandum Follow-up Memorandum #2	Feb 13, 2004 Aug 25, 2004 Dec 8, 2004	Audit closed. (Page 20.)	Jan 2005	Closed
2. Data Backup and Business Continuation Planning (SUI)	Mar 26, 2004	Originally scheduled Mar 2005.	Mar 2005	
3. Dialysis Program (UIHC) Follow-up Memorandum Follow-up Memorandum #2	Mar 26, 2004 Aug 25, 2004 Oct 29, 2004	Audit closed. (Page 18-19.)	Nov 2004	Closed
4. NCAA Equipment and Apparel (SUI) Follow-up Memorandum	Jun 28, 2004 Dec 8, 2004	Audit closed. (Page 17.)	Nov 2004	Closed
5. University External Relations Organizational Review (SUI) Follow-up Memorandum	May 20, 2004 Dec 20, 2004	Audit closed. (Page 18.)	Dec 2004	Closed
6. University HIPAA Compliance (SUI)	Jun 28, 2004	Originally scheduled Jan 2005, then Feb 2005	Feb 2005	
7. Workflow Business Process Review (SUI)	Jun 28, 2004	Originally scheduled Dec 2004, then Jan 2005	Jan 2005	
8. Intercollegiate Athletics – Home Game Ticket Revenue – FY 2003-04 (SUI)	Aug 25, 2004	Originally scheduled Jun 2005	Jul 2005	
9. Office of the Provost (SUI)	Sep 27, 2004	Originally scheduled Oct 2005	Oct 2005	
10. Opportunity at Iowa Departmental Audit (SUI)	Sep 27, 2004	Originally scheduled Dec 2004	Jan 2005	
11. Travel Expenses on Procurement Card (SUI)	Sep 27, 2004	Originally scheduled Aug 2005	Sep 2005	
12. Meal Charging (UIHC)	July 30, 2004	Originally scheduled Jan 2005	Feb 2005	
13. Safety and Security (UIHC)	July 8, 2004	Originally scheduled Dec 2004	Jan 2005	

Iowa State University

Title	Report Date	Original Follow-Up Status	Expected Completion	Action Status
14. Genetics, Development and Cell Biology Follow-up Report Follow-up Report #2	Jan 7, 2004 Aug 2, 2004 Nov 9, 2004	Audit closed. (Page 21-22.)	Nov 2004	Closed
15. Employee Medical Benefit Claims	Jun 18, 2004	Originally scheduled June 2005.	July 2005	
16. International Education Services Follow-up Report	Jun 23, 2004 Nov 9, 2004	Audit closed. (Page 23-24.)	Nov 2004	Closed
17. Workers' Compensation Follow-up Report	Jun 9, 2004 Nov 9, 2004	Audit closed. (Page 24.)	Nov 2004	Closed
18. Security of Remote Computing	Sep 1, 2004	Originally scheduled Jan 2005	Feb 2005	

University of Northern Iowa

Title	Report Date	Original Follow-Up Status	Expected Completion	Action Status
19. Conference and Event Services Follow-up Report	Nov 22, 2002 Sep 26, 2003	Originally scheduled in Jun 2004.	Jan 2005	
20. University-Wide Financial Business Procedures	Feb 16, 2004	Originally scheduled in Mar 2005.	Mar 2005	
21. Campus Supply – Process Review	Apr 14, 2004	Originally scheduled in Mar 2005.	Mar 2005	
22. Transportation Services – Motor Vehicle Usage	Apr 14, 2004	Originally scheduled in Feb 2005.	Feb 2005	
23. Continuing Education – Credit Programs	Aug 13, 2004	Originally scheduled in Aug 2005.	Sep 2005	
24. Department of Residence – Facilities	Sep 24, 2004	Originally scheduled in Oct 2005.	Oct 2005	
25. Field House (UNI Dome) Operations – Event Parking	Aug 25, 2004	Originally scheduled in Aug 2005.	Sep 2005	
26. Human Resource Services – Workers' Compensation	Sep 23, 2004	Originally scheduled in Oct 2005.	Oct 2005	
27. University Health Services – Student Health Center	Sep 24, 2004	Originally scheduled in Oct 2005.	No 2005	

**The University of Iowa – University Operations
Dance Marathon Business Process Review**

Initial Audit Report Issued: December 20, 2004

Audit Remains Open

Description The University of Iowa Dance Marathon is a student-run, non-profit organization that raises money and awareness for children and their families fighting cancer at the Children’s Hospital of Iowa at the University of Iowa Hospitals and Clinics. Dance Marathon, through a Family Relations service program and year-round fundraising, does what it can to ease the immense financial and emotional burdens placed on families fighting serious illness.

Throughout the past 10 years, UI Dance Marathon has raised more than \$3.4 million. In its 11th year, Dance Marathon 2005 will sponsor over 250 families and host over 1,000 dancers, all with the help of more than 300 volunteers. It is one of the largest student-run philanthropies in the United States and the largest Dance Marathon worldwide to benefit the Children’s Miracle Network.

Scope / Objective Internal auditors evaluated the adequacy of procedures and internal controls of selected processes to ensure:

- Compliance with cash handling policies and procedures;
- Proper training and documentation;
- Proper management oversight and monitoring;
- Proper recording and committee structure;
- Efficiencies where possible;
- Proper reporting to related organizations; and
- Proper record retention.

**Recommendations/
Responses**

C E A	Auditor’s Recommendation	Management’s Response	Expected Auditor Follow-up
1. 	<u>Security.</u> Secure all cash/checks in a locked location until deposited. Change the safe password annually. Provide cash handling training to all persons collecting and handling cash. Develop and document internal cash handling desk procedures.	Cash/checks will be secured in a locked cabinet until processed. The safe password will be changed at the beginning of each financial director’s term. Cash handling training will be shared with DM financial committee members at the beginning of their term. Internal cash handling desk procedures will be developed. Implementation Target Date: January 15, 2005	Internal auditors will verify that corrective action has been implemented. Review: Jan 2005 Report: Feb 2005

**The University of Iowa – University Operations
Department of Pediatrics**

Initial Audit Report Issued: October 29, 2004

Audit Remains Open

Description The Department of Pediatrics employs approximately 350 staff in 19 divisions. More than 90 pediatricians, pediatric sub-specialists, child psychologists, and doctoral-level scientists constitute the faculty of the Department of Pediatrics. The staff sees approximately 44,000 ambulatory visitors per year. A new department chair begins in January 2005.

Scope / Objective The purpose of the audit was to provide the incoming chair of Pediatrics an objective, independent assessment of the business processes within the department. Internal auditors reviewed departmental procedures and internal controls to determine if:

- Pediatrics is in compliance with University and other regulatory policy;
- Processes are properly segregated among individuals;
- Transactions are complete and recorded timely and accurately to the general ledger and/or subsidiary ledgers;
- Assets are properly identified, maintained and safeguarded from misappropriation and destruction;
- Information provided to management is adequate and accurate;
- Management is performing appropriate monitoring and follow-up activities; and
- Inefficiencies exist within the processes.

C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. 	<u>Policies and Procedures.</u> Document business processes via departmental policies and procedures.	Management will begin documenting departmental polices and procedures.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: 3 rd quarter FY 2005.	Review: Mar 2005 Report: Apr 2005
2. 	<u>Grant Management.</u> Implement grant management internal controls to help prevent overspending of accounts.	Management will strengthen grant management internal controls by requiring a cost based budget for all clinical trials, proactive monitoring of accounts, and only accepting clinical trials where revenues are expected to exceed costs.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: 2nd quarter FY 2005.	Review: Mar 2005 Report: Apr 2005

**The University of Iowa – University Operations
Department of Pediatrics**

(continued)

C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
3. 	<u>Outdated Technology.</u> Upgrade technology to current standards.	Technology will be upgraded to a sufficient level so it can be connected to the network.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: Immediately.	Review: Mar 2005 Report: Apr 2005
4. 	<u>IRB Approvals.</u> Work with the Institutional Review Board (IRB) and comply with any recommendations. Communicate correct procedure to follow during a gap in IRB approval.	Management is actively working with the IRB and will comply with any IRB recommendations.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: Immediately.	Review: Mar 2005 Report: Apr 2005
5. 	<u>Cash Handling.</u> Schedule cash handling training for staff involved with the handling of cash.	Management will schedule cash handling training for no later than November 2004; generate documentation for procedures; and modify workflow and oversight.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: Immediately.	Review: Mar 2005 Report: Apr 2005
6. 	<u>Administrative Review.</u> Perform detailed reviews of purchase transactions prior to departmental approval.	More detailed reviews have already begun.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: Immediately.	Review: Mar 2005 Report: Apr 2005
7. 	<u>Property Management Listing.</u> Communicate procedure for correctly accounting for assets. Properly account for departmental assets on physical inventory.	Management will communicate the proper procedure for completing capital asset physical inventories. All discrepancies will be adjusted during Pediatrics physical inventory which began October 1, 2004.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: Immediately.	Review: Mar 2005 Report: Apr 2005
8. 	<u>Personal Computer Scans.</u> Counsel employees on their responsibilities regarding University ITS policies. Delete all unlicensed software applications and files existing on computers that are for excess personal use.	Management will discuss computer use with staff members identified as consuming the most server file space and remove any unlicensed and/or inappropriate software discovered.	Internal auditors will verify that corrective action has been taken.
		Implementation Target Date: January 2005.	Review: Mar 2005 Report: Apr 2005

**The University of Iowa – University Operations
Office of Animal Resources – Cost Accounting Processes**

Initial Audit Report Issued: December 8, 2004

Audit Remains Open

Description The Office of Animal Resources (OAR) is responsible for the housing and veterinary care of all research animals at the University of Iowa. OAR's facility and program is accredited by the Association for Assessment and Accreditation of Laboratory Animal Care.

OAR has a staff of 33 trained animal caretakers, 2 veterinary technicians, and 3 veterinarians. Approximately 70,000 square feet of animal facility space is available to accommodate multiple species.

OAR's revenue is generated by charging a daily per diem rate for housing research animals. Rates vary depending on the animal species and covers OAR's expenses for providing this service.

Scope / Objective The purpose of this audit was to provide management with reasonable assurance that OAR cost accounting is being handled correctly and consistently.

**Recommendations/
Responses**

C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. 	<u>Animal Care Terminal System</u> . Implement a vendor-provided cost accounting application. Perform a cost benefit analysis to determine appropriateness for correcting all critical accounting system issues.	Management will schedule demonstrations with four external companies to view software applications; document and prioritize all other non cost accounting system issues; conduct a cost benefit analysis. No modifications will be made for cost accounting issues.	Internal auditors will verify that corrective has been implemented.
		Implementation Target Date: July 2005	Review: Jul 2005 Report: Aug 2005
2. 	<u>Cost Model and Documentation</u> . A) Eliminate manual data entry where appropriate. B) Document cost accounting process in detail. C) Store spreadsheet costing model in a secure network folder. D) Store all spreadsheets used in the costing process on the network shared drive.	Management will: A) Replace the current practice of tracking all elements of the per diem rate on a daily basis with a more easily managed periodic costing methodology. B) Document the new process in detail. C) Store the spreadsheet template in a separate secure network folder. D) Continue to store spreadsheets on a network shared drive.	Internal auditors will verify that corrective has been implemented.
		Implementation Target Date: July 2005	Review: Jul 2005 Report: Aug 2005

**The University of Iowa – University Operations
Office of Animal Resources – Cost Accounting Processes**

(continued)

C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
3. 	<u>Medication Inventory.</u> Re-engineer the ordering process to assure segregation of duties.	A proper segregation of duties will be implemented.	Internal auditors will verify that corrective has been implemented.
		Implementation Target Date: July 2005	Review: Jul 2005 Report: Aug 2005
4. 	<u>Animal Inventory Process.</u> Implement bar code technology for the physical inventory of animals.	Management will consider bar code technology when a new cost accounting system is in place. Management's opinion is that implementing bar code technology is not feasible or cost effective in the current environment.	Item closed.
		Implementation Target Date: Immediately	Review: N/A Report: N/A
5. 	<u>Online Animal Ordering Tool.</u> Develop a database tool that allows researchers to electronically submit animal orders.	Management will consider incorporating an online ordering tool if not included with the new cost accounting system. In the meantime, staff will input order information directly into the system and eliminate duplicating the order slip.	Internal auditors will verify that corrective has been implemented.
		Implementation Target Date: Immediately	Review: Jul 2005 Report: Aug 2005

**The University of Iowa – University Operations
Postseason Athletic Participation (Outback Bowl)**

Initial Audit Report Issued: December 8, 2004

Audit Closed

Description SUI has participated in several post-season bowl games. These events provide nationwide publicity for the University and involve substantial amounts of money and administrative coordination.

For the 2003-2004 season, SUI participated in the January 1, 2004, Outback Bowl game in Tampa, Florida. Approximately 670 people (122 student-athletes, 270 band members/cheerleaders, and 280 faculty/staff/family members) attended the game at University expense. Big Ten Conference Agreement 18.7.B.4a allows the University \$1.35 million in authorized expenses connected with participation in this event. The University spent nearly \$1.26 million.

Scope / Objective The objective of this audit was to test departmental processes, procedures, and internal controls related to participation in post season bowl games. Internal auditors reviewed applicable NCAA and Big Ten regulations in this area, as well as taxable benefits issues.

Audit scope and procedures included review and evaluation of the following:

- January 1, 2004, Outback Bowl Game;
- Article 16 of the NCAA Division I Manual;
- Rule 18 of the Big Ten Conference Handbook; and
- University departmental policies and procedures.

Audit procedures included:

- Review of appropriate general ledger accounts;
 - Review of event cash handling practices;
 - Detailed review of all expenses charged to the event ledger account;
 - Review of lodging and transportation contracts;
 - Detailed review of complimentary tickets distribution list; and
 - Comparison of budgeted and actual expenses.
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**The University of Iowa – University Operations
Postseason Athletic Participation (Outback Bowl)**

(continued)

C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. 	<u>Student-Athlete Awards/Gifts</u> . Self report two gift package violations for student-athletes and amend policy and practices to avoid repeat violations.	Management has consulted with the Big Ten Office to resolve the gift package violations. Future gifts to student-athletes for bowl participation will comply with NCAA bylaws.	Internal auditors have been shown the form that requires approval by the associate athletics director. Mandatory use will provide needed controls to avoid future violations.
		Implementation Target Date: Completed.	Review: None Report: None
2. 	<u>Football Bowl Travel Policy</u> . Three specific additions were recommended to the policy, all in the section entitled "Duties at the Bowl Site."	Management will review the policy document and clarify the roles and number of attendees. The Director of Athletics will be explicitly given decision making discretion in the policy.	An amended policy incorporating the recommended changes has been submitted to and approved by the University President.
		Implementation Target Date: Completed.	Review: None Report: None
3. 	<u>General Departmental Coordination of the Bowl Game</u> . Establish a "Bowl Management Committee" with members from appropriate areas of the department.	There is central administrative coordination of bowl trips, with the Senior Associate Director of Athletics serving in this function for the last two bowl trips. She is responsible for delegating tasks to other members of the senior management team to coordinate for the bowl trip. In this role, she takes notes on what issues need closer supervision during the bowl trip and recognizes the need for certain areas to be more closely monitored.	When planning future events, Athletic Department Compliance management should be involved in many of the processes, particularly those that are governed by the NCAA and Big Ten.
		Implementation Target Date: No action necessary.	Review: None Report: None

**The University of Iowa – Hospital Operations
80 Hour Residency Audit**

Initial Audit Report Issued: December 8, 2004

Audit Closed

Description The Accreditation Council for Graduate Medical Education (ACGME) limited the number of hours medical residents may work. It requires residency programs and their sponsoring institutions to oversee work hours to ensure compliance. Failure to diligently monitor resident's hours could contribute to the loss of accreditation by ACGME which could affect the level of reimbursement from external sources.

Scope / Objective The purpose of the audit was to provide independent assurance to management that UIHC is promoting adherence with ACGME standards. The review focused on:

- Current and proposed monitoring practices at UIHC; and
- UIHC resident programs determined by the auditor to be high risk.

Observations were based on:

- Discussions with the Graduate Medical Education (GME) Designated Institutional Official, the GME Administrator, and the Internal Review Coordinator;
- Interviews with program directors and coordinators; and
- A brief questionnaire to determine the level of understanding.

Observations / Discussion

C E A	Auditor's Observation	Management's Response	Expected Auditor Follow-up
1. 	ACGME Survey. Program directors have participated in the on-line survey to monitor compliance.	No response required.	No follow-up.
		Implementation Target Date: N/A	Review: N/A Report: N/A
2. 	Commitment to Compliance. The GME office and GME committee are committed to ACGME standards evidenced by performing internal reviews; assisting with a help line; surveying program directors; administering web-based audits; providing educational programs; coordinating monthly meetings; and creating and designing an intranet site.	No response required.	No follow-up.
		Implementation Target Date: N/A	Review: N/A Report: N/A
3. 	Software Tool. Software was purchased in 2003 to assist in managing residency programs.	No response required.	No follow-up.
		Implementation Target Date: N/A	Review: N/A Report: N/A

Iowa State University
Security of Internet-Initiated ACH Transactions

Initial Audit Report Issued: December 2, 2004

Audit Closed

Description The University has an agreement with Bankers Trust Company for ACH (automated clearing house) transactions. In an ACH transaction, payment information is processed and settled electronically, providing reliability, efficiency, and cost-effectiveness. The National Automated Clearing House Association (NACHA) requires originators (in this case ISU) of ACH transactions initiated via the Internet to follow NACHA Operating Rules.

NACHA requires an annual audit of security practices and procedures and prescribes minimum components for the audit. The Treasurer's Office requested an internal audit of Internet ACH security to ensure compliance with the NACHA Operating Rules.

Scope / Objective Only security policies, procedures and practices surrounding ACH transactions initiated via the Internet were included in the audit scope. The audit objectives included examination of risk management techniques, including the minimum components prescribed by NACHA for audits of website security.

Recommendations/ Responses	C E A	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	1.	None. Based on audit work performed, it appears the University is in compliance with NACHA operating rules.	N/A	N/A
			Implementation Target Date: N/A	Review: N/A Report: N/A

INTERNAL AUDIT FOLLOW-UP REPORTS	
<p><u>University of Iowa – University Operations</u></p> <ul style="list-style-type: none"> NCAA Compliance Equipment and Apparel University External Relations Organizational Review 	<p>Closed</p> <p>Closed</p>
<p><u>University of Iowa – Hospital Operations</u></p> <ul style="list-style-type: none"> Dialysis Center (2nd follow-up) Hospital Mail Room (2nd follow-up) 	<p>Closed</p> <p>Closed</p>
<p><u>Iowa State University</u></p> <ul style="list-style-type: none"> Genetics, Development, and Cell Biology (2nd follow-up) International Education Services Workers' Compensation 	<p>Closed</p> <p>Closed</p> <p>Closed</p>

University of Iowa – University Operations
NCAA Compliance Equipment and Apparel
 Initial Report Issued: June 28, 2004
 Follow-Up Memorandum Issued: December 8, 2004

Audit Closed

Recommendations /
Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. <u>Revision to University of Iowa Athletic Policy and Additional Oversight.</u> a. <u>Approval of Purchases.</u> Amend athletic policy to define the pre-approval process allowing coaches to make direct purchases; indicate procedural steps when approaching the budget maximum; and give equipment managers access to budget and competitive equipment accounts.	Management will revise the athletics policy to:	Item closed. Review: Aug 2004 Report: Aug 2004
	a. Refer to the approved budget and the override process as the approval for allowing coaches to make direct purchases; include the need to obtain approval before spending beyond the budget; and give equipment managers access to competitive equipment accounts. Implementation Target Date: August 15, 2004	
b. <u>Student Athlete Apparel Return.</u> Add detailed steps to be taken when items are not returned and the person responsible to initiate the action.	b. Instruct equipment managers to enforce timely notification and billing for missing items and notify the respective coach.	Item closed. Review: Jun 2004 Report: Jun 2004
	Implementation Target Date: June 11, 2004	
2. <u>Controls Over Purchases.</u> Add detailed steps to be taken when items are not returned and the person responsible to initiate the action.	Management will revise the athletics policy to instruct equipment room staff to take timely action by enforcing notification and billing for missing items.	Item closed. Review: Aug 2004 Report: Aug 2004
	Implementation Target Date: August 15, 2004	

**University of Iowa – University Operations
University External Relations Organizational Review**

Initial Report Issued: May 20, 2004
Follow-Up Memorandum Issued: December 20, 2004

Audit Closed

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	1. <u>Increase the interaction between OUR and the Collegiate External Relations Group (CERG).</u> OUR and CERG should create a more interactive relationship.	The Director of University Relations will: (1) appoint a staff member to attend the monthly CERG meetings; (2) keep in touch with CERG; (3) re-instate twice-a-year meeting of the Strategic Communications Forum to specifically discuss various current issues and plans; and (4) attempt to consult individually and/or collectively with the Deans.	Item closed.
		Implementation Target Date: October 2004	Review: Nov 2004 Report: Dec 2004

**University of Iowa – Hospital Operations
Dialysis Program**

Initial Audit Report Issued: March 26, 2004
Follow-Up Memorandum Issued: August 25, 2004
Second Follow-Up Memorandum Issued: October 29, 2004

Audit Closed

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	INVENTORY		
	2. <u>Spare Parts Inventory Process.</u> Implement a spare parts inventory system. Determine inventory levels from historical trends and preventative maintenance schedules. Assure appropriate vendor billing.	Management will add a spare parts inventory system to the supply inventory database currently being developed and will assure appropriate vendor billing.	Item closed.
		Implementation Target Date: September 2004	Review: Oct 2004 Report: Oct 2004

**University of Iowa – Hospital Operations
Dialysis Program**

(continued)

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
BUSINESS PRACTICES		
7. <u>Documentation and Cross-training.</u> Document each employee's key processes and software/business applications to ensure continuity of processes during times of change and employee absence.	Management will develop documented processes and procedures to ensure processes can continue during times of change or employee absence. Written procedures will be completed and approved by the management team.	Item closed.
	Implementation Target Date: October 2004	Review: Oct 2004 Report: Oct 2004
8. <u>Cash Handling.</u> Implement cash handling procedures in accordance with University policy.	Management will develop cash handling procedures.	Item closed.
	Implementation Target Date: September 2004	Review: Oct 2004 Report: Oct 2004
9. <u>Asset Listing.</u> Ensure that inventory listings are correct and up to date.	Management will conduct a physical inventory and submit applicable forms to the Property Management Office (PMO).	Item closed.
	Implementation Target Date: September 2004	Review: Oct 2004 Report: Oct
12. <u>Physical Access Controls.</u> Enhance physical security at all satellite centers. Re-key locks; issue keys to appropriate personnel; maintain log; report lost or stolen keys; obtain keys from terminated employees.	Management will implement auditor's proposal.	Item closed.
	Implementation Target Date: December 2004	Review: Oct 2004 Report: Oct 2004
Items 1, 3, 4, 5, 6, 10, 11, 13, 14, and 15 were closed in the follow-up memorandum issued on August 25, 2004.		

**The University of Iowa – Hospital Operations
Hospital Mail Room**

Initial Audit Report Issued: February 13, 2004

Follow-Up Memorandum Issued: August 25, 2004

Second Follow-Up Memorandum Issued: December 8, 2004

Audit Closed

Recommendations /
Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>1. <u>Revolving Fund Balance.</u> Determine the cause of the excess fund balance by monitoring the fund on a daily basis; define a standard fund balance amount to use as an operational benchmark; and determine the disposition of the excess balance.</p>	<p>Management will establish a method for comparing daily readings; develop an acceptable balance to use as a benchmark; and determine the disposition of the excess balance.</p>	<p>Item closed.</p>
<p>6. <u>Maintenance Contracts.</u> Obtain a written contract for ongoing maintenance and use the contract as the basis for reviewing quarterly invoices.</p>	<p>A copy of the equipment maintenance agreement has been requested and received and is on file.</p>	<p>Item closed.</p>
<p>Items 2, 3, 4, 5, and 7 were closed in the follow-up memorandum issued on August 25, 2004.</p>		

Iowa State University
Genetics, Development and Cell Biology
 Initial Audit Report Issued: January 7, 2004
 Follow-Up Report Issued: August 2, 2004
 Second Follow-Up Report Issued: November 9, 2004

Audit Closed

Recommendations / Responses

Auditor's Observation	Management's Response	Expected Auditor Follow-up
1. <u>Management of Sponsored Program and Foundation Accounts.</u> GDCB has not established an adequate system for management of sponsored program or foundation accounts. The following conditions were noted that warrant further investigation in several sponsored program accounts: <ul style="list-style-type: none"> • Deficit balances in closed accounts; • Expenses greater than total budget; • Expenses greater than receipts; • Receipts greater than total budget; and • Potential need for rebudgeting. 	The department head will assign responsibilities for management of sponsored program accounts. The administrative specialist will review account activity on the foundation system on a monthly basis to assess the allowability and appropriateness of the transactions, and to monitor the expendable balance of each account.	Item closed.
	Implementation Target Date: December 31, 2003	Review: Apr 2004 Report: Aug 2004
2. <u>Segregation of Duties.</u> A lack of segregation of duties exists within the following processes: <ul style="list-style-type: none"> • <u>Procurement.</u> The account clerk is responsible for performing all steps of the procurement process with the exception of purchasing card transactions. 	Management will segregate procurement tasks as much as possible. The administrative specialist will monitor departmental statements for allowability and appropriateness of expenditures.	Item closed.

**Iowa State University
Genetics, Development and Cell Biology**

(continued)

Auditor's Observation	Management's Response	Expected Auditor Follow-up
<ul style="list-style-type: none"> • <u>Hourly payroll</u>. The account clerk is responsible for entering and reconciling hourly payroll. • <u>Disbursement of GDCB scholarship funds</u>. The record analyst identifies scholarship recipients and approves disbursements from a scholarship fund. 	<p>The secretary will be responsible for reconciling the hourly payroll entry to the timesheets.</p> <p>The department chair will determine the recipient selection process and approve the disbursement of funds. The administrative specialist will review the scholarship fund account activity on a monthly basis.</p>	
	<p>Implementation Target Date: December 31, 2003</p>	<p>Review: Apr 2004 Report: Aug 2004</p>
<p>3. <u>Procedures and Documentation</u>. GDCB does not have the following thoroughly documented:</p> <ul style="list-style-type: none"> • Departmental responsibilities regarding sponsored program and foundation accounts; • Transactions, reconciling, and other recurring processes; • Organizational reporting; • Signature authority designation; and • Processes specific to the department. 	<p>Management will complete an assessment of departmental policies and procedures and will create an electronic manual format.</p>	<p>Item closed.</p>
	<p>Implementation Target Date: September 30, 2004</p>	<p>Review: Oct 2004 Report: Oct 2004</p>

Iowa State University
International Education Services
Initial Audit Report Issued: June 23, 2004
Follow-Up Report Issued: November 9, 2004

Audit Closed

Recommendations / Responses	Auditor's Observation	Management's Response	Expected Auditor Follow-up
	<p>1. <u>Security of Information Resources.</u> The following areas were identified for improvement:</p> <p>A. Establishment of accountability for actions within information systems.</p> <p>B. Documentation of a password policy and communication of the policy to applicable system users.</p> <p>C. Establishment of policies and procedures for granting, reviewing, and revoking access to international student/scholar information systems.</p>	<p>Management will:</p> <p>A. Communicate to all staff members that at no time and under no circumstances are SEVIS and any other logon IDs and passwords to be shared with anyone.</p> <p>B. Create, document, communicate, and enforce a password policy.</p> <p>C. Institute and adhere to policies and procedures for granting, periodically reviewing, and revoking access to international student/scholar information systems.</p>	<p>Item closed</p>
		<p>Implementation Target Date:</p> <p>A. Implemented</p> <p>B. Implemented</p> <p>C. September 1, 2004</p>	<p>Review: Sep 2004 Report: Oct 2004</p>
	<p>2. <u>Processing of Student and Scholar Events.</u> The efficiency and effectiveness of the batch transmittal process, and accountability for entries can be improved by each advisor (1) performing data entry utilizing his/her own user identifications and passwords; (2) downloading and printing forms he/she initiated; (3) updating other information resources, as necessary and by a secondary review of data entry before submitting a batch.</p>	<p>Management will assign the following responsibilities to advisors: (1) data entry of advisor-initiated events; (2) downloading and printing of immigration forms; and (3) updating other necessary information resources with the event data.</p>	<p>Item closed.</p>
		<p>Implementation Target Date: Action began immediately. Action to be completed by July 1, 2004.</p>	<p>Review: Sep 2004 Report: Oct 2004</p>

**Iowa State University
International Education Services**

(continued)

Auditor's Observation	Management's Response	Expected Auditor Follow-up
<p>3. <u>Management of Study Abroad Risks.</u> A. Program directors are not required to comment on the "Group Study Abroad Program Approval Form" about health and safety issues specific to the program's location or activities. B. The student handbook does not provide instructions for participants to get assistance if they face discrimination or harassment from within the group while studying abroad.</p>	<p>A. The "Group Study Abroad Program Approval Form" is in the process of being revised and the new form will include a section for program directors to comment on risk exposures relevant to the program's location and activities. B. Management will create a process for handling allegations made by study abroad participants of discrimination and harassment from within the group. The process will be documented in the student and program director handbooks. Implementation Target Date: Implemented</p>	<p>Item closed.</p>

**Iowa State University
Workers' Compensation**

Initial Audit Report Issued: June 9, 2004
 Follow-Up Report Issued: November 9, 2004

Recommendations / Responses

Auditor's Observation	Management's Response	Expected Auditor Follow-up
<p>1. <u>Guidance Provided to Employees.</u> No easily accessible resource exists with information about workers' compensation and related procedures.</p>	<p>Management will develop a website that provides information relevant to workers' compensation. Implementation Target Date: August 20, 2004</p>	<p>Item closed. Review: Sep 2004 Report: Oct 2004</p>
<p>2. <u>Procedural Documentation.</u> The process for paying ISU employees who are supplementing their workers' compensation with sick or vacation leave has not been entirely documented.</p>	<p>Management will expand existing documentation to include the supplementation process, assess currently documented processes and procedures to determine their adequacy, and revise documentation as needed. Implementation Target Date: July 30, 2004</p>	<p>Item closed. Review: Sep 2004 Report: Oct 2004</p>