

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: December 4, 2003

Recommended Actions:

1. Receive the Sponsored Programs internal audit report from Iowa State University.
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including three follow-up reports, two from the University of Iowa and one from Iowa State University.
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Executive Summary:

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

One new audit report on Sponsored Programs is presented this month from Iowa State University.

The Status of Internal Audit Follow-Up Table on page 2 identifies 19 internal audit reports, 17 of which require follow-up. Three follow-up reports are presented this month: two from the University of Iowa – University Operations and one from Iowa State University; two are closed and one at the University of Iowa remains open.

Background:

In accordance with Regent Policy Manual §1.06, internal audit reports are presented to the Banking Committee. 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.

**Status of Internal Audit Follow-Up
December 4, 2003**

University of Iowa

Title	Report Date	Follow-Up Status	Expected Completion
1. Patient Fiscal and Registration Services (UIHC) Follow-up Memorandum	March 18, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	December 2003
2. Broadcast Services – Departmental Audit (SUI) Follow-Up Memorandum	March 18, 2003 November 17, 2003	Follow-up scheduled in FY 2004. Second follow-up in January 2004.	January 2004
3. Contractual Adjustments (UIHC)	January 27, 2003	Follow-up scheduled in FY 2004.	December 2003
4. Department of Orthopaedic Surgery – Cash Handling Audit (SUI)	June 17, 2003	Follow-up scheduled in FY 2004.	December 2003
5. Department of Orthopaedic Surgery – Sponsored Program Administration (SUI) Follow-Up Memorandum	June 17, 2003 November 17, 2003	Audit closed. (Pages 8-9.)	Closed
6. Student Legal Services Departmental Audit (SUI)	June 17, 2003	Follow-up scheduled in FY 2004.	March 2004
7. Information Technology Security Risk Assessment (SUI)	October 17, 2003	Follow-up scheduled in FY 2004.	June 2004
8. Intercollegiate Athletics – Home Game Ticket Revenue (FY 2002-2003) (SUI)	September 22, 2003	Follow-up scheduled in FY 2004.	February 2004
9. Review of Campus-Wide Expenditures for Business Purpose Events (SUI)	September 22, 2003	Follow-up scheduled in FY 2004.	January 2004
10. Contract Nursing (UIHC)	September 22, 2003	Follow-up scheduled in FY 2004.	May 2004
11. Radiology (UIHC)	September 22, 2003	Follow-up scheduled in FY 2004.	December 2003

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
12. NCAA Compliance – Representatives of Athletics Interest	March 11, 2003	Follow-up scheduled in FY 2004.	December 2003
13. Student Financial Aid	June 2, 2003	Follow-up scheduled in FY 2004.	February 2004
14. Conflict of Interest	August 7, 2003	Follow-up scheduled in FY 2005.	July 2004
15. Facilities Planning and Management Follow-Up Review	August 7, 2003 October 31, 2003	Audit closed. (Page 10.)	Closed

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
16. FY 2002 Cash on Hand Follow-up Report Follow-up Report	September 10, 2002 January 31, 2003 June 27, 2003	Follow-up scheduled in FY 2004.	December 2003
17. Conference and Event Services Follow-up Report	November 22, 2002 September 26, 2003	Follow-up scheduled in FY 2004.	March 2004
18. FY 2003 Cash on Hand	July 11, 2003	Follow-up scheduled in FY 2004.	December 2003
19. Department	July 11, 2003	Follow-up scheduled in FY 2004.	April 2004

**Iowa State University
Sponsored Programs**

Initial Audit Report Issued: November 10, 2003

Description Iowa State University (ISU) received over \$230 million in sponsored funding in fiscal year 2003, \$153 million of which was received from federal sponsors.

Administration of sponsored funding at ISU is allocated among central administration, colleges, departments, Principal Investigators (PIs), and support personnel. The PI is the chief administrator for a sponsored project. The offices of Sponsored Programs Administration (OSPA), Sponsored Programs Accounting (SPA), and the Vice Provost for Research (VPR) provide services and guidance.

Federally sponsored awards are subject to government regulations and university policies [e.g., the University's Office Procedure Guide (OPG)].

Scope / Objective Five federally sponsored programs were reviewed. Results cannot be extrapolated to the population of all sponsored programs due to the selection process involving judgmental rather than random sampling. Objectives assessed the following:

- Adequacy of institutional review and approval;
- Compliance with institutional and federal requirements for expenditures and reporting;
- Compliance with requirements of specific sponsored program agreement terms and conditions; and
- Procedures and controls that assure proper administration of sponsored funds.

Recommendations / Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>1. <u>Policies and Procedures.</u> Improve policy and procedure information, define the roles and responsibilities and improve compliance.</p>	<p>Management will evaluate policies and procedures, define and document each role in the administration of sponsored programs, and publish the information in a central user-friendly location.</p> <p><i>Implementation Target Date: March 1, 2004</i></p>	<p>Internal audit will monitor status of implementation.</p> <p><i>Review: July 2004 Report: August 2004</i></p>

**Iowa State University
Sponsored Programs**
(continued)

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>2. <u>Compliance and Training.</u> Enhance training programs and encourage participation to improve administrative processes and coordination as well as compliance with policies, regulations and contracts.</p>	<p>Management will (1) continue to enhance training programs and refresher courses (2) emphasize administrative requirements, accountability for project oversight and the potential ramifications of non-compliance on the institution; (3) monitor training session attendance; and (4) encourage participation.</p>	<p>Internal audit will monitor status of implementation.</p>
	<p><i>Implementation Target Date:</i> March 1, 2004</p>	<p><i>Review: July 2004</i> <i>Report: Aug 2004</i></p>
<p>3. <u>Cost Sharing.</u> Require cost sharing supporting documentation and assure that third party commitment letters have been signed.</p>	<p>Management will (1) compile appropriate and sufficient cost share documentation; (2) ensure that signed commitment letters from third parties are documented and signed in a timely manner; (3) verify that cost share contributions are allowable and not included for any other project or program; and (4) provide cost sharing information in training sessions.</p>	<p>Internal audit will monitor status of implementation.</p>
	<p><i>Implementation Target Date:</i> December 31, 2003</p>	<p><i>Review: July 2004</i> <i>Report: August 2004</i></p>
<p>4. <u>Project Approval.</u> Limit signature delegates to individuals who have received proper training and who have been granted approval authority.</p>	<p>Management will evaluate signature authority delegation, revise policies and practices as needed, and provide training.</p>	<p>Internal audit will monitor status of implementation.</p>
	<p><i>Implementation Target Date:</i> June 30, 2004</p>	<p><i>Review: July 2004</i> <i>Report: August 2004</i></p>
<p>5. <u>Submission of Reports to Sponsors:</u> Ensure that progress reports and financial reports are submitted to sponsors on time.</p>	<p>Management will stress timely reporting in training sessions.</p>	<p>Internal audit will monitor status of implementation.</p>
	<p><i>Implementation Target Date:</i> Ongoing</p>	<p><i>Review: July 2004</i> <i>Report: August 2004</i></p>

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Broadcast Services Remains Open
- Orthopaedic Surgery Sponsored Program Administration Closed

Iowa State University

- Facilities Planning and Management (FAMIS) Closed
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**University of Iowa – University Operations
Broadcast Services – Departmental Audit**

Initial Audit Report Issued: March 18, 2003

Follow-Up Report Issued : November 17, 2003

Audit Remains Open

Recommendations /
Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Strategic Management Concerns.</u></p> <p>a. <u>Communication Issues.</u> Develop regular departmental communication; schedule regular staff meetings and prepare agendas; have current written employee performance appraisals on file; and utilize available resources to manage timely performance evaluations.</p> <p>b. <u>Information Technology.</u> Restrict access to equipment area; address data security concerns; monitor needs; develop backup policies and procedures; review backups to ensure that information is reloadable; and develop replacement plan for outdated hardware and software.</p>	<p>Management will not be taking corrective action at this time on the communications issue. Management states that it holds regular staff meetings, has current performance evaluations on file, and utilizes available resources for evaluations.</p> <p>Management will initiate proper security measures; seek assistance regarding information security; and develop a policy and schedule routine information backups. A long-term plan has been developed and approved to outline funding for technology updates.</p>
<p>2. <u>Fund Handling Procedures.</u></p> <p>a. <u>General Cash Handling Comments.</u></p> <p>(1) <u>Segregation of Duties.</u> Redistribute cash handling duties among employees.</p> <p>(2) <u>Safeguards for Handling and Storing Cash.</u> Discontinue depositing funds through campus mail; properly secure funds until deposit; and eliminate usage of a hidden key to store receipts.</p> <p>b. <u>Specific Comments Concerning Underwriter Donations.</u></p> <p>(1) <u>Control Processes Associated with Negotiation.</u> Review current obligations for restricted donations; analyze appropriate handling; and secure signature authority.</p>	<p>Management will redistribute cash handling duties and put compensating controls in place.</p> <p>Management will deliver deposits and provide a key to those responsible for the cash.</p> <p>Management will review restricted donation obligations; analyze appropriate handling; and request written signature authority documentation.</p>

**University of Iowa – University Operations
Broadcast Services – Departmental Audit**

(continued)

Auditor's Recommendation	Management's Response
<p>(2) <u>Revise and Utilize an Approved Donation Schedule.</u> Correct mathematical errors and reduce ambiguity; update marketing literature; establish guidelines for underwriter discounts; and document variations from the donation schedule.</p>	<p>Management will correct mathematical errors and reduce ambiguity and will establish guidelines for underwriter discounts. The marketing manager will review contracts for compliance.</p>
<p>(3) <u>Improved Communication and Administrative Handling of Restricted Donation Agreements.</u> Improve the process for proper handling of restricted donation agreements.</p> <p>(4) <u>Developing a Formal Collection and Adjustment Policy.</u> Coordinate changes to underwriter agreements. Develop a written collection and adjustment policy.</p>	<p>Management will implement changes to improve the handling of restricted donation agreements.</p> <p>Management will institute rules for underwriter agreements and a system for handling write-offs.</p>
<p>3. <u>Procurement Card.</u> Ensure adequate controls regarding the use of procurement cards and comply with University policy.</p>	<p>Management will improve controls regarding procurement cards and comply with University policy.</p>
<p>4. <u>Asset Handling Procedures.</u></p> <p>a. <u>Musical Selections Inventory.</u> Reduce the likelihood of loss or misappropriation of music inventory.</p> <p>b. <u>Capital Equipment.</u> Record and reconcile capital equipment.</p>	<p>Management will improve music inventory controls.</p> <p>Management will re-inventory and reconcile capital equipment.</p>

Auditor's Response and Follow-up

All items have been closed except for 1b, 2b, and 4b. Internal audit will review subsequent corrective action on these remaining items in December 2003.

**University of Iowa – University Operations
Department of Orthopaedic Surgery–Sponsored Program Administration**

Initial Audit Report Issued: June 17, 2003
Follow-Up Report Issued: November 17, 2003

Audit Closed

Recommendations
/ Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>1. <u>Effort Reporting</u>. Certify outstanding performance and accountability reports (PARs) and develop a system to monitor budgeted and actual efforts.</p>	<p>Management will submit all outstanding PARs and develop a system to monitor budgeted and actual efforts.</p>	<p>Internal auditors will review the new system and timeliness of PAR submissions.</p>
	<p><i>Implementation Target Date: February 2004</i></p>	<p><i>Review: February 2004 Report: February 2004</i></p>
<p>2. <u>Communicate Research Efforts</u>. Consult principal investigators (PIs) to discuss projects not communicated to the Division of Sponsored Programs (DSP); document the nature of the reward; and communicate all grants to DSP immediately.</p>	<p>Management will review appropriate documentation and work with DSP regarding the determination of grants versus gifts.</p>	<p>Recommendation closed.</p>
	<p><i>Implementation Target Date: June 2003</i></p>	<p><i>Review: N/A Report: N/A</i></p>
<p>3. <u>Proper Recognition of Clinical Trial Expenditures</u>. Determine project efforts to allocate benefits for PIs appropriately; communicate findings to accounting; recertify PARs if necessary; correct incorrect surplus transfers; and direct personnel to track related costs more diligently.</p>	<p>Management will seek guidance from accounting on allocating benefits appropriately and assure more thorough expenditure reviews.</p>	<p>Internal auditors will review that appropriate actions have been taken and that costs have been properly assessed.</p>
	<p><i>Implementation Target Date: September 2003</i></p>	<p><i>Review: February 2004 Report: February 2004</i></p>

**University of Iowa – University Operations
Department of Orthopaedic Surgery–Sponsored Program Administration**

(continued)

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>4. <u>Centralization of Research Administration.</u> Determine sponsored programs duties and research administration needs and communicate centralization efforts to the PIs in writing.</p>	<p>Management will continue to centralize research administration duties and communicate the availability of central administration to PIs.</p>	<p>Internal auditors will assess centralization and communication efforts.</p>
	<p><i>Implementation Target Date: September 2003</i></p>	<p><i>Review: February 2004 Report: February 2004</i></p>
<p>5. <u>Documentation Required in Grant File.</u> Instruct personnel to submit documentation immediately and develop a monitoring system.</p>	<p>Management will submit all necessary documentation immediately and will develop a monitoring system.</p>	<p>Internal auditors will review the files and the monitoring system.</p>
	<p><i>Implementation Target Date: September 2003</i></p>	<p><i>Review: February 2004 Report: February 2004</i></p>

**Iowa State University
Facilities Planning and Management - FAMIS**

**Phase 1: Physical and Logical Security
Phase 2: FAMIS Maintenance Management**

Initial Audit Report Issued: August 7, 2003
Follow-Up Report Issued: October 31, 2003

Audit Closed

Recommendations
/ Responses

Auditor's Observation	Management's Response	Expected Auditor Follow-up
<p>1. <u>Security</u>. Removal of access is delayed for terminated employees. Password disciplines are not consistent with emerging University guidelines.</p>	<p>Management will implement a process for timely removal of logical access for terminated employees; remind staff of the importance of password security; and monitor software for the opportunity to implement University disciplines.</p>	<p>Internal auditors will monitor status of implementation.</p>
<p>2. <u>Data Integrity</u>. FP&M has not defined usage of FAMIS features and captured information.</p>	<p>Management will evaluate resources to determine feasible actions. A team of users will coordinate usage of FAMIS and audit data to identify problem areas.</p>	<p>Internal auditors will monitor status of implementation.</p>
	<p><i>Implementation Target Date: August 1, 2003</i></p>	<p><i>Review: September 2003 Report: October 2003</i></p>
	<p><i>Implementation Target Date: September 1, 2003</i></p>	<p><i>Review: September 2003 Report: October 2003</i></p>