

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: February 12, 2001

Recommended Actions:

1. Receive the following internal audit reports from Iowa State University:
 - a. NCAA Compliance Audit (Part 2)
 - b. Purchasing Card
 - c. Purchasing Through Iowa State University (IBSSS)
2. Receive the report on the Status of Internal Audit Follow-up.

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.

Three completed internal audit reports conducted by Iowa State University auditors, as listed above, are presented to the Banking Committee for the first time.

The *Status of Internal Audit Follow-Up* table identifies 28 internal audit reports that have previously been presented to the Banking Committee of which 21 still require follow-up (see pages 5 – 6). The tables starting on page 7 identify the status of the corrective action to the recommendations made by the internal auditors for the three new reports and the seven completed follow-up reports. Internal auditors at the University of Iowa closed three University audits and four University of Iowa Hospitals and Clinics audits.

Background:

In accordance with the Regent Procedural Guide §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, as well as the University of Iowa Hospitals and Clinics (UIHC), 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, while the Iowa State University internal auditor is responsible for those at the Iowa Braille and Sight Saving School.

The Board Office tracks and monitors audit reports indicating a need for corrective action. Corresponding tables highlight auditor recommendations, management responses, auditor responses, and whether corrective actions have been taken. When all recommendations have been satisfactorily completed, the audits are closed.

Analysis:

IOWA STATE UNIVERSITY

National Collegiate Athletic Association (NCAA) Compliance Audit (Part 2)

The NCAA is the national governing body for amateur collegiate sports in the United States. As a Division I member of the NCAA, Iowa State University (ISU) is obligated to comply with NCAA rules and regulations governing the eligibility, amateur status, and recruitment of student athletes. ISU received full certification from the NCAA in August 1997 and will undergo NCAA re-certification in May 2002.

The NCAA Compliance Audit was divided into parts of manageable scope with a separate audit report for each part. The audit scope for this second part, conducted in FY 2001, includes coaches' contracts, complimentary admissions, and sports camps. The first part was completed in FY 1999, and focused on eligibility, recruiting, student-athlete employment, and financial aid. A third part is scheduled for the spring of FY 2001, and will focus on athletic equipment and apparel, playing and practice seasons, rules education, student-athlete vehicles, and team travel.

The internal audit report did not note any instances of non-compliance related to complimentary admissions, camps and clinics, or coaches' contracts. However, recommendations for corrective actions were made to improve internal controls.

The recommendations were accepted. A follow-up audit is expected to be initiated in April 2001.

Purchasing Card

The purchasing card is a mechanism designed to improve efficiency in processing and completing low-dollar purchases of approved commodities from vendors/suppliers that accept Visa credit cards. An electronic reconciliation system is utilized for validating, accounting for, and approving purchasing card transactions. The purchasing card program was fully implemented on November 23, 1998. Currently, over 400 University employees have purchasing cards.

The scope of the audit included the purchasing card program and the electronic reconciliation system. The purpose was to determine whether purchasing card training and reference materials adequately explain procedures and requirements; purchasing card agreements include cardholder provisions and obligations; appropriate purchasing card parameters have been established; card users are complying with purchasing card policies; card deactivation procedures are effective; and the electronic reconciliation system contains appropriate internal controls.

The audit report described several areas for improvement including enhancement of documentation and training provided to purchasing card system users; development of an administrative procedures manual; implementation of a process to ensure timely training of electronic reconciliation system users; safeguarding of purchasing cards; and consistent cardholder recordkeeping by the Purchasing Department.

The recommendations were accepted. A follow-up audit is expected to be initiated in April 2001.

Iowa Braille and Sight Saving School (IBSSS) – Purchasing Through Iowa State University (ISU)

The Board of Regents' Procedural Guide, section 8.04, requires written bids for purchases that are expected to exceed \$2,500 at the special schools. IBSSS' purchases of \$2,500 or more are processed by ISU's Purchasing Department.

The internal audit was performed to evaluate the activities and controls surrounding IBSSS' purchases through ISU, including compliance with the Board's policy regarding bid limits; accomplishment of objectives; reliability and integrity of information; efficiency and effectiveness of operations; and safeguarding of assets.

No corrective action or follow-up is necessary as a result of this audit. The audit was closed.

**Status of Internal Audit Follow-Up
February 12, 2001**

Audit Title	Audit Completed	Follow-Up Status	Expected Completion
1. Patient Accounts (UIHC)	January 16, 1996	Major changes have occurred in UIHC Business Office operations. A new review will be conducted of these significantly revised operations. Issues included in the initial review will be addressed as applicable.	July 2001
2. Charge Processing Subsystem (UIHC) Follow-up report #1 Follow-up report #2	August 21, 1995 June 14, 1996 July 20, 2000	A third follow-up will be conducted in FY 2001.	April 2001
3. Rebates (UIHC)	October 1, 1996	Follow-up will be conducted in FY 2001. Preliminary fieldwork has commenced.	July 2001
4. Information Systems Planning & Life Cycle (UIHC) Follow-up report #1 Follow-up report #2	February 7, 1995 September 26, 1997 July 28, 2000	A third follow-up will be conducted in FY 2001.	May 2001
5. General Controls (UIHC) Follow-up report #1 Follow-up report #2 Follow-up report #3	December 2, 1993 January 20, 1995 September 26, 1997 July 28, 2000	A fourth follow-up will be conducted in FY 2001.	May 2001
6. Logical Access (UIHC) Follow-up report #1 Follow-up report #2	July 18, 1994 September 26, 1997 July 28, 2000	A third follow-up will be conducted in FY 2001.	May 2001
7. UI Health Plans (UIHC) Follow-up report #1 Follow-up report #2	February 26, 1998 September 13, 1999 January 18, 2001	Audit closed (page 10.)	Completed
8. Identification Badge Review (UIHC) Follow-up report #1 Follow-up report #2	March 24, 1998 November 9, 1999 January 18, 2001	Audit closed (page 12.)	Completed
9. Griffin/Diebold Automated Meal Charging System (UIHC) Follow-up report #1	October 28, 1998 January 19, 2001	Audit closed (page 12.)	Completed
10. Accounts Payable & Purchasing Change Management (SUI)	January 27, 1999	Follow-up scheduled in FY 2001.	March 2001
11. UIHC Cafeteria Meal Card Program (UIHC) Follow-up report #1	July 1, 1999 January 18, 2001	Audit closed (page 11.)	Completed
12. Property Management Office – Asset Management System – Central Processing (SUI) Follow-up report #1	September 23, 1999 August 22, 2000	Follow-up to be initiated subsequent to implementation.	April 2001

**Status of Internal Audit Follow-Up
February 12, 2001 (continued)**

Audit Title	Audit Completed	Follow-Up Status	Expected Completion
13. Non-Business Office Cash Receipting Procedures (UIHC)	October 11, 1999	Follow-up to be initiated subsequent to implementation.	April 2001
14. Small Business Development Center (UNI) Preliminary Follow-up Follow-up report #1	October 5, 1999 May 12, 2000 January 26, 2001	Follow-up report #1 completed. Report will be presented at the March meeting.	---
15. University Wide Travel Review (UNI)	November 17, 1999	Follow-up review to be initiated within 6 – 12 months of original report.	February 2001
16. Accounts Payable Purchase Order System – Purchase Order Issuance and Invoice Approval (SUI) Follow-up memorandum #1	January 12, 2000 January 19, 2001	Audit closed (page 9.)	Completed
17. Cash on Hand (UNI) Follow-up report #1	February 24, 2000 December 1, 2000	Follow-up report #1 completed. Report will be presented at the March meeting.	---
18. Ambulatory Care and Ancillary Services Complimentary Parking Pilot Program (UIHC) Follow-up report #1	March 30, 2000 July 24, 2000	Follow-up on outstanding items was incorporated into the hospital-wide review which is complete. Audit presented to UHAC Internal Audit Subcommittee. Members are reviewing management's response.	February 2001
19. Procurement Card System (SUI) Follow-up memorandum #1	June 19, 2000 January 19, 2001	Audit closed (page 9.)	Completed
20. Omnicell System (UIHC)	March 16, 2000	A follow-up will be conducted in FY 2001.	June 2001
21. Taxi Permits (UIHC)	May 8, 2000	A follow-up will be conducted in FY 2001.	March 2001
22. Grants and Contracts Accounting (UNI)	March 22, 2000	A follow-up will be conducted in FY 2001.	April 2001
23. Malcolm Price Laboratory School (UNI)	June 29, 2000	A follow-up will be conducted in FY 2002.	September 2001
24. Computer System Access Security (ISD)	June 21, 2000	Follow-up will be performed during next year's audit fieldwork.	June 2001
25. Human Resources Information System Transaction Processes (SUI)	July 17, 2000	Follow-up work will be initiated subsequent to implementation.	March 2001
26. Academic Course Fees (ISU)	July 18, 2000	A follow-up will be conducted in FY 2001.	July 2001
27. Veterinary Teaching Hospital (ISU)	July 18, 2000	A follow-up will be conducted in FY 2001.	April 2001
28. Intercollegiate Athletics – Home Game Ticket Revenue-FY 2000 (SUI)	October 23, 2000	A follow-up will be conducted in FY 2001.	September 2001
29. Vendor File Maintenance System Audit (SUI) Follow-up memorandum #1	October 23, 2000 January 19, 2001	Audit closed (page 10.)	Completed

Iowa State University
NCAA Compliance Audit (Part 2)

Initial Audit Report Issued: November 27, 2000

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
COMPLIMENTARY ADMISSIONS			
<p>1. <u>Procedural Compliance and Effectiveness</u> – Assure that the 'Recruit Pass List Request Form' requirements and options are clear and consistent.</p> <p>Assure effective identity procedures upon admission.</p>	<p>The pass list form will be revised to include the various types of complimentary admission recipients, applicable NCAA rules for each type of recipient, and the NCAA rules for the receipt of complimentary admission tickets.</p> <p>Printed pass lists will be utilized for student-athlete complimentary admissions from the official Athletic Department roster.</p>	<p>Corrective action plans accepted.</p>	<p>Follow-up to be initiated in FY 2001.</p>
<p>2. <u>Comprehensive Written Policies and Procedures</u> – Develop written procedures to ensure that controls and practices are in compliance with NCAA rules.</p>	<p>Policies and procedures for complimentary admissions will be documented.</p>	<p>Corrective action plans accepted.</p>	<p>Follow-up to be initiated in FY 2001.</p>
CAMPS AND CLINICS			
<p>3. <u>Brochures and Student-Athlete Approvals</u> – Strengthen compliance for brochures used to publicize institutional sport camps and clinics.</p>	<p>The compliance office will:</p> <p>(1) Retain documentation of student-athlete approval for use of their pictures/names.</p> <p>(2) Document approval/disapproval of all camp and clinic brochures and retain each brochure as evidence of review.</p> <p>(3) Compare student-athlete approvals to brochures to verify that approval documentation has been obtained for all names and pictures used.</p>	<p>Corrective action plans accepted.</p>	<p>Follow-up to be initiated in FY 2001.</p>
<p>4. <u>Comprehensive Written Policy and Procedures</u> – Develop a comprehensive policies and procedures manual and clarify the refund policy.</p>	<p>The Athletic Department will review camp and clinic policies and procedures and develop a comprehensive reference manual. The Department will also add to the refund policy to include their intention to review refunds on a case-by-case basis and then document justification for providing refunds.</p>	<p>Corrective action plans accepted.</p>	<p>Follow-up to be initiated in FY 2001.</p>

Iowa State University
Purchasing Card

Initial Audit Report Issued: November 27, 2000

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Documentation and Training Provided to Users</u> – Enhance documentation and training for system users.	The user guide, training materials, and/or the web site will be updated to: (1) Emphasize the approver's role in evaluating allowability and appropriateness of transactions. (2) Re-evaluate unallowable expenditures and define terminology. (3) Address card-sharing issues. (4) Post message statements regarding changes to policies or procedures. (5) Explain the credit process.	Corrective action plans accepted.	Follow-up to be initiated in FY 2001.
2. <u>Administrative Procedure Manual</u> – Develop a written procedures manual to document procedures unique to the purchasing card program and the electronic reconciliation system.	An administrative procedures manual will be developed, maintained, and will address card requisition; card issuance; system set-up and maintenance; user training; transaction review; user recordkeeping; exception granting; and card deactivation.	Corrective action plans accepted.	Follow-up to be initiated in FY 2001.
3. <u>Timely Training For System Users</u> – Provide training prior to purchasing card issuance.	Controls will be developed to ensure that all individuals receive training prior to using the purchasing card system.	Corrective action plans accepted.	Follow-up to be initiated in FY 2001.
4. <u>Safeguarding of Purchasing Cards</u> – Strengthen controls regarding the safeguarding of purchasing cards.	Management will revise the application agreement and user guide to require immediate notification to the Purchasing Department upon terminations or transfers and destroy applicable purchasing cards. Management will also develop a procedure for timely follow-up on unclaimed cards, and establish a time period after which unclaimed cards will be canceled and destroyed.	Corrective action plans accepted.	Follow-up to be initiated in FY 2001.

**University of Iowa
Accounts Payable Purchase Order System – Purchase Order Issuance and Invoice Approval**

**Follow-Up Audit Memorandum: January 19, 2001
Initial Audit Report Issued: January 12, 2000**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Purchase Order Approval</u> – Require documentation of approval on daily purchase order work report.	All approvals and reviews will be documented.	Corrective action taken.	Item closed.
2. <u>Blanket Orders</u> – Develop procedures to monitor blanket order activity.	Agree with auditor recommendation with a July 1, 2000 target date.	Corrective action taken.	Item closed.
3. <u>Vendor Payments within Invoice Terms</u> – Notify vendors and departments of incorrect billing address on invoice.	Agree with auditor recommendation, but suggest alternative methods.	Corrective action taken.	Item closed.

**University of Iowa
Procurement Card System**

**Follow-Up Audit Memorandum: January 19, 2001
Initial Audit Report Issued: June 19, 2000**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Procurement Card Authorization and Transaction Approval</u> . Approval Signatures – Require hand-written signatures of the cardholder and the department's authorized individual on all Agreements & Voucher reports.	Procurement cards will not be issued without two separate handwritten signatures. This requirement will be included on the agreement form. Signature stamps will not be allowed on Voucher reports.	Corrective action taken.	Item closed.
2. <u>Credit Limit Extensions</u> . Approval Documentation – Require written approval prior to granting permanent/temporary credit limit extensions.	Documentation will continue to be required on all credit limit extensions. Procedure manual will include credit limit extension request procedures.	Corrective action taken.	Item closed.
3. <u>Timeliness of Procurement Card Voucher</u> . Policy Compliance – Develop written procedures to address repeat offenders; incorporate into procedure manual.	Current procedures will be enhanced and incorporated into the procedure manual.	Corrective action taken.	Item closed.
4. <u>Unauthorized Procurement Card Transactions</u> . Policy Compliance – Develop rigorous follow-up of questionable transactions.	Transactions will continue to be reviewed for compliance.	Corrective action taken.	Item closed.
5. <u>Single Transaction Limit</u> . Independent Monitoring. Develop procedures to monitor single transaction limit violations.	All violations will be logged. Procedure manual will be updated to increase the single transaction limit for conference registrations and more explicitly define single transaction limit.	Corrective action taken.	Item closed.
6. <u>Card Cancellation Procedures</u> . Timeliness. Develop procedures to verify that cards are cancelled in a timely manner.	Verification procedures will be developed.	Corrective action taken.	Item closed.

**University of Iowa
Vendor File Maintenance System**

**Follow-Up Audit Memorandum: January 19, 2001
Initial Audit Report Issued: October 23, 2000**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Transaction Documentation – Correction Mode Access.</u> Limit individual access to correction mode and manually document edits created in correction mode.	Access to correction mode will be limited to the minimum number of people necessary. Procedures have been developed to document what changes require correction mode.	Corrective action taken.	Audit closed.

**University of Iowa Hospitals and Clinics
Review of UI Health Plans**

**Second Follow-Up Audit: January 18, 2001
Follow-Up Audit: September 9, 1999
Initial Audit Report Issued: February 26, 1998**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Enrollment and Registration</u> – (1) Put current policies and practices in writing to ensure policies are uniformly understood and applied, procedures adequately documented and consistently followed, and misunderstandings between/among the offices are minimized. (2) Request UI Staff Benefits provide UI Health Plans enrollee information, including address information, to the UI Health Plans Office in an electronic format, which will allow review and uploading of data to the patient accounting system (PAS). (3) Update PAS to prohibit duplicate assignment of social security numbers.	(1) Contracts will be finalized soon. (2) This will be considered during design of new benefits system. (3) Report will be developed to report patients with the same social security number.	Corrective action satisfactory.	Item Closed.
2. <u>UI Health Plan Contract Administration</u> – (1) Properly execute agreements to secure each health plan. (2) All payments received should be validated by comparison to the contract via automation.	(1) Contracts will be finalized soon. (2) Issue will be reviewed and contract terms on database will be defined.	Corrective action satisfactory.	Item Closed.
3. <u>Detailed Claims Testing</u> – (1) Reduce to writing the payment terms and patient portion calculations and have each party sign. (2) Develop and implement procedures to recalculate the gross UIHC payment, net UIHC payment, and patient portion on a sample basis until an automated system is developed. (3) Notify Blue Cross of errors. Ensure the patient portion is calculated as a percentage of the UIHC payment and not total charges. (4) Develop and implement an automated managed care information system to automatically calculate payments for managed care programs and compare to payments received.	(1) Contracts will be finalized soon. (2) Financial management will continue to test payments on a sample basis. (3) Errors noted by Financial Management staff are communicated. Follow-up will be done. (4) Facility Management will continue post-patient validation for inpatient claims.	Corrective action satisfactory.	Item Closed.

University of Iowa Hospitals and Clinics
UIHC Cafeteria Meal Card Program

Follow-Up Audit: January 18, 2001
Initial Audit Report Issued: July 1, 1999

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-Up</i>
1. <u>Program Administration</u> – Establish one central entity at UIHC with authority over the meal card program. Develop house-wide policies and procedures regarding the use and issuance of meal card tickets.	The newly formed interdisciplinary task force will develop house-wide policies and procedures regarding the use of meal cards. The task force will also decide who should have authority over the program.	Recommendations successfully implemented.	Item closed.
2. <u>INFORMM Function (issuance)</u> – Use the INFORMM function to issue meal cards. Vest control over manual meal cards in a single authority. Use manual meal cards only when the INFORMM system is down.	The interdisciplinary task force supports use of the INFORMM function. Re-programming may be delayed until next year because of Y2K priorities.	Recommendations successfully implemented.	Item closed.
3. <u>INFORMM Function (back-loading and reports)</u> – Design a feature allowing meal cards to be back-loaded into the INFORMM system if it is down. Generate management and usage reports from the INFORMM system for operational and statistical purposes.	The task force will review the back-loading feature recommendation. The task force will identify and request management and usage reports.	Recommendations successfully implemented.	Item closed.
4. <u>Earnings Class and Procedure Code Information</u> – Present only relevant earnings class and procedure code information as a choice to the issuer.	Earnings class and procedure code information will be reviewed and incorporated into policy.	Recommendations successfully implemented.	Item closed.

**University of Iowa Hospitals and Clinics
UIHC Griffin/Diebold Automated Meal Charging System**

**Follow-Up Audit: January 19, 2001
Initial Audit Report Issued: October 28, 1999**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-up</i>
1. <u>Revenues and Related Items</u> -- Implement procedures to ensure revenue and the related receivables or payroll deductions are appropriately recorded in the General Ledger.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
2. <u>System Controls</u> – Strengthen procedures to ensure system controls are adhered to and policies are enforced.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
3. <u>Griffin/Diebold System</u> – Food and Nutrition Service needs to strengthen controls related to the Griffin/Diebold System.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
4. <u>Griffin/Diebold System</u> – Hospital Information Systems needs to strengthen controls related to the Griffin/Diebold System.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
5. <u>Departmental Charging Procedures</u> – Document the business purpose and business relations when charging meals to departmental accounts.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
6. <u>Staff Recognition Activities</u> – Discontinue issuance of birthday certificates.	Corrective actions will be taken.	Corrective action satisfactory.	Item closed.
FOLLOW-UP REVIEW ISSUE			
7. <u>Cash Register Z-Tapes</u> – Compare cash register z-tapes to the Daily Cash Deposit and Census Report.	The comparison between cash register z-tapes to the Daily Cash Deposit and Census Reports is completed on a monthly basis.	Response accepted.	Item closed.

**University of Iowa Hospitals and Clinics
UIHC Identification Badge**

**Second Follow-Up Audit: January 18, 2001
Follow-Up Audit: November 9, 1999
Initial Audit Report Issued: October 10, 1997—Revised Response: March 24, 1998**

<i>Auditor's Recommendation</i>	<i>Management's Response</i>	<i>Auditor's Response</i>	<i>Auditor's Follow-up</i>
1. Develop a comprehensive policy and procedure manual governing the administration of the identification badge program.	Recommendation will be implemented.	Recommendations adequately addressed.	Item closed.
2. Develop a comprehensive application manual, which documents the functionality, programming changes, database maintenance procedures, etc. of the identification badge system.	Recommendation will be implemented.	Recommendations adequately addressed.	Item closed.