

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: January 6, 2003

Recommended Actions:

1. Receive the following internal audit reports from the University of Iowa:
University Operations:
 - Hazardous Material Management - Chemicals
 - Human Subjects Office
 - NCAA Compliance – Recruiting
 - NCAA Student-Athlete Vehicles;
 - NCAA Playing and Practice Seasons;
 - UI President's Residence Inventory;
 - University Hygienic Laboratory – Des Moines LocationsHospital Operations
 - UIHC Capitalized Assets.
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including three follow-up reports from the University of Iowa; two from University Operations and one from Hospital Operations.
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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.

The Status of Internal Audit Follow-Up Table on page 2 identifies 11 internal audit reports, 8 of which require follow-up. Three follow-up reports from the University of Iowa are presented this month (pages 8-10). All are closed.

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
January 6, 2003**

University of Iowa

Title	Report Date	Follow-Up Status	Expected Completion
1. Food and Nutrition Gift Card Program (UIHC)	April 15, 2002	Follow-up scheduled in FY 2003.	January 2003
2. Patient Fiscal and Registration Services (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	February 2003
3. Patient Fiscal and Registration Services – Credit Balances (UIHC)	March 18, 2002	Audit closed. (page 13.)	Closed
4. Graduate College – Departmental Audit (SUI)	May 24, 2002	Audit closed. (page 12.)	Closed
5. Internal Controls Relating to Student Activity Fees (SUI)	July 23, 2002	Follow-up scheduled in FY 2003.	January 2003
6. Scanned Signatures (UIHC)	July 23, 2002	Audit closed. (page 14.)	Closed
7. UIHC Timekeeping / Payroll (UIHC)	August 20, 2002	Follow-up scheduled in FY 2003.	February 2003

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
8. Department of Agricultural and Biosystems Engineering	April 26, 2002	Follow-up scheduled in FY 2003.	January 2003
9. Department of Electrical and Computer Engineering	May 28, 2002	Follow-up scheduled in FY 2003.	February 2003
10. Procurement Functions	August 8, 2002	Follow-up scheduled in FY 2003.	March 2003

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
11. FY 2002 Cash on Hand	September 10, 2002	Follow-up scheduled in FY 2003.	January 2003

**University of Iowa – University Operations
Hazardous Material Management - Chemicals**

Initial Audit Report Issued: September 20, 2002

Description There are approximately 800 to 1,000 research, academic, and medical laboratories within 50 departments on the University campus, according to the Health Protection Office. The audit report focused on manufactured hazardous laboratory chemicals, specifically, research and academic laboratories.

Scope / Objective The purpose of the audit was to identify how the areas selected for review handle hazardous chemicals, manage the purchase, usage, and disposal of them. Safety compliance was not a primary focus.

A limited number of on-site visits were conducted at research and academic laboratories. During these visits, internal control questionnaires were conducted as well as laboratory tours.

Recommendations / Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Written Standards and Guidelines.</u> Develop a written policy to compliment existing procedures defining the University's expectations for managing hazardous materials / chemicals on campus.</p>	<p>Management will develop a policy statement with a comprehensive set of guidelines for the management of hazardous materials / chemicals.</p>

Other Auditor Observations

The internal auditor made the following observations:

- Unneeded or rarely used hazardous chemicals should be removed within a defined timeframe;
- Hazard assessment(s) should be certified in writing; employees should certify in writing that they received and understood the required training;
- Adequate spill and / or safety equipment should be available for employee use;
- Acids should not be stored with flammable liquids;
- Refrigerators used for chemical use should be properly labeled;
- Safe levels on fume hood sashes should be maintained while chemical operations are being conducted in them; and
- All waste containers should be properly labeled.

No formal global University policy for the observations currently exists. Once a policy is implemented, the internal auditors reported that they will include specific detailed audits in the future.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2003.

**University of Iowa – University Operations
Human Subjects Office**

Initial Audit Report Issued: October 15, 2002

Description The Human Subjects Office (HSO) was established to provide administrative support for the University of Iowa Institutional Review Boards (IRBs). The HSO supports the IRB process by maintaining files and databases, serving as a resource for investigators on general regulatory information, providing guidance with forms and submission procedures, and by conducting on-site training sessions.

Scope / Objective The purpose of the audit was to provide an outside review of the adequacy of the processes in place to assure compliance with pertinent government regulations and University policies.

Specific audit objectives include the review and evaluation of:

- Area policies and procedures;
- Institutional Review Boards membership; and
- Risk identification and mitigation methods.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Payment of Research Subjects.</u> Issue a policy statement outlining information to be gathered and procedures to be followed when paying human research subjects.	Management will formalize an explanatory document.
2. <u>Concept Approval Process.</u> Include a description of what "Concept Approval" is, when it is appropriate to obtain, and what the submission process is for approval on the web site and in the Investigator's Guide. The Auditor accepted management's response. Item closed.	Management believes that wide circulation of concept approval would lead to confusion and delay approval processing time since this approval is necessary in a limited number of cases only.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2003.

**University of Iowa – University Operations
NCAA Compliance – Recruiting**

Initial Audit Report Issued: November 25, 2002

Description	<p>The University of Iowa is obligated to comply with National Collegiate Athletic Association (NCAA) rules and regulations as a Division I member. NCAA Bylaw 23.2.1.3(e) requires member institutions to demonstrate at least once every three years that its rules-compliance program is the subject of evaluation by an authority outside the athletics department. This audit was performed to fulfill a portion of the requirement.</p> <p>The Athletic Department is in the process of transitioning to an electronic-based system. Football, men's basketball, and women's basketball currently utilize the electronic system; all other sports remain paper-based.</p>
Scope / Objective	<p>The objective of the audit was to determine whether the institution maintains proper documentation in compliance with NCAA and Big Ten regulations and with recruiting regulations.</p> <p>The scope of the audit evaluated the following:</p> <ul style="list-style-type: none">• Article 13 of the NCAA Division I Manual;• Agreement 13 of the Big Ten Conference Handbook;• University departmental policies and procedures; and• Record collection and monitoring process for a sample of 6 teams and selected Prospective Student-Athletes (PSAs). <p>Audit procedures for the selected sample included review of:</p> <ul style="list-style-type: none">• Each team's list of permissible recruiters and verification that only authorized staff conducted recruiting activities;• Documentation detailing off-campus contacts and evaluations and determining that timing and number of contacts complied with NCAA requirements;• Recruiting materials sent to PSAs and the timing of this distribution; and• Documentation detailing on-campus official and unofficial visits to determine that timing, activities, and items provided to the PSA were within NCAA limits.

**University of Iowa – University Operations
NCAA Compliance – Recruiting**
(Continued)

Recommendations / Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Recruiting Records.</u></p> <p>a. <u>Record Availability and Control.</u> Review recruiting records collection, management, and retention process. Assure complete and accurate maintenance of records.</p> <p>b. <u>Electronic Recruiting System.</u> Develop an electronic recruiting system with requirements and expectations for all sports.</p> <p>c. <u>Distribution of Admission and Graduation Data.</u> Report a violation to the NCAA regarding the timeliness of information distributed to a prospective student and provide training to prevent future problems.</p> <p>d. <u>Wrestling-Written Recruiting Correspondence Records.</u> Determine if files are lost or have been destroyed. Maintain a centralized location for all recruiting related activities. Perform exit interviews for all terminating employees.</p>	<p>Management has begun a comprehensive review of the recruiting process and has clarified record retention requirements with coaches from all teams.</p> <p>Management will review the functionality of the current electronic system and analyze the best course of action.</p> <p>Management has clarified the process and responsibility for providing information in the specified time and will file a self-report of the violation. Future compliance will be monitored.</p> <p>Management will discuss record retention issues and procedures with appropriate staff to ensure that documents are not lost or destroyed in the future.</p>
<p>2. <u>Monitoring of Coaches Travel Records.</u> Establish written procedures to monitor recruiting-related travel activities.</p>	<p>Management will compose, communicate, and implement procedures to require pre-notification of recruiting travel and will monitor recruiting activities.</p>
<p>3. <u>Visits to Prospect's School.</u> Incorporate approval for visit into the documentation process.</p>	<p>Management reported that standard practice by institutions of higher education has historically been to use the honor system, which relies on administrators at the prospect's school to complain if unauthorized visits are made.</p> <p>Management's response accepted by auditors. Item closed.</p>
<p>4. <u>Prospect Evaluation Dates.</u> Maintain a complete and accurate listing of dates to conduct prospect evaluations for football and basketball and file the list in the Athletics Director's office.</p>	<p>Management will maintain an up-to-date list of evaluation dates for the required sports.</p>

Auditor's Response and Follow-up

Follow-up will be performed in FY 2003.

**University of Iowa – University Operations
NCAA Student-Athlete Vehicles**

Initial Audit Report Issued: November 25, 2002

Description The University of Iowa is obligated to comply with NCAA rules and regulations as a Division I member of the National Collegiate Athletic Association (NCAA). NCAA Bylaw 23.2.1.3(e) requires member institutions to demonstrate at least once every three years that its rules-compliance program is the subject of evaluation by an authority outside the athletics department. This audit was performed to fulfill a portion of the requirement.

NCAA Article 16.1.2.3 prohibits the institution, its employees, and representatives of athletic interests from providing student-athletes with a loan of money, use of an automobile, and other extra benefits or services.

Scope / Objective The objective of the audit was to determine:

- If written policies and procedures are in place to maintain control of and monitor vehicles used by student-athletes;
- Whether a central office monitors automobiles used by student-athletes; and
- That the vehicles are registered with the Athletic Department and that the information is compared with University parking records.

Recommendations / Responses	Auditor's Recommendation	Management's Response
	No material audit findings or weaknesses were noted.	

Auditor's Response and Follow-up No follow-up will be performed.

**University of Iowa – University Operations
NCAA Playing and Practice Seasons**

Initial Audit Report Issued: November 25, 2002

Description The University of Iowa is obligated to comply with NCAA rules and regulations as a Division I member of the National Collegiate Athletic Association (NCAA). NCAA Bylaw 23.2.1.3(e) requires member institutions to demonstrate at least once every three years that its rules-compliance program is the subject of evaluation by an authority outside the athletics department. This audit was performed to fulfill a portion of the requirement.

Scope / Objective The purpose of the audit was to determine whether:

- An individual has been designated to monitor compliance with respect to playing and practice seasons;
- Written policies are established in all sports to minimize student-athlete’s conflicts with class time and / or final examination periods due to participation in intercollegiate athletics; and
- Proper and adequate documentation is maintained to track playing and practice activities for all teams and individuals.

Recommendations / Responses

Auditor’s Recommendation	Management’s Response
No material audit findings or weaknesses were noted.	

Auditor’s Response and Follow-up No follow-up will be performed.

**University of Iowa – University Operations
UI President’s Residence Inventory**

Initial Audit Report Issued: December 16, 2002

Description The President’s residence is a University-owned building that serves as a personal residence for the acting President and as a facility for entertaining small University-related events.

Scope / Objective At the request of management, internal auditors performed an audit to determine:

- If assets in the President’s residence are properly inventoried; and
- If the history is maintained on collectibles and / or donated gifts.

Recommendations / Responses

Auditor’s Recommendation	Management’s Response
1. <u>Inventory of Assets</u> . Maintain assets inventory according to University policy; report items over \$2,000 to the Property Management Office; and review current insurance policy to ensure adequate coverage.	Management will develop a current inventory listing according to University policies; develop procedures to ensure that the Property Management Office is notified of new purchases and / or gifts; and ensure adequate coverage of the building’s contents.
2. <u>Exceptions to University Operations Manual</u> . Update the University Operations Manual to include an exception statement for beer and wine purchases.	Management will update the University Operations Manual to include a statement that the Director of Campus Food Services can grant select areas the ability to purchase beer and wine from commercial sources rather from the IMU Food Services when economically feasible.

Auditor’s Response and Follow-up Follow-up will be performed in FY 2003.

**University of Iowa – University Operations
University Hygienic Laboratory – Des Moines Locations**

Initial Audit Report Issued: September 20, 2002

Description The University Hygienic Laboratory (UHL) was created in 1904 by the Iowa General Assembly to meet the needs of the citizens of Iowa as the “state public health and environmental laboratory.”

The UHL has two offices, one in the Oakdale Campus in Iowa City and one in Des Moines. The offices will be combined into a new building, located in Ankeny Iowa, which is scheduled to be complete in 2004.

Scope / Objective Internal auditors evaluated the adequacy of departmental procedures and internal controls of pre-determined business processes to ensure:

- Compliance with University and other regulatory policy;
- Proper process segregation among individuals;
- Timely and accurate recording of transactions to the General Ledger;
- Proper identification, maintenance, and safeguarding of assets;
- Accurate and adequate information is provided to management; and
- Proper monitoring and follow-up by management.

Recommendations / Responses	Auditor’s Recommendation	Management’s Response
	1. <u>Off-Site Storage for Backup Tapes.</u> Store backup tapes at a remote site. The auditor accepted management’s response. Item closed.	Management stores archival tapes in media fireproof safes in two locations.
	2. <u>Annual Employee Evaluations.</u> Evaluate all staff annually.	Management will complete employee evaluations timely.

Auditor’s Response and Follow-up Follow-up will be performed in FY 2003.

**University of Iowa – Hospital Operations
UIHC Capitalized Assets**

Initial Audit Report Issued: October 15, 2002

Description Fixed assets costing \$2,000 or more have been defined as capitalized assets for all of SUI including University of Iowa Hospitals and Clinics (UIHC), since July 1997. A new system was implemented in 1998 to tracks changes based on general ledger reports and documentation of retired assets received by the Property Management Office (PMO).

Scope / Objective The purpose of the audit was to assess internal controls specific to UIHC capital asset management. Specific audit procedures included:

- Interviewing representatives of UIHC departments to identify inconsistencies between physical inventory and the PMO listing of their capitalized assets;
- Investigating the cause of the inconsistencies by tracking related documentation to the items;
- Sampling and testing documentation for recently retired items;
- Meeting with the PMO to discuss processes specific to UIHC;
- Interviewing UIHC Housekeeping representatives to understand procedures relating to the retirement of surplus items; and
- Physically observing UIHC surplus removal processes.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>UIHC Capitalized Asset Procedures.</u> a. <u>Two Signature Rule.</u> Redesign the Surplus Removal form and include appropriate signature requirements. b. <u>Surplus Procedures.</u> Grant UIHC housekeeping oversight of all surplus assets. c. <u>Changes to Moving Request Form.</u> Utilize proper moving request forms and require proper signature. d. <u>Utilization of PMO Website and Services by UIHC.</u> Direct asset managers to the PMO website.	Management will establish a new procedural policy and will link it to the PMO website.
2. <u>Changes to PMO Website.</u> a. <u>Retired Asset Reports.</u> Develop a report regarding information on retired capitalized assets. b. <u>Items Used for Spare Parts.</u> Add policy information to the website regarding assets used for spare parts. c. <u>Tag-Ahead Program.</u> Clarify how the tag-ahead program works and its benefits on the PMO website.	Management will modify the PMO website to develop a retired capitalized assets report, add policy information regarding assets used for spare parts, and clarify how the tag-ahead program works.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2003.

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Graduate College – Departmental Audit Closed

University of Iowa – Hospital Operations

- Patient Fiscal and Registration Services – Credit Balances Closed
 - Scanned Signatures – University of Iowa Hospital and Clinics Closed
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**University of Iowa – University Operations
Graduate College – Departmental Audit**

Initial Audit Report Issued: May 24, 2002

Follow-up Report Issued: July 8, 2002

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>Cash Handling Issues.</u> Segregate duties regarding cash fund collection, deposit, and reconciliation; reconcile deposits monthly; distribute the University's Cash Handling Policy; securely store funds held overnight; and provide pre-numbered receipts for all payments.	Management will: move deposit-processing duties to someone other than the cash collector; reconcile deposits to the monthly statement of account; distribute cash handling policy; store cash held overnight in a locked file cabinet; and provide pre-numbered receipts.
2. <u>Annual Performance Appraisals.</u> Provide performance reviews to all employees as soon as possible and on anniversary dates.	Management has taken steps to provide all employees with a performance review and will provide annual reviews on employment anniversary dates.
3. <u>Use of Signature Stamps.</u> Review policy requirements with appropriate personnel to ensure compliance with policy.	Management has reviewed policy requirements with appropriate personnel to assure future compliance.
4. <u>Procurement Card Issues.</u> Review requirements with appropriate personnel to ensure future compliance with policies pertaining to card safeguarding, voucher approval signatures, and charge structuring.	Management has instructed personnel to safeguard procurement cards, changed internal procedures to require the Dean to sign procurement card vouchers in addition to the cardholder, and reviewed current charge structuring policies with personnel.

Auditor's Response
and Follow-up

Management has taken appropriate actions on all recommendations. Internal auditors accept these actions. This audit is closed.

**University of Iowa – Hospital Operations
Patient Fiscal and Registration Services – Credit Balances**

Initial Audit Report Issued: March 18, 2002

Follow-up Report Issued: July 8, 2002

Recommendations /
Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Work Plan</u>. Establish a work plan to reduce credit balances and focus on: clearing issues, reducing accounts and dollars, and maintaining an efficient and timely process.</p>	<p>Management has been attempting to resolve credit. A written policy and procedure clarifying staff responsibilities for resolving and reporting has been established and reviewed with staff. The action plan will be expanded to escalate resolution of small credit balances in a timely manner. Management is working with an outside agency to review and resolve credit balances.</p>
<p>2. <u>Separation of Credits by Type</u>. Verify that current issues will be addressed in the new system. Assure that credit balance types can be separated.</p>	<p>Management has been working to accommodate the separation of credits by type.</p>
<p>3. <u>Contractual Adjustments</u>. Program the system to identify duplicate contractual adjustments; review electronic payment remittances; and verify payments and adjustments.</p>	<p>Management is developing a program that will stop duplicate contractual adjustments. Electronic remittance reviews will be completed to verify accuracy.</p>
<p>4. <u>Holding Accounts</u>. Resolve issues and apply payments monthly.</p>	<p>Management will implement a process to identify and reconcile holding accounts monthly.</p>
<p>5. <u>Returned Refund Checks</u>. Follow-up on refund checks immediately; verify proper handling procedures; and educate staff on procedures.</p>	<p>Management has addressed returned check processing and will outline proper handling procedures and train staff.</p>

Auditor's Response
and Follow-up

Management has taken appropriate actions on all recommendations. Internal auditors accept these actions. This audit is closed.

University of Iowa – Hospital Operations
Scanned Signatures – University of Iowa Hospital and Clinics

Initial Audit Report Issued: July 23, 2002
Follow-up Report Issued: November 25, 2002

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Policy</u> . Establish a written policy governing the creation, retention, and use of scanned signatures.	Management will develop a policy to address the issues and communicate to all departments hospital-wide.
	2. <u>Security</u> . Limit access to scanned signatures and establish formal approval process.	
	3. <u>Segregation of Duties</u> . Assure that creation and retention duties are segregated.	

Auditor's Response and Follow-up Management has taken appropriate actions on all recommendations. Internal auditors accept these actions. This audit is closed.