

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: July 7, 2003

Recommended Actions:

1. Receive the following internal audit reports:
 - UNIVERSITY OF IOWA – UNIVERSITY OPERATIONS
 - Department of Orthopaedic Surgery – Cash Handling Audit
 - Department of Orthopaedic Surgery – Sponsored Program Administration
 - Student Legal Services Departmental Audit
 - UNIVERSITY OF IOWA – HOSPITAL OPERATIONS
 - College of Medicine Review of Surplus Computer Disposal Practices
 - Homerus Robot
 - IOWA STATE UNIVERSITY
 - NCAA Compliance – Representatives of Athletics Interest
 - Student Financial Aid
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including two follow-up reports, one from the University of Iowa and one from the University of Northern Iowa.
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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.

Seven new audit reports are presented this month: three from the University of Iowa – University Operations, two from the University of Iowa – Hospital Operations, and two from Iowa State University. All require follow-up reports.

The Status of Internal Audit Follow-Up Table on page 2 identifies 18 internal audit reports, 17 of which require follow-up. Two follow-up reports are presented this month: University of Iowa Cash Collection Activities (page 12), which is closed and University of Northern Iowa FY 2002 Cash on Hand (page 13), which remains open.

At its May 2003 meeting, the Banking Committee requested target implementation dates, review dates, and report dates for each comment in every new audit report and are defined as follows:

- Implementation dates – when management plans to execute corrective actions;
- Review dates – when internal auditors plan to conduct a review of the individual comment; and
- Report dates – when internal auditors plan to issue a formal, written follow-up report.

This is the first month for this presentation style.

**Status of Internal Audit Follow-Up
July 7, 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 2004.	September 2003
2. Patient Fiscal and Registration Services (UIHC) Follow-up Memorandum	March 18, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	August 2003
3. UIHC Timekeeping / Payroll Follow-up Memorandum	August 20, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	July 2003
4. NCAA Compliance – Recruiting (SUI)	November 25, 2002	Follow-up scheduled in FY 2003.	August 2003
5. Audiovisual Center – Departmental Audit (SUI)	February 17, 2003	Follow-up scheduled in FY 2004.	July 2003
6. Biological Sciences – Departmental Audit (SUI)	March 18, 2003	Follow-up scheduled in FY 2004.	July 2003
7. Biomedical Engineering – Sponsored Programs (SUI)	April 21, 2003	Follow-up scheduled in FY 2004.	September 2003
8. Broadcast Services – Departmental Audit (SUI)	March 18, 2003	Follow-up scheduled in FY 2004.	August 2003
9. NCAA Coaching Staff Limitations (SUI)	January 27, 2003	Follow-up scheduled in FY 2004.	September 2003
10. NCAA Compliance Audit– Eligibility (SUI)	April 21, 2003	Follow-up scheduled in FY 2004.	August 2003
11. Review of Cash Collection Activities (SUI) Follow-up Memorandum	April 21, 2003 June 17, 2003	Audit closed. (page 12.)	Closed
12. Sponsored Programs – Departmental Audit (SUI)	February 17, 2003	Follow-up scheduled in FY 2004.	September 2003
13. Center for Disabilities and Development (UIHC)	March 10, 2003	Follow-up scheduled in FY 2004.	July 2003
14. Complimentary Parking Passes – Risk Assessment (UIHC)	April 21, 2003	Follow-up scheduled in FY 2004.	August 2003
15. Contractual Adjustments (UIHC)	January 27, 2003	Follow-up scheduled in FY 2004.	December 2003

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
16. Security of Internet-Initiated ACH Transactions	January 14, 2003	Follow-up scheduled in FY 2004.	July 2003

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
17. 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. (page 13.)	December 2003
18. Conference and Event Services	November 22, 2002	Follow-up scheduled in FY 2004.	August 2003

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.

University of Iowa – University Operations
Department of Orthopaedic Surgery – Cash Handling Audit
 Initial Audit Report Issued: June 17, 2003

Description The Department of Orthopaedic Surgery receives revenue from a variety of sources including payments for patient care, research funding, gifts, and other services performed by faculty. The hospital business office processes a large portion of the Department's receipts centrally, including most patient care payments. The Department does receive some cash payments directly and is responsible for processing this revenue.

Scope / Objective The purpose of the audit was to review departmental procedures and internal controls of cash handling to identify any associated risks. The specific objectives of this audit were to determine whether cash receipts were:

- Completed accurately and deposited intact and timely;
- Recorded accurately and timely;
- Safeguarded from loss, misappropriation, and destruction; and
- Handled by employees whose duties are properly segregated.

Recommendations / Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. <u>Cash Handling Procedures</u> . Assure segregation of duties, signatures, deposit security, and monthly reconciliations.	Management will segregate cash collection duties and assure proper signature, deposit security, and monthly reconciliations.	Internal auditors will review cash handling processes.
	<i>Implementation Target Date: August 2003</i>	<i>Review: August 2003 Report: February 2004</i>
2. <u>Petty Cash Funds</u> . Deposit petty cash immediately. Evaluate the need for a petty cash fund and establish an account, if necessary.	Petty cash will be deposited in an appropriate account. Management will not pursue establishment of a petty cash fund.	Recommendation closed.
	<i>Implementation Target Date: Completed</i>	<i>Review: N/A Report: N/A</i>

University of Iowa – University Operations
Department of Orthopaedic Surgery–Sponsored Program Administration
 Initial Audit Report Issued: June 17, 2003

Description The Department of Orthopaedic Surgery (DOS) is responsible for patient care, orthopaedic surgery education, and research. In the 2002 “Best Hospitals” edition of the *U.S. News and World Report*, DOS was ranked among the top ten in the nation.

DOS received \$18 million from revenues and university allocations during FY 2002.

Scope / Objective The purpose of the audit was to review departmental procedures and internal controls in the administrative processes relating to sponsored research, and to identify any associated risks. The specific objectives of this audit were to:

- Evaluate the culture with respect to controls and compliance with rules and regulations;
- Review funding sources and determine that projects were properly reported to administrative units;
- Analyze expenditures associated with research for compliance with specific funding requirements;
- Assess proper compliance with Federal compensation regulations and reporting requirements;
- Verify timely and accurate communication between sponsored programs administrative units; and
- Determine that mandated reporting requirements were met.

Recommendations / Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. <u>Effort Reporting</u> . Certify outstanding performance and accountability reports (PARs) and develop a system to monitor budgeted and actual efforts.	Management will submit all outstanding PARs and develop a system to monitor budgeted and actual efforts.	Internal auditors will review the new system and timeliness of PAR submissions.
	<i>Implementation Target Date:</i> February 2004	<i>Review: February 2004</i> <i>Report: February 2004</i>
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.	Management will review appropriate documentation and work with DSP regarding the determination of grants versus gifts.	Recommendation closed.
	<i>Implementation Target Date:</i> June 2003	<i>Review: N/A</i> <i>Report: N/A</i>

University of Iowa – University Operations
Department of Orthopaedic Surgery–Sponsored Program Administration
(continued)

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
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.	Management will seek guidance from accounting on allocating benefits appropriately and assure more thorough expenditure reviews.	Internal auditors will review that appropriate actions have been taken and that costs have been properly assessed.
	<i>Implementation Target Date: September 2003</i>	<i>Review: February 2004 Report: February 2004</i>
4. <u>Centralization of Research Administration</u> . Determine sponsored programs duties and research administration needs and communicate centralization efforts to the PIs in writing.	Management will continue to centralize research administration duties and communicate the availability of central administration to PIs.	Internal auditors will assess centralization and communication efforts.
	<i>Implementation Target Date: September 2003</i>	<i>Review: February 2004 Report: February 2004</i>
5. <u>Documentation Required in Grant File</u> . Instruct personnel to submit documentation immediately and develop a monitoring system.	Management will submit all necessary documentation immediately and will develop a monitoring system.	Internal auditors will review the files and the monitoring system.
	<i>Implementation Target Date: September 2003</i>	<i>Review: February 2004 Report: February 2004</i>

**University of Iowa – University Operations
Student Legal Services Departmental Audit**

Initial Audit Report Issued: June 17, 2003

Description The University of Iowa Student Legal Services was established in 1971. This Department serves three main functions to University students by providing general legal services, advice, and representation at a nominal fee; internship opportunities for law and undergraduate students; and free legal education and information to the general student population through consultation and outreach programs. During the fiscal year ended June 30, 2002, Student Legal Services provided direct services to 751 students.

Scope / Objective The purpose of the audit was to evaluate the adequacy of departmental procedures and internal controls of predetermined 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 provided to management; and
- Proper monitoring and follow-up by management.

Recommendations / Responses

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
1. <u>Confidentiality</u> . Develop and implement a confidentiality statement to be signed by staff not required to comply with professional codes of ethics.	Management will implement a confidentiality statement process requiring staff and volunteers not guided by professional ethics to sign the form on an annual basis.	Internal auditors will review the process.
	<i>Implementation Target Date:</i> September 1, 2003	<i>Review: September 2003 Report: January 2004</i>
2. <u>Client Fees</u> . A) Review and revise fee guidelines as appropriate on an annual basis; and B) Designate an employee to verify prospective and active clients' student status.	Management will review fee guidelines annually and make revisions with proper approval as needed and will coordinate with the Registrar's Office to verify clients' student status.	Internal auditors will review the guidelines.
	<i>Implementation Target Date:</i> A) December 31, 2003 B) September 1, 2003	<i>Review:</i> A) January 2004 B) September 2003 <i>Report: January 2004</i>
3. <u>Computer Backups</u> . Designated staff should meet with a consultant from University Life Centers Information Technologies Services to review network issues and available options.	Management will begin computer backups on the local network immediately. University Life Centers ITS will be consulted for long-term analysis and solutions.	Internal auditors will verify computer backups.
	<i>Implementation Target Date:</i> December 31, 2003	<i>Review: January 2004 Report: January 2004</i>

University of Iowa – Hospital Operations
College of Medicine Review of Surplus Computer Disposal Practices
 Initial Audit Report Issued: May 23, 2003

Description Recent implementation of the Health Insurance Portability and Accountability Act (HIPPA) has focused increased attention on the importance of removal of all patient data from discarded computers and provides a basis for legal recourse. There is a need to adequately and consistently strip data from hard drives of used computers from the healthcare areas.

Scope / Objective The scope of work included:

- Understanding the internal controls currently in place;
- Ascertaining University of Iowa Surplus Department's role;
- Determining limits of software licensing contracts related to selling used computers containing software;
- Contacting other universities with hospitals to compare practices; and
- Utilizing specialty software to test previously "scrubbed" computers for residual information.

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	1. <u>Erasing of Data</u> . Assure that sensitive data is erased before sending hard drives to surplus.	Management is now using new software to erase data and has assigned an employee to supervise the surplus equipment process.	Recommendation closed.
		<i>Implementation Target Date: Completed</i>	<i>Review: N/A Report: N/A</i>
	2. <u>Computers Earmarked for Sale to Individuals</u> . Determine that discarded computers are of no use to the University or to other state entities before offering them to the public.	Management has proposed changes to policies and procedures to detail how surplus items are discarded.	Internal auditors will review changes.
		<i>Implementation Target Date: September 1, 2003</i>	<i>Review: September 2003 Report: October 2003</i>

**University of Iowa – Hospital Operations
Homerus Robot**

Initial Audit Report Issued: June 17, 2003

Description UIHC is a beta site for the Homerus Robot that is sold by Pyxis Corporation. The robot is used for packaging, storing and dispensing single dose, bar coded medications into patient specific cassettes that are distributed to inpatient units throughout the hospital each day. The robot has been installed as part of the Department of Pharmaceutical Care's strategic plan for automating pharmacy processes so that UIHC is positioned to implement bedside verification of medication administration.

- Scope / Objective** The objectives of the audit were to:
- Determine that processes using the Homerus system are in compliance with state, federal and other regulatory agencies;
 - Ensure that pharmaceuticals are safeguarded through the entire process;
 - Determine that pharmaceuticals moving through the process are appropriately recorded in inventory;
 - Determine that appropriate system resources and personnel are in place to adequately monitor and maintain the system.
 - Ensure that reporting tools are in place to assist management in making appropriate decisions;
 - Ensure that system security and access is appropriate; and
 - Determine the adequacy of policies and procedures.

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	1. <u>Safety Guards</u> . Address safety concerns; display approved signage prominently; and communicate documented protocols to those working around the robot.	Management has addressed safety concerns and continues to work with Homerus to address other concerns; has placed signage; and will begin training. <i>Implementation Target Date: August 2003</i>	Internal auditors will verify safety concerns and training. <i>Review: August 2003 Report: October 2003</i>
	2. <u>Homerus Software Security</u> . Identify and design new security controls to ensure appropriate user access.	Management has communicated the software security design flaw and is waiting for a response. <i>Implementation Target Date: August 2003</i>	Internal auditors will perform additional testing of security. <i>Review: August 2003 Report: October 2003</i>
	3. <u>User Security and Access</u> . Create a form to standardize user information input and gain formal approval for adding or maintaining user information. Deactivate the generic ID.	Management has created a systematic method for entering users into the system and has attempted to deactivate the generic ID. Assistance has been requested from the vendor. <i>Implementation Target Date: July 2003</i>	Internal auditors will verify changes. <i>Review: August 2003 Report: October 2003</i>

**University of Iowa – Hospital Operations
Homerus Robot
(continued)**

Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
<p>4. <u>Documentation</u>. Review and update or create documentation that is reflective of current operations including disaster recovery plans and downtime procedures. Use the documents as training tools.</p>	<p>Management has updated policies and procedures covering normal operations as well as disaster recovery and downtime have been updated. Specific disaster recovery and database back-up/restore procedures are pending clarification with the vendor. Staff will be re-trained.</p>	<p>Internal auditors will verify training.</p>
	<p><i>Implementation Target Date:</i> July 2003</p>	<p><i>Review: August 2003</i> <i>Report: October 2003</i></p>
<p>5. <u>Data Backup</u>. Assure that staff has adequate knowledge of the backup process and work with the vendor to ensure that backups are performed.</p>	<p>Management will contact the vendor for clarification of data back up and restore procedures.</p>	<p>Internal auditors will verify data backup and restore procedures.</p>
	<p><i>Implementation Target Date:</i> July 2003</p>	<p><i>Review: July 2003</i> <i>Report: October 2003</i></p>
<p>6. <u>Orientation Checklist</u>. Provide user training or limit system functionality; complete a checklist for training documentation and competency; and retain checklist in employee personnel files.</p>	<p>Management has created an orientation checklist; will go through the list with employees within 30 days; and will file a copy.</p>	<p>Internal auditors will confirm the completion of orientation checklists and training.</p>
	<p><i>Implementation Target Date:</i> August 2003</p>	<p><i>Review: August 2003</i> <i>Report: October 2003</i></p>
<p>7. <u>Training</u>. Ensure that key personnel are well trained.</p>	<p>Management will clarify roles and expectations, obtain information to enhance knowledge, and revise department policies.</p>	<p>Internal auditors will confirm that training took place.</p>
	<p><i>Implementation Target Date:</i> August 2003</p>	<p><i>Review: August 2003</i> <i>Report: October 2003</i></p>
<p>8. <u>Technical Support</u>. Ensure appropriate technical support and timely and results-orientation communication with the vendor. Draft and approve a customer support agreement.</p>	<p>Management has met with the vendor to discuss service and has drafted a contractual agreement.</p>	<p>Internal auditors will verify the agreement approval and subsequent vendor compliance.</p>
	<p><i>Implementation Target Date:</i> July 2003</p>	<p><i>Review: July 2003</i> <i>Report: October 2003</i></p>

Iowa State University
NCAA Compliance – Representatives of Athletics Interest

Initial Audit Report Issued: March 11, 2003

- Description** As a Division I member of the National Collegiate Athletic Association (NCAA), ISU is obligated to comply with NCAA rules and regulations governing the eligibility, amateur status, and recruitment of student athletes. The Division I Manual defines institutional responsibility for actions of outside entities.
- Scope / Objective** The scope of the audit included review of ISU's efforts to comply with the NCAA regulations regarding institutional responsibility for actions of outside entities.
- Observations** The Athletic Department has planned but not yet implemented several procedures to improve monitoring and education efforts relating to representatives of athletics interests, including:
- Review of local booster club expenditures for adherence to NCAA regulations (Representatives of Athletics Interests are often referred to as boosters.);
 - Development of a Compliance Corner column on the Athletic Department website; and
 - Preparation of athletic compliance articles for game programs and media guides.

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	<u>Evidence to Demonstrate Compliance.</u> Determine whether supporting documentation is maintained to substantiate that the policies and procedures related to boosters are properly followed.	Management will implement improved documentation procedures concerning the areas of education and monitoring of boosters and conduct a review to determine the best methods available for evidence retention.	Internal auditors will review documentation.
		<i>Implementation Target Date:</i> <i>January 1, 2004</i>	<i>Review: January 2004</i> <i>Report: February 2004</i>

**Iowa State University
Student Financial Aid**

Initial Audit Report Issued: June 2, 2003

Description Sources of student financial aid at ISU include federal, state, institutional, and private funds in the form of scholarships, loans, grants, and employment. The Office of Student Financial Aid (OSFA), a unit of Enrollment Services, administers many of these aid programs. Other University units, such as the Athletic Department, Graduate College, and various academic departments also administer aid programs.

Scope / Objective The scope of the audit included only institutional financial aid programs funded by tuition revenue and were reviewed to:

- Examine the flow of funds into and out of aid accounts, including the end of year disposition of funds, if any;
- Evaluate on a sample basis whether selected recipients qualified for their aid;
- Verify that the process for selecting recipients ensures compliance with the program criteria; and
- Assess controls that prevent the over awarding of aid to recipients.

Recommendations / Responses	Auditor's Recommendation	Management's Response	Expected Auditor Follow-up
	1. <u>Documentation of Aid Programs.</u> Document financial aid award criteria consistently for each program administered by OSFA and Enrollment Services.	Management will compile consistent documentation for each tuition revenue funded program administered by OSFA and Enrollment Services. <i>Implementation Target Date: January 1, 2004</i>	Internal auditors will review documentation. <i>Review: January 2004 Report: February 2004</i>
	2. <u>System Testing.</u> Document the methodology for testing the financial aid awarding program and the testing of the program.	Management will document the testing methodology for the award program and retain documentary evidence of the testing of the program. <i>Implementation Target Date: July 1, 2003</i>	Internal auditors will review documentation. <i>Review: January 2004 Report: February 2004</i>

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Cash Collection Activities Review Closed

University of Northern Iowa

- FY 2002 Cash on Hand Remains open
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**University of Iowa – University Operations
Cash Collection Activities Review**

Initial Audit Report Issued: April 21, 2003

Follow-up Memorandum Issued: June 17, 2003

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Restrictive Endorsement.</u> Restrictively endorse checks immediately upon receipt.	Checks are now restrictively endorsed immediately after receipt.
	2. <u>Deposit All University Funds.</u> Deposit all accumulated funds.	Accumulated excess funds have been deposited in the appropriate Journal account. Other Journals' staff will be solicited for alternate procedures to eliminate the need for a change fund.
	3. <u>Segregation of Duties and Reconciliation.</u> Reassign duties to separate cash handling and reconciliation duties.	Internal cash handling procedures have been written and shared with the relevant staff. The procedures separate the cash handling duties as possible with a small administrative staff. Where segregation was not feasible, mitigating controls were properly inserted to reduce the associated risks.
	4. <u>Timely Deposits.</u> Make deposits weekly or when the amount on hand reaches \$500.	Deposits are now made at least weekly when the amount on hand reaches \$500.
	5. <u>Safeguarding.</u> Store all cash receipts in a secure location. Count cash in an out-of-sight location.	Receipts are now secured until deposited.

Auditor's Response and Follow-up

Management has taken appropriate action. This audit is closed.

**University of Northern Iowa
FY 2002 Cash on Hand**

Initial Audit Report Issued: September 10, 2002
Follow-up Review Issued: January 31, 2003
Second Follow-up Review Issued: June 27, 2003

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Departmental Reimbursement Fund Compliance.</u> Comply with the University's departmental reimbursement fund procedures.	Departments / units will comply with reimbursement fund procedures.
5. <u>Cash Overages & Shortages.</u> Record cash overages and shortages in the University's accounting system; review year-to-date totals monthly; and develop and implement procedures to resolve overages and shortages appropriately.	Departments / units will: record overages and shortages; review year-to-date totals monthly; and develop and implement procedures to resolve overages and shortages.
6. <u>Adequate Revenue Records.</u> Record, reconcile, and develop adequate documentation for revenues.	Departments / units will create initial receipt logs.
7. <u>Appropriate Check Negotiation.</u> Restrictively endorse checks immediately upon receipt.	Departments / units will endorse checks immediately upon receipt.
8. <u>Timely Depositing of Revenue.</u> Deposit all revenue at least weekly or sooner if \$250 is on hand according to University policy.	Departments / units will deposit checks accordance with University policy.
10. <u>Revenue Collection.</u> Develop and implement revenue collection procedures.	Management will develop and implement revenue collection procedures.

Auditor's Response and Follow-up

Previously, items 2, 3, 4, and 9 were closed. Items 1, 5, 6, 7, and 8 are now closed. Item 10 was added during the second follow-up review. Internal auditors will perform a follow-up review on item 10 by December 2003.