

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: July 8, 2002

Recommended Actions:

1. Receive the following seven internal audit reports from the University of Iowa:

UNIVERSITY OPERATIONS
 - Credit Programs – Division of Continuing Education
 - Department of Otolaryngology – Sponsored Programs Activity
 - Graduate College – Departmental Audit
 - Information Technology Decentralized Operations
 - Inventory Purchase Activity
 - Transporting of Cash
HOSPITAL OPERATIONS
 - Transporting of Cash
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including three follow-up reports.
-

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 19 internal audit reports, 16 of which require follow-up. Three follow-up reports are presented this month (page 12), one from the University of Iowa and two from Iowa State University; 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
July 8, 2002**

University of Iowa

Title	Report Date	Follow-Up Status	Expected Completion
1. College of Dentistry – Business System Security & Access (SUI)	December 20, 2001	Follow-up scheduled in FY 2003.	August 2002
2. Conflict of Interest (SUI)	December 20, 2001	Follow-up scheduled in FY 2003.	October 2002
3. Food and Nutrition Gift Card Program (UIHC)	April 15, 2002	Follow-up scheduled in FY 2003.	September 2002
4. Patient Fiscal and Registration Services (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
5. Patient Fiscal and Registration Services – Credit Balances (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
6. Iowa School for the Deaf Leases (SUI) Follow-up report	April 15, 2002 June 6, 2002	Audit closed. (page 12.)	Closed
7. Student Billing Processes (SUI)	April 15, 2002	Follow-up scheduled in FY 2003.	August 2002
8. University Video Center (SUI)	April 15, 2002	Follow-up scheduled in FY 2003.	August 2002

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
9. Residence Hall Convenience Stores Follow-up report	February 16, 2001 December 6, 2001	Second follow-up in progress and will be completed in FY 2003.	September 2002
10. Athletic Ticket Office	August 14, 2001	Second follow-up in progress and will be completed in FY 2003.	July 2002
11. Athletic Business Office	February 18, 2002	Follow-up scheduled in FY 2003.	August 2002
12. Department of Animal Science Follow-up report	December 3, 2001 June 6, 2002	Audit closed. (page 13.)	Closed
13. Veterinary Diagnostic and Production Animal Medicine	October 11, 2001	Second follow-up in progress and will be completed in FY 2003.	July 2002
14. Department of Agricultural and Biosystems Engineering	April 26, 2002	Follow-up scheduled in FY 2003.	December 2002
15. Department of Electrical and Computer Engineering	May 28, 2002	Follow-up scheduled in FY 2003.	January 2003
16. Department of Residence Accounting	March 11, 2002	Follow-up scheduled in FY 2003.	July 2002
17. NCAA Compliance Part 3 Follow-up report	August 16, 2001 June 27, 2002	Audit closed. (page 14.)	Closed

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
18. Grants and Contracts Accounting Follow-up report	March 22, 2000 June 29, 2001	Second follow-up in process.	July 2002
19. North American Review	March 9, 2001	Follow-up in process.	July 2002

**University of Iowa – University Operations
Credit Programs – Division of Continuing Education**

Initial Audit Report Issued: May 24, 2002

Description

Credit Programs, a department within the Division of Continuing Education, includes three programs:

- Guided Independent Study (correspondence courses);
- Saturday and Evening courses (on-campus held at non-typical hours); and
- Distance Education (off-campus semester-based courses with various methods of delivery).

FY 2001 tuition revenues totaled approximately \$8.7 million with enrollment of 20,320 students. Tuition is assessed, collected, and transferred differently for the three programs.

Scope / Objective

The purpose of the audit was to determine if:

- Procedures and internal controls are in compliance with University and other regulatory policies;
- Transactions are complete, accurate, and recorded timely;
- Assets are properly identified, maintained, and safeguarded from misappropriation and destruction;
- Adequate and accurate information is made available to management; and
- Management properly monitors reports.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Letter of Understanding</u> . Document business arrangements made with other areas of the University.	Management will create a memo of understanding with departments that will: share tasks and accounts; outline responsibilities, methods of account allocations, approved expenses, and specific fees that are charged along with a time frame showing when deposits occur; and address the ownership of the account should a program be discontinued.
2. <u>Promotions</u> . Develop a promotions policy.	Management will analyze current promotional expenditures, define allowable expenses, build a strategy incorporating internal controls, and outline allowable purchases, spending limits, overall budget, and prior approvals.

**University of Iowa – University Operations
Credit Programs – Division of Continuing Education
(continued)**

Auditor's Recommendation	Management's Response
<p>3. <u>Information Technology Controls.</u></p> <p>a. <u>Documented Policy and Procedures.</u> Document policies and procedures.</p> <p>b. <u>Software and Hardware Inventories.</u> Develop software and hardware inventories.</p> <p>c. <u>Environmental Controls for Server Location.</u> Provide climate-controlled environment for the server.</p> <p>d. <u>Lack of Formal Disaster Recovery Plan.</u> Document back-up system with the technical capability to facilitate disaster recovery.</p>	<p>Management will:</p> <p>a. Formally document and adopt policies and procedures.</p> <p>b. Complete inventory of software and hardware for all workstations and update as needed;</p> <p>c. Seek alternative locations to provide proper climate controls, fire detection, and fire suppression for the server; and</p> <p>d. Document a formal disaster plan, including recovery procedures, assignment of responsibility, and hardware and software requirements; lock back-up tapes in a fire-resistant location; review the plan annually; and update as necessary.</p>

Response and
Follow-up

Internal auditors accepted management responses pending a follow-up review subsequent to implementation of corrective actions.

**University of Iowa – University Operations
Department of Otolaryngology – Head & Neck Surgery
Review of Sponsored Programs Activity**

Initial Audit Report Issued: June 18, 2002

Description	The Department of Otolaryngology, a nationally recognized research center, was founded in 1922 and is one of the oldest in the United States. It repeatedly has been ranked one of the top three departments in the country. Externally sponsored research revenue totaled more than \$3.4 million for FY 2001.
Scope / Objective	<p>Internal auditors conducted a review of the Department's sponsored programs activity evaluating the adequacy of departmental procedures and internal controls to ensure:</p> <ul style="list-style-type: none">• Compliance with University, Federal, and other external granting agency regulatory policy requirements;• Timely filing and accurate recording of initial award request documentation;• Only allowable expenditures are charged to projects;• Accurate and adequate information is provided timely to the sponsor and management; and• Proper management monitoring and follow-up.
Auditor's Response and Follow-up	No reportable conditions were noted. This audit is closed.

**University of Iowa – University Operations
Graduate College – Departmental Audit**

Initial Audit Report Issued: May 24, 2002

Description	<p>The Graduate College has awarded over 60,000 masters, 500 specialist, and 15,000 doctoral degrees since 1900. Approximately 25% of the University's student body is registered in the College and over 20% of awarded degrees are granted from more than 100 graduate programs annually.</p> <p>The College contains administrative offices and three subunits: Interdisciplinary Programs, Urban and Regional Planning, and the School of Library and Information Science.</p>
Scope / Objective	<p>Internal auditors reviewed the College's operations and evaluated the adequacy of departmental procedures and internal controls of pre-determined business processes to ensure:</p> <ul style="list-style-type: none">• Compliance with University and other regulatory policies;• Proper process segregation among individuals;• Timely and accurate recording of transactions to the General Ledger;• Proper identification, maintenance, and safeguarding of assets;• Management is provided accurate and adequate information; and• Management conducts proper monitoring and follow-up.

**University of Iowa – University Operations
Graduate College – Departmental Audit**
(continued)

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>Computing Consultant Backup and Cross Training</u> . Investigate options to provide back-up support for the IT environment.	Management has entered into an agreement with the Vice President for Research's office to assist when necessary and has requested an additional position. Moving to the University's central server configuration, eliminating on-site server maintenance and back-ups is also being explored.
3. <u>Off-Campus Use of Equipment</u> . Advise personnel of the policy and required form for maintaining equipment off campus.	Management has advised personnel of the policy requirement and provided instruction on form completion and usage.
4. <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.
5. <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.
6. <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

Internal auditors accepted management responses pending a follow-up review that will be performed in the second quarter of FY 2003.

**University of Iowa – University Operations
Information Technology Decentralized Operations**

Initial Audit Report Issued: June 18, 2002

Description A campus-wide survey of independent Information Technology (IT) operations was conducted. University Information Technology Services (ITS) and Health Care Information Services (HCIS) provide most central services on campus. A large, diverse number of IT systems also exist that operate at various levels of independence. Some maintain a close relationship with central IT while others do not.

Scope / Objective The purpose of the audit was to identify and gather information regarding independent IT operations at the University.

A questionnaire was distributed to three groups: individuals heading IT operations at the collegiate level (68% responded); individuals considered “secondary” IT contacts in their area (59% responded); and Primary Investigator grant recipients (53% responded) since grants often provide funds for computer equipment purchases.

The questionnaire gathered the following information:

- The number and qualifications of those directing each of the decentralized IT operations;
- The data backup system being used and the frequency of back-ups;
- Physical equipment access and security;
- The extent of written system process documentation; and
- Detailed system information where more than \$2,000 per year was being expended in the operation.

The auditors made nine on-site visits to observe departmental IT areas and elicit additional comments and information.

Observations / Responses

Auditor's Observations	Management's Response
1. <u>Written Documentation</u> . Develop written policies and procedures, including an emergency recovery plan for IT operations.	Management responses were not provided.
2. <u>Educational / Training Level</u> . Establish minimum technical standards for IT system operators and coordinate on-campus professional education and certification classes.	
3. <u>Personnel Support and Cross Training</u> . Provide support during absences in other areas and cross train personnel.	

**University of Iowa – University Operations
Information Technology Decentralized Operations**

(continued)

Observations /
Responses

(continued)

Auditor's Observations	Management's Response
4. <u>Interaction with Vendors</u> . Maintain periodic contact with hardware and software systems vendors.	Management responses were not provided.
5. <u>Systems Redundancy and Data Integrity</u> . State and enforce IT compliance issues.	
6. <u>System and Data Back-Ups</u> . Document back-up procedures for file servers and develop a policy statement addressing data security and retrieval.	
7. <u>Physical Equipment Security and Environment</u> . Assure that server equipment is in an area environmentally controlled for temperature, humidity, and dust.	
8. <u>E-Commerce</u> . Document policy statement setting parameters for allowable transactions and minimum-security procedures.	
9. <u>Use for Non-University Purposes</u> . Assure that IT resources are used strictly for University purposes.	
10. <u>Communication Between Units</u> . Develop communication between independent units and central IT.	

Auditor's Response
and Follow-up

This audit was conducted to gather high-level information and assess risk. No formal follow-up procedures will be performed. However, identified risk areas will be included in future audits and annual audit plans.

**University of Iowa – University Operations
Inventory Purchase Activity**

Initial Audit Report Issued: May 24, 2002

Description The University's balance sheet contained ending inventories of over \$27 million. Individual departments spent almost \$154 million in inventory for resale purchases. Thirteen departments accounted for over \$151 million of the total, with each purchasing more than \$500,000.

Scope / Objective Departments with inventory purchases over \$500,000 during FY 2001 were identified. The internal auditors selected a) College of Dentistry – Central Supply and Pharmacy; and b) Parking and Transportation – Motor Pool for review.

The purpose of the audit was to evaluate whether:

- Inventory is safeguarded from loss or misappropriation;
- Inventories are accurately recorded and adjusted;
- Inventory purchases, receipts, and reconciliations are performed by separate individuals; and
- An independent reconciliation of inventories is performed.

Recommendations / Responses

Auditor's Recommendation	Management's Response
<u>Separation of Duties</u> . Assure proper segregation of duties for ordering/purchasing, receiving inventory purchases; and approving inventory system adjustments and reconciliations.	Management will assure proper segregation of duties.

Auditor's Response and Follow-up Internal auditors concurred with the action taken by management and will perform a formal follow-up in FY 2003.

**University of Iowa – University Operations
Transporting of Cash**

Initial Audit Report Issued: June 18, 2002

Description The University's Business Office revised the deposit process resulting in many departments delivering larger deposits directly to a University-approved depositor rather than to the Cashier's Office. The change process resulted in increased awareness and concern regarding risks associated with transporting cash.

Scope / Objective The purpose of the review was to identify and assess the risks involved for collecting and transporting cash to locations on and off campus.

Observations / Responses

Auditor's Observation	Management's Response
1. <u>Safety</u> . Assure personal safety of employees transporting cash.	Management has formed a group to assess the identified risks and concerns related to transporting cash. The group is investigating armored car pickup service, improved safety methods, and best practices for transporting cash.
2. <u>Public Safety Escorts</u> . Investigate the possibility of providing public safety escorts to all departments when cash is being transported.	
3. <u>Loss of Funds</u> . Assure that deposits are made according to the University's cash policy.	
4. <u>Education</u> . Provide guidelines for transporting cash.	

Auditor's Response and Follow-up This audit was conducted to gather information and create awareness of the assessed risk. No formal follow-up procedures will be performed. However, identified risk areas will be included in future audits and annual audit plans.

**University of Iowa – Hospital Operations
Transporting of Cash**

Initial Audit Report Issued: June 18, 2002

Description Internal auditors conducted this review of cash handling procedures concurrently with the University-wide cash transportation audit. The report indicates that various areas for improvement were observed.

Deposits are transported through the hospital and delivered to the Cashier's Office by:

- Locked hand bags;
- Carried in hand – no bag or concealment;
- Unlocked bank bags;
- Covered cash register drawers;
- Bank bag carried in a cart of lab products;
- Locked box; and
- Carts with unlocked change boxes.

Scope / Objective The purpose of the review was to identify and assess the risks associated with transporting cash at UIHC.

Auditor's Observation	Management's Response
1. <u>Safety</u> . Assure personal safety of employees transporting cash.	Management has formed a group to address concerns associated with after hours and weekend deposits and will conduct various cash handling training sessions.
2. <u>Evening and Weekend Deposits</u> . Address concerns regarding after-hours deposits and change requests.	
3. <u>Transports by Safety and Security</u> . Address concerns regarding weekend deposits.	
4. <u>Loss of Funds</u> . Segregate duties and make timely deposits.	
5. <u>Education</u> . Properly train personnel regarding the safeguarding of assets.	

Auditor's Response and Follow-up This audit was conducted to gather information and create awareness among staff and management at UIHC. No formal follow-up procedures will be performed. However, identified risk areas will be included in future departmental audits.

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

Status

- Iowa School for the Deaf Leases Closed

Iowa State University

- Department of Animal Science Closed
 - NCAA Compliance Part 3 Closed
-

**University of Iowa - University Operations
Iowa School for the Deaf Leases**

Follow-Up Audit Report Issued: June 6, 2002
Initial Audit Report Issued: April 15, 2002

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Documentation of Lease Market Rates</u> . Obtain and document comparable lease value information for each new or renewal lease.	Management will document each time lease market rates are checked.
	2. <u>Notification of Farm Lease Termination</u> . Establish a tickler file to assure that Board policy is followed in 2007 with the expiration of the recently renewed lease.	Management will check with the Board Office to clarify why this needs to be done if the tenant is not changing and will take steps to comply in the future.
	3. <u>Lease Renewal Frequency</u> . Consider using multi-year leases with annual payment changes tied to an independent cost index.	Management will implement as current leases expire (if tenants do not object) and will work with the Board Office to make the lease renewal process more efficient.

Auditor's Response and Follow-Up

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

**Iowa State University
Department of Animal Science**

Follow-Up Audit Report Issued: June 6, 2002
Initial Audit Report Issued: December 3, 2001

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Written Documentation</u> . Provide written departmental policies and procedure s.	Management will assess departmental procedures, efficiencies, and training needs; develop written procedures; and provide guidance on specific procedure documentation.
	2. <u>Purchasing Card</u> . <ul style="list-style-type: none"> a. Reassign the validating and reallocating roles to unit support personnel. b. Document process for using P-Cards and record retention, as well as provide guidance on seeking tax reimbursement. 	Management will: Reassign the reallocator and validator roles and; Document P-Card procedures including tax reimbursement guidance.
	3. <u>Research and Teaching Farms</u> . <ul style="list-style-type: none"> a. Assure that the service center operation does not consistently make profits or function in a deficit. b. Automate the reporting process to prepare individual farm reports. c. Restrictively endorse and forward cash/checks consistently and timely. 	Management has established a task force that will: Develop a plan to eliminate deficit balances; Automate the reporting process and; Improve check processing procedures.

Auditor's Response and Follow-Up

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

**Iowa State University
NCAA Compliance Part 3**

Follow-Up Audit Report Issued: June 27, 2002

Initial Audit Report Issued: August 16, 2001

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>Determination of Financial Aid Eligibility</u> . Follow updated eligibility requirements.	Management has established a memorandum of agreement detailing current participation eligibility in intercollegiate athletics with regard to financial aid.
2. <u>Production of Squad Lists</u> . Assure proper segregation of duties to produce squad lists for each sport.	Management will assure that segregation of duties associated with the production of squad lists are appropriate.
3. <u>Monitoring of Travel for NCAA Compliance</u> . Establish NCAA compliance review procedures for team and recruiting travel.	Management will provide team travel rules to the business office and will develop a plan for recruiting travel compliance.
4. <u>Tracking of Athletic Equipment Inventory</u> . Establish complete and reliable athletic equipment records.	Management will inventory all stored equipment and develop a computerized equipment inventory system. Records will be updated as needed and reconciled periodically.

Auditor's Response
and Follow-up

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