

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports (ISU)
Date: June 1, 2001

Recommended Actions:

1. Receive the following internal audit reports from Iowa State University:
 - Extension Distribution Center
 - International Agriculture Programs
 - Residence Hall Convenience Stores
 - Special Audit of the Office of the President
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.

Seven completed internal audit reports are presented, four new and three follow-up. Two of the four new Iowa State University audits require additional follow-up: Extension Distribution Center and Residence Hall Convenience Stores.

The Status of Internal Audit Follow-Up Table on page 5 reflects the current status of the follow-up audits organized by university. The Table identifies 19 internal audit reports that have previously been presented to the Banking Committee, of which 16 still require follow-up.

The detailed tables, starting on page 6, identify the auditor's recommendations, managements' responses, and the status of the corrective action for the four new reports and the three completed follow-up reports. Internal auditors at Iowa State University closed the two follow-up audits. The University of Iowa internal auditors completed one follow-up report that closed the related audit.

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:

Extension Distribution Center

The Extension Distribution Center (EDC) is a part of two units of ISU's Cooperative Extension Service (Extended and Continuing Education and Extension Communications) that were merged to form the Continuing Education and Communication Services unit.

The primary objectives of the EDC are to assist all extension units in distributing materials to meet "just in time" needs of citizens; provide cost effective ways for inventorying and distributing materials; and to initiate an e-Extension nationwide clearinghouse. The EDC supports other Cooperative Extension Service units, including the 100 Iowa County Extension Offices, through the shipping, receiving, warehousing, and invoicing of Extension publications and materials.

The internal audit was performed to examine compliance with applicable rules, policies, and regulations; accomplishment of mission and objectives; reliability and integrity of information; efficiency and effectiveness of operations; and safeguarding of assets.

The internal audit report contains recommendations for improvement including accounts receivable processing; inventory monitoring and storage; pricing practices; EDC fund accounts; Chapter IX penalty mail; computer system controls; office procedures and controls; procedures for small purchases; and documentation of procedures. (See pages 6-7.)

A follow-up audit will be performed in October 2001.

International Agriculture Programs

The mission of the office of International Agriculture Programs (IAP) at ISU is to provide "leadership and service in globalizing teaching, research, and extension programs that serve people of the state, the nation, and the world." IAP has been engaged in international research and development activities in approximately 40 countries throughout the world.

The purpose of the audit was to determine whether IAP's operations are in compliance with University policies and procedures; assets are effectively safeguarded; revenues are properly recognized; expenditures are appropriately authorized; and resources are used economically and efficiently.

No material findings were noted, but suggestions were made for improvements in efficiency. A follow-up review is not necessary.

Residence Hall Convenience Stores

Residence Hall Convenience Stores (C-Stores) are a small component of the ISU Residence System. They consist of three small retail operations that carry a variety of items from snack food and beverages to health and beauty aids for University students and staff.

The purpose of the audit was to examine compliance with applicable rules, policies, and regulations; accomplishment of mission and objectives; reliability and integrity of information; efficiency and effectiveness of operations; and safeguarding of assets.

The internal auditor reported that accounting and reconciliation procedures are not adequate to provide reliable internal financial information regarding C-Stores operations. The auditor was unable to audit the accomplishments of the C-Store mission and objectives due to weaknesses in documentation and recordkeeping.

The internal audit report contains recommendations for improvements including C-Stores reporting structure; projections and monitoring; preparation and retention of reports; reconciliation of reports; accounting for C-Stores salaries and wages; inventory monitoring; security – doors, safes, cash handling, and cameras; pricing methodology; procedural consistency; accounting for change fund shortages. (See pages 8-9.) A follow-up audit will be performed in August 2001.

Special Audit of the Office of the President

Due to the upcoming presidential transition at ISU, the Office of the President requested that a general review be conducted of the office's financial activities. This review included examination of procedures, controls, and compliance related to activity in the Office of the President's administrative fund accounts during calendar year 2000.

The auditors evaluated activity in the administrative fund accounts assigned to the Office of the President (excludes University Legal Services and the Office of Governmental Relations); processing of cash receipts, expenditures, and accounting corrections; supporting documentation for transactions – quality, retention, and reconciliation; compliance with University policies and procedures regarding allowability and appropriateness of expenditures from University fund accounts; and effectiveness and efficiency of accounting procedures.

The report revealed no significant errors in or concerns with the financial transactions tested. However, recommendations were made to: enhance supporting documentation for expenditures, providing more descriptive information to indicate the allowability and appropriateness of expenditures; appoint an office coordinator to oversee account reconciliations, document retention, and file organization; reduce transaction costs by using the ISU Purchasing Card (P-Card) for eligible expenditures; and frequently monitor the Office of the President's administrative fund accounts to ensure timely closure of obsolete or unused accounts.

Internal auditors will work with administrative staff in the Office of the President to implement procedural improvements. No formal audit follow-up is planned.

**Status of Internal Audit Follow-Up
June 1, 2001**

University of Iowa

Title	Report Date	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 is nearly complete.	July 2001
3. Rebates (UIHC)	October 1, 1996	Follow-up will be conducted in FY 2001. Preliminary fieldwork is complete.	July 2001
4. Non-Business Office Cash Receipting Procedures (UIHC)	October 11, 1999	Follow-up is complete; report will be issued in June 2001.	July 2001
5. Computer System Access Security (ISD) Audit Follow-Up Memorandum	June 21, 2000 May 17, 2001	Audit closed (page 12.)	Closed
6. Intercollegiate Athletics – Home Game Ticket Revenue-FY 2000 (SUI)	October 23, 2000	A follow-up will be conducted in FY 2001.	September 2001
7. Human Resources Software Access Security (SUI)	February 20, 2001	A follow-up will be conducted in FY 2002.	September 2001
8. NCAA Compliance Audit (SUI)	February 20, 2001	A follow-up will be conducted in FY 2002.	November 2001
9. NCAA Compliance Audit – Financial Aid (SUI)	January 19, 2001	A follow-up will be conducted in FY 2002.	October 2001

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
10. Veterinary Teaching Hospital	July 18, 2000	A follow-up will be conducted in FY 2001.	June 2001
11. Academic Course Fees	July 18, 2000	A follow-up will be conducted in FY 2002.	July 2001
12. NCAA Compliance Audit (Part 2) Follow-up report #1	November 27, 2000 May 1, 2001	Audit closed (page 10.)	Closed
13. Purchasing Card Follow-up report #1	November 27, 2000 May 1, 2001	Audit closed (page 11.)	Closed

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
14. Small Business Development Center Preliminary Follow-up Follow-up report #1	October 5, 1999 May 12, 2000 January 26, 2001	The follow-up report indicates open items. Another follow-up is scheduled for June 2001.	June 2001
15. Cash on Hand Follow-up report #1	February 24, 2000 December 1, 2000	The follow-up report indicates open items. A second follow-up will be conducted.	June 2001
16. Grants and Contracts Accounting	March 22, 2000	A follow-up will be conducted in FY 2001.	June 2001
17. Malcolm Price Laboratory School	June 29, 2000	A follow-up will be conducted in FY 2002.	June 2001
18. Camp Adventure™ Youth Services (UNI)	July 28, 2000	A follow-up will be conducted in FY 2002.	September 2001
19. North American Review	March 9, 2001	A follow-up will be conducted in FY 2002.	February 2002

Iowa State University
Extension Distribution Center (EDC)

Initial Internal Audit Report Issued: February 16, 2001

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
<p>1. <u>Duplicate Accounts Receivable Processing.</u> Eliminate or reduce duplicate data entry, processing, and mailings between the EDC and ISU Accounts Receivable office.</p>	<p>The EDC will work with Accounts Receivable to develop an automated interface between the two systems or an alternate solution that will eliminate or reduce redundant and inefficient procedures.</p>	<p>Response accepted.</p>	<p>Follow-up to be performed in October 2001.</p>
<p>2. <u>Inventory Monitoring and Storage.</u></p> <ul style="list-style-type: none"> a. Record the cost of each inventory unit in the database and maintain a perpetual inventory system. b. Maintain current warehouse inventory. c. Improve poor warehouse conditions. d. Address security issues when EDC employees are not present. 	<ul style="list-style-type: none"> a. Management will add inventory unit cost to the database. Management will also request unit cost data, enter it into the database, summarize the information, and submit to the Controller for inclusion in the financial statements. b. Management has installed a new barcode control system that will automatically update inventory data when inventory is added or removed. c. Management will reduce inventory quantities to assure sufficient warehouse temperatures; contact existing inventory owners for disposal or storage; and develop a standard storage fee agreement. d. The new inventory system will enable management to track inventory closely. Management will evaluate the need to increase security in the main warehouse. 	<p>Responses accepted.</p>	<p>Follow-up to be performed in October 2001.</p>
<p>3. <u>Pricing Practices.</u> Document pricing methodology and follow the Controller's guidelines for rate determination and review.</p>	<p>Management will retain documentation of all pricing methods and reviews. Management will also use the Controller's Office rate determination guidelines to establish service fees.</p>	<p>Response accepted.</p>	<p>Follow-up to be performed in October 2001.</p>
<p>4. <u>EDC Fund Accounts.</u> Separate EDC's financial activities from those of different units and monitor surpluses and deficits.</p>	<p>Management will establish a revolving fund account to be used exclusively for EDC transactions; move non-EDC activity out of the existing EDC fund accounts; define the purpose and uses for each account; and monitor account balances.</p>	<p>Response accepted.</p>	<p>Follow-up to be performed in October 2001.</p>

Iowa State University
Extension Distribution Center (EDC)

Initial Internal Audit Report Issued: February 16, 2001
Continued

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
5. <u>Chapter IX Penalty Mailing Privilege.</u> Keep all records for all penalty mail returned as undeliverable and return items to their original sender.	The Extension Finance Office will open returned penalty mail, maintain a log of such items according to Chapter IX regulations, and send to the EDC for distribution to the original senders.	Response accepted.	Follow-up to be performed in October 2001.
6. <u>Computer System Controls.</u> a. Ensure proper access restrictions to software with passwords. b. Segregate duties to secure back-up media storage. c. Relocate the network server from its current high-traffic area location.	a. Management will implement user-specific passwords for all software applications, and will require that passwords be kept confidential and be changed periodically. b. Management will store back-up tapes away from the network server and delegate the responsibility for back-up tape storage to an employee with little or no access to the original data. c. Management will move the computer system to a more protected area.	Responses accepted.	Follow-up to be performed in October 2001.
7. <u>Office Procedures & Controls.</u> a. Segregate expenditure authorization and reconciliation duties. b. Reconcile receipts to monthly statements and include the identification of the person reconciling. c. Document delegation of authority for approval of UPS charges and assure proper signature. d. Deposit checks and receipts timely. e. Follow guidelines for recording cash register overages and shortages.	a. Management will separate transaction authorization, recording, and reconciliation processes. b. Management will reconcile receipts and include the initials of the individual performing the task. c. The delegation of signature authority will be documented. The person authorizing transactions will sign their own name. d. The ISU Treasurer has provided a memo authorizing an exception to avoid generating numerous refund checks. e. Management will record cash overages and shortages per established guidelines.		
8. <u>Small Purchases.</u> Use purchasing cards for eligible transactions.	The EDC will begin using purchasing cards for eligible transactions.	Response accepted.	Follow-up to be performed in October 2001.
9. <u>Documentation of Procedures.</u> Assure that the policy and procedure manual is current and includes significant procedures.	Management will revise the policy and procedure manual to include significant policies as well as last-revised dates, a table of contents, and page or policy numbers.	Response accepted.	Follow-up to be performed in October 2001.

Iowa State University
Residence Hall Convenience Stores

Initial Internal Audit Report Issued: February 16, 2001

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
1. <u>C-Stores Reporting Structure.</u> Define duties and responsibilities for C-Store student-managers, the permanent C-Store manager, and the new residence board coordinator.	Management will update the policy and procedure manual to include the specific duties and responsibilities of all C-Store employees.	Response accepted.	Follow-up to be performed in August 2001.
2. <u>Projections and Monitoring.</u> Develop a specific set of objectives and assumptions with dates and time periods for the stated goals.	Management will develop clear, dated documentation of short- and long-term goals as well as measurable objectives for achieving those goals. Management will also develop a process for monitoring and sharing results consistently.	Response accepted.	Follow-up to be performed in August 2001.
3. <u>Preparation and Retention of Reports.</u> a. Automate financial and management reports. b. Segregate duties and coordinate efforts to prepare analytical, operational, and summary reports. c. Indicate the date prepared, the date revised, or the applicable time period on reports. d. Retain monthly cost worksheets.	a. Reports will be automated. b. Reports will be linked together for consistency. c. Report dates, time periods, and revision dates will be indicated. d. A process will be developed to generate significant analytical reports as determined by management.	Responses accepted.	Follow-up to be performed in August 2001.
4. <u>Reconciliation of Reports.</u> Reconcile cash reports and other financial and management reports.	Management will automate and reconcile reports.	Response accepted.	Follow-up to be performed in August 2001.
5. <u>Accounting for C-Stores Salaries and Wages.</u> Recognize salary costs of all dedicated C-Stores employees.	Management established a new administration account to post all C-Stores compensation. Management will also include all compensation expenses in C-Stores financial reports.	Response accepted.	Follow-up to be performed in August 2001.
6. <u>Inventory Monitoring.</u> Monitor specific inventory purchases and sales. Evaluate inventory handling procedures.	Management will monitor inventory purchases and sales by category and re-evaluate procedures surrounding inventory counts, transfers, recording, reconciling, and reporting.	Response accepted.	Follow-up to be performed in August 2001.

Iowa State University
Residence Hall Convenience Stores

Initial Internal Audit Report Issued: February 16, 2001

Continued

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
7. <u>Security—Doors, Safes, Cash Handling, and Cameras.</u> Address security weaknesses relating to inventory and cash.	Management will re-evaluate cash procedures and security measures to improve security and provide greater accountability.	Response accepted.	Follow-up to be performed in August 2001.
8. <u>Pricing Methodology.</u> Document product selection and product pricing methodology; indicate appropriate procedures for authorizing price changes; and retain documentation for trend information.	Management will document policies, procedures, and methodology for product selection and pricing. Management will also document procedures for recommending and authorizing price changes in the policy and procedure manual.	Responses accepted.	Follow-up to be performed in August 2001.
9. <u>Procedural Consistency.</u> Assure consistent handling of duties for all C-Stores.	Management will review and update the C-Stores policies and procedures documentation and training information. A standard checklist of duties has been developed.	Response accepted.	Follow-up to be performed in August 2001.
10. <u>Accounting for Change Fund Shortages.</u> Report shortages in the safe change fund according to the ISU Office Procedure Guide.	Management will report and replenish shortages in the safe change fund according to the ISU Office Procedure Guide. Management will also document the procedure in the C-Store policy and procedure manual.	Response accepted.	Follow-up to be performed in August 2001.

**Iowa State University
NCAA Compliance Audit (Part 2)
Follow-Up Audit Memorandum: May 1, 2001
Initial Audit Report Issued: November 27, 2000**

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
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>	Corrective actions taken.	Item closed.
<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>	Corrective action taken.	Item closed.
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. (3) Compare student-athlete approvals to brochures to verify that approval documentation has been obtained for all names and pictures used.</p>	Corrective actions taken.	Item closed.
<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>	Corrective action taken.	Item closed.

Iowa State University
Purchasing Card

Follow-Up Audit Memorandum: May 1, 2001
Initial Audit Report Issued: November 27, 2000

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
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 actions taken.	Item closed.
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 taken.	Item closed.
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 taken.	Item closed.
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 actions taken.	Item closed.

**University of Iowa
Iowa School for the Deaf – Computer System Access Security**

**Audit Follow-Up Memorandum Issued: May 17, 2001
Initial Audit Report Issued: June 21, 2000**

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
1. <u>Instructional Technology Policy</u> . Formal Written Usage Policy. Write comprehensive instructional usage policy.	A network users policy will be created.	Corrective action taken.	Item closed.
2. <u>Instructional Technology Department Efficiency</u> . Cross-train Personnel.	Personnel will cross-train in their respective areas of expertise. External training will be provided where justified. Provisions will be made to address service interruptions.	Corrective action taken.	Item closed.
3. <u>Information Security</u> . a. Access Reassignments. Determine access requirements for all business office employees. b. Periodic Password Changes. Require users to change password on a regular basis.	System Administrator will define and reassign needed access. Users will be required to change system password every 90 days.	Corrective action taken.	Item closed.