

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: June 10, 2002

Recommended Actions:

1. Receive the following five internal audit reports from Iowa State University:
 - Department of Agricultural and Biosystems Engineering
 - Department of Electrical and Computer Engineering
 - Department of Residence Accounting
 - NCAA Compliance Part 3
 - Receivables Office
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including three follow-up reports.
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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 18 internal audit reports, 15 of which require follow-up. Three University of Iowa follow-up reports (page 8) are presented this month; 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
June 10, 2002**

University of Iowa

Title	Report Date	Follow-Up Status	Expected Completion
1. Athletic Ticket Office (SUI) Follow-up report #1	October 16, 2001 May 24, 2002	Audit closed (Page 8).	Closed
2. College of Dentistry – Business Office Cash Handling (SUI) Follow-up report #1 Follow-up report #2	December 20, 2001 April 15, 2002 May 24, 2002	Audit closed (Page 10).	Closed
3. College of Dentistry – Business System Security & Access (SUI)	December 20, 2001	Follow-up scheduled in FY 2003.	July 2002
4. Conflict of Interest (SUI)	December 20, 2001	Follow-up scheduled in FY 2003.	October 2002
5. Food and Nutrition Gift Card Program (UIHC)	April 15, 2002	Follow-up scheduled in FY 2003.	September 2002
6. Patient Fiscal and Registration Services (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
7. Patient Fiscal and Registration Services – Credit Balances (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
8. Iowa School for the Deaf Leases (SUI)	April 15, 2002	Follow-up scheduled in FY 2002.	June 2002
9. NCAA Compliance Audit – Sports Camps & Clinics (SUI) Follow-up report #1	January 23, 2002 May 24, 2002	Audit closed (Page 9).	Closed
10. Student Billing Processes (SUI)	April 15, 2002	Follow-up scheduled in FY 2003.	August 2002
11. 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
12. Residence Hall Convenience Stores Follow-up report #1	February 16, 2001 December 6, 2001	Second follow-up scheduled in FY 2002.	June 2002
13. Athletic Ticket Office	August 14, 2001	Follow-up scheduled in FY 2002.	June 2002
14. Athletic Business Office	February 18, 2002	Follow-up scheduled in FY 2003.	July 2002
15. Department of Animal Science	December 3, 2001	Follow-up scheduled in FY 2002.	June 2002
16. Veterinary Diagnostic and Production Animal Medicine	October 11, 2001	Follow-up scheduled in FY 2002.	June 2002

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
17. Grants and Contracts Accounting Follow-up report #1	March 22, 2000 June 29, 2001	Second follow-up scheduled in FY 2002.	June 2002
18. North American Review	March 9, 2001	Follow-up scheduled in FY 2002.	June 2002

Iowa State University
Department of Agricultural and Biosystems Engineering

Initial Audit Report Issued: April 26, 2002

Description

The Department of Agricultural and Biosystems Engineering (ABE) was originally established in 1905 as the Agricultural Engineering Department to mechanize agriculture. It was renamed in 1991 to reflect its increased emphasis on biosystems and food engineering. ABE studies the entire food production system, including the management of natural resources in the production, processing, storage, handling, and use of food fiber and other biological products.

ABE is administered and funded by the College of Agriculture and the College of Engineering. The department has 27 faculty members, 4 collaborators, and 4 courtesy faculty members, as well as 277 undergraduate and 36 graduate students.

Scope / Objective

The scope of the audit included departmental activities pertaining to cash, expenditures, travel, revenue and receivables, and a limited number of sponsored programs. The internal auditors examined:

- Compliance with policies, plans, procedures, laws, and regulations;
- Accomplishment of established objectives and goals;
- Reliability and integrity of information;
- Economical and efficient use of resources; and
- Safeguarding of assets.

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
1. <u>Written Documentation</u> . Document written policies and procedures.	Management will develop written procedures and address training needs.
2. <u>Sales Proceeds</u> . Deposit sales proceeds directly into the corresponding service center account.	Management will deposit residual grain proceeds into the corresponding service center account.
3. <u>Rate Methodology</u> . Explain and document methodologies and calculations for deriving Grain Quality Lab prices.	Management will explain and document all calculations, estimates, and assumptions and complete an assessment of the methodologies.
4. <u>Donation and Loan of Equipment</u> . Advise faculty and staff of proper policies and procedures for equipment donations or loans.	Management will advise faculty and staff of proper policies and procedures to follow in the event of an equipment donation or loan.
5. <u>Sponsored Programs</u> . Refund unspent award funds at termination and advise faculty and staff of policies and procedures to follow for record retention, award proposal processing, and receipt of money from multiple sponsors.	Management will initiate refunds of remaining funds and advise faculty and staff of the policies and procedures to follow for record retention, award proposal processing, and receipt of money from multiple sponsors.
6. <u>Password Security</u> . Periodically change passwords.	Management will develop and document a procedure for periodically changing passwords.

Auditor's Response
and Follow-up

Internal auditors accepted management responses pending a follow-up review that will be performed in December 2002.

Iowa State University
Department of Electrical and Computer Engineering

Initial Audit Report Issued: May 28, 2002

Description

The Department of Electrical and Computer Engineering (ECpE) emphasizes three themes: learning, discovery, and engagement. ECpE's strategic plan identifies key goals and has a clear implementation plan for development of the three themes. The underlying goal is to build a knowledge base of students, both undergraduate and graduate, that fit industry needs.

The nine areas of research and teaching are:

- Communication and signal processing;
- Computer systems architecture;
- Electric power and energy systems;
- Information systems security and networking;
- Microelectronics and photonics;
- Nondestructive evaluation and electromagnetics;
- Software systems;
- Systems and controls; and
- Very large scale integrated (VLSI) circuits design.

The department has 47 faculty members, 4 collaborators, 6 adjunct faculty, and one visiting faculty member, as well as 1,383 undergraduate, and 241 graduate, and 98 doctoral students.

Scope / Objective

The scope of the audit included departmental activities pertaining to revenue, expenditures, travel, and sponsored programs. The objectives of the internal auditors were to examine the following:

- Compliance with policies, plans, procedures, laws, and regulations;
- Accomplishment of established objectives and goals;
- Reliability and integrity of information;
- Economical and efficient use of resources; and
- Safeguarding of assets.

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
1. <u>Negative Account Balances.</u> Resolve a loan transaction, formulate and document a plan to resolve and close an account with a deficit; and closeout a terminated grant account.	Management will resolve the loan transaction, formulate and document a plan to resolve and close an account with a deficit; and closeout a terminated grant account.
2. <u>Bindery Services.</u> Bill bindery service fees through University Receivables, not through a special course fee account.	Management will establish billing for bindery service fees.
3. <u>Procedures and Documentation.</u> Document policies and procedures and update desk manuals to include current information.	Management will assess and electronically document department policies and procedures, as well as update desk manuals as needed.

Auditor's Response
and Follow-up

Internal auditors accepted management responses pending a follow-up review that will be performed in January 2003.

Iowa State University
Department of Residence Accounting

Initial Audit Report Issued: March 11, 2002

Description The Department of Residence (DOR) prepares monthly operating statements for internal management purposes and include amounts recognized by both cash and accrual-basis accounting methods. The department's primary revenue source, room and board, is recognized on an accrual basis. Catering, conference, interest, and most expense categories, except food purchases, are recognized on a cash basis.

Information used to prepare these statements is taken from various sources, including the University's Financial Management System, DOR's application and contracting system, a dining operations management system, and an electronic debit card system.

Scope / Objective The scope of the audit focused on internal management accounting and reporting. The objectives of the internal auditors were to examine and evaluate:

- Sources of all revenues and how those revenues are recognized;
 - Organization of revenue and expense accounts;
 - Allocation of revenues to the various areas;
 - Matching of revenues and expenses;
 - Accounting approach used for cost centers and the allocation of shared costs; and
 - Strategy used for transferring funds between accounts.
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Auditor Recommendations / Mgmt. Responses

Auditor's Recommendation	Management's Response
1. <u>Management Operating Statements</u> . Evaluate accounting and reporting methodology to assure effective and efficient operating statements.	Management will reevaluate the methodology used to identify, measure, classify, and report operating information.
2. <u>Documentation of Accounting Methodology</u> . Document methodology used to generate operating statements.	Management will develop and maintain an accounting methodology manual including procedures and processes unique to the DOR.

Auditor's Response and Follow-up Internal auditors accepted management responses pending a follow-up review that will be performed in July 2002.

**Iowa State University
NCAA Compliance Part 3**

Initial Audit Report Issued: August 16, 2001

Description

The National Collegiate Athletic Association (NCAA) governs amateur collegiate sports in the United States. ISU is obligated to comply with NCAA rules and regulations governing the eligibility, amateur status, and recruitment of student athletes.

Institutional control, presidential authority, and shared responsibility are three key concepts that are reflected throughout the NCAA Audit Guide, which was developed by the Association of College and University Auditors.

Scope / Objective

This is the third NCAA audit. Internal auditors followed the basic audit steps in the NCAA Audit Guide, which focuses on strategies to assure compliance with the specified NCAA rules. The internal auditors also used the 2000-01 NCAA Division I Manual as a reference.

The table below outlines the scope of each audit:

	Date	Audit Scope
Part 1	July 29, 1999	Eligibility, recruiting, student-athlete employment, and financial aid.
Part 2	November 27, 2000	Coaches' contracts, complimentary admissions, and sports camps.
Part 3	August 16, 2001	Athletic equipment and apparel, Playing and practice season, rules education, student-athlete vehicles, and team travel.

Auditor
Recommendations /
Mgmt. 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

Internal auditors accepted management responses pending a follow-up review. This review has been completed and will be presented next month.

**Iowa State University
Receivables Office**

Initial Audit Report Issued: April 19, 2002

Description	<p>The Receivables Office is composed of two units:</p> <ul style="list-style-type: none">• Accounts Receivable - Primarily coordinates and maintains the centralized University Receivables system. All charges, payments, and adjustments to student, customer, and employee accounts pass through this system; and• Loans Receivable - Primarily serves as the collection center for Federal Perkins Loans, Health Profession Student Loans, Loans for Disadvantages Students, and University Long-Term Loans.
Scope / Objective	<p>The internal auditors examined and evaluated access, input, and change controls in the Accounts Receivable unit only.</p>
Auditor Recommendations / Mgmt. Responses	<p>No reportable observations were noted.</p>
Follow-Up	<p>No follow-up audit will be performed.</p>

INTERNAL AUDIT FOLLOW-UP REPORTS

<u>University of Iowa –University Operations</u>	<u>Status</u>
<ul style="list-style-type: none"> • Athletic Ticket Office 	Closed
<ul style="list-style-type: none"> • NCAA Compliance – Sports Camps and Clinics 	Closed
<ul style="list-style-type: none"> • College of Dentistry Business Office Cash Handling (second follow-up) 	Closed

**University of Iowa – University Operations
Athletic Ticket Office**

First Follow-Up Audit Report Issued: May 24, 2002

Initial Audit Report Issued: October 16, 2001

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
1. <u>Written Policy and Procedures.</u> Develop a comprehensive policy and procedures manual for the athletic ticket office.	Management has begun drafting a policy and procedure manual covering topics such as balance due tickets, batch balancing, and cash handling procedures.
2. <u>Cash Handling Issues.</u> Assure that necessary steps are taken to comply with University policy on cash handling.	Management will take necessary steps to assure that University cash handling policies are followed.
3. <u>Security of Ticket Window Area.</u> Require that the doorway from the ticket window area into the arena remain locked at all times.	Management will install a coded door lock and a night deadbolt.

Auditor's Response
and Follow-Up

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

**University of Iowa – University Operations
NCAA Compliance Audit – Sports Camps & Clinics**

First Follow-Up Audit Report Issued: May 24, 2002

Initial Audit Report Issued: January 23, 2002

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Men's Basketball Camps.</u> Reiterate and require all Athletic Department staff to comply with camp and clinic participation requirements.</p> <p>Assure that the Sports Director receives advance notification of potential participation in any camp or clinic event.</p> <p>Review all aspects of the Muscatine and Storm Lake basketball camps to determine to what extent NCAA regulations may have been violated and self-report the situation.</p>	<p>Management will: Address notification and classification issues through an institutional camp/clinic guidebook to be released and explained at a department-wide coaches' meeting.</p> <p>The guidebook will contain an Initial Request Form and a private camp informational form to be forwarded to the Director of Sports Camps for processing and evaluation.</p> <p>Review past operations to determine if any NCAA infractions occurred and self-report any violations.</p>
<p>2. <u>Information on Institutional Department Run Camps and Clinics.</u> Require that attendance information be provided to the Sports Camps Director for all camps and clinics.</p>	<p>Management will assure that: (1) the Director of Sports Camps will be notified and will have classified all camp/clinic offerings; and (2) coaches will be notified of the requirement for submission and pre-approval of brochures.</p>
<p>3. <u>Complimentary Camp Admissions.</u> Remind staff to obtain approval for free or reduced admission. Advise coaches willing to work in exchange for admission that it cannot be done. Self-report impermissible discounts that occurred in the summer of 2001.</p>	<p>Management will: (1) clarify circumstances for discounts in the guidebook; (2) assure that the Director of Sports Camp is the clearinghouse for approved discounted admissions; and (3) self-report impermissible discounts that occurred in the summer of 2001.</p>
<p>4. <u>Student-Athlete Employment at Non-Institutional Camps and Clinics.</u> Assure that Permission Forms are reviewed and present accurate information.</p>	<p>Management will assure that: (1) Student-Employment Permission Forms will be reviewed by the Director of Sports Camps; and (2) indications of greater than 50% time coaching/officiating will be explored prior to approval.</p>
<p>5. <u>Institutional Camps and Clinic Accounting Issues.</u></p> <p>a. <u>Softball Clinic Revenue and Roster.</u> Reinforce the need to maintain attendance records; reconcile income; and investigate and document variances.</p> <p>b. <u>Off-Campus Revenue and Expense Documentation.</u> Outline sound financial accounting practices to handle revenues and expenses related to institutional camps/clinics and off-campus events.</p>	<p>Management will: Assure that the Director of Sports Camps will advise camp administrators of proper procedures for recording camp attendance, expenditures, and revenues.</p> <p>Add clarifications to the guidebook on how to handle revenues and expenditures in general and expenditures in particular at off-campus venues.</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 – University Operations
College of Dentistry – Business Office Cash Handling**

First Follow-Up Audit Report Issued: April 15, 2002

Initial Audit Report Issued: December 20, 2001

Auditor Recommendations / Mgmt. Responses	Auditor's Recommendation	Management's Response
	1. <u>Desk Procedures</u> . Prepare written desk procedures for all Business Office positions.	Management will enlist the assistance of each staff person to prepare written desk procedures.

Auditor's Response and Follow-Up Management has taken appropriate action on the remaining item. Internal auditors accept this action. This audit is closed.
