

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: March 3, 2003

Recommended Actions:

1. Receive the following internal audit report from Iowa State University: Security of Internet-Initiated ACH Transactions.
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including eight follow-up reports. Six reports are from the University of Iowa (three from University Operations and three from Hospital Operations); one is from Iowa State University; and one is 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.

The Status of Internal Audit Follow-Up Table on page 2 identifies 14 internal audit reports, 9 of which require follow-up. Eight follow-up reports are presented this month (pages 4-10); five are closed, three remain open.

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
March 3, 2003**

University of Iowa

Title	Report Date	Follow-Up Status	Expected Completion
1. Food and Nutrition Gift Card Program (UIHC)	April 15, 2002	Follow-up scheduled in FY 2003.	April 2003
2. Patient Fiscal and Registration Services (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	July 2003
3. Internal Controls Relating to Student Activity Fees (SUI) Follow-up Memorandum	July 23, 2002 January 27, 2003	Audit closed. (page 5.)	Closed
4. UIHC Timekeeping / Payroll Follow-up Memorandum	August 20, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	July 2003
5. Hazardous Material Management – Chemicals (SUI) Follow-up Memorandum	September 20, 2002 January 27, 2003	Audit closed. (page 4.)	Closed
6. Human Subjects Office (SUI) Follow-up Memorandum	October 15, 2002 February 17, 2003	Audit closed. (page 5.)	Closed
7. NCAA Compliance – Recruiting (SUI)	November 25, 2002	Follow-up scheduled in FY 2003.	June 2003
8. UI President's Residence Inventory (SUI)	December 16, 2002	Follow-up scheduled in FY 2003.	April 2003
9. University Hygienic Laboratory – Des Moines Locations (SUI)	September 20, 2002	Follow-up scheduled in FY 2003.	March 2003
10. UIHC Capitalized Assets Follow-up Memorandum	October 15, 2002 January 27, 2003	Audit closed. (page 6.)	Closed

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
11. Department of Agricultural and Biosystems Engineering Follow-up report	April 26, 2002 February 10, 2003	Audit closed. (page 9.)	Closed
12. Department of Electrical and Computer Engineering	May 28, 2002	Follow-up scheduled in FY 2003.	March 2003
13. Procurement Functions	August 8, 2002	Follow-up scheduled in FY 2003.	April 2003

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
14. FY 2002 Cash on Hand Follow-up report	September 10, 2002 January 31, 2003	Follow-up scheduled in FY 2003.	June 2003

Iowa State University
Security of Internet-Initiated ACH Transactions
Initial Audit Report Issued: January 14, 2003

Description The University offers ACH (automated clearing house) transactions to students and employees via the Internet using Access Plus. ACH transactions process payment information electronically. The National Automated Clearing House Association (NACHA) requires originators of ACH transactions via the Internet to follow NACHA Operating Rules.

Students and employees can use Access Plus for payment of their University bill from a personal bank account or for transferring funds from a personal bank account to a University CyCash account, which is a purchasing medium used for vending, residence hall dining, etc.

Scope / Objective The audit scope included security policies, procedures, and practices surrounding ACH transactions initiated via the Internet.

Audit objectives included examination of risk management techniques, including the minimum components prescribed by NACHA for audits of website security.

Security was examined from three perspectives:

- Students or employees using Access Plus to conduct financial transactions.
- Treasurer's Office employees providing support for users of this process.
- ADP Center employees providing technology support for this process.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Security Policies and Procedures.</u> Clarify policies and procedures applicable to Internet-initiated ACH transactions.	Management will develop a strategy to remind students and employees of the responsibilities for security of sensitive data.
2. <u>Segregation of Duties.</u> Segregate duties related to maintenance of ACH databases and program code changes.	Management will implement guidelines for documentation and managerial review of program changes.
3. <u>Firewalls.</u> Explore the feasibility of enhancing firewalls.	Management will re-examine security controls over financial data.
4. <u>Security testing.</u> Explore alternative approaches to security testing.	Management will explore options to determine the best available actions and funding sources.
5. <u>Data retention and distribution.</u> Develop written policies and procedures for retention and distribution of sensitive financial information.	Management will document policies and procedures for data retention and distribution.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2003.

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Hazardous Material Management – Chemicals Closed
- Human Subjects Office Closed
- Internal Controls Relating to Student Activity Fees Closed

University of Iowa – Hospital Operations

- UIHC Capitalized Assets Closed
- Patient Fiscal and Registration Services Open
- UIHC Timekeeping / Payroll Open

Iowa State University

- Department of Agricultural and Biosystems Engineering Closed

University of Northern Iowa

- FY 2002 Cash on Hand Open
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**University of Iowa – University Operations
Hazardous Material Management – Chemicals**
Initial Audit Report Issued: September 20, 2002
Follow-up Memorandum Issued: January 27, 2003

Recommendations / Responses

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

Auditor's Response and Follow-up

Management is taking appropriation corrective action. This audit is closed.

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

Initial Audit Report Issued: October 15, 2002
Follow-up Memorandum Issued: February 17, 2003

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Payment of Research Subjects.</u> Issue a policy statement outlining information to be gathered and procedures to be followed when paying human research subjects.	Management will formalize an explanatory document.

Auditor's Response and Follow-up Management has taken appropriate corrective action. This audit is closed.

**University of Iowa – University Operations
Internal Controls Relating to Student Activity Fees**

Initial Audit Report Issued: July 23, 2002
Follow-up Memorandum Issued: January 27, 2003

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Accounting Controls.</u> a. <u>Segregation of Funding.</u> Maintain funds with different purposes / restrictions in different accounts. b. <u>Reconciliation of Accounts.</u> Segregate transfer / expenditure approval duties from the person that reviews / reconciles the account.	Management will maintain separate accounts for different purposes / restrictions. Management will: 1) assure that a representative who cannot spend or transfer funds from these accounts will review the account; 2) match transactions to source documentation; and 3) sign and date the statement when complete.
	2. <u>Joint Planning.</u> Meet with UISG executives prior to year's end rather than after year's end to review accounts.	Management will meet with UISG executives prior to the beginning of the academic year to: 1) determine minimum dollar amount to be maintained; 2) formulate a list of priorities; 3) outline corrective measures.
	3. <u>Documentation of Communication.</u> Document and report activity to students and to UISG.	Management will: 1) encourage open communication with students; 2) maintain documentation of spending agreements in the Vice President's Office; and 3) distribute copies to current participants and make available to future UISG officers upon request.

Auditor's Response and Follow-up Action has been taken on all recommendations. This audit is closed.

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

Initial Audit Report Issued: October 15, 2002
Follow-up Memorandum Issued: January 27, 2003

Recommendations /
Responses

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

Auditor's Response
and Follow-up

Action has been taken on all recommendations. This audit is closed.

**University of Iowa – Hospital Operations
Patient Fiscal and Registration Services**
Initial Audit Report Issued: March 18, 2002
Follow-up Memorandum Issued: January 27, 2003

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>Collection Commission Rates.</u> Review collection agency invoices and verify commission rates. Update programs to reflect current rates. Review remittance reports consistently.	Management is working to correct the rates and will use reports to identify outliers and follow-up on discrepancies. Item closed.
2. <u>Wellmark Data Reconciliation and Care Medic Data Reconciliation*</u> Include source system information to reconcile transfer data and assure that reconciliations provide accurate information. Ensure data integrity between INFORMM system and Care Medic system.	Management will incorporate the appropriate report into the reconciliation process. Management is working to create an on-line view of data transmitted from INFORMM to Care Medic and will request a report detailing transactions if unable to create the on-line view.
3. <u>Satellite Office Checks.</u> Code and deposit satellite checks daily. Complete change vouchers and reconcile the suspense account each month.	Management will deposit satellite office checks daily and write a change voucher monthly to reconcile with the suspense account each month. Item closed.
4. <u>Change Fund Tills in PFRS.</u> Establish separate cash drawers for clerks and persons filling in.	Management will maintain one open window during breaks and lunches. Item closed.
5. <u>INFORMM B324 Medical Services Claim Follow-up Report.</u> Modify to include hospital balances for each account, download into Excel, and distribute to staff for cross-referencing.	Management has requested programming changes to the B324 report including that data be downloaded to Excel each day.
6. <u>Adjustment and Write-off Reviews.</u> Draft a formal document that identifies approvals.	Management will draft a document that clearly identifies required write-off approvals. Business office managers will review and verify that write-off activity is appropriate.
7. <u>Contractual Adjustment Reviews.</u> Perform monthly contractual adjustment audits.	Management will perform monthly audits of contractual adjustments for three months, re-evaluate the process, and generate system reports once the new patient accounting system is in place.
8. <u>Hospital Late Charges.</u> Build a current cost model identifying late charge processing costs. Identify and quantify the impact of late charges.	Management will build a current cost model identifying costs associated with processing hospital late charges and will identify and quantify the financial impact of reworking claims. Item closed.
* Internal Auditors combined comments #2 (Blue Cross Electronic Transfer Reconciliation) and #3 (Care Medic Data Reconciliation) from the original report.	

Auditor's Response
and Follow-up

Items 1, 3, 4, and 8 are closed. Follow-up on the remaining items will be performed in FY 2004.

**University of Iowa – Hospital Operations
UIHC Timekeeping / Payroll**

Initial Audit Report Issued: August 20, 2002

Follow-up Memorandum Issued: January 27, 2003

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>HRM / STAF User Manual</u> . Review, update, and distribute user manual to appropriate staff members.	Management will publish an electronic manual on the web and will review it annually.
2. <u>Desk Procedures and Documentation</u> . Develop desk protocols for personnel that process UIHC timekeeping and payroll data.	Management will put together protocols that will standardize processes across the department.
3. <u>Time Record Approvals</u> . Assure that time records are approved by the employee's direct supervisor or by a subordinate with budgetary responsibility for the unit.	Management will draft a policy stating that all employees are required to sign off on their hours and that supervisors should sign off on any changes.
4. <u>Eliminate Employee Master Cards</u> . Discontinue manual creation and maintenance of UIHC payroll master cards.	Management will utilize the HR Data Access Applications to ensure appropriate tracking of employee information.
5. <u>Pay Check Distribution</u> . Distribute employee checks via appropriate and secure means.	Management will develop a policy regarding appropriate check distribution procedures.
6. <u>HRM / STAF Access Change Form</u> . Establish a policy requiring formal approval of all access changes to the HRM / STAF system.	Management will draft a policy requiring formal approval of HRM / STAF access changes.
7. <u>HRM / STAF Technical Team</u> . Assign additional resources to the technical team, review service requests thoroughly, and reinforce the change management process to provide adequate review of code changes and test results.	Management will assure that a supervisor or peer programmer will review all programming changes to the HRM / STAF system.
8. <u>Union Contract Terms and Manual Calculations</u> . Automate calculations currently being performed manually.	Management will recommend alternatives to the manual calculations.
9. <u>Automated Timekeeping System</u> . Evaluate the benefits of implementing an automated timekeeping system.	Management will identify a plan to migrate off the current application and will work to gain senior management support for a new system.

Auditor's Response
and Follow-up

Items 2-6 and 8 are closed. Internal auditors will perform a follow-up review on the remaining open items during the first quarter of FY 2004.

Iowa State University
Department of Agricultural and Biosystems Engineering

Initial Audit Report Issued: April 26, 2002

Follow-up Review Issued: February 10, 2003

Recommendations /
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

Action has been taken on all recommendations. 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

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.
	2. <u>Unauthorized Cash Fund.</u> Make stamp purchases out of departmental reimbursement funds or through the normal voucher process; maintain departmental change funds at authorized amounts at all times; create adequate revenue records; and deposit revenue in accordance with University policy.	Departments / units will make stamp purchases properly; maintain change funds at authorized amounts; create adequate revenue records; and deposit revenue in accordance with University policy.
	3. <u>Cash Funds Reporting.</u> Complete and submit required monthly reports for authorized change fund(s) and/or departmental reimbursement fund(s) on a timely basis.	Departments / units will submit proper reports in a timely fashion.
	4. <u>Physical Security of Cash Funds & Revenue.</u> Provide adequate physical security for cash funds and undeposited revenue at all times.	Departments / units will secure undeposited revenue in locked, fire-resistant safe/cashbox; access will be limited.
	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.
	9. <u>Alarm Procedure.</u> Communicate alarm procedures and maintain copies in or near the unit's main operation location.	Departments / units will communicate alarm procedures to employees and distribute copies.

Auditor's Response and Follow-up

Items 2, 3, 4, and 9 are closed. Internal auditors will perform a follow-up review on the remaining open items before June 30, 2003.