

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports (ISU)
Date: March 4, 2002

Recommended Actions:

1. Receive the following three internal audit reports from Iowa State University:
 - Athletic Business Office
 - Department of Animal Science
 - Veterinary Diagnostic and Production Animal Medicine
 2. Receive the report on the Status of the Internal Audit Follow-up reports, including four 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 17 internal audit reports, 13 of which require follow-up.

The tables beginning on page 3 identify auditor recommendations, management responses, auditor responses, and the status of the corrective action for the 3 new audits, all of which require follow-up.

Four follow-up reports, listed on page 6, are presented this month on pages 7 through 10. 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
March 4, 2002**

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. Two new reviews are being conducted of selected processes within the Business Office. Issues included in the initial review are being addressed as applicable. | March 2002 |
| 2. Student Organizations – Travel Expenditures (SUI) Follow-up report #1 | May 14, 2001 January 23, 2002 | Audit closed (page 7). | Closed |
| 3. Surplus Stores (SUI) Follow-up report #1 | August 20, 2001 January 23, 2002 | Audit closed (page 7). | Closed |
| 4. Athletic Ticket Office (SUI) | October 16, 2001 | Follow-up scheduled in FY 2002. | April 2002 |
| 5. Cash Collection Activities (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | March 2002 |
| 6. College of Dentistry – Business Office Cash Handling (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | April 2002 |
| 7. College of Dentistry – Business System Security & Access (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | April 2002 |
| 8. College of Medicine Departmental Audit – Otolaryngology (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | March 2002 |
| 9. Conflict of Interest (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | May 2002 |
| 10. Human Resources – Family Medical Leave Act (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | March 2002 |
| 11. NCAA Representative of Athletics Interest (Boosters) (SUI) | December 20, 2001 | Follow-up scheduled in FY 2002. | March 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 | Follow-up scheduled in FY 2002. | May 2002 |
| 13. Athletic Ticket Office | August 14, 2001 | Follow-up scheduled in FY 2002. | May 2002 |
| 14. Human Subjects in Research Follow-up report | August 2, 2001 January 9, 2002 | Audit closed (page 8). | Closed |
| 15. Student Health Center Follow-up report | August 14, 2001 January 29, 2002 | Audit closed (page 8). | Closed |

University of Northern Iowa

| Title | Report Date | Follow-Up Status | Expected Completion |
|--|---------------------------------|--|----------------------------|
| 16. Grants and Contracts Accounting Follow-up report #1 | March 22, 2000 June 29, 2001 | Second follow-up scheduled in FY 2002. | June 2002 |
| 17. North American Review | March 9, 2001 | Follow-up scheduled in FY 2002. | March 2002 |

**Iowa State University
Athletic Business Office**

The Athletic Business Office supports the Athletic Department, which has 50 coaching, 46 professional and scientific, 22 merit, and 10 graduate assistant employees. The Department's FY 2001 revenues were \$24.0 million.

The purpose of the audit was to examine:

- Compliance with University and departmental policies and procedures, as well as federal and state laws (not NCAA compliance);
- Accomplishment of established objectives and goals;
- Reliability and integrity of information;
- Economical and efficient use of resources; and
- Safeguarding of assets.

Initial Audit Report Issued: February 18, 2002

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|--|--|--|---|
| 1. <u>Cell Phone Policy and Procedures</u> . Review, revise, and document cell phone procedures. | Management will review, revise, and document cell phone policies and procedures. | Response accepted pending subsequent review. | Follow-up to be performed in July 2002. |
| 2. <u>Travel-Related Procedures. Cash Advances</u> . Comply with University and/or departmental policies and procedures for cash advances, travel reimbursements and AMEX Cards. | Management will revise its travel advance, travel reimbursement, and AMEX card policies and procedures to be consistent with those of the University. | Response accepted pending subsequent review. | Follow-up to be performed in July 2002. |
| 3. <u>Petty/Imprest Cash Fund Uses and Procedures</u> . Reduce employee access, decrease the fund balance, and perform periodic fund audits. | Management will revise petty/imprest cash fund procedures to include reduce employee access, decrease the fund balance, and perform periodic fund audits. | Response accepted pending subsequent review. | Follow-up to be performed in July 2002. |
| 4. <u>Delegations of Signature Authority</u> . Document signature authority delegations. | Management will evaluate and document signature authority delegations. | Response accepted pending subsequent review. | Follow-up to be performed in July 2002. |
| 5. <u>Bowl Travel Policy and Procedures</u> . Document departures from University policies and include supporting rationale. Provide written approval of departmental policies more liberal than the University's. | Management will provide supporting rationale for deviations from University policies and provide written approval of departmental policies more liberal than the University's. | Response accepted pending subsequent review. | Follow-up to be performed in July 2002. |

**Iowa State University
Department of Animal Science**

The Department of Animal Science seeks to be the premier source of basic knowledge of animal biology, professionally trained individuals, assistance for producers and agri-business, knowledge of sustainable and environmentally-friendly practices, and technology to produce desirable, safe, and nutritious animal-derived foods. The Department is comprised of 64 faculty, 700 undergraduate students, 105 graduate students, and 125 support personnel.

The purpose of the audit was to examine:

- 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.

Initial Audit Report Issued: December 3, 2001

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|--|--|--|
| 1. <u>Written Documentation</u> . Provide written departmental policies and procedures. | Management will assess departmental procedures, efficiencies, and training needs; develop written procedures; and provide guidance on specific procedure documentation. | Response accepted pending subsequent review. | Follow-up to be performed in May 2002. |
| 2. <u>Purchasing Card</u> . 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. | Response accepted pending subsequent review. | Follow-up to be performed in May 2002. |
| 3. <u>Research and Teaching Farms</u> . 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. | Response accepted pending subsequent review. | Follow-up to be performed in May 2002. |

**Iowa State University
Veterinary Diagnostic and Production Animal Medicine**

The Veterinary Diagnostic and Production Animal Medicine (VDPAM) department was created in 1997 as a result of the integration of Production Animal Medicine (PAM), Veterinary Diagnostic Laboratory (VDL), and Veterinary Extension. The department employs 40 faculty and 77 professional and scientific and merit staff.

VDPAM assists veterinarians, their livestock-producing clients, and others responsible for animal health in the detection, characterization, control, and prevention of animal diseases, as well as provides programs in professional service, education and research that optimize productivity and animal welfare in the food animal industries while sustaining the environment and assuring animal product safety.

The primary purpose of the review was to determine that: operations are in compliance with policies, plans, procedures, laws, and regulations; revenues are properly recognized and recorded; expenditures are appropriately authorized; resources are used economically and efficiently; and assets are effectively safeguarded.

Initial Audit Report Issued: October 11, 2001

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|---|--|--|
| 1. <u>Administrative Support Organizational Structure</u> . Integrate PAM and VDL administrative support areas and document procedures. | Management has formed an ad hoc committee to formulate a plan for a new administrative structure to: identify and evaluate areas of duplication; reorganize administrative support areas into a single unit; develop and document consistent procedures; and incorporate provisions for training. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 2. <u>Consulting Activities</u> . Assure pre-approval of consulting activities. | Management has instituted a monitoring system and will implement an explicit departmental consulting policy and develop a consistent approach to consulting activities, including approval and monitoring | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 3. <u>Password Security</u> . Require passwords to be changed periodically. | Management will implement procedures to require periodic password changes. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 4. <u>Payroll Reporting and Reconciliation</u> . Segregate payroll entry and reconciliation functions. | Management will implement a temporary solution and address a permanent approach. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 5. <u>Telecommunication Review</u> . Limit use of phones to University business only. | Management will require the use of personal phone cards and phones for personal calls. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |

**Iowa State University
Veterinary Diagnostic and Production Animal Medicine**

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| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|--|--|--|
| 6. <u>Authorization</u> . Incorporate specific language regarding limitations when delegating approval authority and provide back-up approval. | Management will incorporate more specific language into all signature authorizations and has requested signature authority for back-up approval. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 7. <u>Segregation of Duties</u> . Establish separate duties for receipt, deposit, and reconciliation of cash receipts. | Management will evaluate all transaction processes and enhance control through proper segregation of duties. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 8. <u>Accounts Receivable</u> . Assure that all billings run through the centralized University receivable system. | Management will work with the Accounts Receivable Office to determine the viability of transferring all billings to the University accounts receivable system. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |
| 9. <u>Supplemental Materials Fee</u> . Request approval for all supplemental materials fees from the Office of the Provost and utilize the University Book Store whenever possible. | Management will seek approval for all supplemental materials fees from the Office of the Provost and for guidance on the best delivery method. | Response accepted pending subsequent review. | Follow-up to be performed in April 2002. |

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Student Organizations – Travel Expenditures
- Surplus Stores

Iowa State University

- Human Subjects in Research
- Student Health Center

**University of Iowa - University Operations
Student Organizations – Travel Expenditures**

**First Follow-Up Audit Report Issued: January 23, 2002
Initial Audit Report Issued: May 14, 2001**

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|--|---------------------------|----------------------------|
| 1. <u>Prior-Approval for Travel.</u> a. <u>Approval Signatures.</u> Evaluate each level of approval for its value to the prior approval process. b. <u>Timeliness.</u> Evaluate the efficiency of the prior approval form, specifically the traveler signature requirement. | Management will evaluate approval levels and document explanations for required signatures. Consideration will be given to eliminating certain approval levels or incorporating thresholds. Management will evaluate the traveler signature requirement to determine its necessity at pre-approval. | Appropriate action taken. | Item closed. |
| 2. <u>Travel Expense Vouchers.</u> Timeliness. Evaluate the travel voucher signature approval process to determine the value added at each review level versus reimbursement timeliness. | Management will evaluate each level of approval and document explanations for required signatures. Consideration will be given to eliminating certain approval levels or incorporating thresholds. | Appropriate action taken. | Item closed. |
| 3. <u>Travel Policy Compliance.</u> Accountability. Promote travel policies compliance through increased training to emphasize student organizations accountability. | Management will emphasize training; highlight in the financial manual; and address policy issues in upcoming Student Organization newsletters. | Appropriate action taken. | Item closed. |

**University of Iowa - University Operations
Surplus Stores**

**Follow-Up Audit Report Issued: January 23, 2002
Initial Internal Audit Report Issued: August 20, 2001**

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|--|---|---------------------------|----------------------------|
| 1. <u>Inventory Recording & Tracking.</u> <u>Internal Policy and Procedures.</u> Develop and implement policy and procedures for the operation of Surplus Stores. | Tracking software will be enhanced to track inventories from acquisition to disposal. Existing policies and procedures will be reviewed. All modifications will be included in the Operations Manual and on the web site. | Appropriate action taken. | Item closed. |
| 2. <u>Appropriate Recording and Tracking of Revenues.</u> a. <u>Sales Tax.</u> Develop procedures to periodically review the proper collection of sales tax. b. <u>Departmental Reimbursement.</u> Develop written procedures on cash register system operation. c. <u>Price Negotiation.</u> Develop procedures for sales price negotiation. | Procedures will be developed to periodically confirm customers' tax-exempt status. Separate accounts will be established for individuals and for tax-exempt entities to assure that appropriate tax collections are made. Written procedures on the point-of-sale operation will be written, used for training, and accessible for referral. Procedures will be developed to ensure that customers will be charged the correct price. | Appropriate action taken. | Item closed. |

**Iowa State University
Human Subjects in Research**

**Follow-Up Audit Report Issued: January 9, 2002
Initial Internal Audit Report Issued: August 2, 2001**

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|--|--|----------------------------|----------------------------|
| 1. <u>Procedural Documentation.</u> Establish written policies and procedures to describe processes and how operations comply with federal regulations. | Management will document procedures to sufficiently demonstrate how activities comply with federal regulations. | Satisfactory action taken. | Item closed. |
| 2. <u>Documentation of Review.</u> Assure adequate documentation of initial and continuing reviews. | Management will implement the use of checklists for both expedited and full reviews and include the criteria used to determine eligibility for expedited review and criteria for research approval. Completed checklists will be retained. | Satisfactory action taken. | Item closed. |

**Iowa State University
Student Health Center**

**Follow-Up Audit Report Issued: January 29, 2002
Initial Internal Audit Report Issued: August 14, 2001**

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|---|----------------------------|----------------------------|
| 1. <u>Rate Methodologies.</u> Adequately explain and document methodologies and calculations used to derive capitation fees; fees for clinic services; and drug pricing. | Management will: consult the Controller's Department for rate setting assistance and rate methodologies documentation; retain documentation for future reference and analysis; review methodologies on an annual basis; revise rate methodologies as necessary, documenting rate review and revisions; develop management budgets and reporting for all activities; use budget and activity reports in subsequent rate reviews. | Satisfactory action taken. | Item closed. |
| 2. <u>Student Health Fee Proposal.</u> Document the analytical process employed in developing the student health fee proposal. | Management will develop a format to accurately present relevant financial information in reports and fee proposals and update the format as needed. | Satisfactory action taken. | Item closed. |
| 3. <u>Financial Accounting and Reporting.</u> a. Post income and expense transactions consistently and in the established fund accounts. b. Prepare detailed management reports and provide to the Director on a regular basis. | Management will establish a plan for consistent accounting transactions. Management will develop and distribute management reports for activity monitoring and budget analysis. | Satisfactory action taken. | Item closed. |
| 4. <u>Accounting for Operating Reserves.</u> Surplus revenues in excess of costs should be designated for a specific purpose and held in operating reserve accounts. | Management will identify existing surpluses as well as future revenues and document uses. | Satisfactory action taken. | Item closed. |

**Iowa State University
Student Health Center**

(continued)

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|--|-----------------------------------|---------------------|
| <p>5. <u>Pharmacy.</u></p> <p>a. Utilize ProPharm system capabilities sufficiently.</p> <p>b. Segregate inventory duties adequately.</p> <p>c. Tighten access controls to the ProPharm system.</p> <p>d. Assure effective inventory procedures documentation.</p> <p>e. Reconcile adjustment account to reflect payments received from insurance companies.</p> | <p>Management will implement a plan for expanded and continuous training.</p> <p>Management will establish procedural and system controls to provide segregation of duties.</p> <p>Management will require the use of unique user identifications and passwords and establish intervals for when passwords will be changed.</p> <p>Management will update, clarify, and expand documentation for inventory and other pharmacy procedures.</p> <p>Management will work with the business office to implement a reconciliation process for pharmacy adjustments.</p> | <p>Satisfactory action taken.</p> | <p>Item closed.</p> |
| <p>6. <u>Insurance Filing.</u> Revise current inefficient billing procedures process.</p> | <p>Management will revise procedures to: file insurance claims; apply insurance payments; and submit remaining charges to accounts receivable.</p> | <p>Satisfactory action taken.</p> | <p>Item closed.</p> |
| <p>7. <u>Facility Security.</u></p> <p>a. Assure that the supply room used by nursing staff is adequately secured.</p> <p>b. Develop a standard operating procedure for the nightly closing of the Student Health Center.</p> | <p>Management will place a "Clinical Staff Only" sign on the room and the locks will be re-keyed with the keys secured in the pharmacy during non-business hours. Any non-clinical person needing access to the room will be escorted by a clinical staff person.</p> <p>Management will document and communicate standard closing procedures.</p> | <p>Satisfactory action taken.</p> | <p>Item closed.</p> |
| <p>8. <u>Athletic Department Payments.</u> Establish a regular payment schedule or efficient procedures for processing student athlete payments.</p> | <p>Management will establish effective and efficient payment procedures.</p> | <p>Satisfactory action taken.</p> | <p>Item closed.</p> |

Iowa State University
Student Health Center

(continued)

| Auditor's Recommendation | Management's Response | Auditor's Response | Auditor's Follow-Up |
|---|--|-----------------------------------|---------------------|
| <p>9. <u>Administrative Procedures and Practices.</u></p> <p>a. Develop written policies and procedures manuals for employee reference and training.</p> <p>b. Secure management authorization for all write-offs to customer accounts. Review sales voids, refunds, and adjustments for accuracy and proper approval.</p> <p>c. Assure adequate internal control over incoming checks.</p> <p>d. Reconcile departmental statements to source documents.</p> <p>e. Provide complete and accurate wage-hour reports.</p> <p>f. Develop procedure to review personal long-distance phone calls.</p> | <p>Management will develop and maintain policies and procedures manuals.</p> <p>Management will develop a procedure for appropriate review and approval of adjustments to charges.</p> <p>Management will assign responsibility for opening mail, endorsing checks, and preparing a list of all checks received to one employee who does not also prepare cash reports.</p> <p>Management will assign responsibility for performing reconciliations.</p> <p>Management will advise employees and supervisors on the proper completion of wage-hour reports.</p> <p>Management will develop a written policy regarding telephone usage, implement a procedure for timely review of telecommunication statements, and provide a process for reimbursement of personal calls.</p> | <p>Satisfactory action taken.</p> | <p>Item closed.</p> |