

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: May 12, 2003

Recommended Actions:

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

UNIVERSITY OPERATIONS:

- Audiovisual Center – Departmental Audit
- Biological Sciences – Departmental Audit
- Biomedical Engineering – Sponsored Programs
- Broadcast Services – Departmental Audit
- NCAA Coaching Staff Limitations
- NCAA Compliance Audit Eligibility
- Review of Cash Collection Activities
- Sponsored Programs – Departmental Audit

HOSPITAL OPERATIONS:

- Center for Disabilities and Development
- Complimentary Parking Passes – Risk Assessment
- Contractual Adjustments

2. Receive the report on the Status of the Internal Audit Follow-up reports, including two follow-up reports. One from the University of Iowa – University Operations and one from Iowa State University.
-

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 3 identifies 10 internal audit reports, 8 of which require follow-up. Two follow-up reports are presented this month (page 18); both are closed.

At its April 10, 2003 meeting, an internal audit report was presented on UNI Conference and Event Services (CES) which indicated a cash balance deficit. The Banking Committee requested monthly status reports to keep apprised of the situation.

UNI informed the Board Office that the Controller made a preliminary review of the CES accounts and that University officials are discussing the deficit amount, including what area(s) of the University should be responsible for it, and in what specific amount(s). Continuing Education will transfer funds into the CES accounts to eliminate the deficit within the next month.

To reduce the risk of reoccurrence in the future, CES plans to review its financial situation frequently. Internal auditors will be examining CES' review plan.

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
May 12, 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.	June 2003
2. Patient Fiscal and Registration Services (UIHC)	March 18, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	July 2003
3. UIHC Timekeeping / Payroll Follow-up Memorandum	August 20, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	July 2003
4. NCAA Compliance – Recruiting (SUI)	November 25, 2002	Follow-up scheduled in FY 2003.	June 2003
5. UI President's Residence Inventory (SUI) Follow-up Memorandum	December 16, 2002 April 21, 2003	Audit closed (page 18).	Closed
6. University Hygienic Laboratory – Des Moines Locations (SUI)	September 20, 2002	Follow-up scheduled in FY 2003.	May 2003

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
7. Procurement Functions Follow-up report	September 24, 2002 April 29, 2003	Audit closed (page 18).	Closed
8. Security of Internet-Initiated ACH Transactions	January 14, 2003	Follow-up scheduled in FY 2004.	July 2003

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
9. FY 2002 Cash on Hand Follow-up report	September 10, 2002 January 31, 2003	Follow-up scheduled in FY 2003.	June 2003
10. Conference and Event Services	November 22, 2002	Follow-up scheduled in FY 2004.	August 2003

**University of Iowa – University Operations
Audiovisual Center Departmental Audit**
Initial Audit Report Issued: February 17, 2003

Description The University of Iowa Audiovisual Center was established in 1914 to provide distribution of slides and motion picture films to Iowa public schools and the University Campus. Today, the Center consists of three separate and distinctive units: Audio, Graphics, and Photo, and provides unique audio and visual services to the University Community.

Scope / Objective Internal auditors evaluated the adequacy of departmental procedures and internal controls of predetermined business processes to ensure:

- Compliance with University and other regulatory policy;
- Proper process segregation among individuals;
- Timely and accurate recording of transactions to the General Ledger;
- Proper identification, maintenance, and safeguarding of assets;
- Accurate and adequate information is provided to management; and
- Proper monitoring and follow-up by management.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Cash Handling Procedures</u> . Revise, implement, and document cash handling procedures.	Management is revising detailed steps for implementing and documenting cash handling procedures.
2. <u>Accounts Receivable</u> . a. <u>Periodic Reviews</u> . Periodically review an accounts receivable aging and collections report. b. <u>Write-Off Uncollectibles</u> . Periodically review open accounts and develop a process to provide appropriate approval and write-off of accounts determined uncollectible.	Management will review the accounts receivable aging and collections reports monthly. Management will review open accounts annually and will include appropriate authorization to write-off accounts determined uncollectible.
3. <u>Capitalized Equipment</u> . Complete disposal forms when discarding University assets and consult with authorities to dispose of items appropriately.	Management will complete deductions request forms and consult with the Property Management Office or Surplus to assure that items are disposed of appropriately.
4. <u>Production Revenues</u> . a. <u>Periodic Review</u> . Develop written procedures and conduct annual reviews of billing rates. b. <u>Rate Adjustment</u> . Charge the lowest rate available to departments paying for federal-related services and create and maintain a volume activity report.	Management will seek guidance for developing written billing procedures. Management will charge the lowest rate available for federal-related services beginning with next year and create and maintain a volume activity report.
5. <u>Procurement Card</u> . Keep supporting documentation for procurement card transactions and review monthly during reconciliation.	Management will develop a system for supporting documentation.
6. <u>Operations Manual</u> . Update the operations manual to incorporate audit related updates.	Management will review and update the operations manual as necessary.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
Biological Sciences – Departmental Audit**

Initial Audit Report Issued: March 18, 2003

Description	<p>Biological Sciences is one of over 50 departments in the College of Liberal Arts and Sciences. Department research is dedicated to five areas: Cell and Developmental Biology; Evolution and Comparative Genomics; Genetics; Neurobiology; and Plant Physiology and Molecular Biology.</p> <p>The department serves approximately 60 graduate students and 500 undergraduate majors and offers core courses for other majors. About 1,500 students are currently participating in Biological Sciences courses. In FY 2002, nearly \$5.5 million of their \$12.6 million budget was derived from grants and contracts.</p>
Scope / Objective	<p>The internal audit review, conducted at the request of the College of Liberal Arts and Sciences, focused on the following processes:</p> <p>ADMINISTRATION</p> <ul style="list-style-type: none">• Documentation of administrative procedures;• Revenue and receivables accounting;• Cash handling;• Procurement card usage;• Travel expenditure reporting;• Accounting transfers;• Capitalized asset documentation; and• Payroll processing. <p>SPONSORED PROGRAMS</p> <ul style="list-style-type: none">• Contracts management; and• Recording expenditures. <p>INFORMATION MANAGEMENT</p> <ul style="list-style-type: none">• Desktop security procedures;• Software and hardware management; and• System restoration capabilities. <p>While no significant weaknesses were noted, the internal audit reported that strengthening internal controls and increasing knowledge of best business practices will:</p> <ul style="list-style-type: none">• Further the department's efforts to fulfill its objectives by increasing efficiencies;• Raise the level of awareness of internal controls;• Protect the employees and the department from accusations of misappropriation; and• Provide a record of operational procedures to reduce risk in the event of absence in the administrative offices.

**University of Iowa – University Operations
Biological Sciences – Departmental Audit**
continued

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>Use of Resources.</u> Assure appropriate use of resources.	Management will review resource usage to ensure that funds and other assets are used for the greatest good and will provide employees with training, guidelines, written procedures, and expectations.
2. <u>Protection of Assets.</u> Provide adequate documentation regarding moved or discarded assets to the Property Management Office and address electronic data storage.	Management will strengthen communication and training regarding asset-reporting training and will address electronic data storage.
3. <u>Procedural Controls.</u> Document desk procedures.	Management will document procedures for each position to ensure policies are followed, internal controls are in place, and the risk of an unexpected event is reduced.

Auditor's Response
and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
Biomedical Engineering – Sponsored Programs**

Initial Audit Report Issued: April 21, 2003

Description Biomedical Engineering is one of six departments in the College of Engineering. It fosters interdisciplinary research that applies engineering science and technology to problems that arise in medicine and biology. The ultimate goal of the research is to improve people's lives and produce improved health care at a reduced cost.

The Department has 254 undergraduate and 57 graduate students enrolled in the Biomedical Engineering program as well as 13 primary faculty and 20 secondary faculty in the department. In fiscal year 2002, Biomedical Engineering was awarded 8 sponsored projects, for a total amount of just over \$1.0 million.

Scope / Objective The purpose of the audit was to review the administrative processes surrounding sponsored research and identify any associated risks. Specific goals of this audit were to:

- Determine whether proposals submitted are subject to adequate institutional review for resources, compliance, mission alignment, budgeting, and approvals;
- Determine whether the sponsored accounts are established accurately, timely, and in agreement with the sponsored award;
- Determine that costs charged for goods and services comply with institutional and federal requirements;
- Determine that specific requirements of sponsored projects (i.e., participant costs) are complied with;
- Determine that federal general requirements (within the area's control) of sponsored projects are complied with [e.g., financial, progress and effort reporting, disclosure statements (if required), etc.]; and
- Evaluate the department's culture and tone with regard to controls, ethics, and compliance with rules and regulations.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Effort Reporting</u> . Develop, document, and communicate expectations regarding effort reporting.	Management will send out a memo detailing what is expected regarding effort reporting.
2. <u>Regular Fund Monitoring / Reconciliation</u> . Document and communicate monthly expectations and reconciling responsibilities.	Management will send a memo explaining expectations and responsibilities and will discuss during regular monthly meetings.
3. <u>Grant Compliance</u> . Assure that fully executed Administrative Invention Agreements are submitted for each identified project. Document and communicate the importance of compliance with sponsored research requirements.	Management will assure execution of Administrative Invention Agreements; send a memo explaining expectations and responsibilities of sponsored research; and discuss during regular monthly meetings.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
Broadcast Services – Departmental Audit**

Initial Audit Report Issued: March 18, 2003

Description The Department of Broadcast Services (DBS) is primarily responsible for the operation of two public radio stations, KSUI-FM and WSUI-AM. KSUI-FM offers a wide variety of classical and jazz musical selections. WSUI-AM broadcasts local and national news and talk shows.

Both stations are licensed to the University of Iowa and receive funding from state appropriations, private donations, and grant funding from the Corporation for Public Broadcasting.

Scope / Objective Management requested a review of DBS operations. The purpose of the audit was to evaluate the adequacy of departmental procedures and internal controls of predetermined business processes to ensure:

- Sufficient and accurate communication with management;
- Proper monitoring and follow-up by departmental management;
- Suitable segregation of duties;
- Adequate identification, maintenance, and safeguarding of assets from misappropriation and destruction;
- Compliance with University and other regulatory policy;
- Appropriate revenue and expenditure accounting; and
- Adherence to external reporting requirements.

Recommendations / Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Strategic Management Concerns.</u></p> <p>a. <u>Communication Issues.</u> Develop regular departmental communication; schedule regular staff meetings and prepare agendas; have current written employee performance appraisals on file; and utilize available resources to manage timely performance evaluations.</p> <p>b. <u>Information Technology.</u> Restrict access to equipment area; address data security concerns; monitor needs; develop backup policies and procedures; review backups to ensure that information is reloadable; and develop replacement plan for outdated hardware and software.</p>	<p>Management will not be taking corrective action at this time on the communications issue. Management states that it holds regular staff meetings, has current performance evaluations on file, and utilizes available resources for evaluations.</p> <p>Management will initiate proper security measures; seek assistance regarding information security; and develop a policy and schedule routine information backups. A long-term plan has been developed and approved to outline funding for technology updates.</p>
<p>2. <u>Fund Handling Procedures.</u></p> <p>a. <u>General Cash Handling Comments.</u></p> <p>(1) <u>Segregation of Duties.</u> Redistribute cash handling duties among employees.</p>	<p>Management will redistribute cash handling duties and put compensating controls in place.</p>

**University of Iowa – University Operations
Broadcast Services – Departmental Audit**
continued

<p>(2) <u>Safeguards for Handling and Storing Cash.</u> Discontinue depositing funds through campus mail; properly secure funds until deposit; and eliminate usage of a hidden key to store receipts.</p> <p>b. <u>Specific Comments Concerning Underwriter Donations.</u></p> <p>(1) <u>Control Processes Associated with Negotiation.</u> Review current obligations for restricted donations; analyze appropriate handling; and secure signature authority.</p> <p>(2) <u>Revise and Utilize an Approved Donation Schedule.</u> Correct mathematical errors and reduce ambiguity; update marketing literature; establish guidelines for underwriter discounts; and document variations from the donation schedule.</p> <p>(3) <u>Improved Communication and Administrative Handling of Restricted Donation Agreements.</u> Improve the process for proper handling of restricted donation agreements.</p> <p>(4) <u>Developing a Formal Collection and Adjustment Policy.</u> Coordinate changes to underwriter agreements. Develop a written collection and adjustment policy.</p>	<p>Management will deliver deposits and provide a key to those responsible for the cash.</p> <p>Management will review restricted donation obligations; analyze appropriate handling; and request written signature authority documentation.</p> <p>Management will correct mathematical errors and reduce ambiguity and will establish guidelines for underwriter discounts. The marketing manager will review contracts for compliance.</p> <p>Management will implement changes to improve the handling of restricted donation agreements.</p> <p>Management will institute rules for underwriter agreements and a system for handling write-offs.</p>
<p>3. <u>Procurement Card.</u> Ensure adequate controls regarding the use of procurement cards and comply with University policy.</p>	<p>Management will improve controls regarding procurement cards and comply with University policy.</p>
<p>4. <u>Asset Handling Procedures.</u></p> <p>a. <u>Musical Selections Inventory.</u> Reduce the likelihood of loss or misappropriation of music inventory.</p> <p>b. <u>Capital Equipment.</u> Record and reconcile capital equipment.</p>	<p>Management will improve music inventory controls.</p> <p>Management will re-inventory and reconcile capital equipment.</p>

Auditor's Response
and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
NCAA Coaching Staff Limitations**

Initial Audit Report Issued: January 27, 2003

Description The University of Iowa is obligated to comply with National Collegiate Athletic Association (NCAA) rules and regulations as a Division I member. NCAA Bylaw 22.2.1.3(e) requires member institutions to demonstrate at least once every three years that its rules-compliance program is the subject of evaluation by an authority outside the athletics department. This audit was performed to fulfill a portion of the requirement.

NCAA Bylaws 11.1, 11.2, and 11.3 outline language that must be included in contracts and letters of appointment for coaches, and related duties that coaches are expected to perform to comply with regulations. NCAA Bylaw 11.7 limits the number of coaches for each sport and defines the duties that may be performed only by coaches. The NCAA provides guidance by defining specific coaching categories (head, assistant, graduate assistant, undergraduate assistant, and volunteer.)

The University of Iowa Athletic Department currently monitors the coaching staff limits for twenty-two sports.

Scope / Objective The framework for the audit was developed by The Association of College and University Auditors and included:

- Determining whether an individual has been designated to monitor compliance with respect to coaching staff limitations;
- Reviewing the procedure for reporting team staff information to the Compliance Office to determine if it adequately monitors coaching staff limits;
- Determining whether required NCAA language is included in all coaching contracts and letters of appointment; and
- Determining if Athletic Department staff conforms with NCAA regulations concerning approval and reporting of outside income and benefits.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Contracts for Graduate Assistant and Undergraduate Assistant Coaches</u> . Draft and maintain contracts or letters of appointment with NCAA required language.	Management will draft and maintain contracts or letters of appointment with NCAA required language.
2. <u>Coaching Staff Reporting Procedure</u> . Create a master list of coaching staff information.	Management will create and maintain a master list of coaching staff information.
3. <u>Consistent Reporting of Team Staff</u> . Create a standard format for official team web sites and verify sports information before publication.	Management is in the process of developing a standardized format for web sites and will verify information.
4. <u>Review of Duties Performed by Non-Coaching Sport Specific Administrative Personnel</u> . Review personnel to assure that violations have not occurred; complete formal job descriptions; and self-report any violations to the NCAA. Continue to reiterate NCAA restricted duties.	Management will review personnel to determine if violations have occurred; complete formal job descriptions; and self-report any violations to the NCAA.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
NCAA Compliance Audit**

Initial Audit Report Issued: April 21, 2003

Description The University of Iowa is obligated to comply with National Collegiate Athletic Association (NCAA) rules and regulations as a Division I member. NCAA Bylaw 22.2.1.3(e) requires member institutions to demonstrate at least once every three years that its rules-compliance program is the subject of evaluation by an authority outside the athletics department. This audit was performed to fulfill a portion of the requirement.

Scope / Objective The objective of the audit was to assess whether the institution has policies and procedures in place regarding student-athlete eligibility based on NCAA and Big Ten regulations and to evaluate their effectiveness.

Audit scope and procedures included review and evaluation of the following:

- Article 14 of the NCAA Division I Manual;
- Rule 14 of the Big Ten Conference Handbook;
- University departmental policies and procedures (Athletics & Registrar);
- Review of records and monitoring process used for various classifications of eligibility issues (General, Freshmen, Continuing, and Transfer).

Audit procedures included:

- Comparison and review of all teams' Certified Eligibility List (CEL) and Squad List for the spring 2002 and fall 2002 semesters;
- Review of required eligibility documentation for a sample of student-athletes from a sample of teams;
- Verification of freshman eligibility qualifier status for a sample of student athletes;
- Review of documentation and process for ensuring continuing eligibility; and
- Review of documentation and process for determining the eligibility status of transfer student athletes.

Recommendations / Responses

Auditor's Recommendation	Management's Response
Records Organization / Squad List. Locate the fall 2002 Women's Tennis Squad list.	Management will continue to try and locate the missing list. A self-report will be filed with the NCAA if it is not located.

Auditor's Response and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – University Operations
Review of Cash Collection Activities**

Initial Audit Report Issued: April 21, 2003

Description The SUI internal auditor reviews cash collection activities each year at the University and UIHC Business Offices. Individual departments collected over \$96 million in cash receipts during the fiscal year ended June 30, 2002; 15 of these departments handled over \$1 million each during FY 2002.

Scope / Objective The primary purpose of the review was to confirm that all University departments with cash collection activity over \$1 million have had audit coverage during at least one of the last five fiscal years.

One department, Microbiology, met the criteria of having receipts greater than \$1 million and having had no cash handling audit coverage in the last 5 years. Seven additional departments with cash collections below \$1 million and little or no audit coverage during the previous five years were also reviewed. Some departments had multiple cash collection points, which resulted in eleven cash reviews.

The reviews determined whether:

- Cash is safeguarded from loss or misappropriation;
- Receipts are accurately recorded;
- Cash is deposited intact and timely;
- Key cash handling responsibilities are properly segregated; and
- An independent reconciliation of cash receipts is performed.

Recommendations / Responses	Auditor's Recommendation	Management's Response
	<p>A. <u>Restrictive Endorsement.</u> Restrictively endorse checks immediately upon receipt.</p> <p>B. <u>Deposit All University Funds.</u> Deposit all accumulated funds.</p> <p>C. <u>Segregation of Duties and Reconciliation.</u> Reassign duties to separate cash handling and reconciliation duties.</p> <p>D. <u>Timely Deposits.</u> Make deposits weekly or when the amount on hand reaches \$500.</p> <p>E. <u>Safeguarding.</u> Store all cash receipts in a secure location. Count cash in an out-of-sight location.</p>	Not reported.

Auditor's Response and Follow-up Various control weaknesses were noted in seven of the 12 offices that were recently reviewed. Separate individualized reports will be made to the management of each department. Follow-up will be performed in FY 2003.

**University of Iowa – University Operations
Sponsored Programs – Departmental Audit**

Initial Audit Report Issued: February 17, 2003

Description The Division of Sponsored Programs (DSP) assists the university community in seeking external financial support for faculty, staff, and student research, training, and service activities. DSP processed 2,911 funding applications totaling \$524.9 million during FY 2002 with 1,870 resulting in actual monetary awards totaling \$339.9 million.

DSP also provides institutional signature authority; negotiates terms and conditions; provides post award administration; assures regulatory compliance; and reports to the Board, the Legislature, University Administration, and the general public.

Scope / Objective The internal audit evaluated the adequacy of departmental procedures and internal controls of predetermined business processes to ensure:

- Compliance with University and other regulatory policy;
- Proper process segregation among individuals;
- Timely and accurate recording of transactions to the General Ledger;
- Proper identification, maintenance, and safeguarding of assets;
- Effective methods for communications exist both inside the department and with other areas of the institution; and
- Efficient processes are in place for departmental operations and grant processing.

Recommendations / Responses	Auditor's Recommendation	Management's Response
	1. <u>Communication With Other Departments</u> . Continue to schedule opportunities for departmental personnel to discuss common issues and build relationships.	Management will continue to provide opportunities for staff members to discuss common issues and build relationships.
	2. <u>Departmental Efficiencies & Processes</u> . a. <u>Human Resource Management</u> . Review human resource reports weekly or monthly; establish a contact person and maintain files regarding employee absences to make verification possible; submit paperwork for employee pay transactions in a timely manner. b. <u>Departmental Procedure Manuals</u> . Maintain up-to-date procedure manuals for all director-level employees and complete a standardized outline for common director duties.	Management will review HR reports monthly; establish a contact person and maintain files regarding employee absences; ensure that paperwork for employee pay transactions are submitted in a timely manner. Management will require each director to document procedures unique to their position and will develop a standard set of guidelines for all director-level positions.

**University of Iowa – University Operations
Sponsored Programs – Departmental Audit**
continued

<p>c. <u>Travel Expense Reimbursement Approval.</u> Document and maintain all signature authorities and direct supervisors or designees should review and approve employee expenses.</p>	<p>Management has requested written delegation of all signature authority forms and will implement proper expense review procedures.</p>
<p>d. <u>Signing of Contracts and Purchase Orders by Purchasing.</u> Formalize the granting of signature authority.</p>	<p>Management is in the process of formalizing the manner for granting signature authority.</p>
<p>e. <u>Grant and Contract Processing.</u> Analyze the process for performing contract reviews and assess the time spent filtering funding applications for grant agencies.</p>	<p>Management has separated contract reviews between two people and will perform ongoing reviews of the current grant process.</p>
<p>3. <u>Off-Campus Use of Equipment.</u> Create and maintain completed forms for equipment used off campus and monitor the whereabouts of equipment closely.</p>	<p>Management will use appropriate forms for equipment used off campus.</p>

Auditor's Response and Follow-up

Follow-up will be performed in FY 2004.

**University of Iowa – Hospital Operations
Center for Disabilities and Development**

Initial Audit Report Issued: March 10, 2003

Description

The Center for Disabilities and Development (CDD), serves as one of four hospitals of the UIHC. The CDD has been helping Iowans with disabilities lead healthier, more productive lives for over 50 years by improving their health, independence, productivity, and full community participation.

During an average year, the CDD:

- Delivers comprehensive, statewide medical care and related services for more than 500 different complex conditions;
- Has approximately 200 admissions in the acute inpatient unit and 10,000 appointments in the outpatient clinic;
- Makes 20,000 contacts through community outreach activities, toll-free information and referral sessions, telemedicine consultations, and in-service training events.

Scope / Objective

Internal audit performed a high-level review of CDD's key business processes at the request of UIHC Senior Administrative Management. Specific goals of the audit were to:

- Verify that CDD was in compliance with University and other regulatory policy;
- Determine if processes were properly segregated among individuals;

**University of Iowa – Hospital Operations
Center for Disabilities and Development**
continued

- Verify assets were properly identified, maintained, and safeguarded from misappropriation and destruction;
- Determine if information provided to management was adequate and accurate;
- Verify that management was performing appropriate monitoring and follow-up activities; and
- Identify inefficiency within CDD's administrative processes.

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>Cash Handling</u> . Retain check copies in a secure location and transfer them to the Accounts Manager when the reconciliation is performed.	Management will assure that check copies are stored in a secure location and that copes will be transferred when the reconciliation is performed.
2. <u>Payroll Checks</u> . Do not return payroll checks to the CDD unless employees insist on receiving checks in person.	Management will mail checks to the employee's home and encourage short-term employees to use direct deposit.
3. <u>System Applications</u> . Remove all client / server file-share applications immediately and reinforce the University's Information Technology policy.	Management will remove all client / server file-share applications immediately and will continue to look for similar applications during weekly audits.
4. <u>Access to Inpatient Calendar</u> . Develop a formal policy and request form including approvals for access to the inpatient calendar.	Management will develop a policy and request form with approvals for access to the inpatient calendar.
5. <u>Hospital Late Charges</u> . Shorten the charge capture time; set up codes to eliminate delays; and consider using the "Invoice 2002" software for billing.	Management will submit charges in a timely manner; provide direct correlation between services rendered and the codes used; and ensure that "Invoice 2002" software billing codes are adequate.
6. <u>Time Approvals</u> . Ensure that all timekeeping documents are signed according to University policy and provide written approval for time records of all satellite employees prior to processing.	Management will secure approvals for timekeeping documents according to University policy and secure approval for satellite employees prior to processing time records.
7. <u>Video Tape Library</u> . Treat patient videotapes as part of their medical records and develop, communicate, and implement a policy to follow when patients are videotaped.	Management will develop, communicate, and implement a policy regarding patient videotaping and create a patient consent form.

Auditor's Response and Follow-up

Items one and three are closed. Follow-up on the remaining open items will be performed in FY 2004.

**University of Iowa – Hospital Operations
Complimentary Parking Passes – Risk Assessment**

Initial Audit Report Issued: April 21, 2003

Description UIHC implemented the Complimentary Parking Pass program in February of 2000. The program provides free parking in one of four hospital parking ramps to Ambulatory Care Clinic patients. Patients receive the pass during their visit and present it when exiting the ramp.

University Parking and Transportation charges UIHC a reduced rate for each actual hour of complimentary parking used.

The UIHC budget for this project in FY 2003 is \$850,000 and provides complimentary parking for approximately 300,000 patients each year.

Scope / Objective A risk assessment of the Complimentary Parking Pass program was conducted at the request of senior hospital administration. Internal auditors:

- Reviewed written documentation created when the program was initiated;
- Conducted interviews with the ambulatory care clinic personnel; and
- Observed and analyzed operating procedures in both the ambulatory care clinics and parking ramps.

Recommendations / Responses	Auditor's Recommendation	Management's Response
	<p>OBSERVATIONS</p> <ol style="list-style-type: none"> 1. <u>Ambulatory Care Clinics</u>. The program lacks administrative oversight and review. 2. <u>Hospital Parking Facilities</u>. Multiple passes provide the opportunity for misuse. 	No response provided.
	<p>CONTROL RECOMMENDATIONS</p> <ol style="list-style-type: none"> 1. <u>UIHC Business Process Owner</u>. Name a business process owner and design a process with appropriate controls. 2. <u>Documentation of the Complimentary Parking Pass Program</u>. Develop a policy for the program's administration. 3. <u>Communication</u>. The business process owner and University parking officials should communicate regularly to discuss specific issues, address changes, and share critical information. 4. <u>Identify a New Process</u>. Create a task force to review practices, resolve issues, and enhance controls. 	Management will create a task force to respond to the recommendations made by the internal auditor. The task force will design a new process with appropriate controls and be responsible for its implementation and on-going administration.

Auditor's Response and Follow-up Follow-up will be performed in FY 2004.

**University of Iowa – Hospital Operations
Contractual Adjustments**

Initial Audit Report Issued: January 27, 2003

Description Healthcare providers enter into agreements with insurance companies in order to share risk. Reimbursement calculations may include factors that significantly increase UIHC’s reimbursement risk.

Contractual adjustments are defined as the amount of provider liability that is written off, based on negotiated or pre-defined reimbursement levels for specific services rendered. Federal or state payors like Medicare and Medicaid dictate reimbursement levels based on specific criteria.

Scope / Objective The purpose of the internal audit was to review the contractual adjustment processes that Finance and Accounting Services perform as part of their due diligence for reimbursement verification. Objectives were to:

- Evaluate the processes used by Finance and Accounting Services to verify contractual adjustments;
- Verify that contractual adjustments are taken in line with expected payments;
- Verify that electronically remitted payments are populating the patient accounting system accurately; and
- Identify contractual adjustment review processes after the new patient accounting system (IDX) is implemented.

Recommendations / Responses

Auditor’s Recommendation	Management’s Response
1. <u>Documentation of Procedures.</u> Document current processes on contractual adjustments.	Management will document contractual adjustment processes.
2. <u>Contractual Adjustment Reviews – Wellmark, Medicare, and Medicaid.</u> Perform monthly claim reviews on Wellmark, Medicare, and Medicaid and determine if trend data exists. Identify high-risk claims to ensure that UIHC is getting reimbursed properly.	Management will develop detailed claim reviews and continue to perform analyses to determine appropriate reimbursement.
3. <u>Claim Analysis Resources.</u> Consider whether contractual adjustment reviews using the current method are an efficient use of the analysts’ time.	Management, with the implementation of the IDX, will design new monitoring processes.
4. <u>Payor Code Mismatch.</u> Ensure that payors are accurately identified; analyze mismatch issues; and take action to eliminate or mitigate risk.	Management will work to implement the auditor’s recommendations.
5. <u>Outpatient Claims Review.</u> Analyze outpatient claims with low reimbursement percentages.	Management will review outpatient claims with low reimbursement percentages.
6. <u>System Data Integrity.</u> Ensure accurate payment calculations by manually calculating payments and comparing them with the system’s calculations; correct all variances.	Management will conduct routine tests to assure correct reimbursement.

Auditor’s Response and Follow-up Follow-up will be performed in FY 2004.

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- UI President’s Residence Inventory Closed

Iowa State University

- Procurement Functions Closed

University of Iowa – University Operations

UI President’s Residence Inventory

Initial Audit Report Issued: December 16, 2002

Follow-up Memorandum Issued: April 21, 2003

Recommendations / Responses

Auditor’s Recommendation	Management’s Response
1. <u>Inventory of Assets</u> . Maintain assets inventory according to University policy; report items over \$2,000 to the Property Management Office; and review current insurance policy to ensure adequate coverage.	Management will develop a current inventory listing according to University policies; develop procedures to ensure that the Property Management Office is notified of new purchases and / or gifts; and ensure adequate coverage of the building’s contents.
2. <u>Exceptions to University Operations Manual</u> . Update the University Operations Manual to include an exception statement for beer and wine purchases.	Management will update the University Operations Manual to include a statement that the Director of Campus Food Services can grant select areas the ability to purchase beer and wine from commercial sources rather from the IMU Food Services when economically feasible.

Auditor’s Response and Follow-up

Management has taken appropriate corrective action or made significant good faith effort on all of the audit recommendations. This audit is closed.

**Iowa State University
Procurement Functions**

Initial Audit Report Issued: August 8, 2002

Follow-up Review Issued: April 29, 2003

Recommendations / Responses

Auditor’s Recommendation	Management’s Response
1. <u>Sources of Policies and Procedures</u> . Assure that sources for policies and procedures contain complete and authoritative guidance.	Management will add links from the procurement web site to the Office Procedure Guide (and back) for policies and to the Purchasing and Controller’s Department web site (and back) for supplemental information as well as align the Purchasing and Controller’s Departments web sites with the procurement web site.
2. <u>Training and Feedback</u> . Describe training opportunities.	Management has three types of training that is offered to address procurement-related issues: How to Know if Expenses are Allowable; ISU forms – What, Why, and How; and Purchasing Card Training.

Auditor’s Response and Follow-up

Management has taken appropriate action. This audit is closed.