

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Internal Audit Reports  
**Date:** November 4, 2002

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**Recommended Actions:**

1. Receive the following internal audit reports from Iowa State University:
    - Printing Services; and
    - Procurement Functions
  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 13 internal audit reports, 9 of which require follow-up. Three follow-up reports are presented this month, two from the University of Iowa and one from Iowa State University (pages 5-7); all are closed.

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**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.

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**Status of Internal Audit Follow-Up  
November 4, 2002**

**University of Iowa**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
1. College of Dentistry – Business System Security & Access (SUI) Follow-up report.	December 20, 2001 October 15, 2002	Audit closed. (page 5.)	Closed
2. Food and Nutrition Gift Card Program (UIHC)	April 15, 2002	Follow-up scheduled in FY 2003.	December 2002
3. Patient Fiscal and Registration Services (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
4. Patient Fiscal and Registration Services – Credit Balances (UIHC)	March 18, 2002	Follow-up scheduled in FY 2003.	December 2002
5. Credit Programs – Division of Continuing Education (SUI) Follow-up report.	May 24, 2002 October 15, 2002	Audit closed. (page 6.)	Closed
6. Graduate College – Departmental Audit (SUI)	May 24, 2002	Follow-up scheduled in FY 2003.	November 2002
7. Internal Controls Relating to Student Activity Fees (SUI)	July 23, 2002	Follow-up scheduled in FY 2003.	January 2003
8. Scanned Signatures (UIHC)	July 23, 2002	Follow-up scheduled in FY 2003.	November 2002
9. UIHC Timekeeping / Payroll (UIHC)	August 20, 2002	Follow-up scheduled in FY 2003.	January 2003

**Iowa State University**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
10. Department of Agricultural and Biosystems Engineering	April 26, 2002	Follow-up scheduled in FY 2003.	January 2003
11. Department of Electrical and Computer Engineering	May 28, 2002	Follow-up scheduled in FY 2003.	February 2003
12. IBSSS – Information Technology General Controls Review Follow-up report	March 13, 2002 October 3, 2002	Audit closed. (page 7.)	Closed

**University of Northern Iowa**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
13. FY 2002 Cash on Hand	September 10, 2002	Follow-up scheduled in FY 2003.	January 2003

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**Iowa State University**  
**Printing Services**  
Initial Audit Report Issued: August 8, 2002

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Description	<p>Printing Services' mission is to identify and address Iowa State University's core printing needs by providing printing services to the ISU community at an appropriate price, turnaround time, and quality.</p> <p>Services include consulting copier management, digital reproduction, engineering blue-prints, xerographic printing, full-color copies, large-format color printing, offset printing, computer publishing, software support and prepress services, finishing / binding and mailing.</p>
Scope / Objective	<p>The scope of the audit included activities pertaining to revenue, cash, and computer system access. The audit objectives included examination of:</p> <ul style="list-style-type: none"><li>• Compliance with policies, plans, procedures, laws, and regulations;</li><li>• Accomplishment of established objectives and goals;</li><li>• Reliability and integrity of information;</li><li>• Economical and efficient use of resources; and</li><li>• Safeguarding of assets.</li></ul>
Auditor's Response and Follow-up	<p>No reportable observations were noted. No follow-up audit will be performed.</p>

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**Iowa State University  
Procurement Functions**  
Initial Audit Report Issued: August 8, 2002

**Description** Management from the Purchasing Department and the Controller's Department formed a team and began meeting in October of 2000 to increase employee compliance with procurement policies and procedures.

The team's intention is to publish procurement policies in the Office Procedure Guide, include procedures on a procurement web site, and provide training for new employees and reeducate current staff.

**Scope / Objective** The scope of the audit included procurement policies, procedures, and processes, and excluded travel procurements. Procurement functions were examined to assess controls that help achieve:

- Compliance with procurement policies that address allowability and appropriateness;
- Accomplishment of established goals for providing guidance and service to University customers;
- Reliable management data for oversight or procurement functions;
- Efficient and effective procurement operations; and
- Safeguarding of assets (i.e., University funds) from unallowable or inappropriate use.

**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> <u>A. -Develop a comprehensive Describe training program opportunities to increase understanding of procurement policies.</u> <u>B. Seek feedback from end users of procurement website.</u>	Management <del>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 will develop more appropriate training programs.</del> <u>Focus groups of end users will be conducted to obtain feedback.</u>

**Auditor's Response and Follow-up**

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

**INTERNAL AUDIT FOLLOW-UP REPORTS**

**University of Iowa – University Operations**

- College of Dentistry – Business System Security and Access Closed  
Closed
- Departmental Audit of Credit Programs, Division of Continuing Education

**Iowa State University**

- Iowa Braille and Sight Saving School – Information Technology General Controls Review Closed

**University of Iowa – University Operations  
College of Dentistry – Business System Security and Access**

Initial Audit Report Issued: December 20, 2001

Follow-up Report Issued: October 15, 2002

Recommendations / Responses

Auditor's Recommendation	Management's Response
1. <u>System Administrator and Programmer Access Issues</u> . Identify a smaller number of internal users for access rights.	Management has reduced the number of security level users and has updated job duties and limited access.
2. <u>Remote Access to the System. Inadequate Security</u> . Investigate available methods of providing secure remote access to network applications.	Management has increased security. A signed agreement from all vendors with access to patient data will be acquired.
3. <u>Windent Security Capabilities. Absence of Security Features</u> . Pursue security features including: session timeout; unsuccessful logon attempt lockout; disallowing multiple user logins; and periodic forced password changes.	Management will use an auto-logoff screen saver to close active applications and disconnect users; inactivate the user's Dentistry account after five unsuccessful login attempts; install password-protected screen savers on all PCs; and has required all users to change passwords every 180 days.
4. <u>Unattended Terminals. Open System Access</u> . Require all unattended terminals be either logged off or be password locked, and all terminals be powered off at night.	Management will require users to lock unattended workstations and are in the process of searching for a software application to automate logoff.
5. <u>Network Password Length. Low Level of Protection</u> . Require that network passwords contain at least five characters and a mixture of alpha and numeric characters.	Management has enhanced its security settings on the Dentistry domain to require that passwords be at least six characters long.

Auditor's Response and Follow-up

Management has taken appropriate action or has knowingly assumed risk on all audit recommendations. This audit is closed.

**University of Iowa – University Operations  
Departmental Audit of Credit Programs,  
Division of Continuing Education**

Initial Audit Report Issued: May 24, 2002  
Follow-up Report Issued: October 15, 2002

Recommendations /  
Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Letter of Understanding</u>. Document business arrangements made with other areas of the University.</p>	<p>Management will create a memo of understanding with departments that will: share tasks and accounts; outline responsibilities, methods of account allocations, approved expenses, and specific fees that are charged along with a time frame showing when deposits occur; and address the ownership of the account should a program be discontinued.</p>
<p>2. <u>Promotions</u>. Develop a promotions policy.</p>	<p>Management will analyze current promotional expenditures, define allowable expenses, build a strategy incorporating internal controls, and outline allowable purchases, spending limits, overall budget, and prior approvals.</p>
<p>3. <u>Information Technology Controls</u>.</p> <p>a. <u>Documented Policy and Procedures</u>. Document policies and procedures.</p> <p>b. <u>Software and Hardware Inventories</u>. Develop software and hardware inventories.</p> <p>c. <u>Environmental Controls for Server Location</u>. Provide climate-controlled environment for the server.</p> <p>d. <u>Lack of Formal Disaster Recovery Plan</u>. Document back-up system with the technical capability to facilitate disaster recovery.</p>	<p>Management will:</p> <p>a. Formally document and adopt policies and procedures.</p> <p>b. Complete inventory of software and hardware for all workstations and update as needed;</p> <p>c. Seek alternative locations to provide proper climate controls, fire detection, and fire suppression for the server; and</p> <p>d. Document a formal disaster plan, including recovery procedures, assignment of responsibility, and hardware and software requirements; lock back-up tapes in a fire-resistant location; review the plan annually; and update as necessary.</p>

Auditor's Response  
and Follow-up

Appropriate corrective action has been taken on all items. This audit is closed.

**Iowa State University**  
**Iowa Braille and Sight Saving School**  
**Information Technology General Controls Review**

Initial Audit Report Issued: March 13, 2002

Follow-up Report Issued: October 3, 2002

Recommendations /  
Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Disaster Recovery.</u></p> <p>a. Document agreement with UNI to re-establish IT operations in a disaster recovery situation.</p> <p>b. Establish written procedures in the Crisis Management Plan (CMP) to address alternative end-user processing and technical restoration guide.</p>	<p>Management will:</p> <p>Document the agreement with UNI to re-establish IT operations in a disaster recovery situation and address the responsibilities of both parties.</p> <p>Enhance the CMP to include documentation that addresses alternative end-user processing and provides restoration instructions.</p>
<p>2. <u>Logical Security.</u></p> <p>a. Require periodic password changes for personnel and students.</p> <p>b. Activate automatic log off after a period of inactivity.</p> <p>c. Develop written procedures for set-up, review, and revocation responsibilities for Human Resources and IT personnel.</p>	<p>Management will implement periodic password changes and automatic log-off procedures and will document intended procedures for access set-up, review, and revocation.</p>
<p>3. <u>Inventory Controls.</u> Inventory and document all computer hardware and significant software.</p>	<p>Management will inventory and document all computer hardware and significant software; update records as necessary; establish a written plan to document reviews on a regular basis; and review results and authorize adjustments.</p>

Auditor's Response  
and Follow-up

Action has been taken to address all observations reported. This audit is closed.