

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: October 8, 2001

Recommended Actions:

1. Receive the following internal audit reports from Iowa State University:
 - Athletic Ticket Office
 - Human Subjects in Research
 - Student Health Center
2. Receive the report on the Status of Internal Audit Follow-up.

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.

Five completed internal audit reports are presented, three new and two follow-ups. The three the new audits require additional follow-up while the two follow-up audits were closed.

The Status of Internal Audit Follow-Up Table on page 2 identifies 20 internal audit reports, 18 of which require follow-up. Beginning on page 3, a brief description of each new audit is provided as well as detailed tables that identify auditor recommendations, management responses, auditor responses, and the status of the corrective action for the three new reports and the one follow-up report.

Background:

In accordance with Regent Procedural Guide §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, while the Iowa State University internal auditor is responsible for those 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
October 8, 2001**

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. A new review will be conducted of these significantly revised operations. Issues included in the initial review will be addressed as applicable.	December 2001
2. Intercollegiate Athletics – Home Game Ticket Revenue-FY 2000 (SUI) Follow-up report #1	October 23, 2000 September 24, 2001	A follow-up was conducted in FY 2002.	Completed September 2001
3. Human Resources Software Access Security (SUI) Follow-up report #1	February 20, 2001 August 20, 2001	Second follow-up scheduled in FY 2002.	December 2001
4. NCAA Compliance Audit (SUI)	February 20, 2001	Follow-up scheduled in FY 2002.	December 2001
5. NCAA Compliance Audit – Financial Aid (SUI)	January 19, 2001	Follow-up scheduled in FY 2002.	October 2001
6. Human Resources – Decentralized Processes (SUI)	June 21, 2001	Follow-up scheduled in FY 2002.	November 2001
7. Student Organizations – Travel Expenditures (SUI)	May 14, 2001	Follow-up scheduled in FY 2002.	November 2001
8. Human Resources Benefits Administration (SUI)	August 20, 2001	Follow-up scheduled in FY 2002.	December 2001
9. Surplus Stores (SUI)	August 20, 2001	Follow-up scheduled in FY 2002.	December 2001
10. University Box Office (SUI)	August 20, 2001	Follow-up scheduled in FY 2002.	November 2001
11. Complimentary Valet Parking – Cash Handling (UIHC)	August 20, 2001	Follow-up scheduled in FY 2002.	November 2001
12. Hospital Vending Revenue (UIHC)	August 20, 2001	Follow-up scheduled in FY 2002.	December 2001
13. PYXIS (Pharmacy Dispensing Machines) (UIHC)	August 20, 2001	Follow-up scheduled in FY 2002.	December 2001

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
14. Academic Course Fees Follow-up report #1	July 18, 2000 August 27, 2001	Audit closed (page 7).	Closed
15. Extension Distribution Center	February 16, 2001	Follow-up scheduled in FY 2002.	November 2001
16. Residence Hall Convenience Stores	February 16, 2001	Follow-up scheduled in FY 2002.	October 2001

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
17. Grants and Contracts Accounting Follow-up report #1	March 22, 2000 June 29, 2001	Second follow-up scheduled in FY 2002.	June 2002
18. Camp Adventure™ Youth Services Follow-up report #1	July 28, 2000 September 26, 2001	Audit closed (page 8).	Closed
19. North American Review	March 9, 2001	Follow-up scheduled in FY 2002.	February 2002
20. Cash Funds On Hand	June 19, 2001	Follow-up scheduled in FY 2002.	December 2001

**Iowa State University
Athletic Ticket Office**

The Athletic Ticket Office is primarily responsible for the servicing, distribution, and sales of tickets to all athletic events. Tickets are sold by phone, mail order, ticket window, Ticket Master, and event day sellers. For FY 2002, athletic event ticket revenue was \$8.0 million; football and basketball sales were \$6.6 million of this amount.

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 Internal Audit Report Issued: August 14, 2001

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
1. <u>Authorization of Complimentary Admissions.</u> Assure proper and timely approval for complimentary admissions.	Management will revise and document the procedures for complimentary admission approvals. All complimentary admissions will be approved prior to events.	Response accepted pending follow-up review.	Follow-up scheduled for May 2002.
2. <u>Ticket Reconciliation Variances.</u> a. Automate data transfers between the two accounting systems utilized. b. Identify reasons for variances between the two accounting systems.	Management will pursue automated data transfers between the two accounting systems. The accounting structure will be revised to provide more detail that can help to explain variances.	Response accepted pending follow-up review.	Follow-up scheduled for May 2002.
3. <u>Accounts Receivable.</u> Improve the accounts receivable process for ticket sales made prior to receiving payment.	Management will develop and implement a plan for improving the accounts receivable process.	Response accepted pending follow-up review.	Follow-up scheduled for May 2002.
4. <u>Accounting System Controls.</u> a. Change passwords on a periodic basis. b. Verify the ability to recover back-up tape information	Management will develop and document a procedure to periodically change all passwords. Management will develop, document, and implement a procedure for annual testing of back-up tapes.	Response accepted pending follow-up review.	Follow-up scheduled for May 2002.

**Iowa State University
Human Subjects in Research**

Iowa State University conducts research involving human subjects. This research is conducted, supported, or otherwise subject to regulation by any federal department or agency.

The internal audit was performed to determine whether policies and procedures effectively address the basic requirements of federal regulations and whether effective controls exist to mitigate risks relative to the use of human subjects in research.

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.	Response accepted pending follow-up review.	Follow-up scheduled for November 2001.
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.	Response accepted pending follow-up review.	Follow-up scheduled for November 2001.

**Iowa State University
Student Health Center**

The Student Health Center (SHC) provides a full range of health care services, including general medicine, psychiatry, orthopedics, and physical therapy. The SHC also provides an on-site laboratory, x-ray services, pharmacy services, and a travel/allergy clinic.

The internal audit was performed to evaluate: compliance with University policies and procedures; accomplishment of objectives; reliability and integrity of information; efficiency and effectiveness of operations; and safeguarding of assets.

Initial Internal Audit Report Issued: April 26, 2001

Revised 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.	Response accepted pending follow-up review.	Follow-up scheduled for January 2002.

ISU Student Health Center (continued)

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
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.	Response accepted pending follow-up review.	Follow-up scheduled for January 2002.
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.	Responses accepted pending follow-up review.	Follow-up scheduled for January 2002.
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.	Response accepted pending follow-up review.	Follow-up scheduled for January 2002.
5. <u>Pharmacy.</u> a. Utilize ProPharm system capabilities sufficiently. b. Segregate inventory duties adequately. c. Tighten access controls to the ProPharm system. d. Assure effective inventory procedures documentation. e. Reconcile adjustment account to reflect payments received from insurance companies.	Management will implement a plan for expanded and continuous training. Management will establish procedural and system controls to provide segregation of duties. Management will require the use of unique user identifications and passwords and establish intervals for when passwords will be changed. Management will update, clarify, and expand documentation for inventory and other pharmacy procedures. Management will work with the business office to implement a reconciliation process for pharmacy adjustments.	Responses accepted pending follow-up review.	Follow-up scheduled for January 2002.
6. <u>Insurance Filing.</u> Revise current inefficient billing procedures process.	Management will revise procedures to: file insurance claims; apply insurance payments; and submit remaining charges to accounts receivable.	Response accepted pending follow-up review.	Follow-up scheduled for January 2002.

ISU Student Health Center (continued)

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
<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>Responses accepted pending follow-up review.</p>	<p>Follow-up scheduled for January 2002.</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>Response accepted pending follow-up review.</p>	<p>Follow-up scheduled for January 2002.</p>
<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>Responses accepted pending follow-up review.</p>	<p>Follow-up scheduled for January 2002.</p>

**Iowa State University
Academic Course Fees**

**Initial Internal Audit Report Issued: July 18, 2000
Follow-Up Audit Report Issued: August 27, 2001**

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
<p>1. <u>Documentation and authorization of fees:</u></p> <ul style="list-style-type: none"> a. Collect fees via accounts receivable billing and collection system. Record on Administrative Information (ADIN) system. b. Assure that authorizations are signed by the college dean. c. Keep "Authorization of a Special Course Fee" current. d. Maintain documentation in academic units regarding interpretations of special course fee guidelines or methods for setting fee amounts. 	<p>Management will review and update the policies regarding the development, documentation, and authorization of special course fees. Management will also develop appropriate mechanisms for promoting and monitoring compliance with revised course fee policies.</p>	<p>Satisfactory corrective actions have been taken.</p>	<p>Item closed.</p>
<p>2. <u>Consistency of philosophy in assessing special course fees.</u> Clarify university policy and philosophy regarding special course fees.</p>	<p>The Office of the Provost will enhance policies to provide guidance on the extent of funding to be provided through the assessment of special course fees.</p>	<p>Satisfactory corrective action has been taken.</p>	<p>Item closed.</p>
<p>3. <u>Interpretation of academic course fee policy provisions:</u></p> <ul style="list-style-type: none"> a. Distinguish between class laboratory trips and class field trips. b. Clarify that additional computer fees are not to be included in any special course fees. c. Clarify that special course fees are not to be used to pay personnel to assist with courses. 	<p>The Office of the Provost will improve consistency in the application of special course fee policies by clarifying the wording of policies and/or encouraging departments to contact a central authority to provide interpretation and guidance.</p>	<p>Satisfactory corrective action has been taken.</p>	<p>Item closed.</p>
<p>4. <u>Costs versus benefits of fees.</u> Analyze whether administrative costs of assessing and collecting small fees may exceed the minimal amount of revenue generated. Automate special course fee processing into the accounts receivable system.</p>	<p>The Office of the Provost will consult with the Accounts Receivable Office and ADIN analysts to determine if automation can be developed to decrease the administrative costs of assessing fees. Consideration will also be given to the feasibility of setting a minimum amount for special course fees to ensure administrative costs do not exceed the revenue collected.</p>	<p>Satisfactory corrective action has been taken.</p>	<p>Item closed.</p>

**University of Northern Iowa
Camp Adventure™ Youth Services**

**Initial Internal Audit Report Issued: July 28, 2000
Follow-Up Audit Report Issued: September 26, 2001**

Auditor's Recommendation	Management's Response	Auditor's Response	Auditor's Follow-Up
<p>Cash and Revenue</p> <ul style="list-style-type: none"> a) Properly safeguard income until deposit by restrictively endorsing checks and money orders; b) Immediately record revenue when received; c) Adequately secure undeposited revenue; d) Deposit in accordance with university deposit policy; and e) Develop and document a simple alarm procedure in case revenue is lost or stolen. 	<p>Camp Adventure™ will:</p> <ul style="list-style-type: none"> a) Purchase an appropriate restrictive endorsement stamp and use it immediately; b) Investigate best method for recording revenue that satisfies audit recommendation; c) Adequately secure deposits; d) Begin monitoring undeposited revenue and ensure timely deposit are made; and e) Create a written alarm procedure. 	<p>Satisfactory actions have been taken.</p>	<p>Item closed.</p>
<p>Expenditures</p> <ul style="list-style-type: none"> a) Pay invoices timely and consider additional accounting assistance for busier program times; b) Ensure all expenditures are supported by appropriate, authentic, and accurate invoices or agreements; c) Process all single vendor purchases expected to exceed \$5,000, including professional services, through the university's purchasing department. 	<p>Camp Adventure™ will:</p> <ul style="list-style-type: none"> a) Monitor invoices more closely and pay bills as recommended; b) Assure that all expenditures are supported by appropriate, authentic, and accurate invoices or agreements; c) Review all future large vendor purchases for the \$5,000 written bid requirement and process them through UNI's purchasing department. 	<p>Satisfactory actions have been taken.</p>	<p>Item closed.</p>
<p>Financial Reporting</p> <p>Improve financial reporting by consolidating into formal periodic reports by fiscal program year and provide to Dean's office.</p>	<p>Camp Adventure™ will begin including all financial information on a program year basis and will provide copies to the Dean's office periodically.</p>	<p>Satisfactory action taken.</p>	<p>Item closed.</p>