

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Internal Audit Reports  
**Date:** August 30, 2001

**Recommended Actions:**

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

## UNIVERSITY OPERATIONS

- Human Resources Benefits Administration
- Surplus Stores
- University Box Office

## HOSPITAL OPERATIONS

- Cash Counts
- Complimentary Valet Parking – Cash Handling
- Hospital Vending Revenue
- PYXIS (Pharmacy Dispensing Machines)

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.

Eight completed internal audit reports are presented, seven new and one follow-up. Six of the new audits and the follow-up report require additional follow-up.

The Status of Internal Audit Follow-Up Table on page 5 identifies 14 internal audit reports, which require follow-up.

The detailed tables, starting on page 6, identify the auditor's recommendations, management responses, and the status of the corrective action for the seven 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. Corresponding tables highlight auditor recommendations, management responses, auditor responses, and whether corrective actions have been taken. When all recommendations have been satisfactorily completed, the audits are closed.

**Analysis:**

**UNIVERSITY OPERATIONS**

**Human Resources Benefits Administration**

The salary budget for FY 2001 included approximately \$178 million designated for benefits. Almost \$38 million of the \$178 million was allocated to individual employees as before-tax dollars for selected benefit plans. Unspent dollars are assigned to employees' health care spending accounts.

The purpose of the audit was to evaluate the adequacy of internal controls relating to flexible benefits, spending accounts, and the fringe pool account. Specific audit procedures included: reviewing the process of assigning flex dollars to employees; assessing internal controls over various benefit accounts and payments; auditing reimbursements from selected employee health care spending accounts; and testing transactions affecting the central fringe control account and evaluating internal controls.

The internal audit report made recommendations regarding: employee verification of insurability; procedures; and documentation for Health Care Spending Claims. (See page 6.)

A formal follow-up audit is scheduled for FY 2002.

## **Surplus Stores**

Surplus Stores is a University department that is responsible for identifying, classifying, and processing University departments' unused tangibles. Items are reallocated to University departments, recycled, or sold to the general public.

The purpose of the audit was to evaluate the adequacy of internal controls within the Surplus Stores operations to ensure: cash handling controls are in place and the University's Cash Policy is being followed; inventory is tracked (receipt through disposal), secure until sold, and removed from the University's Property listing, if applicable; sales are recorded accurately and timely; and appropriate credit is given to eligible departments.

The audit reported two areas regarding internal control including inventory recording and tracking as well as appropriate recording and tracking of revenues. (See page 7.)

A formal follow-up audit is scheduled for FY 2002.

## **University Box Office**

The University Box Office is responsible for all event sales with the Iowa Memorial Union for which there is an admission fee and a Ticketmaster outlet. Approximately \$270,000 worth of tickets are sold per year. The Box Office also provides a variety of services including personal check cashing, facsimile services, and student organization deposits.

The internal audit was performed to evaluate the adequacy of controls within the Box Office to ensure: appropriate cash collection procedures; timely deposits, independent reconciliations and accurate recording of ticket sales; compliance with Ticketmaster contract terms; and proper accounting for Student Organization events and deposits through the University Box Office.

The internal audit report made recommendations regarding: final event reconciliation and ledger entries; over/short account verification; complimentary tickets; and ticket refund procedures. (See page 7.)

A formal follow-up audit is scheduled for FY 2002.

## **HOSPITAL OPERATIONS**

### **Cash Counts**

Departments are authorized to maintain cash advances for change funds.

The purpose of the audit was to ensure that monies issued were appropriately and accurately accounted for and safeguarded. Internal auditors performed surprise cash counts for six of the twenty-one cash advance funds identified as outstanding. All funds were appropriately accounted for and safeguarded.

No follow-up review is planned.

### **Complimentary Valet Parking – Cash Handling**

Complimentary valet parking is a patient/visitor service sponsored by UIHC. Over 30,000 cars were valet parked last year.

The purpose for the audit was to assure that proper University cash handling policies and procedures are in place and operating.

The internal audit recommended improving: transportation of cash; monthly reconciliations of the daily deposits to the statement of accounts; cash handling controls; and safeguarding of cash – restrictive endorsement of checks.

A formal follow-up audit is scheduled for FY 2002. (See page 8.)

### **Hospital Vending Revenue**

Approximately 50 vending machines are located in various areas within the University of Iowa Hospitals and Clinics. Annual revenues for hospital vending services average \$500,000.

The internal audit evaluated the accounting and administrative controls over vending revenue to ensure that cash and inventories are appropriately safeguarded, recorded, and reconciled in a timely manner.

The internal audit made recommendations regarding: vending machine reconciliation; periodic inventory count; and inventory requisitions.

A formal follow-up audit is scheduled for FY 2002. (See page 8.)

### **PYXIS (Pharmacy Dispensing Machines)**

PYXIS is the automated dispensing system for pharmaceuticals. Sixteen nurse areas have operational PYXIS Med Stations. The UIHC plan calls for forty operational stations by the end of 2001.

The purpose of the internal audit was to evaluate the adequacy of controls. Specific objectives were to: determine that pharmaceutical dispensing is in compliance with regulatory agencies; ensure that pharmaceuticals are safeguarded through the entire restocking, dispensing, and wasting process; ensure that pharmaceuticals are accurately stocked, dispensed, and inventoried appropriately; determine that appropriate resources and personnel are adequate to monitor and maintain the system; ensure that reporting tools are in place to assist management in making appropriate decisions alerting them to operational issues, provide billing documentation and identify discrepancies; ensure that appropriate security access is granted; and determine the adequacy of current policies and procedures.

The internal audit report made recommendations regarding: deactivation of employee ID's; password changes; controlled substance wasting through PYXIS; additional formulary support; medication overrides; Board of Pharmacy 10% inventory regulation; returns to inventory; hand delivered meds; formulary access; and security review. (See page 9.)

A formal follow-up audit is scheduled for FY 2002.

**Status of Internal Audit Follow-Up**  
**August 30, 2001**  
**University of Iowa**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
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.	November 2001
2. Intercollegiate Athletics – Home Game Ticket Revenue-FY 2000 (SUI)	October 23, 2000	A follow-up will be conducted in FY 2001.	September 2001
3. Human Resources Software Access Security (SUI) Follow-up report #1	February 20, 2001 August 20, 2001	A second follow-up will be conducted in FY 2002.	November 2001
4. NCAA Compliance Audit (SUI)	February 20, 2001	A follow-up will be conducted in FY 2002.	December 2001
5. NCAA Compliance Audit – Financial Aid (SUI)	January 19, 2001	A follow-up will be conducted in FY 2002.	October 2001
6. Human Resources – Decentralized Processes (SUI)	June 21, 2001	A follow-up will be conducted in FY 2002.	November 2001
7. Student Organizations – Travel Expenditures (SUI)	May 14, 2001	A follow-up will be conducted in FY 2002.	November 2001

**Iowa State University**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
8. Academic Course Fees	July 18, 2000	A follow-up will be conducted in FY 2002.	Completed August 27, 2001
9. Extension Distribution Center	February 16, 2001	A follow-up will be conducted in FY 2002.	November 2001
10. Residence Hall Convenience Stores	February 16, 2001	A follow-up will be conducted in FY 2002.	September 2001

**University of Northern Iowa**

<b>Title</b>	<b>Report Date</b>	<b>Follow-Up Status</b>	<b>Expected Completion</b>
11. Grants and Contracts Accounting Follow-up report #1	March 22, 2000 June 29, 2001	A second follow-up will be conducted in FY 2002.	June 2002
12. Camp Adventure™ Youth Services	July 28, 2000	A follow-up will be conducted in FY 2002.	September 2001
13. North American Review	March 9, 2001	A follow-up will be conducted in FY 2002.	February 2002
14. Cash Funds On Hand	June 19, 2001	A follow-up will be conducted in FY 2002.	December 2001

**University of Iowa - University Operations  
Human Resources Benefits Administration**

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
<p>1. <u>Employee Verification of Insurability</u>. Require employees to verify family status on the flexible benefit enrollment form.</p>	<p>A disclaimer has been added to the enrollment form to certify eligibility and to acknowledge the risk of providing false, incomplete, or misleading information; or failure to update information according to eligibility guidelines.</p>	<p>Appropriate action taken.</p>	<p>Recommendation closed.</p>
<p>2. <u>Procedures. Retroactive Benefit Changes</u>. Document procedures relating to retroactive benefit activity.</p>	<p>Management will create a procedural guide for University Benefits' employees to access when retroactive changes are made. The guide will be designed to self-audit and identify any omissions in the process that may result in errors.</p>	<p>Concur with action plan.</p>	<p>Follow-up to be performed in FY 2002.</p>
<p>3. <u>Documentation for Health Care Spending Claims</u>.</p> <p>a. <u>Employee Awareness</u>. Increase opportunities for employees to more fully understand the documentation needed for reimbursement of Health Care Spending Claims.</p> <p>b. <u>Dependent Status</u>. Ask employees to confirm dependents eligibility on the spending accounts claims.</p>	<p>Questions and answers to the most common claim errors will be added to the Human Resource Benefits web site. The Benefits Office will increase efforts to monitor claims for supporting documentation and evaluate compliance.</p> <p>A disclaimer will be added to the reimbursement request assigning the responsibility for accuracy and eligibility to the employee filing the claim.</p>	<p>Concur with action plan.</p>	<p>Follow-up to be performed in FY 2002.</p>

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

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
1. <u>Inventory Recording &amp; Tracking. 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.	Concur with action plan.	Follow-up to be performed in FY 2002.
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 correct prices.	Concur with action plan.	Follow-up to be performed in FY 2002.

**University of Iowa - University Operations  
University Box Office**

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
1. <u>Final Event Reconciliation and Ledger Entries. Timeliness.</u> Make final event reconciliation and ledger entries within 30 days of the event.	Final reconciliation and ledger entries will be made within 30 days of having all necessary information for settlement.	Concur with action plan.	Follow-up to be performed subsequent to implementation.
2. <u>Over/short Account Verification. Independent Verification.</u> Report write-offs to the over and short account and review over a predetermined variance threshold.	Management will review current operating procedures; improve control and tracking of tickets; and report any write-offs to the over and short account in excess of \$50.	Concur with action plan.	Follow-up to be performed subsequent to implementation.
3. <u>Complimentary Tickets. Require Control Sheet Reconciliation.</u> Require signatures for complimentary tickets and reconcile to the number of tickets issued.	All complimentary tickets will be clearly marked as complimentary or free; written procedures will be developed that require signature prior to ticket issuance; and tickets will be reconciled with the control sheet.	Concur with action plan.	Follow-up to be performed subsequent to implementation.
4. <u>Ticket Refund Procedures. Supporting Documentation.</u> Revise current procedures to log all cash refunds or exchanges at satellite events on control sheets and reconcile to tickets issued.	Written procedures will be developed to log all cash refunds and exchanges on control sheets with supporting documentation.	Concur with action plan.	Follow-up to be performed subsequent to implementation.

**University of Iowa - Hospital Operations  
Complimentary Valet Parking – Cash Handling**

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
1. <u>Transportation of Cash.</u> Transport cash in a bank bag or other means.	All cash will be transported in bank bags.	Corrective action taken.	Item closed.
2. <u>Monthly reconciliations of the daily deposits to the statement of accounts.</u> Assure that reconciliations of daily deposits are performed on a monthly basis.	Monthly reconciliations will be completed on a monthly basis.	Corrective action taken.	Item closed.
3. <u>Cash Handling Controls.</u> a. Provide cash handling procedures for the Lead Valets/Cashiers.  b. Assure that cash handling duties are segregated among employees.  c. Limit register access to the Lead Valets/Cashier.  d. Reconcile receipts to the z-tape.  e. Employ proper voiding procedures.	Cash handling duties will be assigned to appropriate personnel.  Cash handling duties will be segregated among employees.  Access to the cash register will be limited.  Receipts will be reconciled to the register z-tape.  Voids will be noted on the z-tape and will be reconciled by the Supervisor.	Corrective actions taken.	Follow-up to be performed in FY 2002.
4. <u>Safeguarding of Cash – Restrictive Endorsement of Checks.</u> Restrictively endorse checks immediately upon receipt.	Management will restrictively endorse all checks at the time of receipt.	Response accepted.	Follow-up to be performed in FY 2002.

**University of Iowa - Hospital Operations  
Hospital Vending Revenue**

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
1. <u>Vending Machine Reconciliation. Independent Reconciliation.</u> Develop written procedures to reconcile and investigate variances between calculated sales and cash deposits.	A written policy will be developed for the reconciliation of refunds.	Concur with action plan.	Follow-up to be performed in FY 2002.
2. <u>Periodic Inventory Count. Inventory reconciliation.</u> Develop written policy for physical inventories of vending storage areas on a routine basis.	Management will replace outdated vending machines with equipment that provides a measurement for tracking inventory items.	Concur with action plan.	Follow-up to be performed in FY 2002.
3. <u>Inventory Requisitions. Confirm Receipt Verification.</u> Confirm orders by the individual receiving the vending inventory.	Orders and quantities will be confirmed; discrepancies will be noted; and requisitions will be signed and returned to the vending services Retail Manager.	Concur with action plan.	Follow-up to be performed in FY 2002.

**University of Iowa - Hospital Operations  
PYXIS (Pharmacy Dispensing Machines)**

**Initial Internal Audit Report Issued: August 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
1. <u>Deactivation of Employee ID's</u> . Ensure that former staff no longer have access to PYXIS (automated dispensing system for pharmaceuticals).	Management has implemented procedures to monitor user status, including deactivating or deleting user responsibilities as needed.	Response accepted.	Follow-up to be performed in FY 2002.
2. <u>Password Changes</u> . Change user passwords for PYXIS on a routine basis.	Passwords for PYXIS will be changed on a routine basis.	Response accepted.	Follow-up to be performed in FY 2002.
3. <u>Controlled Substance Wasting through PYXIS</u> . Assure that excess controlled substances are wasted properly.	Procedures will be devised to address wasting of issues. Training will be provided to reinforce proper policy on wasting controlled substances.	Response accepted.	Follow-up to be performed in FY 2002.
4. <u>Additional Formulary Support</u> . Assure adequate back up and cross training of critical functions.	Management will provide appropriate back up and training.	Response accepted.	Follow-up to be performed in FY 2002.
5. <u>Medication Overrides</u> . Assure that proper override policies are followed.	Management will review override procedures and provide training to address override issues.	Response accepted.	Follow-up to be performed in FY 2002.
6. <u>Board of Pharmacy 10% Inventory Regulation</u> . Assure inventory coverage for 10% of the meds in 100% of the machines.	Management will implement a new procedure to assure that meds will be appropriately inventoried.	Response accepted.	Follow-up to be performed in FY 2002.
7. <u>Returns to Inventory</u> . Assure that returns are netted against issuances and are recorded properly.	Employees will be required to complete a new form that requests code and key adjustments for inventory returns.	Response accepted.	Follow-up to be performed in FY 2002.
8. <u>Hand Delivered Meds</u> . Assure adequate transport of hand-delivered meds.	Hand-delivered meds will be transported in containers.	Response accepted.	Follow-up to be performed in FY 2002.
9. <u>Formulary Access</u> . Assure that formulary maintenance activities are reserved for appropriately trained personnel.	Management will restrict access to formulary maintenance activities to appropriate personnel.	Response accepted.	Item closed.
10. <u>Security Review</u> . Assure consistency in security access and administration.	Management will review the user list to verify appropriate access.	Response accepted.	Follow-up to be performed in FY 2002.

**University of Iowa – University Operations  
Human Resources Software Access Security**  
**Second Follow-Up Audit Report Issued: August 20, 2001**  
**Initial Audit Report Issued: February 20, 2001**

<b>Auditor's Recommendation</b>	<b>Management's Response</b>	<b>Auditor's Response</b>	<b>Auditor's Follow-Up</b>
<p>1. <u>Appropriate Access.</u></p> <p>a. <u>Security Administrator Access.</u> Remove the ability for Security Administrators to change data.</p> <p>b. <u>Non-Web Access Assignments.</u> Revise operator classes to reflect job duties. Segregate update and correction abilities to critical panels. Incorporate compensating controls. Delete unused or obsolete operator classes.</p> <p>c. <u>Web Access Assignments.</u> Update access to accurately reflect user needs.</p>	<p>Management will put compensating controls in place to provide documentation for changes made to data by Security Administrators.</p> <p>Management will: 1) delineate critical panels to determine the population of employees needing access to the critical panels and the level of access needed; 2) redefine operator classes; 3) create compensating controls; 4) program action dates and require documentation of changes, relative to the date, be kept on file.</p> <p>Management will provide departments with a listing of current users and request updates; management will update access accordingly.</p>	<p>Appropriate measures taken.</p> <p>Appropriate measures taken.</p> <p>Appropriate measures taken.</p>	<p>Item closed.</p> <p>Second follow-up review will be performed in FY 2002.</p> <p>Second follow-up review will be performed in FY 2002.</p>
<p>2. <u>Security Policy.</u> <u>Implement Written Policy.</u> Develop and implement formal security policy within the Central Human Resources Office. Encourage departments to adopt similar policy.</p>	<p>Management will write and enforce formal security policy for the central Human Resource office addressing workstation security.</p>	<p>Appropriate measures taken.</p>	<p>Second follow-up review will be performed in FY 2002.</p>