

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: Internal Audit Reports
Date: September 8, 2003

Recommended Action:

Receive the report on the Status of the Internal Audit Follow-up reports, including six follow-up reports, five from the University of Iowa 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.

No new audit reports are presented this month. The Status of Internal Audit Follow-Up Table on page 2 identifies 24 internal audit reports, 18 of which require follow-up. Six follow-up reports are presented this month: three from University of Iowa – University Operations, two from University of Iowa – Hospital Operations, and one from Iowa State University; all are closed.

Background:

In accordance with Regent Policy Manual §1.06, internal audit reports are presented to the Banking Committee. Internal audits provide appraisals of institutional services to the Board and institutional administrators by measuring and evaluating the effectiveness of financial and managerial controls.

These audits are designed to determine the adequacy of controls and procedures by providing reasonable assurance that assets are properly safeguarded, resources are used economically and efficiently, and compliance is maintained.

The three universities have internal auditors to perform these functions. The University of Iowa internal auditor is responsible for internal audits at the Iowa School for the Deaf. The Iowa State University internal auditor is responsible for internal audits at the Iowa Braille and Sight Saving School.

The Board Office tracks and monitors audit reports indicating a need for corrective action. When all recommendations have been satisfactorily completed, the audits are closed.

**Status of Internal Audit Follow-Up
September 8, 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 2004.	October 2003
2. Patient Fiscal and Registration Services (UIHC) Follow-up Memorandum	March 18, 2002 January 27, 2003	Follow-up scheduled in FY 2004.	November 2003
3. UIHC Timekeeping / Payroll Follow-up Memorandum Follow-up Memorandum	August 20, 2002 January 27, 2003 July 22, 2003	Audit closed. (Page 7.)	Closed
4. NCAA Compliance – Recruiting (SUI) Follow-up Memorandum	November 25, 2002 August 25, 2003	Audit closed. (Page 6.)	Closed
5. Audiovisual Center – Departmental Audit (SUI) Follow-up Memorandum	February 17, 2003 July 22, 2003	Audit closed. (Page 3.)	Closed
6. Biological Sciences – Departmental Audit (SUI) Follow-up Memorandum	March 18, 2003 August 25, 2003	Audit closed. (Page 4.)	Closed
7. Biomedical Engineering – Sponsored Programs (SUI)	April 21, 2003	Follow-up scheduled in FY 2004.	September 2003
8. Broadcast Services – Departmental Audit (SUI)	March 18, 2003	Follow-up scheduled in FY 2004.	November 2003
9. NCAA Coaching Staff Limitations (SUI)	January 27, 2003	Follow-up scheduled in FY 2004.	October 2003
10. NCAA Compliance Audit– Eligibility (SUI)	April 21, 2003	Follow-up scheduled in FY 2004.	September 2003
11. Sponsored Programs – Departmental Audit (SUI)	February 17, 2003	Follow-up scheduled in FY 2004.	October 2003
12. Center for Disabilities and Development (UIHC) Follow-up Memorandum	March 10, 2003 July 22, 2003	Audit closed. (Page 5.)	Closed
13. Complimentary Parking Passes – Risk Assessment (UIHC)	April 21, 2003	Follow-up scheduled in FY 2004.	October 2003
14. Contractual Adjustments (UIHC)	January 27, 2003	Follow-up scheduled in FY 2004.	December 2003
15. Department of Orthopaedic Surgery – Cash Handling Audit (SUI)	June 17, 2003	Follow-up scheduled in FY 2004.	November 2003
16. Department of Orthopaedic Surgery – Sponsored Program Administration (SUI)	June 17, 2003	Follow-up scheduled in FY 2004.	November 2003
17. Student Legal Services Departmental Audit (SUI)	June 17, 2003	Follow-up scheduled in FY 2004.	March 2004
18. College of Medicine Review of Surplus Computer Disposal Practices (UIHC)	May 23, 2003	Follow-up scheduled in FY 2004.	October 2003
19. Homerous Robot (UIHC)	June 17, 2003	Follow-up scheduled in FY 2004.	October 2003

Iowa State University

Title	Report Date	Follow-Up Status	Expected Completion
20. Security of Internet-Initiated ACH Transactions Follow-up Memorandum	January 14, 2003 July 7, 2003	Audit closed. (Page 8).	Closed
21. NCAA Compliance – Representatives of Athletics Interest	March 11, 2003	Follow-up scheduled in FY 2004.	December 2003
22. Student Financial Aid	June 2, 2003	Follow-up scheduled in FY 2004.	January 2004

University of Northern Iowa

Title	Report Date	Follow-Up Status	Expected Completion
23. FY 2002 Cash on Hand Follow-up report Follow-up report	September 10, 2002 January 31, 2003 June 27, 2003	Follow-up scheduled in FY 2004.	December 2003
24. Conference and Event Services	November 22, 2002	Follow-up scheduled in FY 2004.	September 2003

INTERNAL AUDIT FOLLOW-UP REPORTS

University of Iowa – University Operations

- Audiovisual Center Department Closed
- Biological Sciences, College of Liberal Arts and Sciences Closed
- NCAA Compliance - Recruiting Closed

University of Iowa – Hospital Operations

- Center for Disabilities and Development Closed
- UIHC Timekeeping / Payroll Closed

Iowa State University

- Security of Internet-Initiated ACH Transactions Closed

University of Iowa – University Operations

Audiovisual Center Departmental Audit

Initial Audit Report Issued: February 17, 2003

Follow-up Memorandum Issued: July 22, 2003

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

Management has taken appropriate corrective action on all audit recommendations. This audit is closed.

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

Initial Audit Report Issued: March 18, 2003
Follow-up Memorandum Issued: August 25, 2003

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

Appropriate corrective action has been taken. This audit is closed.

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

Initial Audit Report Issued: March 10, 2003

Follow-up Memorandum Issued: July 22, 2003

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 copies 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

Management has taken appropriate actions. This audit is closed.

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

Initial Audit Report Issued: November 25, 2002
Follow-up Memorandum Issued: August 25, 2003

Recommendations /
Responses

Auditor's Recommendation	Management's Response
<p>1. <u>Recruiting Records.</u></p> <p>a. <u>Record Availability and Control.</u> Review recruiting records collection, management, and retention process. Assure complete and accurate maintenance of records.</p> <p>b. <u>Electronic Recruiting System.</u> Develop an electronic recruiting system with requirements and expectations for all sports.</p> <p>c. <u>Distribution of Admission and Graduation Data.</u> Report a violation to the NCAA regarding the timeliness of information distributed to a prospective student and provide training to prevent future problems.</p> <p>d. <u>Wrestling-Written Recruiting Correspondence Records.</u> Determine if files are lost or have been destroyed. Maintain a centralized location for all recruiting related activities. Perform exit interviews for all terminating employees.</p>	<p>Management has begun a comprehensive review of the recruiting process and has clarified record retention requirements with coaches from all teams.</p> <p>Management will review the functionality of the current electronic system and analyze the best course of action.</p> <p>Management has clarified the process and responsibility for providing information in the specified time and will file a self-report of the violation. Future compliance will be monitored.</p> <p>Management will discuss record retention issues and procedures with appropriate staff to ensure that documents are not lost or destroyed in the future.</p>
<p>2. <u>Monitoring of Coaches Travel Records.</u> Establish written procedures to monitor recruiting-related travel activities.</p>	<p>Management will compose, communicate, and implement procedures to require pre-notification of recruiting travel and will monitor recruiting activities.</p>
<p>3. <u>Visits to Prospect's School.</u> Incorporate approval for visit into the documentation process.</p>	<p>Management reported that standard practice by institutions of higher education has historically been to use the honor system, which relies on administrators at the prospect's school to complain if unauthorized visits are made.</p> <p>Management's response accepted by auditors. Item closed.</p>
<p>4. <u>Prospect Evaluation Dates.</u> Maintain a complete and accurate listing of dates to conduct prospect evaluations for football and basketball and file the list in the Athletics Director's office.</p>	<p>Management will maintain an up-to-date list of evaluation dates for the required sports.</p>

Auditor's Response
and Follow-up

Management has taken appropriate action. This audit is closed.

**University of Iowa – Hospital Operations
UIHC Timekeeping / Payroll**

Initial Audit Report Issued: August 20, 2002
Follow-Up Memorandum Issued: January 27, 2003
Follow-up Memorandum Issued: July 22, 2003

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>HRM / STAF User Manual</u> . Review, update, and distribute user manual to appropriate staff members.	Management will publish an electronic manual on the web and will review it annually.
2. <u>Desk Procedures and Documentation</u> . Develop desk protocols for personnel that process UIHC timekeeping and payroll data.	Management will put together protocols that will standardize processes across the department.
3. <u>Time Record Approvals</u> . Assure that time records are approved by the employee's direct supervisor or by a subordinate with budgetary responsibility for the unit.	Management will draft a policy stating that all employees are required to sign off on their hours and that supervisors should sign off on any changes.
4. <u>Eliminate Employee Master Cards</u> . Discontinue manual creation and maintenance of UIHC payroll master cards.	Management will utilize the HR Data Access Applications to ensure appropriate tracking of employee information.
5. <u>Pay Check Distribution</u> . Distribute employee checks via appropriate and secure means.	Management will develop a policy regarding appropriate check distribution procedures.
6. <u>HRM / STAF Access Change Form</u> . Establish a policy requiring formal approval of all access changes to the HRM / STAF system.	Management will draft a policy requiring formal approval of HRM / STAF access changes.
7. <u>HRM / STAF Technical Team</u> . Assign additional resources to the technical team, review service requests thoroughly, and reinforce the change management process to provide adequate review of code changes and test results.	Management will assure that a supervisor or peer programmer will review all programming changes to the HRM / STAF system.
8. <u>Union Contract Terms and Manual Calculations</u> . Automate calculations currently being performed manually.	Management will recommend alternatives to the manual calculations.
9. <u>Automated Timekeeping System</u> . Evaluate the benefits of implementing an automated timekeeping system.	Management will identify a plan to migrate off the current application and will work to gain senior management support for a new system.

Auditor's Response
and Follow-up

All recommendations have been addressed. This audit is closed.

**Iowa State University
Security of Internet-Initiated ACH Transactions**

Initial Audit Report Issued: January 14, 2003

Follow-up Review Issued: July 7, 2003

Recommendations /
Responses

Auditor's Recommendation	Management's Response
1. <u>Security Policies and Procedures.</u> Clarify policies and procedures applicable to Internet-initiated ACH transactions.	Management will develop a strategy to remind students and employees of the responsibilities for security of sensitive data.
2. <u>Segregation of Duties.</u> Segregate duties related to maintenance of ACH databases and program code changes.	Management will implement guidelines for documentation and managerial review of program changes.
3. <u>Firewalls.</u> Explore the feasibility of enhancing firewalls.	Management will re-examine security controls over financial data.
4. <u>Security testing.</u> Explore alternative approaches to security testing.	Management will explore options to determine the best available actions and funding sources.
5. <u>Data retention and distribution.</u> Develop written policies and procedures for retention and distribution of sensitive financial information.	Management will document policies and procedures for data retention and distribution.

Auditor's Response
and Follow-up

Management has taken effective action on all recommendations. This audit is closed.