Subject: Report of University Internal Audits
December 2008 and January 2009

Background:

This is the report of the Office of University Audits activities for the period December 2008 through January 2009. The summaries of audits contained in this report were previously reported to members of the Regents’ Finance, Audit and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summaries of each audit report issued during the period, including Management’s Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management’s Plan for corrective action has been implemented and controls are working appropriately.

If you have any questions or would like additional information, please contact me at 647-7500 or by e-mail at csenneff@umich.edu.

Respectfully submitted,

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The Intercollegiate Athletics (ICA) Business Office's mission is to provide leadership, direction, and support for the enhancement and management of financial resources within the ICA. The Business Office administers a wide range of functions for ICA, including financial reporting and general ledger maintenance, purchasing, time reporting and payroll, cash deposits, and check writing for cash advances. It also provides support in other areas such as business contracts, the dealer vehicle program, and equipment disposition.

The primary objectives of this audit were to review central processes of the Business Office to determine if the policies, procedures, and internal control structure established are adequate to support the mission of the Business Office and are in compliance with University and ICA policies and procedures. University Audits examined the following processes to evaluate the adequacy and effectiveness of internal controls:

- Procurement processes including P-Card purchases, purchase orders, non purchase order vouchers, travel and hosting expenses, and other credit card accounts
- Time reporting, payroll, overtime, and PeoplePay processes and procedures
- Cash deposits
- Revenue processing and monitoring
- Check writing
- Dealer vehicle program processes
- Equipment

Control Issues:

- **Statements of Activity Reconciliations** - ICA has a high volume of monthly revenues and expenses. The Business Office receives the Statements of Activities (SOAs) and Gross Pay Registers (GPRs) for about sixty cost centers (teams, departments, and units within ICA, including facilities). The Business Office performs a high-level review of the SOAs and regularly monitors revenues and expenses. Cost centers receive their SOAs and GPRs from the Business Office. University Audits observed that:
  - statements are not reconciled to source documentation to help ensure that department's funds are used appropriately.
  - The Business Office does not verify that reconciliation of the SOAs at the cost center level is performed in a proper and timely manner.
  - Supervisors do not affirmatively communicate to the Business Office regarding Gross Pay Registers (GPRs) reconciliations.

**Management Plan** - Analysis of the fiscal years 07 and 08 Vendor Report indicates there were over 54,000 ICA vouchers processed in the past fiscal year (average of 4,500 per month). At current staffing levels, ICA believes that electronic reconciliation to source documents is not practical or cost efficient. As an alternative procedure, ICA will distribute copies of monthly
SOAs to the approximately sixty cost center budget managers for their review and approval. The distribution of the SOA’s will occur after the Business Office performs its current review of departmental monthly activity. The Business Office will document the review and approval procedures for the budget managers, and ensure that all approved SOAs are returned with appropriate documentation indicating they have been reviewed. The Business Office will continue to investigate and take the appropriate corrective action relative to unusual or unexplained transactions.

**Auditor’s Comment** - Sending the SOAs to all cost centers managers, requiring response of their review, and documenting review and approval procedures are good control improvements. University Audits encourages management to train and guide budget managers on good reconciliation procedures including comparing transactions to source documents where appropriate.

- **Procurement Observations** - ICA has eighty-five P-Cards. The Business Office Manager is the approver for almost all of the P-Cards. Being the approver on this many P-Cards is not recommended by Procurement Services. As a compensating control, several supervisors review and approve purchases on most, but not all, direct employees’ P-Cards prior to submission to the Business Office Manager. University Audits observed that:
  - The Business Manager may not always be in a position to determine if the P-Card purchases are a good use of budgeted resources on P-Cards that are not reviewed by a supervisor.
  - The responsibilities of the supervisors performing P-Card reviews are not documented.
  - P-Cards are sometimes used to purchase supplies and services greater than the $5,000 per transaction limit and therefore avoid the purchase order process. Specifically, testing revealed five purchases over $5,000 ordered and paid for on the same day from the same vendor. In five other instances, payments over $5,000 were made to the same vendor on the same day for items ordered on different dates.

**Management Plan** - ICA has required a managerial review (typically the budget manager of the associated cost center) of most P-Card statements and will expand this process to require managerial review of nearly all P-Card statements. The only exception will be facility managers, whose statements are reviewed and approved by the P-Card approver (Business Office Manager). The Business Office Manager will continue to follow up on all unusual or questionable transactions on facility manager statements with the Facilities Director. ICA will communicate and reiterate the responsibilities of the supervisors who perform a managerial review. ICA has recently reinforced to all employees that U-M policy requires purchases over $5,000 be procured via a purchase order. ICA will continue education efforts when potential violations are identified by ICA or U-M Accounts Payable. ICA has recently met with representatives of Procurement Services who are analyzing purchasing data in order to assist ICA ensure that appropriate purchasing methods are being utilized.

- **Cash Controls** - Several units within ICA, including the Ticket Office, the Tennis Center, Yost Arena, and the Golf Course have established their own cash deposit procedures. The Business Office performs regular monitoring of cash deposits; however, it does not have direct knowledge of cash controls in place at these units.

**Management Plan** - ICA will work with remote cash collection locations to document cash handling controls and ensure proper segregation of duties or other compensating controls if staffing is limited. ICA will also perform periodic random cash counts at remote locations.
• **Overtime** - ICA has a significant amount of overtime hours, the majority of which are incurred at ICA facilities. Overtime has significantly increased in the past six years. Actual to budgeted overtime has also increased during this period. Some employees have extensive overtime hours, including on-call overtime. Overtime hours are compiled monthly for review by ICA management. University Audits observed that:
  - Rationale for overtime variances is not formally documented.
  - Supervisors do not retain documentation of overtime approval after they sign off on employees’ timesheets.

**Management Plan** - ICA will continue its current process of monthly overtime analysis and fluctuation investigation, and will evaluate the implementation of a more formal procedure for documenting variance explanations. ICA will provide facility managers with materials which document proper timekeeping controls and emphasize the managers’ responsibility to keep documentation on levels and rationale for approved overtime. That documentation should be adequate to explain the variances from budget and provide a basis for addressing possible efficiencies. ICA will periodically perform cost-benefit analysis to evaluate the impact of hiring additional full time employees as well as evaluate how best to document the analysis. ICA will also evaluate opportunities available for flexible scheduling in order to reduce overtime hours.

• **Check Writing** - The Business Office writes checks to players and staff for travel advances, expenses for recruiting trips lasting five days or longer, and mileage. A Financial Operations Assistant prepares the checks in QuickBooks based on the amount approved by the Business Office Manager. The approval is documented on the *Request for Travel Form*, an internal form submitted to the Business Office for travel advances, or on a list of payees for mileage. The Assistant prepares a report of the printed checks for the Business Manager to review. The Business Manager does not review the report against source documentation.

**Management Plan** - As of November 1, 2008, the Business Office Manager is reconciling all checks written to the original source documentation.

• **Mobile Devices** - ICA provides mobile devices, including cell phones, PDAs, and wireless cards to key employees for business use. The following issues were observed with regard to the mobile device process at ICA:
  - The duties of ordering new equipment/coordinating with vendors and receiving/tracking equipment are not properly segregated. Controls for tracking mobile devices and reconciling related monthly bills could be improved.
  - Approvals for new phone lines are not properly documented. There is no clearly documented policy explaining the eligibility criteria to qualify for a mobile device or stipend.

**Management Plan** - ICA is in the process of reassigning mobile devices responsibility which will segregate the functions of service/equipment ordering, receiving equipment, and phone bill reconciliation. ICA will document the roles and responsibilities of each function. ICA will document general guidelines regarding eligibility for devices and will evaluate and document exceptions on a case-by-case basis. In addition, ICA will periodically evaluate all ICA phone lines for appropriateness. ICA will also consider the benefits of converting the current program to a taxable stipend approach.

• **Equipment Disposition** - The Business Office generally works with the Property Disposition Office to dispose of old ICA equipment. Some exceptions noted are:
- High-volume and low-cost items such as old sporting equipment, apparel, and footwear are sold in yard sales.
- Old crew boats are returned to the manufacturer for trade-in credit toward new boats.

**Management Plan** - ICA is working with Property Disposition to determine the appropriate approach for public sales of used apparel, footwear, and other team equipment. If an exception is obtained, ICA will ensure appropriate controls are established for pricing, cash handling, and sales tax. ICA will notify Property Disposition about crew boat trades to ensure proper capital asset accounting treatment.

- **Hiring and Termination (On-boarding and Off-boarding) Procedures** - ICA does not have a process to ensure that the appropriate steps are taken when employees are hired or terminated/retired/transfered. There are a number of important items that should be provided to an employee after they are hired at ICA. There are also a number of items that need to be returned to the department and access needs to be cancelled when an employee leaves. These items need to be addressed in a timely manner as employees on-board and off-board and followed through to resolution.

**Management Plan** - ICA is in the process of replacing its Human Resource Manager. ICA expects that all current human resources processes, including on-boarding and off-boarding checklists, will be evaluated and enhanced once the new Human Resources Manager is in place.

University Audits observed that the Business Office has good controls over key processes. The Business Office has implemented appropriate segregation of duties over purchasing, payroll, cash deposits, and revenue functions. In particular, the processes of reviewing and approving non-PO vouchers, Travel Expense Vouchers, and PeoplePay payments are well controlled.

University Audits will conduct a follow-up review early in the fourth quarter of fiscal year 2009 to assess progress on management action plans.

**William L. Clements Library**

Issued January 26, 2009 # 2008-212

The William L. Clements Library (Clements Library) houses original resources for the study of American history and culture from the fifteenth to the early twentieth century. It was the first separate special collection library at a public university in the United States.

Michigan industrialist and University of Michigan alumnus William L. Clements established Clements Library in 1923 with the gift of his Americana collection. His collection included 20,000 books, 2,000 early newspapers, several hundred maps, and the papers of Lord Shelburne, the British Prime Minister who negotiated the peace ending the Revolutionary War. In his gift agreement with the University, William Clements stipulated that his library would be dedicated to collecting and preserving primary sources for early American history, independent from the University's library system, and available only to advanced scholars. The University has subsequently made library materials more accessible.

The mission of Clements Library is to collect and preserve primary source materials, to make them available for research, and to create an environment that supports and encourages scholarly investigation of our nation's past. Major portions of the library's financial support come from various gifts, grants, and endowment funds.
Clements Library has four major divisions: Books, Maps, Manuscripts and Graphics (which includes prints, photographs, music, artworks, and other valuable objects and collectibles).

Currently, Clements Library staff consists of ten full-time employees, four regular half-time employees, and five work-study students. Unpaid staff includes two adjunct staff and about fifty volunteers. A new Director, only the fourth director in the history of Clements Library, was hired in November 2008. The previous Director had held the position for thirty years.

The objective of this audit was to examine key business processes and to evaluate the adequacy and effectiveness of internal controls at Clements Library. The following business processes were reviewed to determine compliance with University guidelines and donor intent:

- Gifts, grants, and endowments
- Overall collection management (including accession, deaccession, cataloguing and other collection related areas/activities)
- Administration procedures
- Fiscal responsibilities

Although security was not the focus of this audit, University Audits examined a recent security report from the Department of Public Safety, an infrastructure study conducted by external consultants, and met with Risk Management Services to gain an understanding of risks associated with the physical facilities.

Control Issues:

**Gifts, Grants, Endowments**

Grant Related Compliance - The McGregor Fund (McGregor) is a private foundation established in 1925 to “relieve the misfortunes and promote the well-being of mankind.” In 1998, the Clements Library received a grant from the McGregor Fund to support a continuing education program. Per the McGregor grant agreement, the grant (including any interest earned on grant funds) may be expended to support an education program at Clements Library that will increase public awareness and use of the library. This grant will be active through September 2009.

The grant agreement requires that Clements Library management provide an annual written report on the project and the expenditure of the grant funds. This report should state how the funds were spent and the accomplishments of the program. The foundation has also requested that Clements Library management attach attested financial statements to the report. The contract suggests that failure to file the report may result in deferral or cancellation of any unpaid portion of the grant and will impact status of future grant requests.

Clements Library management did not file the annual reports required by this grant in 2007 and 2008. This could jeopardize the status of the current grant and future prospects from the sponsor organization.

Management Plan - The report, including the last three fiscal year activities, with a letter of explanation written by J. Kevin Graffagnino, was mailed to McGregor on January 7, 2009.

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1 Collection: Library materials of many formats, including books, maps, manuscripts, periodicals, photographs, and other items.
2 Accession: To acquire (a book, painting, etc.), especially for a permanent collection.
3 Deaccession: to sell (a work of art) from a museum's or gallery's collections, especially with a view to acquiring funds for the purchase of other works.
• **Endowment Agreement Execution** - SPG section 602.2 - Gift Acceptance states "If a gift is for endowment the donor must state in writing that the gift is for endowment, in perpetuity, or other words that indicate the donor's intent that the gift be permanently retained by the University." Written and properly executed agreements are not available for all Clements Library endowments. The absence of a legally executed endowment agreement creates several risks.

**Management Plan** - Clements Library management is working with Financial Operations and Division of Research Development and Administration to obtain appropriately executed endowment agreements from donors where possible. Many endowment donors at Clements Library are deceased.

**Collection Management at Clements Library**

Managing the library collection and providing service to the users are key responsibilities of Clements Library staff. A library catalog is a registry of all bibliographic items found in the library and critical to collection management.

- **Deaccession Policies and Procedures** - Clements Library does not have a documented deaccession policy. The library occasionally deaccesses some duplicate collection items, as well as gift items received where donor intent states that the Clements Library is to sell the gift items and use the proceeds to enrich the collection. The Director ultimately decides which items should be deaccessed and determines the disposal method(s). The previous Director did not maintain a list of items that have been deaccessed or document the reason for the deaccession. Not having a deaccession policy and not keeping a list of deaccessed items raises several concerns:
  - A large portion of the collection is acquired through donations. Often, donor agreement prevents disposal of the collection item(s). For instance, the original agreement with William Clements has a clause that states that "...none of the books belonging to this collection shall, under any condition, be sold, even though they are duplicates ...".
  - The Director makes the ultimate deaccession decisions. The previous Directors did not always provide the curators with the list of items that were being deaccessed. As a result, the catalogues and/or the accession lists were not always updated and may represent the Clements Library collection inaccurately.
  - Clements Library does not have a guideline available for choosing an appropriate deaccession method.

**Management Plan** - Clements Library management started working on a deaccession policy in 2009 and do not intend on deaccessioning until that policy is in place. The Library will have a written deaccessioning policy by October 2009.

- **Documented Collection Policy** - A special collections library such as the Clements Library should have a "collection policy" outlining priorities for future collection development. The William Clements' gift agreement of 1922 provides a basic outline for the Clements Library collection policy. The latest version of the Clements Library collection policy was completed in 2005. Since then, the Clements Library has several new issues: collections material stored at the Willow Run facility and the uncatalogued Graphic Division materials.

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* Cataloged records for Clements Library's Book, Map, and Manuscript Divisions are entered into the University's MIRLYN (Michigan Research Library Network) electronic cataloging system to make the materials accessible through online request. A significant percentage of the collection for Map Division is not cataloged. The Map Division is converting the map collection records from card catalogue to the MIRLYN system. The Manuscripts Division is currently working on a project to convert its finding aids to Encoded Archival Description (EAD), which provides researchers with comprehensive description for the collection and diverse search options. The
Management Plan - William L. Clements Library aims to have new written plan by December 2009.

• Missing Collection Items - The Clements Library collection is very valuable and much of it is irreplaceable. Over time, use of Clements Library materials has increased and so has the value of the collection. This raises various collection-related security concerns.

Currently, there is no control in place for Clements Library management to identify or isolate events if items from the collection are stolen or lost. Library staff never conducts a comparison of collection inventory records to actual inventory unless there is a verification request. Verification requests are usually triggered by a reference request where the collection item cannot be found. All curators stated that this is most often the result of misfiling and misshelving of collection materials and the items are found quickly. Although missing collection items tend to be a rare occurrence, a few collection items have been identified as missing for long periods of time.

There is no indication that the library has experienced a major theft or loss. However, given the nature of the collection, Clements Library management should periodically review and update procedures for identifying, listing, finding, and handling of missing items. University Audits recommends that Clements Library implement a system to verify collection items' existence, status, condition, and location.

Management Plan - William L. Clements Library will have a sampling and review procedure in place by October 2009.

• Collection Management Policies and Procedures - Policies and procedures are not formally documented for various key collection management processes performed by Clements Library staff. These include reporting and handling of missing collection items, filing of gift and purchase related documents, separating collection items that need conservation, and loan of items from the library collection.

Management Plan - Clements Library management is working on written procedures and updated internal forms practices.

Insurance Coverage

• Clements Library Collection - University of Michigan Risk Management prepared a "Risk Management Services (RMS) Review" that addresses life safety and property protection concerns at Clements Library and the offsite storage facility at Willow Run in April 2009. Based on the report and through discussion with Risk Management, we noted that the only insurance coverage Clements Library has for their collection is the $120,000,000 standard university-wide Fine Arts Policy.

This university-wide Fine Arts Insurance policy insures collections based on a scheduled inventory of items with declared values submitted to RMS. The Clements Library inventory currently reported to RMS for coverage under the University's Fine Art Insurance is only valued at $3,194,000. Risk Management strongly believes that Clements Library should prepare and report a list of the most valuable assets and collections for insurance purposes.

Graphic Division collections have not yet been catalogued. Graphic Division provides researchers on-site access to general finding aids and accession documents that offer additional details about items in the collection.
Clements Library accession documents provide a reliable summary of the collection and can be used as the inventory schedule required by RMS for insurance purposes. However, a portion of the library's collections are not yet accessed. Along with books, maps and manuscripts, Clements Library has a modest collection of valuable objects and collectibles. Tangible museum objects, referred to as "actuals", belonging to the Clements Library include valuable items such as coins, guns, early American silver, and antique furniture. These items have not been catalogued and appraised.

Management Plan - Clements Library management will work with Risk Management Services to determine a process to develop an appropriate plan of action and to reach the appropriate level of coverage for the collection.

- Willow Run Facility - A small fraction of Clements Library's collection is currently stored offsite at the University of Michigan Willow Run facility in Belleville, Michigan. Discussion with Risk Management Services (RMS) revealed that the portion of the collection stored at this facility is not covered under the University-wide Fine Arts policy.

Management Plan - The Director and Senior Curatorial Staff will examine and evaluate the collection items at Willow Run to thoroughly determine value and worth.

Physical Safety and Security
- Collection Management at Willow Run - A small part of Clements Library collection, made up of newspapers, periodicals, dealer catalogs, manuscripts, and photos is stored at the Willow Run facility. Clements Library management indicated that most of the collection items stored at this facility are valuable. However, they do not have an up-to-date list available for the collection items at the Willow Run facility. A majority of these items are uncatalogued and uninsured and therefore not protected against potential loss.

The auditor observed that some collection items are not stored properly at Willow Run. For example, a portion of the collection items are stored on the floor and therefore subject to water damage. The Risk Management Services (RMS) review performed during March 2007 also identifies some additional fire and physical safety related concerns at the Willow Run facility. Measures have not been taken to mitigate all of these concerns.

Management Plan - William L. Clements Library will have written plan for Willow Run facility in place by January 2010.

- Department of Public Safety (DPS) Fire Inspection Report - The value and irreplaceable nature of Clements Library collection make any threat to the physical safety and security of the library building and the collections housed within a matter of great concern. The fire inspection report issued by DPS on March 30, 2007, recommended that the electric stove in the tea room in the building housing the Clements Library should be removed and replaced with a non-heat producing induction unit to avoid fire hazard. The tea room is in the basement. The basement also contains the reading room, curator offices, and collection storage areas. Any fire hazard in the tea room will be a threat to the entire building and the Clements Library collection. The DPS Fire Inspector explained that the advantage of using an induction-type unit is that the cooking surface never becomes hot; only the pan heats. From a fire safety perspective, this is inherently safer than using a stove with exposed heating elements or open flames.

Management Plan - Clements Library management will replace and or remove the stove.
**Fiscal Responsibilities**

- **Statement of Activity (SOA) Reconciliation** - Monthly Statement of Activity reconciliations are required by Standard Practice Guide section 500.1 - Fiscal Responsibilities and help ensure accuracy and completeness of all financial transactions. Clements Library personnel perform monthly reconciliations of Statements of Activity to ensure accuracy and completeness of all financial transactions. They also track actual versus budgeted financial activities. However, the personnel responsible for the reconciliations or reviews do not sign or initial and date the documents.

**Management Plan**

- Personnel responsible for the reconciliation and review will immediately start signing or initialing the reconciled and reviewed documents, and recording the reconciliation and review dates.
- Management is currently working with University of Michigan Administrative Information Services to develop appropriate reconciliation and review documentation.
- Management is working on a draft reconciliation policy.

- **Internal Recharge Rate** - Clements Library occasionally rents out space to other business units within the University. The University Office of Financial Analysis has not formally approved the space rental fees as required. The Office of Financial Analysis recommends that each department reanalyze their recharge rate annually. If the current approved rate does not result in breakeven results, a request for revision of rates must be submitted with the cost and rate analysis study to the Office of Financial Analysis.

**Management Plan** - Clements Library management is currently working with the Office of Financial Analysis to bring William L. Clements Library into compliance with University policy.

- **Procurement Observation** - Clements Library personnel often use non-PO vouchers to acquire collection items when vendors do not accept payments via P-Card and/or the payment amount is over $5,000. University of Michigan policy requires that any purchase over $5,000 must have approval from a buyer in Procurement Services and a purchase order. Clements Library has not used Procurement Services for its collection purchases in the past.

  Procurement Services advises that for purchases related to a library collection all U-M libraries sign a "Performance Agreement." Such an agreement would authorize the library to execute Non-PO vouchers of $5,000 or more that are for collection-related purchases without use of a purchase order or sign-off of a Procurement Services buyer.

**Management Plan** - Clements Library management is working with Procurement Services to create a Performance Agreement that recognizes the William L. Clements Library acquisitions situation.

Clements Library's basic processes for collection management are well controlled. University Audits will conduct a follow-up review during the first quarter of fiscal year 2010 to assess progress on action plans.
The University of Michigan Press (UPress) is an auxiliary unit affiliated with the Rackham Graduate School. It was founded in 1930 to publish books dedicated to scholarly research. Its catalog includes books on a wide range of subjects related primarily to political, social, and cultural issues.

Between one hundred and one hundred fifty new books are published by UPress each year. At any given time, approximately forty books are in process. UPress outsources all warehousing and fulfillment responsibilities to a third party. Between 2002 and 2006, UPress contracted with Chicago Distribution Center (CDC) for these services. Since 2006, Perseus Distribution (PDS) has been providing warehousing, fulfillment, and distribution services to UPress. The fee for current services is 5% of gross sales.

Book sales generate only a portion of the operating revenues for UPress. UPress also manages sales and marketing for a group of clients, many of whom are foreign publishers of academic work. Like most university presses, UPress gets a significant direct subsidy from the University.

UPress includes several divisions:
- Distribution
- English as a Second Language (ESL)
- Professional
- Academic Trade
- Regional

University Audits conducted an audit of the processes associated with recording inventory and accounts receivable balances for UPress. The objective of the audit was to provide assurance to management that accounting processes are well controlled and that inventory and accounts receivable balances are reasonably stated.

**Financial Reporting**

Financial reporting is unique and complex because of the nature of the publishing business. University Press maintains financial and business information in M-Pathways, the official books of the University, and several other systems and spreadsheets.

UPress records accounts receivable each month directly from the PDS statement. The allowance for doubtful accounts is calculated using .58% of gross sales. There is no aging report.

There is no reserve for obsolescence on the balance sheet. Instead, there is a monthly direct cost write-off of 7.5% of gross sales to cover obsolete inventory.

Historically, the publishing industry standard has allowed returns of unsold book inventory at full value with no time limits. The right to return unsold inventory gives retailers a great amount of flexibility, but it also creates financial risk for publishers. This method of handling returns forces publishers to speculate on the success of a given title, which is a risk for publishers of any size. According to industry sources, returns of trade hardcover books averaged over 30% of all copies over a ten-year period.

UPress has a contract for international distribution with the Eurospan Group (Eurospan) located in the United Kingdom. Eurospan places orders directly through PDS. When a book is shipped to Europe, the
unit cost is written down to $0 and Eurospan is not charged. Eurospan remits payment only after the book is sold to the end customer.

Detailed issues, audit recommendations, and management action plans are provided in the following section of the report.

**University Press Business Office and Accounting Practices**

The UPress Business Office is responsible for properly recording all transactions and producing financial reports. Financial information must be timely, accurate, and usable by management. The University Audits review identified control weaknesses related to producing and analyzing financial data and reports at UPress.

- University Audits encountered various accounting errors related to:
  - UPRESS books are not closed on a timely basis.
  - Financial data is extracted from M-Pathways each month to prepare the monthly financial statements. Adjustments made to the extracted data are not always recorded in M-Pathways. There is no documented reconciliation between the final monthly financial statements and the data maintained in M-Pathways.
  - There is no review process in place for UPress management to validate accounting information.
  - There is a lack of delegation of responsibilities in the Business Office.
  - There is a need for pre-defined management reports.
  - UPRESS accounting processes are mostly manual.
  - Reports from PDS provide financial information one month in arrears. UPress should consider changing their accounting methodology to reflect accounts receivable one month in arrears which would eliminate the need for many of the adjusting entries. Reports could then reconcile directly to PDS reporting.
  - There are no consistent accounting procedures.

**Relationship with Perseus (PDS), the Third Party Distributor**

UPress outsources fulfillment, distribution, and billing functions to PDS. UPRESS replaced CDC as the supplier of these services in 2006 as a cost cutting measure. The basic cost of the services provided by PDS is $200,000 per year lower than the CDC charges. University Audits examined the agreement between UPress and PDS noting the following:

- PDS is not able to provide a SAS70 report to its customers. As an industry standard, service organizations contract with their external auditors to conduct a SAS70 review to provide an opinion on their internal controls.
- UPress does not exercise financial oversight over PDS on an ongoing basis.
- PDS does not routinely provide the same level of reporting as the previous fulfillment company, particularly in the area of uncollectible accounts, obsolete inventory, and comparative analysis. PDS charges on a fee-for-service basis.
  - UPress does not receive enough information to perform an accounts receivable aging analysis or to accurately evaluate obsolete inventory.
- UPress records an accounts receivable number from the monthly PDS report with very little adjustment. Thus, the accounts receivable balance is only as good as PDS accounting.

**Inventory Valuation**

An accurate inventory value is necessary to properly analyze inventory costs, understand exposure to various valuation issues, and to price and market UPress publications.
• Finished goods is understated. For some of the inventory, the unit cost information has been written off; therefore, those items cannot be accurately costed. Approximately 30% of inventory is recorded at "0" value.

• Work in process (WIP) inventory is significantly overstated. In 1999, an analysis of WIP was conducted. An adjusting entry of $200,000 was booked to correct the value of WIP, which was still held in WIP at the time of this audit.

• UPress does not specifically review inventory for obsolescence. Instead, a fixed percentage of monthly net sales is reserved for obsolescence.

• The methodology for allocation of direct cost to each book unit is a very time-consuming process.

• When inventory is transferred to Eurospan for European distribution, UPress writes the unit cost down to $0. Eurospan pays UPress for the books only when they are sold.

**Accounts Receivable Valuation**

Since the accounts receivable value is recorded from numbers provided directly from the PDS reports, confidence in the balance is dependent on the accuracy of PDS accounting. Specific issues include the following:

• UPress accounting personnel has direct access to the PDS financial system. The UPress Business Manager enters remittances from Eurospan and from exhibits, such as book fairs, into the PDS system. There were instances of sales recorded in M-Pathways that were not entered into the PDS system. There is no completeness test or reconciliation to ensure accuracy in both systems.

• There is no bad debt aging analysis. Bad debt is recorded at the rate set by the former fulfillment company, CDC. The calculation of bad debt should be based on actual experience over a period of time and then updated annually based on actual bad debt write-off over a period of time.

• There is no reserve for book returns.

**Management Plan**

We are grateful for the care and advice in the audit report. University Press has already implemented many of the recommendations in the audit report and plans are in process to further modify our procedures to incorporate the other changes suggested in the audit report. University Press management and Business Office will:

• Create checklists for each member of the Business Office that clearly define tasks and activities to be completed on a daily, weekly, monthly, yearly and seasonal basis.

• Delegate many of the Business Manager’s duties, such as creating the monthly journal entries, to other staff members to allow more time for greater supervisory role in the department.

• Create written, detailed flowcharts of all significant accounting procedures that describe and prioritize the sequence of activities. These flowcharts will include a record of any calculations, in particular all manual adjustments, involved in the creation of the financial reports for which the department is responsible.

• Create clear and explicit written procedures and a schedule for regular and periodic checking and reconciling inventory valuation from PDS and M-Pathways.

• Make any necessary adjustments in inventory value at least quarterly.

• Write down the inflated value of Work in Process (which has been carried on the books without adjustment since 2000) in February 2009.

• Adopt specific procedures related to the regular write down of books in inventory.

• Close UPress financial books each year within three months of the University fiscal year-end date.
• Reassign the task of entering revenue and expense amounts into the financial systems to ensure proper segregation of duties. The Business Manager will no longer enter revenue or expenses but will perform a thorough review of data entered by accounting staff.
• Initiate discussions with University of Michigan Financial Operations and PDS to automate as much as possible of the accounting work that is currently done manually.
• Urge PDS to supply a SAS70 report or other evidence of sound internal controls.

University Press has already enlisted the assistance of Financial Operations, and we request the on-going advice of the audit group. UPress will take the necessary steps to ensure that our business decisions and processes are based on accurate, timely, and consistent financial reporting.

Summary - Controls need to be strengthened to provide an acceptable level of assurance that the accounts receivable and inventory balances for UPress are properly stated in the financial records of the University of Michigan.

University Audits will conduct a follow-up review during the first quarter of fiscal year 2010. At that time, we will assess the progress made on improving processes related to inventory, accounts receivable, and general accounting.

Information Technology

Michigan Administrative Information Services Grades System: Web-based Grade Changes
Issued December 23, 2008  # 2008-114

The web-based Grades System is the University’s official grade tracking system and is the final repository for all grades. This system provides online access to instructors to easily enter and track grades for their classes. It also provides functionality for multiple instructors to collaborate on the grades for a single class. This is particularly useful in instances where graduate instructors are performing various tasks for professors. The web-based Grades System also allows academic units to give administrative staff access so they may assist faculty with entering grades.

Beginning with the Fall 2005 semester, all faculty members and instructional staff began submitting their final grades via the Internet. In February 2007, the University implemented an on-line grade change process to replace the Supplemental Grade Report paper-based forms.

Most often, grades are changed due to some kind of clerical error or a decision, in retrospect, that a grade was incorrect. Grades can be changed only after the grade roster has been posted, and only by an instructor with “Approve” grade roster status or a proxy with “Grade Change” access. Grade changes can be made via Wolverine Access through Faculty Business.

Access levels for users are determined by a multi-step approval process performed by:
• The academic unit’s Unit Liaison
• A security analyst within MAIS Access Services
• A representative of the Campus Community team within MAIS

Access Services security analysts have an internal set of written guidelines to help them determine appropriate access levels.

Authentication is the computer’s process of confirming the identity of an individual. Up to three factors may be used in the authentication process. These three factors can be one or more of the following:
• Something you know (typically username and password)
• Something you have (typically a changing numeric token)
• Something you are (biometrics).

User authentication to the web-based Grades System is controlled by a user’s uniqname and Kerberos password (something you know). This is the same authentication system used by Wolverine Access and many other U-M online utilities. The Kerberos authentication system at U-M contains functionality to allow multi-factor authentication including a second factor of authentication via the MToken (something you have). At this time two factor authentication using the MToken is not utilized within the web-based Grades System.

The primary objective of this audit was to ensure the integrity of the web-based Grades System by assessing the following:
• The processes surrounding creation of, changes to, and removal of user access privileges
• The access privileges for current users
• Controls over grade entry and changes

Failure to effectively manage risk within the online grading system could result in:
• Lack of integrity of student grades
• Student complaints
• Loss of student trust in the system
• Excessive correction time
• Interruption of student services
• Negative publicity for the University

Physical and digital security of the servers that host the system was outside the scope of this audit.

Control Issues:

• Role Assignment Guidance - Because the web-based Grades System was designed to be flexible, departments are able to determine how to assign roles for viewing, assigning, and changing grades. This helps academic units customize the system to work effectively within their instructional environment. However, lack of consistency in apportioning roles in the system across the University could allow departments to assign inappropriate access. For example, although it is expected that most instructors will enter their own grades, Faculty, Graduate Student Instructors, and Academic Advisors can use Wolverine Access to assign ‘Proxies’ for web grading via Faculty Business. Assigning a Proxy for a class section allows someone who is not assigned to teach a class to enter and/or approve grades for the class. Testing of the assignment of such proxies revealed an instance where one user designated as a proxy was described as a student and another where the proxy was an emeritus professor. A user with inappropriate access could compromise the integrity of the grades in the system.

In an effort to ensure consistency, MAIS (Michigan Administrative Information Service) Student Administration should work with MAIS Access Services to create documentation explaining each role and its associated access rights. This documentation should list positions for which each role is appropriate to provide guidance for departments in implementing role-based security. Additionally, this guidance should extend to the assignment of proxies.

Management Plan – MAIS agrees with the control recommendation. In particular, curriculum users who assign instructors to classes need to have a good understanding of the implications of
the instructor roles and what access is associated with each role. MAIS will review the current documentation and make updates as needed. MAIS will also add more information to the curriculum class about the roles.

- **Customization Guidance** - The web-based Grades System provides academic units with a number of configurable options to help tailor the system to meet their needs. These options focus on user permissions, and automated notifications. For example, one such configurable parameter concerns making "extreme" changes to grades. The default setting for identifying extreme grade changes is for any full letter grade change to require review from an approver. Schools have the ability to alter the change threshold at which this occurs. There is currently no documentation detailing the customizable features, and their potential impact on the security. MAIS should create guidance documents explaining the available features, changes that can be made to them, and the security implications of changing options.

**Management Plan** - Documentation for the user permissions will be covered in the effort described in the previous section. To address the options for grade change rules, we will enhance our documentation to explain the various options for the grade changes (invalid grade change, process immediately, notification only, or authorization required), and the impact of each.

- **Two Factor Authentication** - To enter the web-based Grades System, users must sign in through Wolverine Access. Wolverine Access uses a Kerberos login as its method of authentication. Kerberos has the ability to require a second factor of authentication, the MToken. The Grades System does not use the two factor authentication system. Using an additional factor for authentication would greatly improve the security of Grades System.

**Management Plan** - MAIS is beginning an initiative to require two factor authentication for all faculty. MAIS has requested incremental base funding as part of fiscal year 2010 budget to cover the on-going costs with expanding MToken to faculty. Due to the size of the population and the ability to obtain enough MTokens, it will be a phased rollout. An educational campaign will begin in the Winter 2009 term to encourage voluntary adoption. MToken requirements will be rolled out by department beginning in the Fall 2009 term. All faculty will be required to use MTokens by the Winter 2010 term. These dates are subject to change based on the availability of resources and budget approval.

The controls governing the web-based Grades System are sound. Processes for adding, changing, and removing user access are well controlled and thoroughly documented. Notifications of grade changes are timely, and sent to the appropriate people. There is a thorough audit trail created by the system that can be used in case of suspected problems.

University Audits will perform a formal follow-up to the outstanding issues during the first quarter of fiscal year 2010.

**Intercollegiate Athletics Paciolan Ticket System**

Issued January 9, 2009

The Department of Intercollegiate Athletics (Athletic Department or Athletics) at University of Michigan uses the Paciolan system to provide ticketing to major sporting and other events at University venues. Paciolan was founded in 1980 and is a leading ticketing service and software provider in North America. In July 2007, Ticketmaster entered into an agreement to acquire Paciolan. Athletics has been assured by Paciolan that no changes in software or services will take place as a result of the Ticketmaster agreement before the end of their contract in 2010. This audit focused on the current version of Paciolan.
The Athletic Department’s Information Technology (IT) staff is responsible for the IT functions, updates, and regular maintenance of the Paciolan system. They support the connection from U-M to the Paciolan system in California which is directly connected through an encrypted firewall. The IT group also configures the system and loads the client application on workstations throughout the Athletic Department.

The audit of the Paciolan system examined:
- Authorization and authentication
- File and report integrity
- Contract/infrastructure concerns
- PCI/DSS (Payment Card Industry Data Security Standards) compliance.

Credit card data is not stored on Athletics’ servers. However, there are PCI/DSS implications because each of the Athletic Department Call Center machines has a Paciolan client application installed to allow clerks to accept credit card payments for ticket orders. These machines act as a pass-through for the credit card data which is sent electronically to Paciolan where the data is stored.

Control Issues:

- **System Administrator Documentation** - The Athletic Department’s IT staff is responsible for updates, and regular maintenance of the Paciolan system. They support the connection to the vendor-hosted Paciolan system through an encrypted firewall. Athletics’ IT staff also configures the system and loads the client application on Athletics’ workstations. Installation of Paciolan’s client (an application that runs on a personal computer or workstation and relies on a server) software has been automated through the Athletic Department’s workstation management suite (Novell ZENworks) and therefore does not require IT staff interaction. Because of the reliance placed on this automated process, documentation of the configuration parameters and the installation process used for Paciolan client software does not exist within Athletics.

  Vendor documentation of best practices and/or a security template for installation of software on client machines is necessary to ensure that installations are performed consistently, in a well-controlled manner, and to document that the clients are configured in compliance with PCI/DSS guidelines. Such documentation would also be useful for training new personnel.

- **Management Plan** - The IT Director is in contact with the Paciolan vendor to secure available documentation. The Athletic Department’s IT group will develop documentation for administering and configuring Paciolan.

- **System Scan for PCI/DSS Compliance** - The Athletic Department workstations are subject to quarterly network vulnerability scans performed by Information Technology Security Services (ITSS). Additional scans from within the firewall in Athletics to ensure compliance with PCI/DSS are the responsibility of Athletics’ IT. Such scans are not being performed on a regular and periodic basis.

The Call Center machines used for sending electronic credit card data to Paciolan must be compliant with PCI/DSS. This requires that these machines be scanned for vulnerabilities on a regular and periodic basis.
Management Plan - Athletics' IT is working with the Treasurer’s Office to determine a proper scanning protocol to ensure PCI/DSS compliance. Athletics’ IT is testing MBSA (Microsoft Baseline Security Analyzer) for evaluation of workstation security within Athletics. MBSA is a software product used to detect common security misconfigurations and missing security updates on computer systems. Athletics’ IT plans to run regular and periodic scans across the network.

Controls were found to be effective. Because Ticketmaster acquired Paciolan, changes will eventually be made to the ticketing system to install Ticketmaster proprietary features into the Paciolan system. Care must be taken to ensure that these processes continue to be well controlled. University Audits will conduct a follow-up review during the fourth quarter of fiscal year 2009.

Healthcare

University of Michigan Health System Resident Duty Hours

Issued January 30, 2009

The University of Michigan’s (U-M) Medical School offers 89 residency programs to the approximately 1,100 residents currently enrolled. The Accreditation Council for Graduate Medical Education (ACGME) sets residency program standards that must be maintained to ensure continued accreditation. In July 2003, ACGME instituted a comprehensive approach to address excessive duty hours concerns in all accredited residency programs. It focuses on three areas:

- Placing appropriate limits on duty hours (commonly known as the 80-hour rule)
- Promoting enhanced institutional oversight
- Viewing standards for resident hours as one element of a comprehensive approach to promote high-quality education and safe patient care.

The ACGME’s common duty hours standards acknowledge scientific evidence that long hours and sleep loss have a negative effect on resident performance, education, and well-being. In addition, restricted sleep could have a detrimental effect on patient safety. ACGME’s goal is to emphasize the responsibilities of programs, sponsoring institutions, and the accrediting body to ensure safe patient care and an appropriate learning environment for residents.

University Audits conducted an audit of University compliance with resident duty hours limits in accordance with the standards. The primary objective of the audit was to review compliance with the limits placed on duty hours encompassing the following ACGME requirements:

- Limit duty hours to 80 hours per week, averaged over a four-week period, inclusive of all in-house call activities.
- Provide one day in seven free from all educational and clinical responsibilities, averaged over a four-week period, inclusive of call.
- Provide a ten-hour time-off period between all daily duty periods and after in-house call.
- Schedule in-house call no more frequently than every third night, averaged over a four-week period.
- Limit continuous on-site duty, including in-house call, not to exceed twenty-four consecutive hours. Residents may remain on duty for up to six additional hours to participate in didactic activities, transfer care of patients, conduct outpatient clinics, and to maintain continuity.

Control Issues:

- Moonlighting - U-M Graduate Medical Education (GME) has detailed policies and procedures for employment by residents outside of their normal residency activities ("moonlighting") to
ensure the outside employment does not detract from their residency duties. In addition, internal moonlighting hours are counted as part of the ACGME duty hours limits. University Audits noted the following:

- The moonlighting provisions are not always followed by the residents and their departments. Moonlighting forms are not consistently completed and pre-approved by the program director and GME Office before a resident participates in moonlighting activities. Also residents moonlighting in their own program are not consistently requesting written approval from the Director of GME prior to commencement of the clinical activity.
- Moonlighting hours are not always reported in MedHub and timecards for moonlighting are not consistently approved by the program director, as required. In addition, timecards are not always filled out correctly, making it difficult for GME Office staff to monitor and detect unreported moonlighting.

Management Plan

- Moonlighting policies and procedures are currently regularly reinforced to program coordinators, program directors, and house staff. The moonlighting policy stipulates a requirement for program-level review and approval of timesheets prior to submission to the GME Office and before submission to Payroll. A GME staff person monitors all timesheets and payment forms for compliance with protocol. In instances where protocol does not appear to be followed or duty hours do not appear to be recorded in Medhub, direct contact is made with the program office to discuss the issues and request appropriate corrective action is taken. All of these GME-centered activities will continue to ensure and increase overall program compliance.
- Plans are underway to redesign overall programmatic duty hours moonlighting processes which will free up incremental staff time in the GME Office to increase monitoring of moonlighting.
- GME management will follow through on developing payroll reports from M-Pathways to detect and follow-up on unapproved moonlighting.
- GME management will work with UMHS Compliance Office to include resident duty hours and moonlighting concerns in existing faculty and departmental administrator training.

- Measuring Duty Hours Compliance - Incomplete information impacts the ability to monitor compliance with ACGME duty hours. Additional complicating factors include:
  - Program duty hours compliance is based on resident’s submission of a weekly duty hours log. However, the log can be blank or incomplete and the process cannot detect missing hours. A resident could submit every week without entering any time and would be measured as compliant.
  - Currently, it is not possible to calculate the number of missing working hours or moonlighting hours in MedHub because MedHub is not used for timekeeping purposes.
  - A program is considered in compliance if at least 75% of the duty hours logs have been submitted.
  - Surgery residents may take one to two years of their ACGME accredited training for research activities. During this time they are not submitting hours, so their duty hours logs are reported as missing.
Management Plan

- In February 2009, a change will be implemented in Medhub so that when duty hours submitted are less than expected (determined by the individual programs), the system will require the House Officer to verify that the hours are correct.
- Surgery and other residents are required to submit duty hours while on research rotations. GME management has reinforced this requirement with the applicable programs.
- ACGME resident duty hours requirements may change as a result of the recently published Institute of Medicine report. The report maintained current duty hours limits but recommended additional undefined monitoring efforts, which may be the focus of any changes. Until such time as ACGME announces plans for changes to duty hours requirements, MedHub’s current functionality will remain intact.

- Institutional Oversight - ACGME requires institutional oversight for compliance with the duty hours standards. In response, the GME Committee, a group appointed to manage and provide institutional oversight for graduate medical education programs, developed a policy to monitor compliance. However, there does not appear to be regular, high-level review of duty hours compliance; compliance monitoring is decentralized at the program level.
  - The UMHS GME Institutional Policy section B states that:
    - The GME Committee, in conjunction with the GME Office, will also monitor duty hours at monthly, quarterly and other random intervals.
    - The GME Committee must develop and implement procedures to regularly monitor resident duty hours for compliance with the Sponsoring Institution's policies and the Institutional and Program Requirements.
    - This process will include formal reviews and follow-up with program directors and residents, electronic surveys and other means. Programs that are habitually non-compliant will be placed on institutional "warning" status and reported to the GME Committee and the Hospitals and Health Centers Senior Management Team.
  - The GME Office provides a quarterly letter to programs measuring compliance with duty hours log submissions. Due to staffing changes in the GME Office, the quarterly reports have not been sent to the programs for at least the last two quarters. A position has been recently filled that includes this as a responsibility and GME management has indicated that they plan to resume sending these reports in the near future.
  - A Summary Report is generated by the GME Office on a quarterly basis and sent to the programs. This report highlights compliance with the standards and summarizes the non-compliance for each week in the date range the report is run. Since many of the ACGME standards require averaging over four weeks rather than in individual week increments, a separate report available in MedHub should also be run as this report will average the 80-hour workweek and the one day off in seven. This information will more easily identify non-complying programs and individual residents.
  - An ACGME Frequently Asked Questions issued in 2007 states that the requirements that allow for averaging of duty hours must be done by rotation rather than a four-week average. U-M measures on the four-week average, which is not consistent with ACGME requirements.

Management Plan - Implementation of a new process is underway to increase monitoring and oversight at the institutional level. On a cycled yearly basis, programs will be required to submit detailed duty hours reports for the latest quarter to the Associate and Assistant Deans of the Medical School. The reports will be reviewed for adequate duty log submittal and compliance with duty hours regulations, and findings will be reported to the GME Committee during their
frequently held meetings. The program director will be required to attend the meeting if the program demonstrates noncompliance. In addition, a follow-up report will be required from the program director addressing progress towards compliance and possible re-evaluation of the program after three to six months.

• **MedHub** - The software used by GME to manage many aspects of the graduate medical education program was developed by a small outside vendor (MedHub) in collaboration with the U-M Department of Surgery. University Audits noted the following:
  o All system administration and support is provided by MedHub. These tasks are crucial to the on-going function and reliability of the system. The current vendor contract gives only limited assurance and access to data and source code if MedHub dissolves or the University terminates the relationship. In addition, MedHub is responsible for all program changes and does not have a change management process that includes U-M’s oversight. This puts U-M at risk if the vendor makes unauthorized changes to the system, or if the company were to dissolve.
  o Approximately 3,300 users currently have MedHub access. No process exists to terminate access when job responsibilities are changed or individuals leave the University. This is a concern because MedHub stores sensitive personal information about residents which should be provided only on a need-to-know basis. Ensuring only authorized individuals have access to MedHub helps to protect the confidentiality of the information and discourage identity theft.

Management Plan - The escrow agreement regarding source code recently expired and will be retroactively renewed; this will ensure U-M receives the code if MedHub declares bankruptcy. MCIT and the GME Office will work with the vendor to amend the contract to ensure that data will be transferred into readable formats upon contract termination or bankruptcy. A change management process, which includes monthly reporting, will be established with the vendor to ensure verification of changes.

MCIT will work with the vendor and the GME Office to implement a systematic suspension of user access after a six-month period of inactivity. In addition, monthly an access list of all administrative MedHub users who have not logged in within the past 30 days will be reviewed by the GME Office. Departments will periodically review faculty access and program coordinators will terminate access as appropriate.

University Audits will follow up on the status of action plans during the first quarter of fiscal year 2010.

**University of Michigan Hospitals and Health System Payroll and Timekeeping System**  
Issued January 30, 2009

Payroll disbursements represent the largest operating expense category at University of Michigan (U-M) Hospitals and Health Centers (UMHHC). Overall, expenditures for compensation and benefits increased almost $300 million, or 47%, between fiscal years 2004 and 2008. As payroll expenses continue to grow, the need increases for robust analysis and exception reporting tools to help decision managers ensure financial health and consistency with federal, state, and University policies and procedures.

The central University Payroll Office in Wolverine Tower is responsible for creating and distributing payroll checks to all U-M employees, including UMHHHC employees. Approximately 350 UMHHHC

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1 UMHHHC Data Mart Institutional Reports
2 UMHHHC Payroll Office Supervisor
department timekeepers are responsible for entering time and labor data into M-Pathways that results in the production of UMHHC paychecks and other payroll information. The UMHHC Payroll Office’s staff of six payroll associates and one supervisor are responsible for:

- Training and monitoring UMHHC timekeepers
- Responding to payroll questions from UMHHC administrators, timekeepers, and employees
- Monitoring overtime rates and PTO (Paid Time Off) balances
- Reviewing and responding as necessary to daily activity reports
- Analyzing and reacting to various monitoring reports run on a regular basis before and after pay cut off

The primary objective of this audit was to determine whether UMHHC payroll and timekeeping practices are sufficient to protect U-M resources and comply with federal, state, U-M, and labor agreement requirements. University Audits performed a risk analysis related to payroll and timekeeping practices and developed the following audit objectives:

- Assess effectiveness of controls that:
  - Prevent and/or detect timekeeping and payroll anomalies and exceptions
  - Analyze and monitor trends
  - Ensure the completeness and accuracy of timekeeping
  - Validate overtime rate calculations and applications
  - Ensure UMHHC employees are paid in accordance with applicable labor agreements
- Access procedures and follow-up for resolving and tracking payroll complaints or exceptions
- Review controls governing system access rights and privileges to determine if system access is appropriately authorized and monitored
- Determine if UMHHC Payroll Office staff roles and responsibilities, including staff training procedures, are clearly defined and documented
Audit Summary

Hospitals have an inherently complex timekeeping and payroll environment due to around-the-clock staffing requirements and labor agreements. UMHHC timekeepers report time and labor data using more than 120 different time reporting codes. Therefore, proper training, monitoring, and detection are key controls for safeguarding U-M resources and ensuring regulatory and labor agreement compliance.

UMHHC Payroll Office management has developed sound procedures for training payroll associates. Management develops training plans for new payroll associates, assigns trainers, reviews progress, and adjusts plans as necessary. UMHHC Payroll Office personnel also monitor calls from UMHHC timekeepers and provide training updates as needed. MAIS (Michigan Administrative Information Services) incorporated some proactive controls in the PeopleSoft Payroll System to prevent or detect large errors. Examples include the shift/on-call reasonableness query that detects unusually high shift/on-call rates, and the rates query that detects individuals with unusually high base rates of pay. The UMHHC Payroll Office has developed reports to assist in monitoring paid time off balances, identifying missing time reports and time data, and reviewing overtime liability. This audit identified additional opportunities to improve payroll analysis and oversight, and increase control over system access and data integrity. It also identified opportunities to improve specific UMHHC Payroll Office operations.

Control Issues:

- **Human Resource Management System Access Controls** - Controls governing system access need to be strengthened. Specifically:
  - *Access Rights and Privileges Assigned to Transferred Employees*: University Audits identified several employees with inappropriate human resource system access rights and privileges. For most of these individuals, system access rights and privileges were not updated when they transitioned into different job responsibilities within the same department or transferred to different UMHHC departments.
  - *UMHHC Unit Liaison Span of Control*: A single individual is responsible for approving and monitoring human resource system access rights and privileges for all UMHHC employees. Currently, the Unit Liaison can only monitor system security information for health system human resources employees. Limited knowledge regarding employee transfers and terminations and the sheer number of UMHHC employees with human resource system access rights and privileges prevents the Unit Liaison from having sufficient information to monitor access security for all UMHHC departments and units.
  - *System Access Policies and Procedures*: UMHHC does not have documented procedures for assigning, modifying, and removing access rights and privileges to/from active and former UMHHC employees. Backup unit liaisons may not be aware of detailed procedures for performing the Unit Liaison’s duties during absences.

Management Plan

- **UMHS-HR (University of Michigan Hospital Systems Human Resources)** will review and update access rights and privileges for existing UMHHC employees to ensure access is appropriate.
- **UMHHC** will develop access controls within UMHS-HR to assure UMHHC employees are granted appropriate access and access is modified for individuals who transition into different roles or different departments.
- **UMHHC** will document system access policies and procedures and ensure UMHS-HR staff responsible for granting and monitoring access is appropriately trained.

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3 Unit liaisons are U-M employees who coordinate changes related to implementing and supporting M-Pathways systems with Michigan Administrative Information Services.
- **Systematic Data Integrity Controls** - The Payroll System does not have systematic controls that ensure the appropriate use of certain time reporting codes used by UMHHC timekeepers.

**Management Plan** - UMHHC administrators will meet with individuals from Michigan Administrative Information Services and University Payrolls to develop and implement measures to strengthen controls over the usage of specific time reporting codes.

- **Payroll Expenditure Analysis** - The UM (University of Michigan Hospital) Accounting Office reviews certain payroll information such as overtime, salary supplements, and temporary salaries based on employee groups such as nursing. UM Accounting does not perform a comprehensive analysis of payroll data by location, job code, earnings code, or payee to assess overtime usage, payroll trends, or anomalies.

**Management Plan** - UMHHC administrators will develop, document, and implement additional guidelines for monitoring UMHHC payroll. UMHHC Administrators will utilize information available through University resources such as M-Reports, Data Mart, Business Objects, and other resources to monitor:
  - Overtime
  - Pay rates
  - Additional pay
  - Other exception pay data and payroll trends

UMHHC administrators will update overtime guidelines and other timekeeping guidance to reflect current practice. UMHHC Payroll Office staff will continue to provide support to UMHHC timekeepers by training new timekeepers, responding to inquiries, monitoring progress, and providing timely updates about timekeeping and payroll concerns.

- **Roles and Responsibilities**
  - **UMHHC Payroll Office Employee Task List**: Management maintains a list of tasks performed by staff. However, the list is not up-to-date. A review of the list revealed several unassigned, undefined, or outdated tasks. A few tasks performed by the staff were not included on the list. One unassigned task had not been performed since the payroll associate previously assigned to the task left the UMHHC Payroll Office.
  - **Employee Work Review Procedures**: Employee work review procedures are not documented. The UMHHC Payroll Office Supervisor randomly reviews actions taken on HR activity reports but does not document what she reviewed or her findings.
  - **Termination Checklist**: Management uses a checklist for new employee orientations, but does not use a checklist for transfers or terminations. An employee checklist would be useful to guide department administrators through the employee transfer or termination process.

**Management Plan** - UMHHC Payroll Office administrators will ensure routine tasks are defined, documented, and assigned. They will also document employee work review procedures and work reviews. Administrators will update UMHHC's termination checklist, reference the checklist on a prominent webpage, and encourage UMHHC administrator to use the checklist when employees transition out of the department.

University Audits will conduct a follow-up review in the fourth quarter of fiscal year 2009 to assess progress on management action plans.
Executive Summary
University Audits reviewed the administrative internal control structure at the University of Michigan Medical School (UMMS) at the request of the Medical School Dean and University Provost. University of Michigan’s first professional school, the Medical School began in 1850 with five faculty and ninety students. Today, approximately 2,100 faculty members participate in the education of 672 medical students, 1,050 interns and residents, 472 graduate students, and 507 postdoctoral fellows. UMMS offers three faculty tracks: instructional, research, and clinical. UMMS also offers a graduate medical program, residency programs and fellowships, multiple-degree programs, doctoral programs in biomedical sciences, and postdoctoral programs. UMMS employs over 3,500 professional, administrative, and technical staff.

To evaluate the internal control environment, University Audits interviewed management and staff within Medical School Administration (MSA). Basic science and clinical departments within the Medical School were not included in this review. MSA encompasses those responsibilities reporting to the Dean’s Office. Due to the breadth of the review, detailed substantive testing was not performed. Our assessment is based on information obtained during management interviews of the following functions within MSA:

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1 Information obtained from Facts and Figures - FY2007 listed on the UMMS website (http://www.med.umich.edu/medschool/about/facts.htm)
MSA has established fundamental internal controls over administration and business operations. The control environment could be strengthened by implementing additional controls and increasing rigor around current controls. One central opportunity for improvement centers on strategic technology planning. Technology initiatives and current projects are reviewed, at the department level, as part of the annual budget process. An IT strategic committee or plan could facilitate coordination of effort by Medical School Information Services, MSA Enabling Technologies, and Medical Center Information Technology.

Risks could be further mitigated by employing additional controls in administrative and operational areas. Enhancing financial reconciliation and cash handling procedures would improve financial oversight and cash management. Although financial operations and gift processing are closely monitored, gift fund usage merits specific attention to ensure gifts are used efficiently, according to regulatory requirements, and per donor intent. IT security and maintenance policies should be augmented to safeguard development data included in standalone systems. Uniformity of human resource management could be enhanced by updating exit procedures and related employee monitoring. Updated technology standards and established external and internal service level agreements would facilitate efficient technology project management and performance. MSA should also coordinate with Occupational Safety and Environmental Health to ensure UMMS compliance with fire drill regulations.

This report summarizes our review of finance, development, human resources, information services, technology planning, facilities management, and security operations within MSA. Risks are categorized by functional tasks relevant to each operational area. We reviewed current controls and identified opportunities for improvement in the following areas:

- Financial reconciliation oversight
- Cash and information safeguarding procedures
- Assigned P-Card approvers
- Standalone system maintenance and security
- Gift usage monitoring
- Exit procedures
- Related employee monitoring
- Service level agreements
- Information technology strategic plan
- Technology standards documentation
- Fire drills

We will follow up and update the status of the above control improvement opportunities in the first quarter of fiscal year 2010.

FOLLOW-UP REPORTS


University Audits conducted a follow-up review of ITCS Software Licensing and Distribution Billing Systems and Practices to confirm that appropriate management action plans were implemented to address
an open audit recommendation for improvement in internal control. The following outlines the status of the control item:

- **Billing Process Integrity and Licensing**: As recommended, ITCS Software Licensing and Distribution personnel documented the steps to negotiate licenses and their renewals, set prices, and rebill University departments. With this new process, each individual license is documented. The documentation is kept with the appropriate Purchase Order, the license terms and conditions, and all paperwork associated with the license from the vendor and from the University.

Management has taken appropriate corrective action. **This audit is closed.**

**Intercollegiate Athletics Academic Support Services**

Original Report issued July 18, 2007

Follow-up Report issued January 9, 2009

University Audits conducted a follow-up review of Intercollegiate Athletics Academic Support Services to assess the status of management’s action plans.

Corrective actions are complete. Details regarding action plan implementation are noted below. **This audit is closed.**

1. **Student Counseling Practices**
   - **Sharing of Student Login and Passwords** - Management instructed counselors to destroy documentation listing student identification numbers and passwords. Management also sent emails asking student-athletes to change their passwords.
   - **Student-Athlete Privacy Concerns** - Management documented policies for handling sensitive information, replaced the laptop in the academic advising office with a password-protected desktop computer, and instructed counselors to:
     - Close and lock office doors when counselors are away from their offices
     - Ensure sensitive information pertaining to student-athletes is secure at all times
     - Activate password-protected screensavers on office computers and laptops
   - **Student Advising** - The Vice Provost for Academic and Budgetary Affairs is coordinating with Academic Support Services management and unit academic advisors in the areas of role clarification, academic goal setting, and documentation standards.

2. **Employment Controls**
   - **Background Checks** - Counselors are now documenting reference checks. Human Resources personnel continue to perform criminal background checks for regular employees as part of the normal hiring process.
   - **Timely Submission of Employment Forms** - Management documented hiring practices for temporary employees. The new online HR system streamlined the payroll process. The Athletic Business Office timekeeper confirmed time reports are no longer received before new-hire paperwork is processed.
   - **Employment Eligibility and Identity Processes** - Academic Support Services personnel responsible for hiring temporary personnel completed online Immigration and Naturalization Service Form I-9 training. The ICA Assistant Business Office Manager and the ICA Human Resources Officer also completed training.
   - **Student Employment** - Management created new hiring codes, and the Athletic Business Office has encountered minimal problems with these codes. Management also requires student employees to bring in class schedules each semester to verify student status.
• **Student Employee Termination** - The Athletic Business Office no longer forward-dates termination paperwork. The Athletic Business Office collaborates with the Payroll Office to prevent termination of an employee's appointment before final time reports are submitted.

3. **Payroll Controls**

- **Timekeeping and Payroll Policies and Procedures** - Academic Support Services personnel sufficiently documented timekeeping and payroll practices to ensure alignment with Athletics Department and University policies and procedures and to further Academic Support Services staff understanding and compliance.

- **Student Employee Timekeeping and Monitoring Temporary Employee Hours** - Student employees consistently complete and sign standardized time reports. The newly implemented Accutrack system and other procedures make it easier to verify actual time worked. Signed time reports are forwarded to the Athletic Business Office for processing and storage.

- **Custody of Approved Time Reports** - Management revised time report delivery procedures. Academic Support Services associate athletic directors are now responsible for delivering time reports to the Athletic Business Office timekeeper.

- **Reconciliation of Gross Pay Registers** - The Executive Associate Director of Athletics is currently reconciling the Gross Pay Registers until a new business manager is hired for Academic Support Services.

4. **Staff Training and Development**

- **Documentation of Staff Training** - Management documented staff development policies and maintains a document listing staff development and training.

- **Staff Evaluations** - The Academic Support Program implemented procedures for performing annual staff evaluations, consistent with Athletic Department policy.

- **Program Evaluations** - Management continues to evaluate academic support program effectiveness by soliciting input from coaches and reviewing tutorial questionnaires, student-athlete surveys, and senior athlete exit interviews. In addition, the Provost’s Office also completes program assessments on a periodic basis.
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<td>9/2/08</td>
<td>Emergency exits; alarms and monitoring systems; fire safety; safety or patrons and staff; storage; deferred maintenance; procedures</td>
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<td>University Health Service HIPAA IT Security 2008-309</td>
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<td>Practice management system; verification of internet access; intranet tools server; data access procedures; security policy</td>
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<td>College of Engineering Research Computing 2008-302</td>
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<td>Michigan Administrative Information Services Grade System: Web-based Grade Changes 2008-114</td>
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<td>Medical School Administrative Internal Control Review 2008-208</td>
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<td>Resident Duty Hours 2008-102</td>
<td>1/30/09</td>
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<tr>
<td>Department/Program</td>
<td>Date</td>
<td>Follow-up</td>
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<td>University Human Resources Family and Medical Leave Act 2007-403</td>
<td>12/17/07</td>
<td>First follow-up was completed August 2008</td>
<td>Training; update relevant SPG sections; written notifications</td>
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<td>Transportation Services 2007-101</td>
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<td>University of Michigan – Flint Chancellor’s Office 2008-205</td>
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<td>Roles and responsibilities; conflict of interest; disaster recovery; reconciliations; segregation of duties; procedures</td>
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<td>Sponsored Programs Subrecipient Monitoring 2008-501</td>
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<td>School of Music, Theatre &amp; Dance Fiscal Responsibilities 2008-815</td>
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<td>Intercollegiate Athletics Business Office Fiscal Responsibility 2008-210</td>
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<td>William L. Clements Library 2008-212</td>
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<td>University Press Inventory and Receivables 2008-203</td>
<td>1/30/09</td>
<td>Accounting checklists; inventory analysis</td>
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