

UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Received by the Regents

March 18, 2010

Item for Information

Subject: Report of University Internal Audits
December 2009 through January 2010

Background:

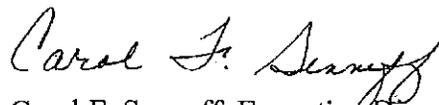
This is the report of the Office of University Audits activities for the period **December 2009 through January 2010**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee 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.
- A report on the status of follow-up reviews as of **January 31, 2010**.

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,



Carol F. Senneff, Executive Director
University Audits

University Audits
December 2009 - January 2010
Summary of Reports Issued

ORIGINAL REPORTS

Campus Audits

Information Technology Central Services
Report Issued December 2, 2009

#2009-838

The Vice Provost for Academic Information requested that University Audits perform an audit of Information Technology Central Services (ITCS) as plans progressed for a management change. During audit planning, ITCS was merged with Michigan Administrative Information Services (MAIS) and Information Technology Security Services (ITSS) under the Associate Vice President for Administration Information Systems. The new organization, Information and Technology Services (ITS), is identifying gaps and overlaps in provision of services to the University community.

Information Technology Central Services provided service to the University through three technology groups, each comprised of several areas:

- **Information Technology Communications (ITCom):** Telephone, Networking, Video Services, Data Centers, LAN Services, and Applications for Desktops
- **U-M Computing Environment Operations (UMCE):** Access Authentication and Authorization, File Storage and Backup Service, Domain Name Service and Dynamic Host Configuration Protocol, Web Application Fronts to U-M Gateway, E-mail Infrastructure, Directory Services, User Advocate, C-Tools Operations Infrastructure, Academic and Research Services, and Program Deployment
- **User Services:** Computer Showcase, Computer Purchasing for Schools and Colleges, Campus Computing Sites, Consulting (764-HELP), Microsoft/Oracle Software Licensing Campus-Wide, and Educational Services

Based on an audit risk assessment and discussions with ITCS and MAIS management, the following processes were identified for controls assessment:

- Inventory management of network and telecommunications equipment, and computer hardware and software
- Billing for goods and services
- Monitoring for quality service outcomes and service demand
- Financial monitoring to support accurate and complete information for business decisions
- ITCS Human Resources support for accurate payroll distribution and appropriate employee termination procedures
- Facilities management for fiscally responsible, well maintained, and legally compliant facilities
- Procurement practices that support authorized, business-related purchases

INVENTORY MANAGEMENT - Based on inventory values, five services were selected for detailed review:

1. Computer Showcase - Computer Showcase (CS) management maintains records of merchandise inventory from purchase order through final disposition in the Microsoft Retail Management System (RMS) point of sale software. Controls in place include:

- Sales transactions must result in a payment transaction before purchased items are removed from system inventory count.
- Management has developed manual procedures to complement the system, including reasonable procedures for receiving merchandise and performing physical inventory counts.
- Minimum inventory is maintained in stock to meet projected demand. RMS generates a purchase list when pre-loaded reorder quantities are reached.

There are several opportunities to improve the process:

- At least one individual can initiate purchases, serve as a backup for receipt of merchandise, and has maximum security access to RMS, including the ability to remove inventory items from stock. The same individual provides lists of received items to ITCS central purchasing where payment for the merchandise is authorized.
- Several staff members have system access to discount merchandise items to \$0, which would not result in a matching payment transaction. There are no system exception reports to identify these transactions, and transaction logs are not reviewed.
- CS management and technical support could not validate all RMS system privileges assigned to staff. There were no access reports with non-technical definitions of access role privileges readily available for management review.

Management Plan - The store sales and inventory operations of our business are staffed with 5.5 FTEs. Our small size limits our ability to achieve 100% separation of duties, but we have made progress towards this goal and will continue to do so. Our current practice has one staff member generating a vendor order; another, who is not authorized to use the Point of Sale (POS) system, receiving the product into RMS; and another, who is not authorized to receive product into RMS, creating POS sales transactions. We have yet another staff member authorizing vendor invoice payments. We will continue to look for opportunities to strengthen control in this area.

- The product receiving report, currently sent monthly to ITS central purchasing, will no longer be completed by Showcase receiving staff. We are working to move reporting access to our central purchasing group so they can generate this report. If that is not feasible, we will have a staff member who does not receive product generate the report.
- We are currently using many of the cashiering controls in the RMS POS system. Very few staff members (currently eight) are authorized to enter product discounts in RMS. The most common reduction that some staff are permitted to use is a standard 10% discount for 'open box' re-sellable product. We have instituted a new monthly report that shows all sales processed for less than the regular price. We can see the price reduction, which cashier processed the order, the reason code used for the discount, and the recipient. The Showcase manager will review the report, which includes zero-dollar and all other reductions, on a monthly basis and report any discrepancies to the ITS Director of Finance.
- We have created templates for 'security groups,' currently using five of thirty possible groups that define access by job category. For example, a new cashier is set up one way, a storeroom receiving staffer another way, and a manager who only runs RMS reports yet another way. The matrix is very complex with hundreds of items and there is no easy way to generate output of the business functions defined by security level. An onsite demonstration of our setup is easier than creating the requested documentation, since the system is not designed to generate this report. We estimate 80 to 100 hours minimum of data gathering to fulfill this request. The vendor does not have ready a fix for us.

2. ITCom—Business Services - Business Services inventory is procured, received, tracked, released, and billed through the Pinnacle system. Inventory resides in a central, well-secured warehouse. Manual procedures have been implemented to support system processes.

A single individual has system access to place incremental orders against established purchase orders and make system adjustments to inventory counts. An e-mail is generated to an ITCS Finance accountant when the adjustment is made, but does not provide proof of management authorization for the adjustment.

Duties for procuring inventory stock items and making system adjustments to inventory counts should be separated between two different individuals so more than one person is aware of the transaction. At minimum, evidence of management approval for adjustments, based on management review of supporting documentation, could be provided to the accountant.

Management Plan - Management agrees with the recommendation and, in fact, took steps to address the issue of the adjustment process in August 2009 when the auditor identified this issue. An overview of the change made to address management awareness and approval, and notice provided to the accountant follows:

- Electronic reports of the cycle count inventory are finalized and provided to management.
- Management reviews and approves via electronic means that includes the sharing of the files and approval with ITS Finance assigned accountant.
- Management works jointly with assigned staff member to implement inventory adjustments in the system.

Further review and possible development of a management action plan to address additional separation of duties for procurement of inventory stock and system adjustments will be submitted by November 30, 2009.

3. ITCom—Telecom Operations - Inventory purchases are processed through the Pinnacle system and central warehouse process. Inventory records are maintained for all stocked equipment and backup parts placed in operating systems.

Inventory parts and equipment are distributed across two locations: School of Education for voice and video and Arbor Lakes for networking. Three system applications are used to account for inventory: Pinnacle for equipment procurement and billing interface with M-Pathways, Remedy for removing items from inventory, and three separate Excel spreadsheets for inventory records (voice, video, and networking). Physical inventories are performed by the same individuals who maintain the inventory records.

Controls for inventory accountability could be strengthened by:

- Consolidating inventory controls into fewer applications to reduce risks associated with movement of data among several different applications (i.e., data errors and omissions) and multiple access authorizations in different systems (i.e., undetected lack of appropriate separation of duties).
- Separating responsibility for custody of inventory, maintaining inventory records, and for performing and reporting physical inventory counts.

Management Plan - Management agrees with the recommendation provided. Additional time is needed to develop an implementation plan. The implementation plan will be submitted by November 30, 2009.

4. Campus Computing Sites - Equipment purchases are matched to site-specific deployment plans for the equipment. Receiving is performed at an external vendor storage site and confirmed with central ITCS purchasing where authorization for payment occurs. At least two technicians pick up and install newly acquired equipment together. Computer inventory is maintained by site location in Hindsight, an in-house developed application. Computers access Hindsight electronically each evening for software refresh, which is recorded in a log.

One of the technicians records disposition of replaced equipment in Hindsight as either sent to Property Disposition for sale, or sent to Campus Computing Sites storage where it will be available as a backup. There is no post-deployment reconciliation of receiving documentation for new equipment orders to Property Disposition documentation, or to a physical inventory of stored backup equipment. It may be possible to divert replaced equipment for personal use without detection.

Management Plan - A Campus Computing Sites Administrative Assistant, who has no role in the computer ordering process, will be responsible for reconciling computers moving to Property Disposition against original equipment purchase receipts, Property Disposition forms, Hindsight records of equipment location, and physical inventory of items in storage. We anticipate completion of training and regular reconciliation of these items in November.

5. Software Licensing Campus-Wide - Management obtains support from the Office of General Counsel and Procurement Services for software licensing contracts and maintains software inventory and billing records.

There are multiple software licensing schemes tracked through three different software applications. Those on Excel spreadsheets are not locked to ensure restriction to authorized individuals. Individual reference and calculating cells are not locked to prevent unauthorized or unintentional modification. It would reduce inventory tracking complexity and possible inefficiencies and errors by consolidating inventory tracking into fewer software applications and by securing current Excel inventory files.

Management Plan - Management concurs with the recommendation. ITS staff will implement password protection of inventory spreadsheets and lock reference and calculating cells where possible. ITS is currently evaluating the use of RMS for license inventory ordering, sales, and billing. The evaluation is scheduled to be completed by January 31, 2010. If RMS is an acceptable solution, conversion from the current License Tracking System (LTS) will be implemented by June 30, 2010.

BILLING FOR SERVICES

1. ITCS—Recharge Rates - Service units bill recharge rates to internal customers. Recharge rates are subject to federal A-21 guidelines for ensuring that only direct costs are passed to grant recipients. The University provides compliance assurance through the Office of Financial Analysis. They obtain and review support documentation for recharge rates and validate that service unit projected revenue and expenses are covered within a + or -5% margin, as recommended by the Financial Operations Sponsored Programs Office. Any amounts outside of the margin are to be rolled over as adjustments to subsequent year recharge rates.

Twenty-four percent of ITCS auxiliary fund recharge rates have received formal approval from Financial Analysis within the last six years. The Provost's Office has reviewed and approved the

remaining recharge rates. The auxiliary fund balance has not been maintained at + or -5% margins required by federal guidelines to maintain break-even or non-profit status.

To ensure compliant rates to internal customers, ITCS should submit recharge rates to Financial Analysis for their auxiliary services at routine intervals of at least every two years. Annual auxiliary department losses and gains, outside of the variance range of + or - 5%, should be incorporated into the subsequent year recharge rate.

Management Plan - While ITS is committed to having compliant rates for internal customers, we welcome the opportunity to further discuss a rigid requirement for resubmitting rates every two years, particularly for services with stable auxiliary balances within the + or - 5% limits. ITS will be undertaking a review of the breadth of service offerings over the next eighteen months, including adding new services, retaining others, and ending still other services. As part of this review, we will determine which services require new or renewed rate requests, and will establish priorities for rate request submissions.

2. **Computer Showcase —Billing** - The Computer Showcase billing procedure is a combination of system and time-intensive manual procedures that include an in-house developed, online procurement portal, RMS system upload to M-Pathways SUB, and payroll deductions tracking. Management should explore opportunities to streamline procedures from recording a purchase through accounts receivable. The cost-benefit of efficiencies over time should be considered.

Management Plan - Special billing processes are currently being updated. We are using internal staff and hired a programmer on a contract basis to expedite these improvements. Our goal is to:

- Streamline the data flow from RMS to third-party systems
- Minimize the manual processes currently involved in the payroll deduction and student account billing transactions
- Correct some of the gaps in the departmental shortcode SUB billing process that we were not able to restrict in RMS.

The use of RMS accounts receivable functionality is being reviewed for additional streamlining opportunities.

3. **ITCom—Business Services and Telecom Operations Billing** - ITCOM Business Services and Telecom Operations billing is processed through the Pinnacle System by the ITCOM Business Services Group. Customers, telecom analysts, foremen, and billing analysts also participate in the process. Customers create detailed requests with estimated costs through the FootPrints online service estimator application. Labor rates and processing charges are posted online for their review. Telecom analysts and foremen refine estimates and transfer them to Pinnacle. Customers agree to final estimates and are kept informed of costs as service projects progress. ITCOM Business Services reconciles labor and materials costs in Pinnacle to supporting documentation and completes a Pinnacle billing quality and assurance screen before a bill can be issued. Foremen, billing analysts, and customers review the bill before it is final. Pinnacle interfaces with M-Pathways service unit billings that result in transfer of funds directly to ITCOM. Adequate controls and collaboration with customers support accurate billing.

MONITORING SERVICES QUALITY AND DEMAND

1. **ITCS—Service Unit Procedures Documentation** - ITCS units consistently did not have documented procedures for processes that would support business continuity and cross-training of backup staff.

Management Plan - A current work effort to consolidate former ITCS and former MAIS Disaster Recovery/Business Continuity plans provides the opportunity to identify gaps in process documentation. This gap analysis can be completed by March 31, 2010.

The appropriate process tool to fill the gaps and complete process documentation is included in the ITS Service Management implementation. Leadership is committed to implementing a framework for the management of IT assets and services. A component to rolling out the framework across the organization is to define and document work so that processes can be evaluated and repeated.

This is a substantial work effort that is just now being estimated and resourcing requirements are being investigated. Although the intent is to begin this work in the current fiscal year, the overall timeline has not yet been defined.

2. ITCom—Business Continuity - ITCOM has redundant network connections and hardware to support their business continuity. Major data centers, including the Michigan Academic Computing Center, Administrative Service Building, and Arbor Lakes, have both redundant and diverse network connectivity. There is a network operations center service agreement with Merit¹. The agreement provides continuous services including electronic monitoring and repair.

Per discussion with the Telecom Director, business continuity plans are outdated and not comprehensive or detailed. A comprehensive, up-to-date change management controls method is not in place.

Management Plan - ITCS Business Continuity Plan was updated to address Pandemic Planning in May 2009. However, as part of the restructuring of the organization, the MAIS Pandemic Plan and ITCS Pandemic Plan were combined and updated in September 2009. The combined plans address a specific scenario for execution of the ITS Business Continuity Plan. It will serve as a foundation for a comprehensive update.

ITS will continue to update the Business Continuity plan on a scheduled basis with the next revision scheduled for completion June 30, 2010. The plan is stored on a SharePoint site with version control in place. Future enhancements to the documentation will be coordinated by ITS-Knowledge Support team, the group responsible for internal technical documentation.

3. University of Michigan Computing Environment—Business Continuity - The UMCE Director indicated that e-mail architecture, gateway, and central e-mail are backed up with triplicate servers. These servers are synced and monitored continuously by on-call staff. Auto paging occurs if an event is identified by the system, and phone trees are in place if additional assistance is needed.

The Director indicated that UMCE disaster recovery and pandemic plans are outdated and may not include adequate dependencies and impacts. Recent C-Tools events suggest a need for greater control including pre-implementation review of program code and operational testing.

¹ Merit Network, Inc. is a non-profit, member-owned organization formed in 1966 to design and implement a computer network between public universities in Michigan.

Management Plan -

- The ITCS Disaster Recovery/Business Continuity Plans are being combined with MAIS plans. Specific templates are used which include detailed process flows. ITS updates its plans on an annual basis with the next complete update scheduled for June 2010. Documentation will be reviewed as part of that work effort; and dependencies and impacts will be examined to ensure inclusion.
 - As mentioned in the previous entry, the ITCS Pandemic Plan was updated in May 2009 and then consolidated with the MAIS Pandemic Plan in September 2009.
 - Managers' roles and responsibilities for all activities related to continuing mission critical functions are included in the templates used to complete the plan. The next complete review and update of the documentation is scheduled for completion in June 2010.
 - ITS supports the use of standard system development life cycle methodologies to ensure the quality of applications delivered to the University and provides a wealth of templates to document the development process. It is expected that the C-Tools team will use these standard methodologies as well as the IT Infrastructure Library Release Management Methodology. Transition to these methodologies will occur over the course of the year. Gaps in process will be filled as part of rolling out the Service Management Initiative and transitioning C-Tools developers into the Application and Information Services group.
4. Campus Computing Sites—Customer Feedback and Demand for Services - There is a customer service feedback link on every campus site computer. In 2009, 6,400 customer feedback responses were received. The U-M Center for Statistical Consultation and Research provides support for analyzing this feedback. Information regarding user demographics, site use, and service demand is gathered and reported with illustrative charts and graphs. End User Services and Campus Computing Sites management applies analysis of data gathered through the customer feedback process to decisions regarding computing site services. The customer service feedback process is effective and makes use of internal expert resources for data analysis.

FINANCIAL MONITORING

ITCS Finance provides support to service units, including assistance with establishing budgets and managing their accounts. To support financial monitoring, they distribute a packet containing numerous financial reports from a high-level management perspective across funds and departments to directors and make it available online. These reports provide budget information, and an annually cumulative, line-item listing of all financial transactions to individual department financial stewards.

- ITCS financial stewards do not routinely review M-Pathways systems-generated Statements of Activity (SOAs). ITCS Finance distributes reports to them that are retrieved from M-Pathways and other sources by programs developed in-house. The stewards indicate they do not review detailed reports unless they have already identified an issue and need information to substantiate.
- Monthly financial reports are created by a single individual through a combination of queries using M-Pathways and external encumbrance data. The data is imported to an Excel spreadsheet with functions, macros, and cell references.
 - There are no documented procedures for generating the financial reports, including locations of the various queries.
 - Spreadsheet cells that reference other cells, sources, macros, or functions are not locked. The spreadsheet as a whole has not been restricted from individuals not responsible for supporting and running the reports.

- Cross-training and designation of a backup to generate the queries and spreadsheets has not occurred. A single individual runs the reports, remotely if away from the office.
- ITCS indicates that adhering to budget is the primary measure of successful process outcomes. There is an opportunity to impact service performance by establishing key performance indicators (KPIs) for both financial and non-financial activity.

Management Plan–Finance - ITS finance staff is assessing opportunities for the organization to leverage enterprise systems and predefined reports with the goal of discontinuing any supplemental reporting processes.

- The ITS finance team intends to provide management with a standard packet of reports that will be generated by means of the M-Pathways Real Time Financial system, Business Objects and the Business and Finance Budget Priorities Committee (BPC) budgeting system. Financial reports will provide ITS management with varying views of budgets, actual and forecast data. *Budget variance thresholds will be established as key performance indicators that trigger review of contributing factors, including original forecasting assumptions.*

The ITS finance team will also institute a process to address reconciliation of financial activity. Efforts are in the early stages of assessing a standard approach but, given the magnitude of financial activity for the ITS organization, it is likely that the final process will be limited to a sampling or targeted approach. This may include finance staff selecting Statements of Activity for ITS departments that have an increased level of risk or variability, in addition to a set number of randomly selected departmental SOAs for a given month. As a deliverable of the new process, documentation will be created which will outline roles and responsibilities.

- Reports will be designed in a way that data is extracted from enterprise applications directly without additional manipulation. Where possible, report generation will be scheduled and distributed in an automated fashion. Key financial documents will be maintained in a SharePoint web portal allowing directors, financial stewards and other appropriate staff access to budget and financial data in a controlled manner.

Management Plan–Services - Administrative help desk and administrative access key performance indicators and thresholds have been identified and are reviewed monthly. Key performance indicators for 4-HELP and Accounts Office access services will be identified by July 2010. ITS will be following the Information Technology Infrastructure Library (ITIL) processes for internal efficiencies. The tools implemented to follow the ITL processes will provide additional metrics and thresholds. An implementation date for all metrics has not been determined.

HUMAN RESOURCES PROCESSES

Employee online time reporting was implemented for ITCS employees. It includes an electronic control to ensure that reported time will not be processed unless authorized approval is the last input to the record. Duties for authorizing new temporary employees, approving time, and reviewing gross pay registers are separated to ensure that more than one person is aware of student temporary employee payroll payments. ITCS HR policies and procedures are documented and available through the ITCS intranet.

- ITCS policy requires written agreements for telecommuters and indicates telecommuters and supervisors should set goals and include them in a work plan.
- ITCS policy and procedures for flexible and unusual schedules are posted on the ITCS intranet. Unusual schedules are defined as schedules involving more than 8 hours in any

one work day. A “normal” schedule requiring more than 8 hours a day but not exceeding 40 hours a week is considered an “unusual” schedule. Memos, approved by management are required for these unusual schedules. Temporary unusual schedules require a Special Schedule Agreement with the specific timesheet. Flexible schedules are not clearly defined.

- During audit interviews, it was noted that relatives work in the same small units. Two sets of related individuals were identified that worked in the same department without written management plans as required by the Standard Practice Guide Section 201.23, *Appointment of Relatives*. Memos composed to address the management plan state that related individuals will not supervise each other. They did not address management plans to manage two related employees reporting to the same supervisor.
- Requests for changes to Pinnacle system access when staff members terminate are made informally by managers via e-mail. There is no specific timeframe or formal procedure outlined in policy for department managers to notify ITCS system applications personnel.

Management Plan

- ITS is instituting formal work planning for all regular staff, to include those who are telecommuters. Training for this program was performed in late September continuing through October. We will offer conference-call training for telecommuters who are not in the Ann Arbor area. All work plans will be in place by late-November. Work plans will be maintained by managers and will be an active document that both the manager and employee work on throughout the year.
- An ITS policy regarding Flexible Schedules will be created and posted on the ITS intranet. We will define flexible schedules versus flexing a schedule. These flexible schedules will be documented, signed by the employee and manager, and will be kept in the employee’s personnel file.
- ITS will develop a policy to obtain formal memos to address management of related employees in the same department by restricting one relative from supervising another. We will utilize the Conflict of Interest/Conflict of Commitment policy to document a management plan when two related employees report to the same manager.
- ITS will define a procedure to require immediate notification of terminations to remove system access. ITS will seek best practices to strengthen our internal controls and will create a documented and implemented procedure.

FACILITIES

A consultant was hired recently to assess space utilization and capacity at Arbor Lakes. The outcome was a space utilization floor plan developed using Building Owners and Managers Association (BOMA) guidelines. The ITCS Director of Finance indicated that Architecture, Engineering, and Construction performed an assessment of the building a year ago. Any necessary facilities construction projects are performed by Plant Operations Construction Services. A Summary Preventive Maintenance Status and Schedule reviewed during the audit indicated a variety of facilities service sources.

The Chief Information Officer and Associate Vice President for Information and Technology Services is aware that there are complex issues involved with owning the Arbor Lakes facilities. Facilities and Operations and ITS management are considering facility use and financial options.

PROCUREMENT

A central procurement function is established within ITCS. Authorized signer approval is required for purchases. A list of authorized signers is updated annually and available for review on the ITCS intranet. Conflict of interest training is provided for all employees and certificates of completion are filed in their ITCS HR file. Six conflict of interest management plans are in place.

- Based on interviews with central procurement staff, it is possible for some managers to authorize purchase and receipt of goods. Signatures are not required of individuals picking up items from central purchasing or for receipt of items delivered to departments.
- The Business Manager reviews and approves P-Card charges for the Director of Finance and reports administratively to the Director.
- A P-Card master file is manually entered and maintained in an Excel spreadsheet. A comparable report is available as a Business Objects M-Pathways maintained report. Central system-generated reports provide greater efficiency and less risk of error than manually entered reports.

Management Plan - The Procurement process is currently being reviewed to create an ITS process.

- We are reviewing the existing practices in MAIS and ITCS relating to transactional purchases, contract creation, and their releases, as well operations that carry re-sellable inventory. We will identify roles and segregate duties.
- The P-Card process is currently being reviewed to create an ITS process. The known issue of an approver reporting to the cardholder has been corrected.
- We will assign an individual to update the P-Card master file spreadsheet on a monthly basis. It will be validated on a regular basis to make sure roles and limits are correct.

University Audits will perform a follow-up review to assess the status of management action plans in the fourth quarter of fiscal year 2010.

School of Art & Design Fiscal Responsibilities
Report Issued December 8, 2009

#2009-201

The mission of the School of Art & Design (the School or A&D) is to foster creative work and shape the creative cultural leaders of tomorrow. A&D was established as a separate school in 1974. The School functioned independently as an academic unit, but shared many administrative, financial, and human resource functions with the Taubman College of Architecture and Urban Planning (Taubman College) for a number of years.

Since 2000, A&D has undergone significant changes, from a complete revision of its academic programs to the establishment of administrative functions, including finance and facilities, development, human resources, and information technology. A&D now functions as an independent school both academically and administratively. The School offers two degree programs: a four-year Bachelor of Fine Arts program and a three-year Master of Fine Arts program. There are approximately 500 students enrolled in the undergraduate program and 30 students in the graduate program. A&D was fully re-accredited by the National Association of Schools of Art and Design (NASAD) in 2007.

The School's facilities are geographically distributed in Ann Arbor and Detroit. The main facility, the Art and Architecture building, located on North Campus, is shared with Taubman College. The majority of A&D classrooms and studios are located in this building. In addition, the School leases four off-campus

facilities. Three of these facilities are in Ann Arbor and include faculty and graduate student studios and an art gallery. The fourth, another gallery, is at the University's Detroit Center.

The primary objective of this audit was to review the operational and financial internal control environment at A&D. University Audits examined the following areas to evaluate the adequacy and effectiveness of internal controls:

- Student travel
- Safety and security in A&D facilities
- Budget and financial monitoring
- Payroll
- Procurement
- Assets, equipment, and materials
- Discretionary funds
- Cash handling
- Gifts
- Summer programs

Control and Risk Discussion:

1. **International Programs** - International experience is an important component of the academic program at A&D. Graduate students are currently required to travel abroad for three to five weeks to fulfill the international experience requirement. Graduate student trips are individual trips proposed by the student with the assistance of faculty advisors and approved by the School's International Engagement Committee. A&D provides substantial funding for these trips. While some A&D undergraduate students already travel overseas as part of University programs, the international experience will become a requirement for all undergraduate students in the academic year 2011. A&D expects the first group of undergraduate students to travel in 2012-2013. School funding for undergraduate trips is limited to some support for travel expenses. The international experience requirement for undergraduate students can be fulfilled in a number of ways, including participating in an A&D or completing any other University summer international program, attending a semester of school at a foreign institution, or any other study or work abroad program. University Audits observed that:
 - Policies and procedures related to international travel are not well documented.
 - The administrative roles and responsibilities over approval for funding of travel and funding are not clear. For example, undergraduate students can obtain approval from the Associate Dean for Undergraduate Students or the Director of International Engagement. Unclear administrative roles may result in inappropriate approval of trips and distribution of funds to students.
 - A&D follows University guidelines on emergency procedures for international travel but does not have customized emergency procedures in place for each destination to which students travel.

Management Plan - The A&D faculty International Committee is working on developing policies and procedures to be used as a guide by faculty and staff who organize and direct international programs. This work by the International Committee will clarify the administrative roles and responsibilities for approval of travel and funding.

Regarding emergency procedures and plans, A&D will refer to existing resources at the University level. The School will provide the documentation to the students. This information and a pre-departure manual that will be developed (and made available as a downloadable PDF document) will also be shared with the students via the School's website.

2. Supplemental System - The A&D Finance Office has developed a FileMaker database that is used for financial reporting and monitoring. This system is maintained parallel to M-Pathways, the University's financial system. Every A&D financial transaction is posted to M-Pathways and manually to the FileMaker database and the Finance Office must regularly reconcile the FileMaker system to University M-Pathways reports. This supplemental or "shadow" system assists the Finance Office with monitoring budget to actual expenses including encumbrances, preparing financial reports for A&D faculty and budget managers, and tracking expenses by account subcategories. Recent improvements to M-Pathways, particularly Real Time Financials, offer departments new options to achieve these same objectives using the University's centralized system. This shadow system creates inefficiencies, particularly because of the redundant entry of financial transactions in two systems, increases the risk for inaccuracies, and should only be used when the University's financial system cannot accomplish the unit's objectives.

Management Plan - The Finance Office needs to investigate how Real Time Financials can track budgets at the level that meets A&D reporting needs. The Finance Office will continue to utilize the supplemental system to maintain continuity of its reporting process in the short term. This means the Finance Office will develop procedures for maintaining and operating the supplemental system. Additional staff will be adequately trained in operating the supplemental system. The supplemental system is already fully backed up each night. Except for financial account information, there is no sensitive information that is keyed into the supplemental system.

In the medium term, the Finance Office will consult with ITS and explore using Real Time Financials for a few accounts as tests. The test approach will assist with the reconfiguration of chartfield combinations, use of unit defined commitments, and training of Finance Office staff, faculty, and other A&D administrators. Adopting Real Time Financials in the long term may involve fundamental modifications to the A&D chartcom structure. Therefore, the Finance Office has to get enough support from the Dean, faculty, and other administrators to move forward with these changes for the entire School.

3. Statement of Activities Reconciliation - The A&D Assistant Director of Finance is responsible for reconciling the Statements of Activity (SOA). The Assistant Director of Finance reconciles the monthly SOA to the shadow financial system developed by the Finance Office. Source documents are reviewed only when unusual transactions are noticed. A reconciliation to original supporting documentation is not consistently performed. Errors and inappropriate charges may not be identified without comparing transactions to source documents. In addition, the reconciler has system access to initiate and approve procurement transactions. While initiating transactions is not one of his primary responsibilities, this access provides the opportunity to control a purchasing transaction from start to finish.

Management Plan - The original source documentation is logged into the shadow system via a posting entry. The posting entry summarizes the source documentation (vendor, description, account value, amount, shortcode, etc.). When an entry does not exist in the shadow system for a charge that appears on the SOA, or when the dollar amounts do not agree, then the original source documentation is referenced. In the future, the Finance Office will reconcile the SOA to source documents, especially for Non-PO vouchers and People Pay transactions. These procedures will make this process more effective in detecting errors or inappropriate charges. Procurement access roles for the person responsible for reconciling the SOA will be reviewed and deleted.

4. P-Cards - A&D has centralized the review and approval of P-Card statements in the Finance Office. The Chief Administrative Officer (CAO) of A&D is the P-Card approver for almost all of

the School's 70 P-Cards. He performs compliance reviews to ensure P-Cards are used in accordance with University and A&D guidelines. The CAO may not always be in the best position to determine if the P-Card purchases for each P-Card holder are appropriate business expenses.

Management Plan - Since the type of expenditures for operations of the school is not complex, the CAO is very well aware of the type of expenditures each cardholder is expected to incur in his/her P-Card. When the above control recommendation is implemented, only about half of the P-Cards transactions will be reviewed for appropriateness of business expenditures by their supervisors before the P-Card statements come to the CAO for approval. For all the faculty P-Card holders and all the senior managers, the CAO will continue to review and approve their P-Card transactions. Further, since the electronic system of CONCUR for submitting and reconciling P-Card transactions will be implemented sometime in 2010, it is not clear what the exact electronic process is for review and approval for P-Card transactions by the supervisors or CAO is at this time. As this process and procedures become clearer, we will be able to implement this change in Concur.

5. **Payroll** - To improve the controls in the timekeeping and payroll processes, A&D should:
- Assign the duty of reconciling the GPR to someone who does not enter or approve time in the payroll system. If this is not feasible, a higher administrative authority should perform regular monitoring and review.
 - Retain documented evidence of GPR reconciliation for three years in accordance with University policy.
 - Require the reconciler to initial and date the GPR. The ITS eReconciliation tool may be used to accomplish this and to record electronic evidence of reconciliation efficiently.

Management Plan - The above controls recommendations will be implemented. The Assistant Director of Finance will reconcile the GPRs on a bi-weekly basis. We will consult with ITS on using the eReconciliation tool for reconciling GPRs and make a decision on using the electronic or paper method of reconciling GPRs. Under either method, paper or electronic, we will record evidence of reconciliation of GPRs in the future.

6. **Cash Handling** - University Audits tested cash handling controls in A&D's two main areas that receive external revenues: summer programs (programs for middle school and high school students administered by the Undergraduate Academic Programs Office) and the alumni show (an annual exhibition of alumni art work administered by the Development Office). Specific individuals within each of the two areas handle billing and receipts. The Finance Office is responsible for making the cash deposits. University Audits observed that cash received is not always reconciled to cash deposits. Lack of proper reconciliation and management oversight increases the risk that billing and cash handling irregularities may go undetected.

Management Plan - The Undergraduate Academic Programs Office and Development Office will maintain a record (a log) of all cash receipts and provide this information to the Finance Office on a regular basis, once a week. These records will be received by the Assistant Director of Finance. There will be no change in the cash deposit procedures of the Finance Office staff. Copies of cash deposit tickets will be provided to the Assistant Director of Finance by the Finance Office staff (who process cash deposits). The Assistant Director will reconcile cash receipts log records against the cash deposit tickets to ensure accuracy and investigate discrepancies.

7. Summer Programs - A&D recently started offering a few summer programs for students of middle school through high school age. Review of processes for operating the programs revealed the following opportunities for improvement:

- Key operational policies and procedures are not documented.
- Medications are not checked in and controlled by the camp employees.
- Parents that need to remove their student from the camp for a period of time are not required to sign the child in and out.
- Emergency procedures are not documented and communicated to all camp employees.
- Documentation was not available to support background checks performed for camp staff residing with the youth.
- The Motor Vehicle Record was not checked for the individual responsible for transporting the campers.

Management Plan - The School's Academic Programs Office will create an A&D Summer Programs policies and procedures manual that contains information pursuant to our operation of summer camps. The manual will address issues of student medication, signing students in or out of a program, and emergency procedures including those noted in the above control recommendation. Instructors and other camp employees (e.g., residence hall assistant) will be required to read these policies and to help enforce them. Per auditor's recommendation, Motor Vehicle Records of persons responsible for transporting campers will be checked using guidance from Conference Services and Transportation Services.

Regarding background checks for camp employees, the University's Housing Office requires Conference Services to conduct background searches using DPS. A&D will be more proactive about asking Conference Services about the results of the background checks. While we plan to continue to comply with the background search as required by Conference Services, we await further guidance from the Summer Safety Oversight Committee, specifically their recommendations, procedures, and guidelines. We will continue to monitor the Conference Services' website for updates on this issue.

Based on the audit work conducted, University Audits determined that fundamental internal controls exist in many of A&D's business practices. University Audits will conduct a follow-up review in the fourth quarter of fiscal year 2010 to assess the effectiveness and adequacy of implemented internal controls identified in management action plans.

University of Michigan-Dearborn Department of Public Safety
Report issued December 22, 2009

#2009-210

University Audits conducted a review of the University of Michigan – Dearborn (UM-Dearborn) Department of Public Safety (DPS). DPS is a full service law enforcement agency licensed through the Michigan Commission on Law Enforcement Standards (MCOLES). It exists to ensure the safety and security of the University community and resources throughout the UM-Dearborn campus. The department is comprised of both police officers, trained and certified through MCOLES, and unarmed security guards. DPS also promotes community-policing efforts by utilizing work-study students to patrol and monitor remote areas of campus such as the Fairlane Lake in the Natural Area of campus. A small administrative staff handles all financial and clerical processes necessary to support the department's operations.

DPS also provides security for the adjoining Henry Ford Estate, and administers security guard coverage inside the campus library. They do not manage security at the Fairlane Center located just off campus.

While some classes are taught in this facility, UM-Dearborn leases a portion of this building to another organization. That organization is responsible for facilities operations and security. DPS does coordinate with the Fairlane Center security force and provides assistance as necessary. Fairlane Center crime statistics are included in all campus crime reports.

DPS works closely with the City of Dearborn Police Department (Dearborn PD) to coordinate security for large community events held on campus. Dearborn PD also provides investigative support to DPS as necessary and handles evidence collection and storage.

At one time, the campus' Environment Health (EH) team reported to the Director of DPS. During the course of the audit, EH staff transitioned to a dual reporting relationship to both the UM-Dearborn Vice Chancellor for Business Affairs and the Chief of Staff in the Chancellor's Office.

Our primary objective was to determine if DPS policies, procedures, and other internal controls are in place and working appropriately to ensure compliance with University guidelines and state and federal regulations. Review of the Fairlane Center's internal controls beyond crime reporting was outside the scope of this audit. Review of EH controls was limited to testing of the administrative and financial processes that have not yet transitioned to the Vice Chancellor's office.

The audit included review of the following processes:

- Employment, including background checks and drug testing
- Payroll and special compensation
- Purchasing
- Financial reporting and monitoring
- Conflict of interest/commitment

Additionally, University Audits evaluated the strength of controls related to:

- Documentation of departmental policies and procedures
- Information technology security
- Regulatory reporting and compliance
- Asset (vehicle/equipment) management
- Firearm management
- Lost and found property management
- Delegation of authority

Control and Risk Discussion:

1. Documentation of Administrative and Financial Procedures - The department has a comprehensive repository of operational policies covering topics ranging from police investigations and reports to equipment and uniforms. However, procedural documentation related to administrative duties is not sufficient to support operations in the absence of the Business Administrator. Testing showed the department's administrative processes to be sound and well managed. However, adequate documentation and cross training of staff on routine administrative processes is crucial to ensuring business continuity in small departments like DPS. It is important to address critical controls such as adequate segregation of duties in this type of documentation.

Management Plan - The department's Business Administrator has begun working to expand existing administrative procedural documentation in a Position Duties document. Care will be taken to include step-by-step procedures for unit-specific processes related to items noted above

along with other processes noted in the audit. Management will support cross-training of office staff on administrative processes, where feasible.

2. **Financial Shadow System** - The Business Administrator is using an Excel-based shadow system to dissect and analyze financial data. Better use of the M-Pathways chartfield structure and encumbrance functionality could accomplish this more efficiently. Issues observed related to the use of the shadow system include, but are not limited to:
 - Duplication of effort
 - Increased risk of error due to manual manipulation of data
 - Lack of procedural documentation including password security protocols
 - Lack of cross-training

Management Plan - The department's Business Administrator will work with our Financial and General Services office to reorganize our M-Pathways chartfield structure. We also plan to begin using the M-Pathways encumbrance functionality to enhance reporting and analysis. Once we are confident that we can meet all our analytical and reporting needs, we will cease use of our financial shadow system. Management recognizes that administrative staff may need additional M-Pathways training to implement this action plan properly.

3. **Segregation of Duties** - The Business Administrator reconciles all Statements of Activity while also managing the majority of the department's purchasing. Segregation of duties is not sufficient and allows one person to handle a transaction from beginning to end. Adequate segregation of duties is important to detect errors and deter inappropriate spending.

Management Plan - Management plans to review and authorize all Statements of Activity to strengthen segregation of duties and reduce the potential for errors.

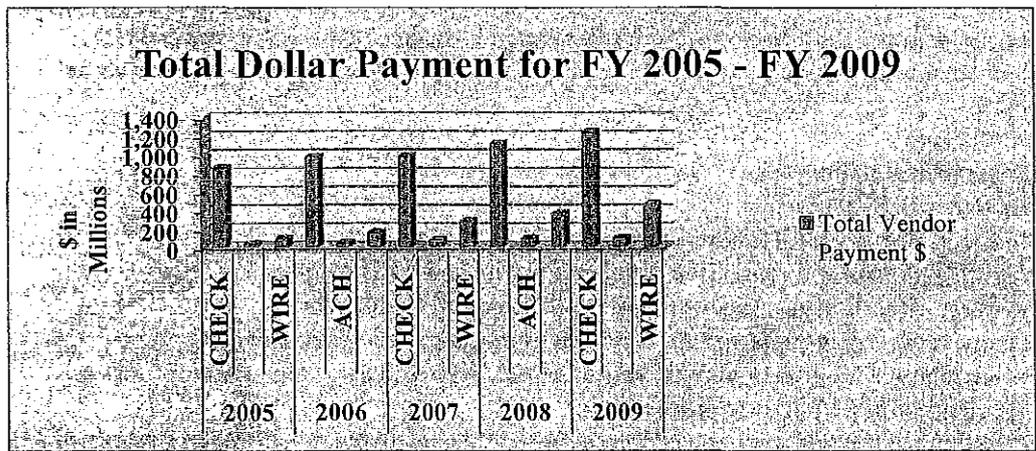
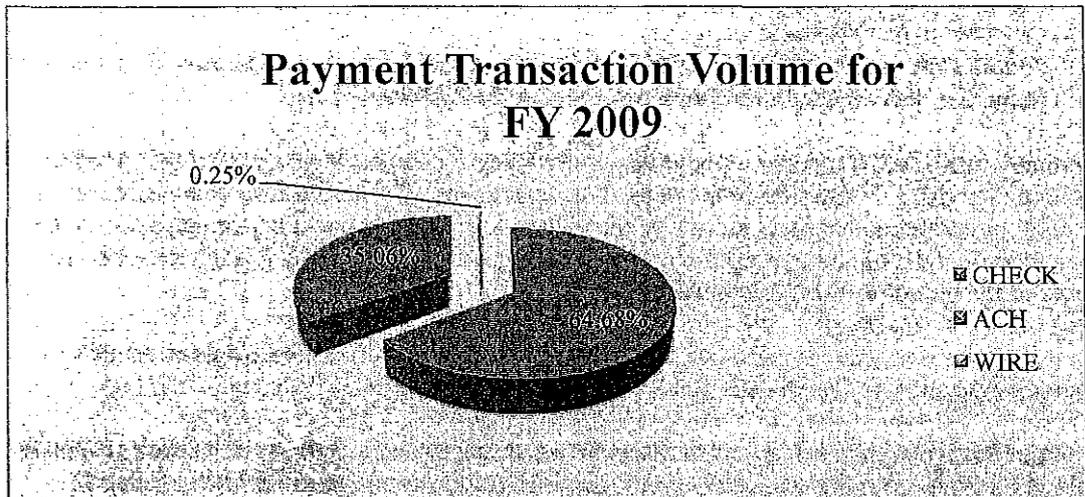
DPS has developed a strong control environment around operational activities. The administrative office, though small in size, manages departmental business effectively. In light of the department's progress-to-date, University Audits will return early in the fourth quarter of fiscal year 2010 to confirm complete implementation of all management plans.

Wire and ACH Transfer Process
Report issued January 6, 2010

#2009-112

Electronic Fund Transfer (EFT) is an important component of the University of Michigan's core business functions. Wire and Automated Clearing House (ACH) transfers are two widely used forms of EFT. Wire transfer is a real-time and expedient method of transferring funds and supporting information immediately between two financial institutions and is relatively expensive to use. The University typically uses the wire transfer method for overseas and foreign currency fund transfers. In contrast, ACH transfers are less expensive than wire transfers and take at least one business day for funds to be available in the beneficiary account. U-M uses this payment method primarily for domestic fund transfers. At U-M, both EFT processes are commonly referred to as wire transfers. This audit focused on both forms of EFT.

The University processes numerous financial transactions via EFT and, in recent years, has experienced an increase in the use of wire and ACH transfers both in volume and dollar amount. Charts below illustrate what portion of payment transactions was completed via EFT during fiscal year 2009 and how vendor payment through wire and ACH transfer has grown over last five years:



Process Overview

Since the University maintains a centralized management approach for treasury and banking services, all EFT transactions for the University are processed by the Treasurer's Office. However, Treasury is merely the executor of the process. Treasury processes outgoing ACH transactions through Bank of America. Custom House Global Foreign Exchange is the EFT service provider that processes wire transfers to foreign vendors (in both US and foreign currency). Basic steps for wire transfer process are as follows:

- Authorized department personnel complete a Wire Request Form, available on Treasury's website, to initiate a wire transfer. Departments can request that payments be made by EFT (in US or foreign currency) to organizations or individuals for both PO and non-PO voucher payments. U-M departments send the Wire Request Form directly to the Accounts Payable (AP) office, which is part of Procurement Services.
- Procurement Services staff review the transfer request and related supporting documents to ensure compliance with University guidelines, federal, state and local laws, and other applicable regulation, codes and ordinances. After the wire request is approved, Procurement sends the documents to Treasury for execution of the wire transfer.
- A copy of the Wire Request Form and payment confirmation from the bank and Custom House is routed to the Accounting Services team, which is part of Financial Operations, for processing.

- Financial Operations staff ensure that the transaction has been processed accurately and approve the voucher in M-Pathways.
- The voucher is processed in M-Pathways to create a journal entry to record the EFT transaction.
- Banking Services reconciles the bank statements to M-Pathways data.

Some routine wire and ACH transfer requests required for payroll, tax payments, and benefit programs are submitted directly to Treasury from the requesting department. These recurring transactions are processed through Bank of America. Copies of the request forms and payment confirmations from the bank go directly to the requesting department. Some of these departments (e.g., Payroll and Benefits Office) record the transactions in M-Pathways.

The University receives some payments such as tuition and payments for hospital services via EFT. These incoming payments come directly to U-M bank accounts.

The primary objective of this review was to assess the adequacy and effectiveness of controls related to Electronic Fund Transfer processes, including wire and ACH transfers. Our review included EFT transactions processed by Treasury for investment-related transactions such as capital calls of alternative investments. However, as investments are governed by separately established contracts, investment-related processes performed by the Investment Office and Financial Operations' Investment Reconciliation team were not included in this review. University Audits examined controls in the following areas:

- Authorization
- Segregations of duties
- Bank reconciliation
- Initiation and approval of non-repetitive wire or ACH transactions
- Creation, approval, and processing of repetitive wire and ACH transfers
- Recording, allocation, and reconciliation of incoming EFT transfers
- Financial reporting for wire and ACH related transactions in M-Pathways
- Confidentiality and security of wire and ACH transaction data
- Agreements with EFT service providers
- EFT training, education, and instruction documentation available to University departments

Control and Risk Discussion:

1. Security of Sensitive Vendor Data - The wire transfer request form contains detailed vendor information including vendor name, payment amount, vendor's bank name, city, state, and country where the bank is located, routing number, and SWIFT (Society for Worldwide Interbank Financial Telecommunications) codes. To execute the transaction, Treasury scans the wire transfer request form to a PDF document and sends the file to Custom House via email for processing. The PDF document is not password-protected and is sent to Custom House via unencrypted email over the public internet where it is subject to eavesdropping that could lead to an information security breach.

Management Plan - The upcoming implementation of the newly enhanced foreign draft/EFT request process, which will be integrated with the non-PO/PO voucher request process in M-Pathways, will eliminate this risk by use of a direct transmission to Custom House for approved vouchers in the M-Pathways system.

In the interim, the Cash Management team will implement a password protected e-mail process with Custom House to reduce the risk of exposure of sensitive vendor information during the communication process.

2. Compliance with Office of Foreign Assets Control (OFAC) Regulation - The University regularly conducts business with foreign vendors and, consequently, is subject to the Office of Foreign Assets Control (OFAC) regulations. OFAC, part of the U.S. Department of Treasury, enforces economic and trade sanctions based on U.S. foreign policy and national security goals. To comply with OFAC regulations, University management must ensure that no U-M unit is conducting business with foreign vendors on OFACs specially designated national (SDN) list available on the OFAC website. Specially designated nationals are organizations and individuals who are restricted from doing business with the United States, American companies, or Americans. Compliance with OFAC regulations is mandatory, and the penalties for noncompliance can be substantial. Procurement Services' Vendor Maintenance Team is charged with the maintenance of the University's vendor database. A record must exist in the database before a U-M department can complete a procurement transaction (e.g., ePro req, on-PO voucher) for that vendor. Procurement Services currently does not have a process in place to monitor the University's foreign vendor list on a regular basis to verify that the University is not conducting business with any SDN. However, Treasury relies on the bank and Custom House to deny the service if U-M tries to pay a SDN via wire transfer as a compensating control.

Management Plan - As of December 4, 2009, Vendor Maintenance is reviewing the OFAC list prior to setting up a foreign supplier. We will also continue to review the Office of Inspector General list of excluded individuals and entities prior to setting up a supplier.

Auditor's Note: Management has taken steps to immediately address the issue of OFAC compliance monitoring. University Audits will assess status of the implemented procedure during our follow-up review.

3. Strategic Vendor Payment Processing - Strategic vendors are the University's preferred suppliers with strategic contracts. These vendors participate in the University's eBilling process, and Procurement Services uses the eSettlement system or a separate MS Access database to process strategic vendor payments. During the Marketsite Process Review performed in September 2008, University Audits examined the eBilling processes and concluded that controls over the eBilling payments processed using MS Access databases are not as robust as required for an application this critical to the University's business operations. Control deficiencies noted during this review included infrastructural weaknesses such as less stringent requirements for backups, physical security, data security, documentation, continuity planning, and access control weaknesses such as use of direct file changes rather than credit memos to reflect the actual amount owed on an invoice. These MS Access databases are housed and run on desktop software and are stored on a shared departmental file server. Such control weaknesses increase risk related to data security, inaccurate processing of vendor payments, and mishandling of vendor data due to manual processes.

Procurement Services proposed solution to these control deficiencies was to move the vendors from the MS Access database to the eSettlement system. Since the review in 2008, Procurement has made noteworthy progress by moving forty-nine vendors to the eSettlement system. However, Procurement Services continues to use the MS Access database system to process vendor payments for approximately ninety-four vendors without resolving many of the control deficiencies noted during the Marketsite Review. Consequently, management has assumed the risk related to the MS Access database dependent eBilling process until they are able to move all strategic vendors to the more robust eSettlement process. Management has not set a definite timeline for when the remaining vendors paid using the MS Access database would be moved to the eSettlement process.

Management Plan - Procurement Services will move the strategic vendors currently on the MS Access database to the eSettlement system by December 2010.

4. **Unallocated Fund Management** - Banking Services manually records all incoming wire and ACH transfers in M-Pathways. For some incoming transfers, due to insufficient information provided by the fund transferor, Banking Services is unable to identify the departments that should receive the money. These unidentified incoming funds are transferred to a specific account in the University's unallocated fund. Meanwhile, the Financial Operations staff researches the source of the funds in an attempt to identify the appropriate department or account. If they are able to successfully identify the correct account, the money is transferred from the unallocated fund to the department's designated account. At the time of the audit, there was no documented policy in place to provide guidance regarding how the unallocated fund should be administered. As a result, the fund balance included unidentified incoming transfers from fiscal year 2007 and Financial Operations staff were not sure when the balance should be written-off. Such practice creates the opportunity for misuse of University funds and could result in underutilization of University resources.

Management Plan - Financial Operations has formulated policy and procedures to administer this unallocated fund. According to this new policy, all unidentified wire and ACH transfers will be recorded in the U-M General Ledger on a daily basis. As the deposits are identified, a journal entry will be created to transfer the funds. In June, any unallocated amounts older than eighteen months will be written-off to the U-M account used to record miscellaneous revenue from outside sources (chartfields- Account: 414090/ Fund: 40000/ Dept: 688150/ Program: 11580). As part of the year-end closing process, these chartfields will be cleared to the University's Internal Bank where the unidentified deposits will be used to fund designated initiatives by the Internal Bank Group. The write-off part of the policy will be implemented at year-end of fiscal year 2010. This policy has been shared with University Audits.

5. **Authorized User List** - The agreement with Custom House states that the Treasury Manager is responsible for providing Custom House with a list of authorized users allowed to place wire transfer orders. The agreement clearly states that Treasury is responsible for notifying Custom House of any changes to this authorized users list. Treasury has the initial Custom House agreement available that includes a list of authorized users who can approve wire transfers. However, recently Treasury informally requested that Custom House add an employee as an authorized user without updating the authorized user list to reflect this change. Based on this informal addition, the new authorized user has been processing wire transfers through Custom House for several months. Furthermore, the Treasury Manager informed Custom House that the administrative assistant for the Treasurer's Office is allowed to email wire requests to Custom House and has been instructed to copy the Treasury manager and Treasury analysts on the email. This communication has not been documented. Lack of documentation diminishes Treasury's capability to administer user access.

Management Plan - Treasury will maintain a formal document, which will be supplied to Custom House, listing personnel authorized for access to the online reporting system and transactional authorization. This document will be reviewed and verified annually.

6. **Transaction Limits** - The review of Custom House and bank of America transactions revealed:
Custom House Transactions
Based on the Custom House agreement, authorized Treasury employees can direct Custom House to transfer any amount of funds to any organization or individual without requiring a

second approval. Although Treasury has designed controls to detect unauthorized transactions (i.e., review of the daily cash position report), not setting a transaction limit creates an opportunity for misappropriation of University assets.

Bank of America Transactions

All employees with authority to process wire and ACH transfers can release any amount of cash (up-to \$99,999,999.99) from the University's outgoing wire/ACH account with Bank of America. Lack of a limit increases the risk of inappropriate and inaccurately processed transfers. As compensating controls, Treasury relies on the following:

- For repetitive wire and ACH transfers, employees can send money to only preapproved accounts using management approved templates.
- Repetitive transactions are restricted to well-established vendors, such as state government and Blue Cross Blue Shield that allow payment reversals or adjustments during the next payment period.
- The processing cycle allows a few days to identify a mistake and stop payment for ACH transactions.
- Secondary approval is required for non-repetitive transactions.

University Audits acknowledges that control systems currently in place could discover such a transaction after the fact, but due to the risk involved, preventive controls should be implemented in addition to detective controls.

Management Plan - Treasury will implement a callback process for all Custom House wires exceeding \$100,000 (USD). The callback confirmation will be to a Treasury team member other than the team member that has initiated the transfers for the day.

Treasury will implement the use of transactional limits within the CashPro Online banking system for each Cash Management staff member authorized to input and/or approve wire and ACH transfers. Repetitive wire and ACH templates will also be given a transactional limit appropriate for the given transaction.

7. Wire Transfer Policy - Review of the wire and ACH transfer samples revealed that:

- On several occasions University departments initiated a request for payments after the vendor's payment term had expired. This business practice could result in late payments and penalties.
- Occasionally departments initiate wire requests for same day transfers and do not allot sufficient time for AP to review the payment. In such cases, payments may not be processed to meet the transfer date requested by the departments.
- The Wire Request Form does not require department personnel approving the form to include their printed name and title. Without a legible name and title of the approver it is difficult for AP auditors to confirm that wire requests are approved by authorized department personnel and may provide opportunity for misappropriation of University resources.

Management Plan - All findings stated above will be addressed with the implementation of the new online wire request process using M-Pathways. The voucher due date will determine when the wire will be generated. The voucher will track the staff member that entered the voucher/wire request, modified the voucher/wire request, and approved the voucher/wire request.

8. Controls over Wire and ACH Transfer Processes - Controls governing the wire and ACH transfer process can be strengthened. Specifically:
- Banking Services staff has read-only access to the online banking platform for all U-M banks (e.g., Bank of America's CashPro site). This access facilitates the reconciliation of bank statements to M-Pathways records. Treasury manages access to bank data for all U-M employees. Currently, Treasury does not have a process in place to actively monitor access rights and privileges for Banking Services employees. The Treasury Manager relies on Banking Services management to indicate when an employee is terminated or transferred. However, Banking Services' transfer and termination checklists do not include a line item to remind management to inform Treasury that an employee's access to bank data should be revoked.
 - Job responsibilities for Treasury employees regarding the wire and ACH transfer process (e.g., who is responsible for creating and approving repetitive wire and ACH templates, process to initiate and approve non-repetitive transfers through Bank of America) are not documented. A documented wire and ACH transfer process and clearly defined employee job responsibilities will be helpful to train new employees and act as a reference for current employees.
 - Banking Services' process for reconciling incoming wire and ACH transfers is documented, however, the outgoing wire and ACH transfer process needs to be documented.

Management Plan -

- Treasury will complete a yearly comprehensive review of the bank reporting systems to ensure that all current users are still authorized for their corresponding access.
- Banking Services will update their checklists for employee transfer and termination to include a reminder to notify the Treasury Department to remove access for the affected individual.
- Treasury will incorporate the use of a comprehensive document outlining the controls, roles, and functions as it relates to funds transfer initiation, authorization, and approvals within the Cash Management department. The document will detail the names of individuals currently serving in the designated capacities and documentation of their corresponding signatures. This document will be reviewed and signed by the University Treasurer annually.
- Banking Services is also in the process of updating the procedures for their Funds group. During this update, procedures for reconciling outgoing wire and ACH transfers will be documented. In the future, all procedures will be periodically reviewed to ensure that they meet our continually evolving needs.

Based on the review conducted, University Audits determined the overall control environment for the EFT process is sound. University Audits will conduct a follow-up review in the fourth quarter of fiscal year 2010 to assess progress of action plan implementation.

Follow-up Reviews

Grade System: Web-based Grade Changes Follow-up Review
Original Report issued December 23, 2008

2008-114
Follow-up Report issued December 22, 2009

A recent follow-up review examined open audit issues and corresponding corrective actions.

- Role Assignment Guidance - User access within the Web-based Grade System is defined by roles. To maintain a highly flexible environment, role assignment is the responsibility of academic departments. This decentralized authority can create situations where roles are inappropriately defined and inconsistently assigned across campus. University Audits recommended that Information and Technology Services - Student Administration (ITS SA) work with ITS Access Services to create documentation describing each role, the access associated with it, and recommendations for role assignment. ITS SA worked with the Registrar's Office to develop documentation detailing the abilities of each role. University Audits reviewed this documentation and found that it provides precise information about the roles so informed decisions can be made on how to assign roles to staff. **This item is closed.**
- Customization Guidance - The Web-based Grade 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, proxies, and automated notifications. This flexibility can create situations where permissions and notification settings are adjusted by users in a manner rendering them inappropriate or ineffective. To reduce potential confusion over these options, University Audits recommended that ITS SA create documentation describing the customizable features, the impact of changes to these features on security, and recommendations for settings for each customizable feature. ITS SA worked with the Registrar's Office to develop documentation and training on system customization. Documents are now available to faculty and staff providing detailed descriptions of the available changes and their impact. Additionally, MyLinc training exercises have been developed to teach users how to make the changes. University Audits has reviewed this information and agrees that it will help faculty and staff customize the Web-based Grade System to meet their department's individual needs. **This item is closed.**
- Two-Factor Authentication Issue - The Web-based Grade System is accessed through Wolverine Access using a username and Kerberos password. Use of an MToken is not currently required. University Audits recommended that ITS upgrade security of the system by requiring use of the MToken for a second factor of authentication for faculty, staff, and graduate assistants using the system. ITS SA has proposed this project. The project has been delayed due to budgetary concerns. ITS SA staff stated that there are no technical hurdles to implementing two-factor authentication. ITS SA will continue to seek funding for this project. **This item is closed.**

The issues from the original audit have been satisfactorily addressed.

Research Computing at the College of Engineering Second Follow-up Review

#2008-302

Original Report Issued October 29, 2008

First Follow-Up September 3, 2009

Second Follow-up December 22, 2009

Management continues to implement a number of positive changes that will strengthen internal controls. Some issues are still being addressed, but measurable progress has been made.

- Unsupported Devices - An unsupported device is anything that uses the network but is not directly supported by information technology (IT) staff. In the CoE, this includes sensors, measuring devices, various laptops, and smart phones (i.e., Blackberry and iPhone). While these devices are not actively supported by CoE IT, they make active use of the network and, in some cases, carry U-M data. University Audits recommended that CAEN and CoE department IT groups create a best practices document to provide guidance for the users of unsupported devices. CAEN is working with CoE IT departments to develop a comprehensive document. **Work on this item continues.**

- Users with System Administrator Privileges - Security best practice states that users should be given restricted accounts on their computers. This practice prevents users from accidentally making critical changes, inadvertently installing malicious software, or harming other systems on the network. From time to time, a user's needs creates the necessity to give that user administrator-level privileges. University Audits recommended the implementation of a process to track which users are given administrator access and for what purpose. CAEN is adding questions to a sensitive information survey that will be distributed college-wide to identify users with administrator-level privileges. This information will then be provided to the IT departments within CoE for tracking purposes. **Work on this item continues.**
- Procedural Documentation - Throughout the CoE, IT groups have found creative and effective ways of handling a variety of situations. Good practices are in place for system configuration, incident handling, addressing vulnerabilities, and dealing with non-standard devices. However, many of these solutions are not documented. University Audits recommended that each group review their current practices, procedures, and policies and ensure they are well-documented. CAEN has worked with each IT department to create this documentation. A wiki was created with templates and CAEN's procedural documentation to assist the IT groups in creating their own. The wiki has been embraced as a place for the IT groups to share their documentation and share information with their peers. CAEN will continue to maintain the wiki to ensure its availability. **This item is now closed**

NCAA Directed Review – Countable Athletically Related Activities Follow-up Review #2009-401
Original Report Issued July 24, 2009 Follow-Up January 27, 2010

During fiscal year 2009, University Audits performed a Directed Review of key NCAA compliance areas, which includes playing and practice season activities. At the time of our review in May 2009, the football program had not submitted any Countable Athletically Related Activities (CARA) forms for the 2008/2009 season. A memorandum summarizing this review and emphasizing the importance of ensuring that CARA forms are submitted on time was issued on July 24, 2009. In August 2009, the Compliance Services Office conducted two meetings to review the memo and discuss action plans to address the concerns raised in the memo: an initial meeting with the Athletic Director, Head Coach, Director of Football Operations, and Sport Administrator, and a supplemental meeting with other key Football personnel.

A follow-up review was conducted to assess improvements in procedures to monitor CARA for football and other varsity sports. Football CARA forms for the Fall 2008 and Winter 2009 terms are now on file in the Compliance Services Office. To date, Fall 2009 football CARA forms have been submitted timely per the Compliance Services Office's CARA policy.

Since the Directed Review, the Compliance Services Office updated their policy for monitoring CARA to include:

- Additional information regarding education for coaches, student-athletes, sport administrators, and strength and conditioning coaches regarding annual CARA requirements
- Specific timeframes for completing and submitting CARA forms
- An escalation process for communicating to University executive leadership when CARA forms are not submitted by specific due dates
- Random practice site visits by the Compliance Services Office and sport administrators
- Additional information regarding use of senior exit interviews to obtain information from student-athletics about any potential NCAA violations involving CARA.

The Compliance Services Office is in the process of developing an online CARA reporting system. The target date for implementation is Fall 2010. This new system should further improve processes for monitoring CARA and will provide student-athletes the ability to verify and report practice activities confidentially.

University Audits will continue to review playing and practice season policies and procedures for compliance with NCAA bylaws during the annual NCAA Directed Review.

University of Michigan Hospitals and Health Centers East Ann Arbor Ambulatory Surgery and Medical Procedures Center – Follow-up Review #2009-208
Original Report Issued July 28, 2009 Follow-Up January 28, 2010

University Audits conducted a follow-up review to determine the status of management action plans. Action plans have been satisfactorily completed. **This audit is closed.**

The following actions were completed to enhance security:

- Effective September 2009, the loading dock entrance is secure during normal business hours. Select UMHHC employees (i.e., Materiel Services) and approved outside vendors have ID card access. All others report to the front desk.
- Management updated reconcilers and approvers on active P-Card holder profiles.
- The credit card terminal was updated to University standards and is kept in a secure location.

The following actions were completed to strengthen payroll practices:

- The Timekeeper reviews time reports for appropriate approval and returns any uncompleted reports to supervisors for correction before entering time data into the payroll system.
- Managers and timekeepers attended training to update awareness of current payroll practices.
- All salaried employees complete monthly exception time reports. Medical Directors are responsible for reviewing and approving time reports.
- Payroll review procedures were enhanced to verify time reports are approved, ensure variances are discussed with appropriate personnel, and ensure corrections are made in the next pay period.
- Management is in the process of implementing more standardized timekeeping practices between various reporting units to improve the process.

**Open Audits Follow-up Table
January 31, 2010**

Audit Title	Report Date	Issues	Expected Completion
College of Engineering Research Computing 2008-302	10/29/08	Vulnerable systems; unnecessary services; unknown ports and services; unknown systems; unsupported devices; users with system administrator privileges; updating firewalls; procedural documentation	First Follow-up September 2009
			Second Follow-up December 2009
			March 2010
Housing Information Technology Office Residential Housing Network 2009-309	5/28/09	Registration scans; patching through portal; vulnerable systems; traffic analysis; incident response procedure; signed service agreements	February 2010
ITS Virtual Firewall 2009-307	11/20/09	Security and contingency planning; data backups testing; change control	March 2010
Architecture, Engineering and Construction AEction 2009-303	11/23/09	Business continuity planning	March 2010
University of Michigan Hospitals and Health Centers Cashier's Office 2008-206	10/17/08	Segregation of duties; bank statement reconciliation and check writing practices; follow-up of outstanding vouchers; duplicate facility refunds	First Follow-up June 2009
			May 2010
UMHHC Payroll and Timekeeping 2008-110	1/30/09	Human Resource Management System access; systematic data integrity; payroll expenditure analysis; roles and responsibilities	March 2010
Medical School Administrative Internal Control Review 2008-208	1/30/09	IT strategic planning; reconciliations; gift fund usage; IT security; fire drill regulations	March 2010
Children's and Women's Hospital Construction Audit 2009-601	4/02/09	Establishing guaranteed maximum price; sales and use tax; retaining payment documentation	March 2010
University of Michigan Health System Cardiovascular Center Supply Chain Audit 2009-105	5/15/09	Blanket purchase orders; inventory tracking; drug management; patient billing; system access; policies and procedures	February 2010
UMHS Clinical Research Billing 2009-402	9/30/09	Research Planning; integrated solutions; interim solutions; policies and procedures	June 2010
University of Michigan Medical School, Otolaryngology Departmental Review 2009-843	10/30/09	Grant management; non-certified effort reporting; financial results and internal control assessment certification	March 2010

University of Michigan Health System Office of the Executive Vice President for Medical Affairs Operational Review 2009-205	11/17/09	Procurement and payroll training; excluded costs; segregation of duties; reconciliations	June 2010
University of Michigan Medical School Michigan Institute for Clinical Research and Health Research Grant Management 2009-106	11/30/09	Non-certified effort reporting; grant adjustments; Veterans Administration Hospital appointments; expense classification; compliance with P-card Guidelines; business continuity plans	August 2010
Plant Operations Construction Services 2008-602	11/4/08	Project management reporting	First Follow-up June 2009
			February 2010
School of Music, Theatre & Dance Fiscal Responsibilities 2008-815	11/26/08	Financial oversight and monitoring; several procurement and payroll observations; documented procedures; written delegation of authority; imprest cash management	First Follow-up August 12, 2009
			March 2010
William L. Clements Library 2008-212	1/26/09	Grant compliance; endowment agreements; collection management; insurance coverage; physical safety and security; reconciliations; recharge rates	March 2010
University Press Inventory and Receivables 2008-203	1/30/09	Accounts receivable; inventory (U-Press continues to implement internal controls in many areas, including those noted in the audit report)	October 2010
School of Kinesiology Fiscal Responsibilities 2009-203	4/14/09	Effort reporting; SOA and gross pay register reconciliation and review; credit card terminal placement; time reporting review; imprest cash fund; deposits; record retention; background checks; hiring documentation	February 2010
Benefits Administration Office 2009-101	4/30/09	Logical access to benefits data; addition to discrepancy reporting; invoice error reporting; flexible spending account payment reconciliation; compliance monitoring	First Follow-up September 30, 2009
			March 2010
University of Michigan -- Flint Office of Development and Alumni Relations and University Outreach 2009-811	5/15/09	Relationship with University Development; performance standards; prospect management; coordination with Schools; cash handling; pledges; budget process; business continuity/disaster recovery plan	February 2010
University Unions Focused Review 2009-809	6/01/09	Cash management; payroll observations; statement of activity reconciliation; computer access	February 2010

Chemical Biology Doctoral Program Interdepartmental Degree Program 2009-812	6/30/09	Program reporting and oversight; compliance with procurement and hosting guidelines; effort certification; record retention; service level agreement; conflict of interest and conflict of commitment (Follow-up review will be conducted after the new chair is named)	July 2010
Deposit Process Audit 2009-103	07/20/09	Tracking of bank errors/adjustments; foreign checks; automated deposit stations security; treasurer's office procedures	February 2010
Dearborn Early Childhood Education Center 2009-110	09/30/09	Aged A/R; timeliness of deposits; physical security of cash; reconciliations; receipts; hosting events documentation; voucher review; privacy of employee records; double-time; IT security	March 2010
U-M Dearborn Grade Changes 2009-109	11/5/09	Faculty grade change notification; access to supplemental grade reports and the grade change system; management review of system access reports; registration and records policy and procedures; baseline controls in units	May 2010
University Housing Fiscal Responsibilities 2009-814	11/9/09	Various controls related to purchasing, financial reporting, discretionary funds, payroll and time reporting, cash operations, internal control gap analysis, travel and hosting, business continuity and disaster recovery plans, conflict of interest/conflict of commitment	June 2010
Center for Human Growth and Development 2009-206	11/17/09	Security/maintenance of sensitive data; monitoring grant budgets; imprest cash fund management/subject fee payments; disaster recovery/business continuity planning; statement of activity reconciliation/segregation of duties	June 2010
Taubman College of Architecture and Urban Planning 2009-202	11/20/09	International program administration; safety and security; shared access; faculty data backup; cash management; inventory management; recharge rates	March 2010
Information Technology Central Services 2009-838	12/02/09	Inventory management; billing for services; monitoring services quality and demand; financial monitoring; human resources processes; facilities; procurement	June 2010
School of Art & Design 2009-201	12/08/09	International programs; supplemental system; statement of activities reconciliation; P-cards; payroll; cash handling	June 2010
University of Michigan-Dearborn Department of Public Safety 2009-210	12/22/09	Documentation of administrative and financial procedures; financial shadow system; segregation of duties;	June 2010

Wire and ACH Transfer Process 2009-112	01/06/10	Security of sensitive vendor data; compliance with OFAC; strategic vendor payment processing; unallocated fund management; authorized user list; transaction limits; wire transfer policy	June 2010
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