

UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

Received by the Regents  
June 20, 2013

**Item for Information**

Subject: Report of University Internal Audits  
**February – April 2013**

Attached is the report of activities completed by the Office of University Audits for the period **February through April 2013**.

Included in the report are a:

- Summary of each audit report issued during the period, including Management's Corrective Plans. These audits were presented at the Regents' Finance, Audit, and Investment committee meeting in December.
- Summary of each follow-up review report issued during the period, including the actions completed by management. Follow-up reviews are designed to provide assurance that Management's Corrective Plans have been implemented, are working as intended, and are sustainable.
- Table of open audit issues as of **April 30, 2013**, including estimated completion dates.

If you have any questions or would like additional information, please contact me at 647-7500 or by e-mail at [jmoelich@umich.edu](mailto:jmoelich@umich.edu).

Respectfully submitted,



Jeffrey M. Moelich, Executive Director  
University Audits

University Audits  
February – April 2013  
Summary of Reports Issued

**Original Reports**

**Campus**

Law School

2012-208

Report issued February 4, 2013

The University of Michigan Law School was established in 1859 and has been providing a top-ranked<sup>1</sup> legal education to students for over 150 years. Graduates of the Law School exceed 20,000 students. In addition to the Juris Doctor degree, 14 different dual-degree programs are offered. These programs are supported by approximately 80 full-time Law School faculty as well as by staff, including temporary and students employees.

The Law School's clinical offerings have grown significantly in the last five years and now include 14 different clinics such as the Child Advocacy Law Clinic, the Human Trafficking Clinic, and the International Transactions Clinic. More than half of all law students take advantage of the clinical offerings during their education. The clinics receive the majority of the Law School's grant funding, which aids student education and research efforts. Another resource provided to students is the Law Library. Michigan's Law Library has one of the most comprehensive collections of law materials in the world with over one million volumes. The oldest piece is a manuscript dating back to 1365. The library is staffed with experts in legal librarianship.

Admission to the Law School is highly competitive and very selective, with approximately 350 students admitted annually. The Admissions Office strives to admit classes that will individually and collectively enrich the academic and social climate of the Law School community. The Admissions Office works closely with the Law School Financial Aid Office to accommodate the financial needs of admitted students; including transfer, international, and visiting students. The Financial Aid Office provides resources in the form of scholarships, fellowships, work-study, and loans (e.g., computer, emergency). They are also stewards of the Debt Management Program, a unique, application only program that provides graduates with opportunity to choose modest-paying public interest positions and remain current on their student loan obligations.

In recent years, there have been significant fundraising efforts for new construction and expansion of the Law School, most recently resulting in the new South Hall academic building (see Law School South Hall and Robert B. Aikens Commons Construction Audit Report dated September 27, 2012). Gift and gift-in-kind donations are handled by the Law School's Office of Development and Alumni Relations. Private donations aid student support, faculty research, and other programmatic areas. The Office of Development also coordinates reunion weekends and various Law School community events throughout the year.



University of Michigan Law School, South Hall

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<sup>1</sup> U.S. News and World Report; 2012, Best Law Schol ranking; <http://grad-schools.usnews.rankingsandreviews.com/best-graduate-schools/top-law-schools/law-rankings>

## **Purpose and Scope**

The primary objective of this audit was to evaluate key operational and financial controls to ensure the Law School is in compliance with University policies and procedures. Controls in the following risk areas, identified in the risk assessment for the Law School audit, were evaluated:

- Clinics and Centers
- Development and Alumni Relations
- Office of Financial Aid
- Admissions Office
- Temporary Employees
- Law Library
- Fiscal Responsibilities
- Faculty and Staff Administration

Evaluation of these controls was accomplished by interviewing key Law School personnel, documenting workflows, and testing sample documentation. Transactional testing focused on compliance with governing policy and regulations, and observance of leading practices. Opportunities to improve existing practices have been shared with management and are discussed below.

## **Risk and Control Discussion**

### **Disclosure of Conflicts**

The Law School has two conflict of interest and commitment policies in place, one for staff and the other for faculty. Upon hire, staff members are required to disclose potential or actual conflicts and acknowledge their awareness of policy requirements by signing a conflict of interest and commitment form. However, there is no requirement for subsequent annual certifications. The policy for faculty members is extensive; however, they are not given a copy of the policy upon hire and are not required to sign a form. Without frequent reporting and review of disclosed conflicts, the risk exists that faculty and staff may not be in compliance with the following sections from the University Standard Practice Guide (SPG):

- Section 201.23, *Appointment of Relatives or Others with Close Personal or External Business Relationships; Procedures to Assure Equal Opportunity and to Avoid the Possibility of Favoritism (Nepotism)*
- Section 201.65-1, *Conflicts of Interest and Conflicts of Commitment Policy*
- Section 201.85, *Non-Appointment Related University Compensation*
- Section 303.04, *University of Michigan Technology Transfer Policy*

*Recommendation:* Review the current conflict of interest and commitment policies for both faculty and staff to ensure SPG requirements are included. Revise existing policy as necessary. As part of the documented procedures and monitoring efforts ensure, at a minimum, the following are included in the process:

- Faculty and staff are made aware of the policy upon hire and are encouraged, at least annually, to attest that they have no potential conflicts or to disclose actual or potential conflicts that may exist
- Reporting timelines and follow-up procedures for faculty and staff that do not comply
- Noted conflicts are reviewed by the appropriate individual(s) in a timely manner
- All potential conflicts that are disclosed have either a properly approved management plan or have clear documentation as to why the disclosure was determined not to be a conflict
- A reconciliation is performed on an annual basis to ensure all faculty and staff have attested to no conflicts or have updated their conflict of interest and commitment form

*Management Plan:* The conflict of interest and commitment policies for faculty and staff are currently under review and will be revised as necessary. We will draft and implement timelines and procedures for

annual notification, follow-up, review, reconciliation, and documentation as necessary.

### **Fund Establishment**

The Law School Office of Development and Alumni Relations has documented a work flow to create and route gift agreements. However, the process does not include steps to ensure a copy of the gift agreement is sent to the Gift Administrator so a gift fund can be established. This resulted in some instances when gifts were received by the University before a gift fund was established, causing a delay in the Law School's ability to use the money.

*Recommendation:* Revise the work flow process for gift agreements to include clear steps for ensuring the Gift Administrator receives a copy of the agreement in time to establish a fund before the gift is received. Consider developing and implementing a checklist so that all agreements are created and routed in the same manner. The checklist can be used as a tracking tool to monitor the progress of gift agreements in the handling process gift agreements.

*Management Plan:* A procedure has been drafted to provide clear steps of the work flow. A checklist has also been created as a tracking tool to monitor the process of a gift.

### **Event Reconciliation**

Project grant codes are reused or one code is used for multiple alumni and fundraising events (e.g., all alumni reunion events for a weekend). Reuse or consolidation of events under one code limits the reconciliation that can take place between registered event participants, actual attendees, pre-payments, payments made at the event, and deposits for an event. Current practice does not allow staff to completely reconcile or clearly report on a singular event from M-Pathways.

*Recommendation:* Structure project grant codes in a manner that allows for complete reconciliation and financial reporting of each event (i.e., assign a unique grant code to each event). Establish new project grant codes as necessary to avoid overwriting information each year. The use of new codes allows for data retention, which can be monitored for trends or for historical review.

*Management Plan:* A procedure has been drafted to allow for complete reconciliation and financial reporting on revenues and expenses of each event. New sets of project grant codes will be requested to help with data retention, trends monitoring, and historical review.

### **Administrative and Staffing Efficiencies**

Duplication of Efforts: There is the potential for duplication of efforts in the human resource functions, specifically in the Law Library. In addition, some departments hire their own temporary employees through Temporary Staffing Services without notifying the Director of Law School Human Resources. This practice may unnecessarily increase department costs. Other opportunities exist to streamline human resource processes and procedures across all departments in areas such as hiring, disciplinary actions, performance evaluations, and delegation of authority. The centralization of these efforts would aid in process transparency and consistent application of procedures.

Financial Aid Procedures: Some processes in the Law School Financial Aid Office rely heavily on manual procedures, such as the review and award of need-based aid and management of the Debt Management/Loan Repayment Assistance Program. The use of Excel spreadsheets to calculate and track awarded aid and assistance is extensive. Many of the procedures are performed by one individual. While process documentation does exist, it may be outdated or not reflect the current process.

*Recommendations:*

Duplication of Efforts: Assess the benefits of centralizing human resource functions in Law School Human

Resources to the extent possible. Standardize and document procedures for all departments to follow for processes relating to, at a minimum, temporary employment, hiring, disciplinary actions, performance evaluations, and delegation of authority. As part of any centralization or standardization effort, assess the efficiency of staffing levels in areas with potentially duplicative efforts.

Financial Aid Procedures: Assess the manual processes in the Financial Aid Office for procedures that can be automated (e.g., matching students with appropriate scholarships). Encourage greater process knowledge by implementing a formal cross-training program or provide similar educational opportunities to staff members so they may act effectively as a backup to the unit's subject-matter expert. Update documentation as necessary.

*Management Plan:* All current human resource procedures and processes in place will be reviewed and streamlined for efficiency and consistency throughout the Law School. A single employee "handbook" is currently being drafted and will apply to all employees. Additionally, a financial aid procedure manual is currently being drafted and cross-training on all aspects of financial aid awards will be implemented.

### **Procurement Compliance**

Required Bid Process: Procurement testing showed that selected expenses in excess of \$5,000 for event services (e.g., catering, photography) were purchased by Special Events staff from non-strategic vendors without going through the University's required competitive bid process. The purchases were paid for using a P-Card instead of purchase orders.

P-Card Users and Limits: Prior to the audit, the Law School Finance Office initiated a review of P-Card users and limits. At the time of the audit, the Law School had approximately 125 P-Card users with a wide range of limits, some of which were much higher than actual annual spend. At least two P-Card holders had no spend for the year. University Audits encourages the ongoing review to appropriately manage the number of P-Cards and limits.

#### *Recommendations:*

Required Bid Process: To strengthen procurement processes:

- Educate employees on the University's procurement guidelines, specifically related to competitive bid requirements and proper procurement methods.
- Require competitive bidding and a purchase order for all transactions above the \$5,000 transaction limit.
- Use strategic vendors for recurring purchases whenever possible.
- Confirm that all approvers have taken appropriate training and are reviewing purchases for compliance.
- Develop a method and encourage use of the department reference field in Concur for improved monitoring of expenses with procurement guidelines.

P-Card Users and Limits: Continue evaluating purchasing roles and responsibilities throughout the Law School and limit purchasing authority where appropriate. This process should be repeated periodically. For remaining P-Cards, review the limits to ensure they are in line with actual or expected spend of the user.

*Management Plan:* The Special Event staff have received training on the University's procurement guidelines, specifically related to competitive bid requirements and proper procurement needs. All P-Card approvers will be asked to take appropriate training on annual basis. The Office of Finance and Planning will review all Law School transactions on monthly basis to ensure any transaction above the \$5,000 limit is in compliance with the University's procurement guidelines. We will also work with Procurement Services to set up strategic vendors as necessary.

The Office of Finance and Planning will review P-Card use and adjust limits on an annual basis to ensure each P-Card limit is in line with actual or expected usage. A P-Card with no use for a year will be closed.

### **Clinic Administration**

**Documented Procedures:** Several clinics have their own procedure manuals or student handbooks that are given to students each semester detailing the operations of their specific clinic. Not all manuals include the same material or cover all clinic operations. Additionally, some clinics require students to sign oath statements or confidentiality agreements. The verbiage in these student signed statements varies by clinic.

**Detroit Center Expenses:** The Detroit Center for Family Advocacy (CFA), located in the Detroit area, is supported by the Child Advocacy Law Clinic in Ann Arbor. To cover business expenses (e.g., legal filings) at the CFA, employees use their personal funds or items are paid for by the Clinic Director or Administrator located in Ann Arbor. It is acknowledged the University requirement for expense reimbursement is through Concur. Based on the review of reimbursed expenses of some CFA employees and the P-Card expenses of the Clinic Administrator for the last fiscal year, a P-Card for a CFA employee may be warranted. Current practice may impede the efficiency of operations or create undue financial burden for employees.

### ***Recommendations:***

**Documented Procedures:** Standardize and document all operational procedures for clinics to the extent possible. Review and assess student confidentiality agreements and oath statements to verify their use is considered appropriate. If so, confirm the statements are inclusive of all necessary items to ensure client privacy and student responsibility.

**Detroit Center Expenses:** To avoid risking transmission of sensitive data, and overburdening employees with operational expenses, consider issuing one P-Card to an individual in the CFA with a low monthly limit (e.g., \$1,000). The card should be the responsibility of one person and not shared. Document procedures for using the P-Card, including steps for reviewing purchases in advance to ensure they are authorized and allowable under A-21 regulations. Ensure that the process for review and approval is properly segregated.

***Management Plan:*** We will standardize and document all operational clinic procedures for all clinics where appropriate. Additionally, we will review and assess all the student confidentiality agreements and oath statements to determine whether there can be consolidation of the verbiage used making sure that statements are all inclusive and protect client privacy and student responsibility.

A P-Card will be secured for the Detroit Center for Family Advocacy. This card will be assigned to one person located at the center and procedures will be documented to ensure purchases are allowable in advance of purchases. Additionally, the documented process will ensure properly segregated review and approval of duties.

### **Gift and Cash Handling**

**Lack of Segregation of Duties:** Responsibilities for opening mail, processing gifts, depositing checks, and reconciling the gift report from the Office of University Development are not adequately separated in the Law School Development Office. Generally, all of the steps in the process are performed by the Gift Administrator.

Payments are accepted at some Law School events (e.g., reunions). Given the limited staff arrangements at the events, there have been instances when responsibilities for cash handling, depositing, and reconciling were not appropriately separated.

**Certification Training:** Some individuals that handle cash and process credit cards in the Law School are not current in completion of the cash and merchant certification courses offered through MyLINC, the University's online training system.

*Recommendations:*

**Lack of Segregation of Duties:** Evaluate role assignments and structure responsibilities in the gift receipt and event payment process so that all steps are not performed by the same person. Update procedures to ensure all steps are documented and there is appropriate segregation of duties, specifically when processing gifts and receiving payments on event days. Ensure established process flow documentation reflects the current process and details the required training for individuals that handle cash or make deposits.

**Certification Training:** Ensure that all individuals involved with cash management and credit card processing are certified in the appropriate areas by taking the applicable MyLINC online certification training (e.g., cash handling, depository, and merchant). Monitor the certification status of employees responsible for these activities on a continual basis to ensure they remain certified. For ease of review, consider reviewing certification status as part of an employee's performance evaluations.

*Management Plan:* Revised procedures have been drafted to address the issue of lack of segregation of duties; specific roles have been assigned to the individuals (by title) involved in the process. The procedures will be fully implemented on the target date indicated below.

A list of staff members who need to be certified for cash handling, deposits, and online merchant accounts training has been reviewed and updated. The review process will be managed on quarterly basis to ensure we are in compliance.

### **International Travel Registry**

Not all Law School faculty or staff members are registering their international travel with the University Travel Registry as required by the University Standard Practice Guide Section 601.31, *International Travel Policy*.

*Recommendation:* Remind faculty and staff of the requirement to register all University-related international travel using the University Travel Registry prior to departure. Students are also required to enter their international travel in the University Travel Registry. As warranted and consistent with University policies, consider developing a preparedness program that educates students on travel requirements (e.g., visas, travel health insurance, immunizations), cultural differences, safety guidelines, and financial responsibilities.

*Auditor's Note:* For travel to high risk countries, travelers who are U.S. citizens should also be encouraged to register their travel plans with the U.S. Department of State's Smart Traveler Enrollment Program (STEP) at [www.travelregistration.state.gov](http://www.travelregistration.state.gov).

*Management Plan:* A notification to all faculty and staff in the Law School has been sent to clarify and remind them of the obligation to register foreign travel. This information will be included in the faculty and staff handbooks. We will also advise our administrative staff to prompt faculty members when international travel is booked.

### **VendaCard Dispenser Form**

The Law Library has two VendaCard dispensers that sell electronic cards that can be loaded with a cash value. The cards are used by patrons at library to pay for making copies. On a weekly basis, two individuals remove the money (less than \$100/week) from the dispensers and take it to the Information

Resources Assistant for deposit. The uncounted cash is placed in a safe until the deposit is prepared. The dispenser reconciliation form used to record the number and value of cards sold and the amount of the deposit is unclear and testing showed that the dispenser meter readings, which detail the number and value of cards sold, do not agree. Additionally, the meter readings are not reviewed by the Business Administrator as part of the month-end reconciliation to ensure accuracy.

*Recommendation:* Revise the dispenser deposit form to record the meter reading and deposit amount to ensure all numbers are accurate. To establish proper accountability, the Information Resources Assistant should count the cash received by the individuals that empty the dispensers prior to placing it in the safe. Require the individuals to initial the amount to evidence agreement. When reconciling the deposit at month-end, the Business Administrator should use the actual meter readings as support to ensure the amount that should have been received was the amount deposited. Investigate and document any discrepancies. Update documented procedures so that they reflect the revised process.

*Management Plan:* A revised procedure has been implemented that clarifies proper cash handling; the procedure has been implemented.

### **Summary**

Throughout the audit, Law School staff were receptive to suggestions for improvements and immediately implemented some changes. Prior to the audit, management was proactive in identifying areas for potential improvements, specifically regarding P-Cards. University Audits supports these efforts and encourages the continuing review. To increase compliance with other fiscal responsibilities, ensure employees with purchase and approval roles have a clear understanding of their responsibilities and University policy requirements. Restructuring project grant codes will strengthen financial reporting and oversight.

Although the Law School has an extensive conflict of interest and commitment policy in place for both faculty and staff, there were no disclosures on file. To ensure proper transparency and accountability, it is important that the Law School regularly encourage staff to disclose all actual and potential conflicts of interest or commitment to a designated University official to be properly evaluated and managed.

Clear communication and a detailed process work flow in the Office of Development and Alumni Relations will aid in timely establishment and use of gift funds. Ensuring duties in the established process flow are properly segregated, individuals are certified, and documented procedures accurately reflect the current process will also aid in process transparency.

Finally, an assessment of administrative efforts, specifically human resource functions throughout the Law School is highly encouraged. The results of which may increase administrative and staffing efficiencies. Formal follow-up to the outstanding issues will begin during the fourth quarter of fiscal year 2013 and additional follow-up will be conducted as necessary until all significant corrective actions are completed.

School of Information

2012-215

Report issued March 22, 2013

The U-M School of Information (UMSI) has undergone many changes since its inception as the Department of Library Science in 1926. Before the founding of the U-M School of Information in 1996, the school was previously known as the School of Information and Library Science. UMSI is known as one of the first information schools in the nation. UMSI moved to the new North Quad Residential and Academic Complex in July 2010.

The School currently offers a master's degree, a doctoral degree, and a joint master's degree in health informatics with the School of Public Health. In addition, UMSI recently announced the creation of a bachelor's in information degree. This interdisciplinary degree will be the first of its kind in the nation,

with the first students enrolling for the fall 2014 semester. The new undergraduate degree received approval from the Board of Regents in May 2012, and the President's Council of State Universities gave final approval in June 2012. Planning activities by UMSI started immediately thereafter.

### **Purpose and Scope**

The primary objective of this audit was to evaluate UMSI's operational and administrative activities. University Audits reviewed policies, procedures, and internal controls to test compliance with University guidelines and other regulations. Interviews were conducted with key administration to understand the control structure. University Audits evaluated the adequacy of internal controls related to:

- Fiscal responsibility
- Grant management
- Financial aid
- Payroll
- Academic human resources
- Safety and security
- Faculty time release
- Student services
- Information technology
- Development
- Conflict of interest/commitment

### **Risk and Control Discussion**

UMSI's undergraduate degree will be the first of its kind. It is difficult to prepare for this new curriculum because there are few similar programs for benchmarking. For example, forecasting enrollment is challenging as this is an emerging field. Despite the complexity of implementing the new degree program, preparation efforts to date have been comprehensive. The school is currently in the process of designing a five-year plan for financial, human, and space resources. This plan will include a timeline with metrics to measure progress. Further development of relevant analytical tools would likely provide leadership with additional information to support effective strategic business decisions surrounding financial and human resources.

### **Development Office**

*Discussion:* Control weaknesses were identified in the UMSI Development Office:

- There is no reconciliation process to ensure funds received by the UMSI Development Office are deposited and allocated to the appropriate account. It is critical to fully reconcile this type of activity to ensure all charges are appropriate and correctly recorded.
- One employee in the UMSI Development Office controls multiple phases of the operation, which causes a segregation of duties issue. The employee receives the gifts, records them in a log, and sends the deposits to Gifts and Records Administration (GRA) in the Office of University Development.
- Gifts are inappropriately sent to GRA through campus mail.
- UMSI Development staff have not completed University cash handling and depositor training.

*Recommendation:*

- Document and implement procedures for reconciling all gifts received by the UMSI Development Office.
- At a minimum, custody of gifts should be separate from approval and reconciliation. When checks are received, they should be logged, processed, and sent to GRA. The log should be reconciled to the Weekly Gift Report by a separate employee.

- When forwarding checks to GRA, employees should only use U-M development drop boxes located around campus. The gift process form should be completed for all gifts.
- Staff accepting gifts and making deposits should complete *TME 101 Depository Certification Training*. This training covers internal controls as well as deposit methods, locations, and procedures and should be completed every two years. All staff members who handle gifts should complete *TME103 Treasury Management – Cash Handling Training*.

*Management Plan:*

- A process for reconciling donations that are received by the UMSI Development Office has been established, documented, and implemented.
- One employee [1] in the UMSI Development Office receives and logs the checks. A second employee [2] in UMSI compares the physical checks to the log, and adds her initials and the date the verification is completed. A third employee [3] in the Finance Office receives a copy of the initialed log and compares that to the activity on the Weekly Gift Report, as well as the month end Statement of Activity account reconciliation. The first employee [1] proceeds with depositing the gift checks in the proper manner as described in the training.
- The employee in the UMSI Development Office [1] uses the U-M Development Office drop box located at the Michigan Union.
- Both employees in the UMSI Development Office [1, 2], and the employee in the Finance Office [3] involved with this process have all successfully completed TME103 Treasury Management – Cash Handling Training. The UMSI Development Office employee who makes deposits [1] and the Finance employee [3] involved with this process have successfully completed TME101 Depository Certification Training.

*Auditor's Note:* University Audits will assess the effectiveness of these actions during the follow-up review.

**Faculty Appointments**

*Discussion:* The existing process to manage faculty appointments does not ensure that changes are communicated to the appropriate individuals for timely processing in M-Pathways. Untimely processing can result in a number of problems including noncompliance with University policies, inaccurate information in M-Pathways, and possible appointment related tax and benefit cost implications if payments are delayed.

Delays in communication about changes to faculty appointments have resulted in retroactive payment adjustments as well as retroactive changes to shortcodes. These retroactive payment adjustments and changes have the potential to create unintended tax issues and can be problematic for time sensitive accounts.

Improved efficiency in the communication and tracking of faculty appointment changes would provide the Human Resources (HR) team with more time to focus on other duties and strategic initiatives.

*Recommendation:* It is important that appropriate staff have access to faculty appointment information to ensure it is accurately and timely processed. This will help to ensure M-Pathways contains the most current information so it can be used to make sound business decisions and generate accurate management reports. Communication between UMSI Academic Affairs and Human Resources specifically should be strengthened. Consult with the University Tax Department to ensure that retroactive payment adjustments and any related tax complications are managed appropriately.

To address these concerns:

- Create a process that facilitates communication between UMSI HR and Academic Affairs to ensure that changes in faculty appointments are processed in a timely manner.
- Implement a process to ensure updates and changes to academic HR information are effectively maintained, preferably in one location for version control.
- UMSI is in the process of implementing a new financial commitment tracking system. Assess the new system and other database options to determine whether it meets UMSI needs and will address information issues.
- Document policies, procedures, and expectations of administration when managing the new system.

*Management Plan:* The processes involved in changes to employee appointments will be reviewed and revised to ensure timely communication occurs with those responsible for making the changes to the appointments. Relevant appointment data will be consolidated into a single source that reflects the approved changes and current status. Periodic reconciliations to M-Pathways, as well as reviews of retroactive payments, will be performed to ensure the process is reducing the risk of error. We will continue to work with the Office of University Audits to review the proposed process changes.

### **Continuity of Operations**

*Discussion:* The Continuity of Operations Plan (COOP) is incomplete. The COOP was started in 2009 before UMSI's move to North Quad but was never completed due to major changes in the organization. The plan does not effectively identify and prioritize critical functions to the school. The goal of business continuity management is to enable the school to effectively and timely restore critical processes after a disaster.

*Recommendation:* Standard Practice Guide (SPG) Section 601.12, *Institutional Data Resource Management Policy*, requires the development and implementation of contingency plans. This includes the development of disaster recovery/continuity of operations plans and other methods of responding to an emergency or other occurrences of damage to systems. A complete COOP for UMSI should be developed, tested, and implemented. The plan should focus on recovery and continuity strategies and disaster recovery for IT operations:

- The documentation and prioritization of critical functions with updated contact information
- Development and documentation of contingency plans
- Communication with U-M Emergency Preparedness to ensure plans are complete

*Management Plan:* A Continuity of Operations Plan (COOP) will be developed, tested, and implemented jointly by the Administrative Director and the Manager of UMSI Computing that identifies and prioritizes the critical functions of the school and contains a plan for the restoration of critical processes after a disaster.

### **Risk Evaluation of Computers on Open Networks (RECON)**

*Discussion:* UMSI has not completed a RECON, a risk assessment methodology developed by Information and Infrastructure Assurance (IIA), since they moved to North Quad. Completing the RECON will provide the University and UMSI with the confidence that data is safeguarded.

*Recommendation:* Conduct a RECON security assessment of UMSI and submit it to IIA. Consult with IIA for guidance and best practices.

*Management Plan:* UMSI will identify systems and conduct a RECON per the Unit Certification.

### **Travel Registry**

*Discussion:* UMSI has no formal process to ensure international travelers have registered with the University's Travel Registry. Although individuals may be registering with the Travel Registry, there is no follow-up or confirmation from management to ensure that registration was completed. In accordance with SPG Section 601.31, *International Travel Policy*, all faculty, staff, and students traveling abroad for University-related purposes must register their international travel in the Travel Registry before departure. The Travel Registry provides a link to enroll in travel-abroad health insurance as well as a secure location to record itinerary and contact information.

*Recommendation:* Create and document a consistent, formal process to check that all travelers have registered with the University Travel Registry before the start of their trip. Consider utilizing available functionality in the Travel Registry:

- Notification to an administrative contact when travelers have completed their registration
- Administrators can register travel on behalf of individuals or groups

*Auditor's Note:* For travel to high risk countries, travelers who are U.S. citizens should also be encouraged to register their travel plans with the U.S. Department of State's Smart Traveler Enrollment Program (STEP) at [www.travelregistration.state.gov](http://www.travelregistration.state.gov).

*Management Plan:* The UMSI management team will work together to create a formal process that aims to identify all faculty, staff, and students who travel internationally on University-related business, and assist them in registering their international travel data into the Travel Registry before departure. The process will take advantage of the available functionality of the software. We will also implement steps to identify and report faculty, staff, and students who did not register their travel according to the SPG and follow up with them with additional communication and training. The Administrative Director will document and communicate the process once it is agreed to by the UMSI management team.

### **Concur Expense Reports**

*Discussion:* The UMSI expense report review and approval process is redundant. The majority of expense reports in UMSI are reviewed by two people in the finance team. Both levels of review are similar with the second level of review serving as a double check. Some reports also have two layers of approval. Improved efficiency in the expense report review process would provide the finance team with more time to focus on other duties and strategic initiatives.

*Recommendation:* Work to reduce redundancy in the expense review process. It is acceptable if only one person reviews and approves an expense report. It might helpful if approvers review expense reports that have expenses for accounts they reconcile as they would be much more knowledgeable about these expenses.

If UMSI chooses to maintain two levels of approval, one approver should perform a compliance review, focused on standards and best practices (e.g., supporting documentation, clarity of business purpose) while the other approver focuses on appropriateness and alignment with the goals of the school.

*Management Plan:* The process for expense report reconciliation will be revised to remove redundancies while still ensuring that the review for compliance and for the appropriateness of the expenditure is still completed.

### **Summary**

UMSI is faced with the unique challenge of managing the development and implementation of a new undergraduate degree program. The sound internal control structure established in many operational areas of UMSI should support strong decision-making efforts. Specifically, controls over monitoring and

oversight of financial transactions and accounts are strong. Additional analytics will assist in the ever-changing environment the study of information presents. UMSI management has been receptive and open to discussion and all recommendations to enhance the control environment.

A formal follow-up will be conducted in the second quarter of fiscal year 2014 to assess progress toward implementation of mitigating action plans. Additional follow-up will be conducted as necessary during the third quarter of fiscal year 2014 to assess completion of the continuity of operations plan corrective actions, which are expected to be completed by December 31, 2013.

Detroit Center

2012-814

Report issued April 8, 2013

The University of Michigan Detroit Center (Center) was established in 2005 to enrich the University and Detroit communities through service, education, research, and the exchange of culture. A unit of the Office of the Provost, the Center is located in the heart of the city's cultural center and serves as a gateway for University and urban communities to advance learning, research, and cultural activities.

The Center is housed in 26,122 square feet on the ground floor of Orchestra Place on Woodward Avenue in Detroit. The facility accommodates research projects, outreach initiatives, and space for an increasing number of University programs involving Detroit organizations and citizens. The Center includes offices and space for classes, meetings, exhibitions, lectures, and collaborative work to serve as a home base for students and faculty working on projects in Detroit.

Among its initiatives, the Center features:

- School of Art and Design's Work - Detroit gallery that presents the work of student, faculty, alumni, and other local, national and international artists
- Semester in Detroit Program, an urban immersion program offered by the College of Literature, Science and the Arts
- ACT Preparation Workshops conducted by the Office of Multicultural Initiatives
- School of Social Work partnership in Good Neighborhoods
- UMHS Project Healthy Schools, a program that seeks to reduce childhood obesity and its long-term health risks
- Taubman College of Architecture and Urban Planning's Detroit Community Design Center
- Public programs primarily concerning urban issues or the cultural arts

Two other U-M offices share space on the ground floor of Orchestra Place:

- U-M Office of Undergraduate Admissions
- Michigan Engineering Zone (MEZ), a College of Engineering robotics program for high school students

The Center is primarily financed through general fund transfers from the Provost Office and, to a much lesser extent, by external organizations who utilize meeting rooms for special events.

### **Purpose and Scope**

The purpose of this audit was to assess the effectiveness of operational controls that ensure Center stewardship and fiscal responsibility. Specifically, University Audits evaluated the adequacy of controls governing the following processes at the Detroit Center:

- Financial reporting and budgets
- Procurement, travel, and hosting
- Asset management
- Funding model

- Space management
- Payroll, timekeeping, and human resource management
- Safety of faculty, staff, students, and visitors

University Audits conducted interviews with key Center staff, reviewed operating procedures, and conducted analysis of recent transactions.

## **Risk and Control Discussion**

### **General Control Environment**

*Discussion:* The Center is located a substantial distance from the Ann Arbor central campus environment. This geographical separation contributes to a decreased awareness and use of centralized University services and controls. The Center has developed a procedure manual that contains scheduling and use guidelines for the Center facilities. However, at the time of the audit use of this manual had not been officially implemented. Lack of standardized procedures has caused inconsistencies in facilities usage charges for both internal and external users.

The Center would benefit from guidance from several central University departments.

- The leasing agreement and associated parking charges for the Center offices were negotiated centrally. However, the Center initiated and implemented subleasing arrangements without central authorization. One of the subleasing agreements raised a conflict of interest issue.
- Guidance from University Human Resources on hiring decisions, termination practices, and conflict of commitment/conflict of interest issues would benefit the Center.
- The Center conducted youth camps and events without a clear understanding of University policy. One camp involved transporting minors into Canada. The Center did not conduct background checks for chaperones of the camps and other events. It is critical that administrators at the Center have a clear understanding of any legal obligations that pertain to youth camps and events.

### *Recommendations:*

- Develop and document formal procedures for the main processes and activities of the Center, including human resource and conflict of interest/commitment guidance. Procedures should include important timeframes, as well as a process for reviewing and updating documented procedures to keep them current. In many cases, procedures can be as simple as a checklist. Enhance oversight and monitoring efforts by providing periodic administrative and financial reports to Senior Vice Provost for Academic Affairs.
- Work with the Office of the General Counsel and Risk Management to create a contract/agreement template that can be used when external entities are using Center facilities. Work with the Tax Department to ensure potential unrelated business income taxes are handled appropriately.
- Seek guidance from the Summer Safety Oversight Group and the Office of the General Counsel regarding the Center's responsibilities and any restrictions for youth activities and determine what safeguards or legal measures should be taken. Ensure that background checks are performed for any personnel responsible for the supervision of minors.

### *Management Plan:*

- All full-time staff have been directed to complete the conflict of interest/commitment tutorial within the next 30 days.
- The Director will review the "Operations Manual" to identify areas where formal procedures and timeframes have yet to be devised or require revision. Staff will consult the appropriate departments where necessary to correct this issue. The Director has already been in touch with the Office of the General Counsel, which offered to review relevant current documents. The Director will contact Risk Management to set up a risk management audit.

- The Associate Director will work with the Tax Department to ensure potential unrelated business income tax matters are handled appropriately.
- The Director will seek guidance from the Summer Safety Oversight Group and the Office of the General Counsel regarding the Center's responsibilities and any restrictions for youth activities and determine what safeguards or legal measures should be taken. We will ensure that background checks are performed for any personnel responsible for the supervision of minors.
- On November 13, the Detroit Center underwent a Security Audit headed by the Department of Public Safety and Security. Once we receive their report, we will review it to identify additional procedures or measures should be implemented to enhance safety at the Center.

### **Financial Monitoring and Oversight**

*Discussion:* Financial monitoring and oversight could be improved in the following areas:

- The previous Financial Specialist monitored and reviewed the budget with the Director on a monthly basis using spreadsheets; however, explanation of significant variances was not documented. Supporting documentation for the Statement of Activity reconciliation was not consistently maintained.
- The Center receives checks for space rental and other miscellaneous items. Checks received are not logged and supporting documentation for all cash receipts was not available. In addition, employee duties related to reconciliation and initiation of financial transactions were not adequately separated.
- Internal control sub certification did not identify existing gaps in cash handling procedures. Proper separation of duties related to receipts was in place; however, due to the small staff, not all deposits were made daily as prescribed in Standard Practice Guide Section 519.03, *Cash Management Policies*. Not all staff with cash handling responsibilities had completed the cash handling training required by the Treasury Office.
- The Center does not track receivables for space usage or events except through basic email chains. A system does not exist to tie usage to receivables or receipts to ensure that all charges are made and collected.

*Recommendations:*

- Reconcile the Statement of Activity to source documentation, including documentation of the reasons for variances. The reconciler should initial and date the statement as evidence of reconciliation. Oversight by the Center Director is necessary to ensure timely and appropriate reconciliation.
- Department procedures should be reviewed to ensure an appropriate segregation of duties related to acceptance of payments. The same individual should not be responsible for any two of the following without an additional level of review: 1) accepting payments; 2) depositing payments; and 3) reconciling payments to the Statement of Activities. Cash receipts should be logged upon receipt to maintain documentation for reconciliation and monitoring purposes.
- All employees handling funds should complete the Treasurer's Office web-based cash-handling course (TME 103, Treasury Management – Cash Handling, available in My LINC). This training covers topics such as security of funds, U-M's deposit policies, and other cash/check-handling internal controls.
- Work with Accounting Services to develop a system to track receivables for use of Center facilities and program registration. To avoid errors for Center events costs, ensure the final review of costs for events matches source documentation. Source documentation includes signed contract, invoices for internal or external services, reports of event expenses, and participant lists.

To improve the level of coordination between the Center and the Provost's Office related to financial decision making, the Center should continue periodic review of its budget and finances with the Provost's Office. This process could benefit from formal documentation of the process and resulting decisions or

actions identified. Additionally, the Center's policies should be reviewed and updated to ensure the University's philosophy and approach to reaching financial goals is reflected.

*Management Plan:* All full-time staff have been directed to complete the TME103 – Cash Handling Course. Staff with depositing responsibilities have been directed to also complete the TMT101 – Treasurer's Office Depository Certification Course.

Adopted Detroit Center Financial Procedures Reconciliation: Reconciliation will be done via eReconciliation with the receipts that are received either on a biweekly basis when the Director meets (in person or via email) with the Business Administrator. An accounting assistant will perform the eReconciliation in MPathways and keep track of missing receipts. Any transactions that are not reconciled or do not have proper documentation will be investigated by the Business Administrator.

Deposits and Invoices: Invoice oversight and cash receipt tickets will be handled by the Detroit Center staff notifying the Business Administrator that an invoice has been created and sent with the name of the party, the amount due, the due date and the reason for the invoice. The Business Administrator will track the invoices in a spreadsheet to ensure timely payment. Once payment is received by the Meeting and Events Coordinator, cash receipt information will be logged and a copy of the deposit slip and relevant supporting documentation will be sent as a PDF to the Business Administrator to create a cash receipt ticket in M-Pathways. Designated Detroit Center staff will receive the check, endorse it, complete the deposit slip and give it to another staff member for deposit. The bank receipt for this deposit, along with other reconciliation material, will be delivered by the Director to the Business Administrator.

Budget and Financial Oversight: The Director and Business Administrator will meet biweekly to discuss budget, financial, and other matters. The Director will also deliver receipts, invoices, Concur reports, and other transactional items to be reconciled or processed at the Business Administrator's primary work site. The Business Administrator will provide monthly Statements of Activity, including reconciliation reports and budget variance reports as well as any other necessary reports, projections, and spreadsheets. Budget variances, if material, will be noted on the spreadsheet as to why and initialed by both the Director and Business Administrator. Budget and financial activity will be reviewed regularly during standing meetings between the Center Director and the Senior Associate Vice Provost for Academic Affairs.

The Associate Director and Meeting and Events Coordinator will work with Accounting Services to develop a system to track receivables for use of Center facilities and program registration.

*Auditor's Note:* University Audits will assess the implementation of these corrective actions during the formal follow-up review.

### **Funding Model**

*Discussion:* The previous funding model for the Center relied heavily on funding from the various groups that are considered heavy users (either by having permanent office space allocations or extensive use of facilities for meetings/events). The amount of funding from each group was based on historical transfers and was not a consistent model. Each fiscal year, the Center and the Provost's Office spent considerable time and effort in attempts to collect from the individual groups.

This model has been revised. The Provost's Office now provides funding for the Center. As the chargeback model no longer exists, the Center needs to define a model to address space utilization by other University units. External users are charged a historical rate for space usage.

*Recommendations:* Review historical data to support funding fee structure for external organizations. Develop a process for University units to request and use space in the Center. Formally document agreements from internal University users.

*Management Plan:* Detroit Center staff finalized a space usage policy. The Director presented the policy to current internal units in December 2012. The policy was posted on the Center website in February 2013.

*Auditor's Note:* The updated scheduling policy is available on the Detroit Center website, and indicates that University departments and units are able to reserve space at the Detroit Center at no charge. University Audits will review implementation of the updated fee structure, including fees for external organizations, during the formal follow-up review.

### **Space Management/Reservation System**

*Discussion:* Space management is performed through a reservation system provided to the Center by Ross School of Business. While the system works well for scheduling purposes and some limited reporting, it does not fulfill the Center's need for reports that compile and reconcile use by different groups over time to provide an overall picture of usage trends. As such, it was not possible to confirm total usage for budgeting/funding purposes. The current reservation system does not track costs for events, therefore the Detroit Center may not be receiving full coverage of catering or other costs.

*Recommendations:* Consider developing and implementing queries from the reservation system that are more usable for budgeting and reconciling purposes. Develop a receivables process that can be reconciled to reservation system queries for appropriate oversight. If available options to utilize the full functionality of the current system do not provide adequate tools for budgeting and reconciling purposes, consider implementing a new system equipped with such functionality.

*Management Plan:* The Associate Director and Meetings and Events Coordinator are in the process of: 1) developing queries that are more usable for budgeting and reconciling purposes and 2) developing a receivables process that can be reconciled to reservation system queries for appropriate oversight.

### **Procurement, Travel, and Hosting**

*Discussion:* The review of vouchers and expense reports showed the following areas where controls can be improved:

- Documenting the business purpose on expense reports
- Documenting attendees for events charged to hosting
- Preapproval for significant P-Card expenses
- Training for Concur users and approvers

*Recommendations:*

- Remind staff of expense reporting guidelines, specifically that all expenses should include a detailed business purpose. Approvers should be reminded to clarify vague business purposes with submitters before approving expenses.
- Meeting attendees should individually sign a department hosting form, as appropriate, to increase accountability. Sign-in sheets or other signed documents can be attached as supporting documentation in Concur.
- All purchases should support the Center's business needs. Purchases in certain categories such as computer equipment, travel, and hosting should be preapproved by the Director or a higher administrative authority.
- Verify that all employees have completed the mandatory expense reporting training for their respective responsibilities. Approvers are required by University policy to take an annual expense

approver training course. Requiring annual refresher training for expense submitters would help reinforce expense reporting guidelines.

*Management Plan:*

- The Director completed annual expense approver training course (TEE102) in December 2012.
- Annually, all staff members submitting travel and expense reports will be required to take a refresher training course (TEE101) by January 31 of each year.
- Where applicable, the Director will preapprove significant expenses.
- Due to the nature of some of our public events, it is not always practical to maintain a sign-in sheet. Moreover, under reporting often occurs, because the public may fail to understand why everyone should be required to indicate their name. Nevertheless, to the best of our ability, staff will do its best to meet U-M policy regarding such supporting documentation.

**Continuity of Operations Planning**

*Discussion:* The Detroit Center does not have a formally documented continuity of operations plan. Operating procedures have been documented to assist staff in management of the Center; however, formal emergency processes, including closure, communication, and delegation of authority, have not been established.

*Recommendation:* In coordination with the Office of the Provost, Center management should develop and document a continuity of operations plan. Consider and incorporate any needs unique to the Center based on its distance from the main campus.

*Management Plan:* We will review our documented procedures to ensure emergency procedures are included to maintain primary operations of the Center in the event of an emergency. The procedures will be reviewed with the Senior Associate Vice Provost to ensure consistency with the Office of the Provost plans.

**Asset Management**

*Discussion:* University Audits conducted an inventory of the M-Pathways asset listing and found that none of the equipment located at the Center had asset tags attached. In addition, video equipment valued at approximately \$45,000 was not included on the M-Pathways listing three months after receipt. Center management has experienced difficulty obtaining asset tags due to the distance of the Detroit Center and lower overall value of purchased assets.

*Recommendations:* Coordinate with Property Control to ensure that all assets are tagged, asset descriptions are appropriate, manufacturer and serial number information is accurate, and new asset purchases are appropriately tagged in a timely manner.

*Management Plan:*

- We registered all Detroit Center electronics with the Department of Public Safety and Security as of November 30, 2012. We will continue this practice on an ad hoc basis as new equipment is purchased.
- We will contact Property Control to attempt to make arrangements for the tagging of our equipment. If unsuccessful, we will work with the Provost Office to help coordinate efforts with Property Control.

**Summary**

The Detroit Center is an operationally complex unit due to its broad array of offerings, public interface, small permanent staff, and reliance on volunteer support. Significant oversight and other control activities need to be implemented or improved for many of the Center's business processes. Reviewing and updating charges for facility use and camp and workshop fees will help ensure the Center is correctly charging for

these services. Strengthening controls over segregation of duties, Statements of Activity reconciliation, and expense reporting processes will further enhance the overall control environment. Implementing the use of an accounts receivable and project cost tracking system will further increase efficiency and help the Center account for all charges and revenue.

Due to the geographic distance of the Center from Ann Arbor, it is critical to foster open and frequent communication with the University's central units such as Finance, University Human Resources, the Office of the General Counsel, and Information and Technology Services. Frequent exchange of information and support promotes continual improvement of processes and ensures issues are addressed timely.

A formal follow-up to the outstanding issues will be conducted during the first quarter of fiscal year 2014.

University Unions

2012-201

Report issued April 25, 2013

University Audits performed an initial audit of the University Unions (UU), an auxiliary unit of the Division of Student Affairs (DSA), in fiscal year 2012. The audit identified a very weak internal control structure, such that testing of department policies and procedures could not be performed. The original audit report summarized key processes and outlined steps necessary to strengthen controls. In response to the report, UU leadership (with support from DSA) immediately began restructuring many business procedures. They also worked to increase communication and coordination among the UU leadership team and with employees throughout UU.

UU is responsible for the oversight of services, programs, and facilities at the University's three student unions: the Michigan Union, Michigan League, and Pierpont Commons. As a student-centered organization, UU provides a full range of services and conveniences to help with daily campus life, including:

- Restaurants and cafes
- Banking/ATMs
- Travel agency
- Computer supply and repair shop
- Ticket distribution and campus box office
- Full service bookstores
- Convenience stores

With over 500,000 square feet of space, there are many meeting rooms and spaces available for use by faculty, staff, students, and community organizations. University Catering operates kitchens in all three buildings and the Michigan League houses a 21-room hotel. Hotel operations were not included in the scope of this audit.

#### *Purpose and Scope*

The primary objective of this audit was to evaluate UU's operational and administrative activities. University Audits reviewed policies, procedures, and internal controls to test compliance with University guidelines and other requirements. Interviews were conducted with key administration to understand the control structure. University Audits evaluated the adequacy of processes related to:

- Strategic planning
- Budgeting
- Payroll
- Procurement
- Human resources
- Inventory management
- Cash handling and imprest cash funds
- Continuity of operations

UU has many complex and unique operations. For purposes of this audit, emphasis for many of the areas was on UU's leadership team and central business office processes. To assess coordination among the various UU units and evaluate unit-level procedures and control environments, University Audits performed

additional testing and conducted interviews with staff in Food Services, Major Events Office, and Events Services. A limited review of Student Organizations Accounting Services processes was also performed.

## **Risk and Control Discussion**

### **Supplemental Systems**

*Discussion:* Supplemental systems are maintained throughout UU for various purposes, examples include:

- Excel spreadsheets used for financial reporting, including monitoring of monthly budgets
- Access database used to process invoices and accounts payable
- Excel spreadsheets for tracking food inventory
- Software vendor provided system for managing Student Organizations data
- Software vendor provided system for managing events, including scheduling, invoicing, and payment reconciliation

Supplemental systems increase the risk for inaccuracies and inefficiencies, and should only be used when the University's system cannot accomplish objectives. For the majority of these supplemental systems, UU does not have documented operational and maintenance procedures. Further, a formal process detailing the appropriate steps a UU unit should follow when deciding to procure or develop a new system does not exist.

*Recommendation:* Identify and inventory all supplemental systems used throughout UU. Investigate whether financial monitoring and budgeting needs could be met with the University's existing financial system and reports. Where possible, work with Information and Technology Services (ITS), Financial Operations, and DSA to redesign and expand UU's chartfield-based accounting structure to support multi-level reporting and data analysis within M-Pathways. Conduct a similar analysis for all other shadow systems to assess the feasibility of conversion to the underlying University system. Develop a formal process for all UU units to follow when procuring or developing a new system for a business need. This will help ensure all appropriate individuals are involved in the evaluation process upfront.

If continuing with internal shadow systems is deemed the best solution, the following controls should also be implemented:

- Documented operational and maintenance procedures, including backup and recovery
- System training for more than one individual
- Regular reconciliation to M-Pathways, where applicable

*Management Plan:* Management concurs with the audit report recommendations regarding supplemental systems. University Unions will inventory all shadow and supplemental systems in conjunction with the annual Gap Analysis review. These systems will be replaced with centrally-supported systems wherever possible. For instance, DSA Business and Finance is currently transitioning the entire division to the use of Real Time Financials and M-Reports, which will eliminate the need for existing financial shadow systems.

Management will ensure controls are strong around any retained supplemental systems. At minimum, controls will include:

- Comprehensive documentation of operational and maintenance procedures
- Adequate cross-training of staff
- Regular reconciliation to M-Pathways, if applicable

Management agrees that future procurement or development of supplemental systems for a business need should follow a formal process that identifies and includes a broad array of stakeholders. University Unions will partner with, DSA Business and Finance, DSA Information Technology, Procurement Services, and ITS to develop a formal process for use across the Division.

### **Imprest Cash Funds**

*Discussion:* UU currently has over \$80,000 in imprest cash funds. The funds are adequately secured and only authorized individuals have access. The custodians reconcile the balances on a regular basis. The UU Business Office also performs surprise counts of all its imprest cash funds.

Based on usage and turnover of the funds and information from custodians, the amount of imprest funds appears to be excessive for business operations. General guidance from Accounts Payable suggests the funds should turn over a minimum of four times in a fiscal year. There are four imprest cash funds physically located in the Cash Office at the Union. The larger of these funds is used to cash the checks issued from Accounts Payable to replenish other UU funds. Several imprest cash funds are used to make payments to liquor vendors.

*Recommendation:* To further improve controls over imprest cash funds and reduce the risk of having excessive cash on hand:

- Reevaluate amounts of all imprest cash funds against recurring disbursement needs, and reduce the amounts where possible. Discontinue the practice of using one imprest fund to cash checks to replenish another.
- Investigate alternative methods for paying liquor vendors at the time of service. Work with Treasury and Accounts Payable to use Electronic Funds Transfer method for liquor purchases.

*Management Plan:* Imprest cash funds will be evaluated and reduced where possible. The Cash Office has already implemented steps to improve service and efficiency with its online change order process and by monitoring the frequency and the amount of change orders. These steps will help reduce the need for imprest cash funds kept on hand. We will also work with Accounts Payable to identify an efficient method for replenishing imprest funds compliant with the University Standard Practice Guide.

University Unions will continue to work with the Treasurer's Office, Accounts Payable, and our vendors to identify non-cash payment options for vendors who require payment at the time of delivery.

### **Payroll Processes – AFSCME Overtime Record Keeping**

Overall, UU Payroll processes are adequately controlled. Individuals with an appropriate higher authority approve time reports. Overtime is scheduled and approved. Gross Pay Registers are reconciled by an appropriate individual on a regular basis. University Audits reviewed payroll processes for a sample of units and found that overtime procedures in Catering are not compliant with the AFSCME union contract. The AFSCME union contract calls for overtime to be distributed equitably among employees. An overtime record is required to be maintained and posted in both electronic and hard copy format to ensure that overtime is offered to the correct employee first. Catering does not maintain overtime logs. Catering management stated that staff members know what scheduled events require overtime.

*Recommendation:* To maintain compliance with the AFSCME union contract, ensure that an overtime record of available overtime hours in each unit is properly maintained and posted. Maintain a log of overtime hours worked by employees to document equitable distribution of overtime. UU's Maintenance Department can be used as a reference of how to establish an overtime process consistent with the contract.

*Management Plan:* Management will work with the UU Catering area to develop an overtime process that will require use of an overtime log to ensure distribution of overtime among employees is equitable.

### **Documented Procedures**

Opportunities exist throughout UU to continue to document or update significant operational processes. Several units have partially documented procedures, including:

- Cash Office

- Business Office
- Retail Food Services
- Major Events Office
- Event Services

Although informal procedures exist for other processes within these units and other UU units, the extent of the documentation is inconsistent. Documented procedures give employees a point of reference for decision making and training, and help to foster consistent execution of key processes.

*Recommendation:* Develop and document formal procedures for the main processes and activities of UU. Procedures should include details of who does what, as well as timeframes for meeting critical deadlines. Processes for reviewing and updating the documented procedures, and coordination between units should also be established. In many cases, procedures can be as simple as a checklist. Key operational processes that should be documented include, but are not limited to:

- Budget Process: Document the processes required to create UU budgets, unit expectations, business office expectations, budget monitoring, and variance explanation.
- Reporting: Document the process for creating reports that are used to monitor financial activity throughout UU.
- Maintenance Department Inventory: Document existing processes for managing inventory, including reconciliations and the process for signing-out equipment. Procedures should include who performs various functions within the unit.
- Cash Office: Expand cash office procedures to include oversight processes performed by management.
- Accident Reporting: Document the procedure for filing accident reports, including who is responsible for reporting and what types of accidents must be reported.

Continue with training employees on procedures specific to their job responsibilities, and ensure that documented procedures are distributed and readily available to employees.

*Management Plan:* University Unions will continue to enhance and expand documentation of procedures. Key operational processes that will be prioritized include Budget, Reporting, Maintenance Department Inventory, Cash Office, and Accident Reporting. An emphasis will be placed on training employees on procedures specific to their job responsibilities and ensuring accessibility to documented procedures. In addition, the Division of Student Affairs will implement Shared Services for finance and human resources in the near future, including University Unions and all departments in the Division. As such, business and personnel related controls, policies, and processes will be integrated with divisional plans.

### **Credit Card Merchant Processes**

*Discussion:* There are twenty-six merchant credit card terminals in UU. Some units are authorized to process credit card payments online, some have a physical terminal used to process transactions, and a few units have both. All of the merchants in UU are compliant with PCI (Payment Card Industry) Data Security Standards. The roles for processing credit card transactions and refunds are appropriately separated. University Audits reviewed credit card processing procedures for a sample of units and identified the following opportunities for improvement:

- Event Services: Event Services unit has a significant amount of refund activity. This is because open bar sales must be estimated prior to an event and actual sales are often lower than the estimate, which requires a refund to the customer. Refund activity for Event Services is not monitored to ensure all refunds are appropriate. The process for accepting credit card payments for Event Services is also inefficient and varies by building location.

- Union Food Services: Food services has multiple merchant accounts for the different retail and catering food service activities. Several changes in merchant accounts and turnover in merchant contacts have taken place in recent years. During the review of the merchant account activity, University Audits identified a merchant account that did not have the amount of activity reported by the Treasurer's Office, as expected. Food services leadership was unclear as to what caused the confusion.

While the above observations are specific to these units, UU should assess credit card processing operations throughout the organization and apply improvements where necessary.

*Recommendation:* To further improve management of UU's credit card merchants:

- A higher-level authority should review refund activity on a periodic basis to ensure all refund activity is appropriate.
- Work with the Treasurer's Office and consider moving Event Services credit card payments to an online eCommerce system. As an alternative, to improve the efficiency of accepting payments create a secure way for Event Services to receive the payment information directly.
- Ensure all merchants are associated with the proper business activity.
- To the extent possible, standardize credit card processing among UU merchants.

*Management Plan:* Management will evaluate all existing credit card merchant accounts and reduce the number of terminals to only those with proper business activity. We will also develop and implement a process for the periodic review and approval of all credit card refund activity.

University Unions will work with the Treasurer's Office to see if Event Services credit card payments can be moved to an online eCommerce system. While the Event Management Services software does not allow for online credit card payments, alternative solutions will be examined.

### **Summary**

UU has made significant progress strengthening the internal control structure throughout its organization. DSA and UU management have actively communicated the importance of controls and financial stewardship to all UU employees. UU leadership demonstrated a solid understanding of the importance of their unit's role in the University. This message is conveyed to staff in a manner that fosters a sense of community, inclusiveness, and responsibility through regular team meetings, activities that build morale, and increased communication.

Several opportunities for improvement were noted during this audit, including the use of supplemental/shadow systems, potential reduction of imprest fund balances, labor union overtime procedures, and the need for more thorough documenting of operating procedures. Management has committed to address our recommendations.

University Audits will conduct a formal follow-up of these items during the second quarter of fiscal year 2014.

College of Literature, Science, and the Arts Kelsey Museum of Archaeology Report issued April 26, 2013
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2012-201
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The Kelsey Museum of Archaeology (KMA or Kelsey) maintains a collection of over 100,000 ancient and medieval objects from civilizations of the Mediterranean and Near East. Kelsey offers regularly changing special exhibitions and sponsors research, educational programs for children, and fieldwork projects. It is also home to the Interdepartmental Program in Classical Art and Archaeology.

Kelsey's history begins with artifacts acquired between the 1890s and the 1920s by its namesake, Professor of Latin, Francis W. Kelsey. As of 1928, Kelsey's archaeological collections were held in a turreted stone building with a large Tiffany window on central campus known as Newberry Hall. The University leased this building from the Student Christian Association. In 1953, Newberry Hall became known as the Kelsey Museum of Archaeology. Since 2009, the much-expanded collections are both stored and exhibited in the William E. Upjohn Exhibit Wing, an addition to the original stone building.

KMA has a long tradition of sponsoring archaeological fieldwork in the Mediterranean and Near East. This tradition dates back to Francis Kelsey himself, who in the early twentieth century embarked on a series of excavations, most famously initiating work at Karanis, a Roman-period town in the Egyptian Fayoum. Many objects excavated at Karanis are now in the holdings of the Museum. Other early projects similarly resulted in substantial additions to Kelsey's collections – a practice that no longer holds true today due to changes in accepted archaeological ethics.

KMA continues to conduct research through expeditions. Previous expedition locations include:

- Sepphoris, Israel
- Monastery of Saint Catherine at Mount Sinai
- Qasr al-Hayr, Syria
- Apollonia, Libya
- Pylos, Greece
- Coptos, Egypt
- Selucia, Iraq
- Cyrene, Libya
- Dibsī Faraj, Syria
- Carthage, Tunisia
- Tel Anafa, Israel
- Paestum, Italy
- Karanas, Egypt
- Aphrodisias, Turkey

Kelsey currently supports excavations at Tel Kedesh, Israel; Abydos, Egypt; Gabii, Italy; Sant'Omobono, Italy; and Kush, Sudan. Plans are underway for additional excavations to Olynthos, Greece and a location in Turkey/Georgia in the next two years. While the focus of these more recent archaeological projects is no longer the enlargement of Kelsey's collections, these excavations and surveys have produced a growing archive of photographs, maps, and field notes.

### **Purpose and Scope**

The objective of this audit was to assess the internal control structure of KMA operations. Areas reviewed include:

- Cash and cash equivalents
- Purchasing
- Safety and security
- Financial reporting and management oversight
- Facilities maintenance
- Recharge rates
- Payroll and Human Resources
- Development
- Acquisitions and cataloging
- Accession and deaccession processes
- Loaned and borrowed exhibits
- Museum Store operations
- Research administration
- Academic program management
- International program administration and management

### **Risk and Control Discussion**

#### **Kelsey Museum Store – Purpose and Objectives**

*Discussion:* The Kelsey Store is located in the museum, has limited operating hours, is staffed by volunteers, and has relatively low annual sales volume of approximately \$17,500. It stocks items inspired by life in the ancient world, as well as items related to the permanent collection or linked to special exhibitions. There are significant amounts of time when visitors are in the museum and the store is not open.



The store's only online presence is a brief description on the KMA website indicating the existence of a store. There is no catalog of available items or ability to purchase anything online through the site. The store is currently staffed by the volunteer organization Associates of the Kelsey Museum. Discussions with Kelsey management revealed that the volunteers may be interested in other volunteer activities outside of the store, which would require hiring staff to manage store operations.

*Control Recommendation:* Although the Kelsey Museum Store could continue to run on the low-key basis it currently does, it appears that the functioning of the store is at a crossroads. KMA management should consider alternative strategies for running the store. Benchmarking to comparable archeological museums indicates a wide range of strategies for operating a museum store – from having no store to aggressively marketing the museum store. Most museums examined have an online presence that allows people offsite to buy from the store. Presumably this generates more money for the museums through direct sales. It also raises awareness of special exhibits through product tie-ins. Other aspects of running the Kelsey Museum Store that museum management should consider include:

- Staffing the store with full-time or temporary employees rather than volunteers
- Matching store hours to museum hours
- Enabling eCommerce on the Kelsey Museum Store website
- Designing and commissioning specific items for sale in the store that directly relate to museum special exhibits
- Developing a store theme consistent with the theme of the museum (e.g., ancient Greek agora, Roman forum)
- Partnering with other museum stores in the area, both on and off campus, to co-market and cross-sell

Any changes to store operations would need to be made in conjunction with the mission of the museum and supported by effective business case analysis. Based on benchmarking with other archeological museums, it appears that potential exists for generating greater proceeds from the Museum Store that could go to support KMA projects and operations, particularly research activities.

*Management Plan:* We agree with this recommendation, and there are numerous points to be addressed. First, we will establish a written mission for the Kelsey Museum Store. This will align with Kelsey's mission and strategic plan, and identify how the store integrates with the museum experience. Second, we will revise our policies and procedures to reflect the mission objectives. To address the audit team's recommendations:

- Initially, we will hire a temporary person to staff the Museum Store during the current store hours (Tuesday – Sunday, 1-4 pm). We will evaluate the possibility of hiring regular staff employees to ensure more consistency with staffing protocols.
- The long-term goal would be to extend the Museum Store hours to match the museum hours. This will be contingent on funding and revenue generated from the Museum Store. It is possible that this goal will not be met until the store is more established through public program advertisement and support.
- Currently, we are not able to establish an eCommerce presence for the Museum Store. The time and logistics required would compromise the focus on some of the foundation protocols that need to be implemented. This is an idea we would like to evaluate in the future once we have completed the objectives in this document.
- When the Museum Store opened, a themed concept was considered, but choosing one civilization theme proved to be problematic. Once we (the cashier, inventory purchaser, and management) have hired a temporary cashier to work in the store, we can assess plans for connecting inventory with special exhibits and permanent exhibit themes with greater focus.
- At this time, we are not looking to partner with other museum stores in the area. Each museum

store on campus tends to focus on its own collections and exhibit content. Once the store is better established, we can evaluate collaborative activities with peer institutions.

All of these points will be focused on as we create a budget and business plan for the Museum Store, and reevaluate the purpose and protocols over time. We will use drill-down strategies for the store's online presence, sale promotions, and programming. While some peer institution museum stores are much larger in scale and serve as a destination within the museum, our current focus is to have the museum store complement the museum and promote the exhibits.

### **Kelsey Museum Store – Inventory Management and Pricing**

*Discussion:* The inventory management system at the Kelsey Museum Store is based on a triplicate sales receipt generated at the point of sale by the volunteer or Kelsey employee making the sale. This handwritten form is used to record the identification number and description of the item sold as well as the quantity. One copy is given to the customer, one is used for tracking sales and cash receipts, and the third is used to update inventory records. Since this form is handwritten, descriptions are free-form, and numbers and descriptions are often incomplete or illegible. Since clear descriptions of items sold are not consistently captured, inaccurate relief of inventory could result. A significant portion of items recorded in the store inventory listing have negative quantities, which could be the result of inaccurate capture of information at the point of sale. In addition, periodic physical counts are not performed of the store inventory to identify discrepancies between the inventory records and actual quantities on-hand. Lack of accurate inventory records makes it difficult to identify missing items, track obsolescence, or determine when it is time to reorder.

*Control Recommendation:* Volunteers perform most inventory management processes at the Kelsey Museum Store. Kelsey management needs greater focus on these activities to provide an adequate level of security, accountability, and monitoring over Kelsey Museum Store inventory. In order to implement a proper level of inventory management:

- Perform periodic inventory counts to confirm that the number of items on hand matches the number of items recorded in the inventory system. Cycle counts (counting a specific number of items periodically) and annual inventory counts are common physical inventory methods.
- Periodically review existing inventories for slow-moving and obsolete items. Consider discounting slow-moving items and writing off those items deemed obsolete.
- Develop sales reports to track inventory turns and determine reorder points for regularly stocked items.
- Streamline inventory records to facilitate inventory controls and keep inventory records up to date. Develop consistent processes for accurately capturing point of sale information.
- Develop written guidelines outlining department inventory management procedures.
- Work with Procurement Services to establish strategic vendor contracts with recurring vendors to attain competitive product pricing, high-quality goods and services, and cost-savings, such as free standard shipping.
- Use sales reports to establish and approve pricing, mark-up, markdown, and discounting practices. Perform periodic price audits to verify items are priced appropriately.
- Work with the Tax Department to ensure the employee, volunteer, and member discount rate practices comply with University tax guidelines.

*Management Plan:* We agree with this recommendation. Inventory management is a critical part of proper controls for the Museum Store. We do currently conduct inventory checks, but do not have a formalized schedule in place. With the hire of a cashier, we will be able to implement the daily inventory management that is necessary for audit compliance. We will develop policies and procedures on daily, monthly, quarterly, and yearly inventory control, and institute checks and balances to ensure internal control compliance.

- As part of the policy and procedure guidelines, we will establish a set, periodic count of inventory to ensure control compliance. The frequency will be reflected in the procedures. Reports on these inventory counts will be generated and reviewed on a periodic basis.
- Once inventory management is established, we will have a better idea of what stock is slow moving. We will establish sales protocols to move slow-moving stock and evaluate reorders.
- In addition to inventory control, we will use data to identify appropriate reorder points for regularly stocked items. We will use this data to track seasonal trends and specific sale quantities of an item over a period of time.
- All inventory management processes will be kept up to date and performed on a regular schedule. We will evaluate the best methods to conduct this process, but are confident that the addition of a cash register or POS system connected to inventory management will accomplish this goal.
- All guidelines for department inventory management procedures will be written and accessible to department staff. All guidelines will be reviewed with relevant staff on a periodic basis.
- Once our updated inventory system is in place, we will contact Procurement Services to see if we can establish strategic vendor contracts with our suppliers. We will determine if there are existing strategic vendor contracts since there are two other museums on campus that have stores.
- Our inventory purchaser currently performs periodic audits to verify that items are priced appropriately. We will formalize this schedule with a documented procedure. All items sold in the store will be reevaluated to determine competitive pricing. The cashier will consistently do research to determine what these prices will be and make recommendations to management for pricing increases, decreases, etc.
- We will contact the Tax Department to ensure the employee, volunteer, associate membership, and docent discount rate practices comply with University tax guidelines.

#### **Kelsey Museum Store – Inventory Security**

*Discussion:* When the museum is open, the Kelsey Museum Store functions as a pass-through between the entrance on State Street and the Upjohn wing. Since the store is only open for business 1-4 pm daily (if a volunteer is present) and the museum is open from 9 am-4 pm, both University employees and visitors often pass-through the store space when no one is working. This activity in the store space is not visible by the greeter on the State Street side or by the guard at the entrance of the Upjohn wing. As some sale items on display are not stored inside cabinets or cases, these items are easily accessible during off hours by anyone walking through the store.

*Control Recommendation:* We recommend that security cameras be installed in the Kelsey Museum Store and that they be actively monitored by the guards. This is particularly important when the museum is open and the store is not. Additionally, steps should be taken to secure those items that are not in locked display cases in the store. This should include, but not be limited to consistent use of the covers for open-stock display cases in the store. Further, guards should walk through the store space on a regular basis, especially when the museum is open but the store is closed.

*Management Plan:* We agree with this recommendation. Security cameras have been installed in the Kelsey Museum Store, effective February 11, 2013. These cameras are actively monitored by the security guard or guides. All activity in the store is recorded. We are in the process of hiring a Security Supervisor to oversee security and building issues for the museum. Once this person is hired, we will be hiring professional security guards who will conduct rounds through the Museum Store space on a regular basis. Covers are currently used to keep open-stock items out of sight of people walking through the Museum Store when the museum is open; however, we will be assessing the overall compliance with this practice over the next few months. The Security Supervisor should be able to help assess if we need more covers, if covers can be secured, etc. Also, with the hiring of a cashier, there will be consistent practice with the covering of stock items when the Museum Store is closed.

### **Kelsey Museum Store – Cash Handling**

*Discussion:* Kelsey Museum Store's cash handling procedures do not adequately control cash, checks, and credit cards in a store setting. Due to the low volume of transactions, the cash handling processes at the store are manual and do not include many of the control points normally expected of an organization doing retail business.

*Control Recommendation:* The University has policies to assist departments in the development of cash handling procedures to ensure proper internal controls, segregation of duties, and safeguarding of University assets. To align KMA cash handling processes with University policies and practices:

- Develop adequate segregation of duties between staff that receive funds, deposit funds, and reconcile transactions.
- Develop comprehensive reconciliation processes, including:
  - Tracing all deposits to Statements of Activity.
  - Reconciling deposits to sales information and providing explanations for significant differences.
  - Tracing credit card payments to bank statements.
- Implement supervisor review and approval of the daily reconciliation of the Sales Log.
- Make regular deposits to reduce the amount of cash retained in the Kelsey Museum Store over the weekend.
- Ensure that staff and volunteers are properly trained:
  - Staff and volunteers who handle cash need to complete the Treasurer's Office online cash handling training courses.
  - Staff and volunteers making sales in the store should be familiar with Kelsey Museum Store processes for processing cash, checks, or credit sales and daily reconciliation of the sales recap and the cash drawer.
- Develop written department cash handling procedures:
  - Cash and credit card discrepancies should be logged and reviewed to facilitate management of shortages and overages.
  - Senior management should review and maintain documentation supporting rationale for refund, verify refunds were charged back to the correct credit card, and track refunds and voids to help discern potential problems.

*Management Plan:* We agree with this recommendation. We do conduct many of the cash handling and segregation of duties as recommended by the audit team. This is reflected in the internal controls sheets we submit every year. We will define a clear set of procedures to comply with the control recommendation. We will also update our current policies to reflect the addition of a cashier as part of the internal control pathway.

- Management will review University procedures on cash handling to create a more comprehensive policy and procedure on segregation of duties between the staff who receive funds, deposit funds, and reconcile transactions. This is currently being practiced, but will be written in procedures.
- The practices of tracing deposits to the Statement of Activity, reconciling deposits to sales information, and tracing credit card payments to bank statements is being conducted; however, we will revise our policies to better reflect the steps of these process, including the role of the cashier and all other people who have roles in these steps.
- Review and approval of reconciliation will be initiated with the updated segregation of duties and role responsibilities for management with the Museum Store.
- We will work with the Treasurer's Office to determine the appropriate amount of cash to be retained over the weekend. If it requires securing all cash sales amounts, we will be evaluating the practicality of installing a safe in the Museum Store to secure sales during the weekend.
- We will be moving to a paid cashier position in place of the current volunteers working in the Museum Store. Once complete, we will ensure they are trained in all University policies on cash

handling and complete the online Treasurer's Office training courses necessary for their job responsibilities. All policies will be reviewed with the cashier to ensure internal control compliance.

- Policies and procedures will be written to define what to do when cash and credit card discrepancies are found, along with the required corrective actions. Currently, they are being logged on the tally sheets, but as we move to a different inventory system, this will be updated. For refunds and voids, the Associate Director and Administrative Specialist (and possibly the Security Supervisor) will be assigned as the only managers who can authorize refunds and voids to separate duties from the cashier. This will be reflected in refund management policies.

### **Kelsey Museum Store – Use of a Cash Register**

*Discussion:* The Kelsey Museum Store currently does not have a cash register. Instead, a manual system is used for controlling cash, tracking sales, and managing inventory. This has contributed to lack of accurate inventory records (see Kelsey Museum Store – Inventory Management). It is highly beneficial that retail operations use a cash register at the point of sale (POS). A cash register will not only help keep an accurate count of inventory and reliable sale records, it will also enable prompt and effective customer service. Other benefits include the capability to effectively secure cash through increased physical controls and provide a more accurate source for reconciliation of sales activity and inventory records.

Depending upon the overall strategic objectives for the Museum Store (see Kelsey Museum Store – Purpose and Objectives), the concept of automated control can be taken to the next level through the acquisition of a POS system. Complete POS cash register systems are commonly equipped with cash drawers, credit card readers, receipt printers, keyboards, cash register computer screens, barcode scanners, and required POS software.

*Control Recommendation:* Equip the Museum Store with a cash register to increase the level of control over inventory management and cash handling in an environment where multiple individuals handle cash and sell items, including a large number of volunteers. Consider acquiring or developing a POS system consistent with the size and volume of the store. The automated inventory tracking available in a POS system would reduce the reliance on manual inventory control processes.

*Management Plan:* We agree with this recommendation. Once policies are in place on cash handling and a cashier is hired, we will purchase a cash register for increased level of control over inventory management and cash handling. We will contact the Treasurer's Office to discuss options for a point-of-sale system that would be consistent with the size of our store operations. We will assess options of the POS system once we have more information and, based on outcomes, will purchase either a cash register, or a POS system that will successfully track inventory. Price tagging and scanning inventory in the store might not be practical considering the small size of our museum store. In conversations with the Treasurer's Office, we will determine what price tagging and scanning systems they would recommend, and evaluate the cost-benefit of having such a system for the Museum Store.

### **Kelsey Museum Store – Change Fund**

*Discussion:* The Kelsey Museum Store maintains a \$300 change fund. This fund was created from the donations received by Kelsey and is not maintained as an imprest cash fund. Review of the sales recap sheets for the store revealed that the fund balance can vary from the initial \$300 balance by a significant amount.

*Control Recommendation:* The money in the current change fund should be deposited in the proper University account. The change fund should be reconstituted as a formal imprest cash fund authorized by Accounts Payable with a designated custodian. Existing Kelsey Museum Store procedures should be updated to reflect the nature and amount of the reconstituted change fund.

*Management Plan:* We agree with this recommendation. We will deposit the change fund amount into the gift fund (where it was established) and submit a request to Accounts Payable to establish an imprest cash fund for our change fund. We will review the amount needed for the change fund – \$200-\$250 for change may be sufficient. This amount will have a set balance to be maintained and monitored by the cash fund custodian.

### **Security Staff**

*Discussion:* Kelsey Museum lacks a security supervisor. Currently, the Community Outreach Associate Supervisor at the Kelsey Museum handles the security staffing, training, and various other security duties. The student greeters also double as security guards during normal business hours and special events. Duties involve maintaining control of the keys used at Kelsey, monitoring the video feeds from the security cameras, guarding the entrances into the exhibit hall, roaming the exhibit hall, and reporting incidents to the Community Outreach Associate Supervisor and/or the Department of Public Safety and Security (DPSS).

*Control Recommendation:* Continue to work with DPSS to coordinate filling a position to ensure all facility and security responsibilities identified for Kelsey Museum are addressed. KMA is currently interviewing candidates for the job of Protection Services, Safety, and Facilities Manager. Consider the following responsibilities in planning for this position:

- Supervise security and entrance personnel.
- Coordinate with faculty and staff to conduct public safety security functions such as training, fire drills, emergency preparedness, disaster planning, security system and camera functionality, Material Safety Data Sheet updates, and other related programs.
- Supervise access to secure areas while overseeing access for authorized personnel, plant and maintenance department, custodial personnel, security monitoring company, students, and visitors. Be the point person for maintenance requests and reporting, and updates conducted by security monitoring company.
- Ensure after-hour event security is established.
- Coordinate and oversee maintenance and visitor-related activities.
- Evaluate and analyze various courses of action relating to the security of the museum, including key and entrance management, policy and procedure making, and scope of service.
- Make periodic inspection tours of the building and grounds to watch for and guard against theft, fire, illegal entry, infractions of safety regulations, and other irregularities.
- Conduct and present periodic reports regarding security, safety, and visitor counts to the Director and Associate Director.
- Represent the department to internal and external constituents including, but not limited to, museum building committee and University security meetings.

*Management Plan:* We agree with this recommendation. There were challenges with the posting and proposed hiring for this position due to the recent changes with campus-wide security and public safety. We have since posted the position, and are currently reviewing applications. We will be working with DPSS to interview and hire for this position. When this individual is hired, we will address all of the responsibilities as part of the recommendation. These are all key elements in the job posting and description, and are areas we feel are essential to the future security at Kelsey. Policies will be established in collaboration with the security supervisor for hiring professional museum guards with training initiatives, policies and a comprehensive work plan.

### **Security Training**

*Discussion:* Kelsey lacks a formal training process for safety and security. Hired students, located at the two entrances of Kelsey, are given a brief overview about keys, codes, and dealing with the public.

Docents do not receive any training on how to handle safety, security, or emergency situations. The museum is in the process of hiring a security manager whose stated responsibilities include conducting security function activities, such as training.

*Control Recommendation:* Work with DPSS to ensure all facility and security responsibilities at Kelsey are addressed. In the event that the timely hiring of this position does not occur, then Kelsey should ensure that an adequate safety and security training program be established and administered to all faculty, staff, and volunteers whose responsibilities include dealing with the public and/or the security of the museum.

*Management Plan:* We agree with this recommendation. Once the Security Supervisor is hired, the team of the Associate Director and the Security Supervisor will establish policies and guidelines for proper training of all guards hired as well as protocols for staff working in the museum to best respond to safety, security, and emergency situations. Adding security positions is a priority for the museum to ensure all training is conducted.

### **Physical Access Control**

*Discussion:* Kelsey lacks an effective way of managing building keys. Personnel and volunteers who are no longer associated with the Kelsey Museum are still listed as having physical keys. Proper physical access control is essential in maintaining the security of museum assets. Master keys along with all sub-masters and individual keys should be appropriately tracked and surrendered when individuals no longer require access.

*Control Recommendation:* Review all key logs associated with Kelsey on a continual basis. Based on these reviews, consider periodically rekeying locks as appropriate. Personnel should be required to surrender all University keys they are no longer required to possess prior to departure, and the key log should be updated accordingly. On-boarding and off-boarding checklists could serve as a method to ensure all keys assigned to the personnel are returned and documented accurately.

*Management Plan:* We agree with this recommendation. On a set schedule (we recommend a quarterly basis), we will be reviewing all key logs with the Key Office on campus to ensure that all lists of key inventories have been updated. We currently have a new orientation checklist with key assignment roles and responsibilities. We also have a list of people and the keys they possess that we will compare to the Key Office list. We will establish a written off-boarding checklist for terminated employees and graduate students who have keys to the building. We will follow-up with these key holders before they leave to ensure the return of all keys. We will create a policy outlining this process. When the new Security Supervisor starts, we will work with him/her to ensure that only authorized personnel have keys to specific areas within Kelsey. We will assess different area restrictions and maintain a list of people with limited access. All key access will be documented accurately.

### **International Travel Planning**

*Discussion:* International travel is integral to excavation work conducted by KMA curators, students, and staff. The financial and administrative staff at Kelsey coordinate with curators to review travel budgets, arrange travel, and reconcile expenses. The audit confirmed these processes occur via review of documentation retained by Kelsey administration. It is apparent that the international travel planning process is commonly understood and accepted; however, the process has not been formally documented.

Another area of international travel that lacks formalized procedures is pre-departure planning. Curators and excavation staff plan and review pre-departure procedures in preparation for travel to international excavation locations. While the practice of pre-departure planning appears to be relatively common, this process is not centrally administered or tracked.

*Recommendation:* Document international travel planning procedures, including budget creation and review, travel arrangement, and expense reporting and reconciliation. Formalize pre-departure planning procedures by creating checklists that can be used by curators and excavation staff planning international travel. Specifically, be mindful that travel registry, international travel insurance, and any relevant training is included in planning documents. In addition, consider development of templates or other tools to aid in consistent deployment of the planning process.

*Management Plan:* We agree with this recommendation. Kelsey administration has been conducting budget and financial oversight over the international programs (archaeological excavations) for many years. We conduct all of the recommendations the audit team has expressed, such as lump sum breakouts, receiving lump sum advances, and reconciling them at the end of the archaeological excavation, but we do not have these procedures and checklists identified in a written procedure. We will create written procedures and checklists for staff and faculty to follow to ensure all steps in the international program finance and budget oversight are completed. We will include all pre-departure procedures, such as training, travel registry, and insurance policies and procedures with the written procedures and checklists. We will work with the traveling faculty and staff to ensure compliance with all of these procedures.

### **Summary**

KMA leadership is supportive of internal controls. The basic business processes are functioning effectively and the management team was quick to respond positively to suggestions for improvements in controls. In some cases, they had already identified control weaknesses and were in the process of addressing them before the audit started. Additionally, while they are a relatively small department, the management team recognizes the importance of separation of duties and has taken steps to segregate responsibilities for key areas like cash handling.

Kelsey's primary role is to maintain a collection of over 100,000 objects from ancient civilizations and make them available to researchers, educators, and the general public. Our review indicates Kelsey has an excellent process for tracking pieces whether they are in storage, on display, or loaned to another museum.

The audit highlighted improvement opportunities to update security measures, examine the functions of the Museum Store, improve inventory management, and document current procedures for international travel planning. The recommendations cited in this review will improve controls within Kelsey. University Audits appreciates the cooperation and responsiveness of KMA management and staff members.

A formal follow-up to the outstanding issues will be conducted during the third quarter of fiscal 2014

### **Information Technology**

Payment Card Industry Data Security Standards  
Report issued April 11, 2013

2013-310

The Treasurer's Office is responsible for the management and coordination of the University of Michigan's banking relationships, treasury services, debt issuance, compliance, and the insurance and disability management programs. In addition, the Treasurer's Office recently launched an initiative to promote compliance with Payment Card Industry standards for accepting credit card payments. Approximately 500 merchants currently accept credit card payments at U-M, processing over two million payments annually.

The Payment Card Industry Security Standards Council (PCI-SSC) is an open global forum, launched in 2006, that is responsible for the development, management, education, and awareness of the PCI Security Standards, including the Data Security Standards (PCI-DSS). PCI-SSC's five founding payment brands (i.e., American Express, Discover, JCB, MasterCard, and Visa) have agreed to incorporate PCI-DSS as the technical requirements of each of their data security compliance programs. Enforcement of compliance

with the PCI-DSS and determination of any non-compliance penalties are carried out by the individual payment brands and not by the Council.

The Treasurer's Office is responsible for monitoring Payment Card Industry Data Security Standard (PCI-DSS) compliance at the university. However, individual merchants throughout the University are responsible for validating PCI-DSS compliance of their accounts. There are two basic methods of validation. Merchants can validate by procuring the services of a Qualified Security Auditor (QSA). The QSA is a person certified by the PCI-SSC to audit merchants for PCI-DSS compliance. The other option is for the merchant to complete a PCI Self-Assessment Questionnaire (SAQ). The University validates compliance using the SAQ process.

There are five SAQ Forms, each with unique eligibility requirements. The SAQ descriptions of these Forms are:

- **SAQ A:** Card-not-present (e-commerce or mail/telephone-order) merchants; all cardholder data functions outsourced. This would never apply to face-to-face merchants.
- **SAQ B:** Imprint-only merchants with no electronic cardholder data storage, or standalone, dial-out terminal merchants without any electronic cardholder data storage.
- **SAQ C-VT:** Merchants using only web-based virtual terminals; no electronic cardholder data storage
- **SAQ C:** Merchants with payment application systems connected to the Internet; no electronic cardholder data storage.
- **SAQ D:** All other merchants not included in descriptions for SAQ types A through C above, and all service providers defined by a payment brand as eligible to complete an SAQ.

Control requirements increase from levels A through D. For example, Form A consists of approximately 19 questions and SAQ Form D consists of over 230 questions. A merchant who is eligible to complete SAQ-D is considered a much higher risk than a merchant who is eligible to complete SAQ-A.

The type of the validation required is based on the category assigned to the merchant. Merchants fall under one of four categories primarily determined by the number of transactions processed by the merchant. UM's credit card processor (Fifth Third Processing Solutions) can also determine the category based on a number of factors including the potential risk and exposure of the merchant's processing environment.

Category 1 or 2 merchants are required to have a QSA attest that they are PCI compliant. Merchants classified as category 3 or 4 can complete a SAQ. U-M processes over two million transactions annually and on volume alone could be considered a category 2 merchant. However, the processor has classified U-M as category 3.

Penalties for non-compliance with PCI-DSS vary between payment brands. Fines can be imposed at the discretion of the credit card company from \$5,000 per month to \$100,000 per month while out of compliance. Penalties can also affect U-M's merchant categories, resulting in U-M being forced to procure the services of a QSA, increased transaction fees, and/or termination of the merchant agreement.

### **Purpose and Scope**

This audit reviewed the controls in place to ensure compliance with PCI-DSS requirements. The Treasurer's Office's monitoring procedures were the primary focus of this review. A sample of merchants was also selected to verify the accuracy of Self-Assessment Questionnaires. Specific audit objectives include:

- Determining that necessary controls exist to ensure compliance with PCI-DSS
- Ensuring that processes are effective in identifying the proper SAQ form level.
- Ensuring a method of educating the campus community regarding PCI-DSS issues is effective

- Determining if education and communication processes are effective at informing merchants of their responsibilities
- Verifying that effective documentation is available to facilitate compliance, education, and reporting
- Determining if processes are effective at validating merchant responses

**Out of Scope:**

PCI-DSS requirements focus on IT security controls to ensure the safety of credit card data and do not address financial controls. Therefore, merchant and Treasury financial controls were not evaluated.

**Risk and Control Discussion**

**Security Unit Liaison PCI-DSS Training**

*Discussion:* Version 2.0 is the current PCI-DSS criteria. On July 1, 2012, a PCI-DSS recommendation was converted to a requirement and several information supplements have been introduced that provide guidance for new technologies. Changes to the standard are expected to continue. The audit discovered that Security Unit Liaisons<sup>2</sup>(SUL) do not undergo regular PCI-DSS awareness training to be able to keep up with such changes. The Treasurer's Office has stated that high risk merchants should be assisted by a SUL when completing the annual SAQ. SULs are also required to sign off on the SAQ and assist the merchant with any system implementations such as with payment applications and point of sale systems as necessary. The lack of PCI-DSS training has resulted in at least two instances where an SAQ was incorrectly completed and recommendations from an SUL was incorrect. PCI-DSS compliance requirements have changed since the initial release. The document that the Treasurer's Office published to guide merchants on PCI-DSS compliance is out of date. The PCI Compliance document was written for a prior version of PCI-DSS. This results in certain parts of this document being out of date. For example, the document references an anti-virus solution that is no longer supported by the University.

*Control Recommendation:* University Audits recommends that merchant SULs or technical contacts that are assigned to high risk merchants (SAQ-C, SAQ-CVT, SAQ-D) attend PCI-DSS awareness training. The Treasurer's Office in collaboration with ITS-IIA (Information and Technology Services- Information and Infrastructure Assurance) should determine the appropriate solution to effectively advise the appropriate personnel regarding their roles and responsibilities for meeting the PCI-DSS requirements. Training is necessary to address the constantly changing PCI-DSS landscape. As new credit card processing technologies emerge, the PCI-DSS standard will change. SULs are vital to ensure that merchants are compliant with PCI-DSS. SULs should complete awareness training, at minimum, on an annual basis to refresh their knowledge and learn about changes to the standard. The Treasurer's Office should either remove the current guidance document to avoid confusion or preferably, develop a similar document consistent with the new PCI-DSS guidelines to help merchants achieve and maintain compliance.

*Management Plan:* Even within the various SAQ levels there are too many different unique solutions, environments, and scenarios to provide technical training in an effective way that would meet all the various audience needs. The University cannot, and should not, be providing detailed technical training because it cannot be done effectively.

However, ITS-IIA and the Treasurer's Office will develop periodic PCI awareness training for SULs (and/or delegates). The content will include making them aware of:

- The seriousness of PCI compliance;

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<sup>2</sup> A Security Unit Liaison (SUL) is appointed at each unit, school, or college. They are the lead point of contact for IT security matters and head the unit's IT security activities.

- Their roles and responsibilities;
- External resources that are available from the PCI SSC (Security Standards Council);
- Available ITS resources;

It should be noted that both the Treasurer's Office and ITS-IIA have communicated to departments that their SUL should not use this document. Instead they need to seek specific guidance from the PCI SSC and IIA.

All links to the outdated "How to Comply" document, have been removed from the Treasurer's Office website as of February 8, 2013, and the document itself has been removed from ITS-IIA's web site as of February 22, 2013.

### **Self-Assessment Process**

*Discussion:* The PCI-DSS compliance validation procedure is a set of standards based on the category of merchant assigned by the processing bank. U-M has been designated a category three merchant and can complete self-assessments to assert compliance. The Treasurer's Office provides guidance and governs the PCI-DSS compliance program for the units (merchants) that accept credit cards at U-M. However, ultimate responsibility for compliance with PCI-DSS remains with the individual merchant. Self-assessment is not a strong compliance control. If a merchant does not take the self-assessment process seriously, is generally uninformed of the process, or has resource constraints that compromise the self-assessment process; PCI-DSS violations are more likely to occur.

*Control Recommendation:* University Audits recommends that the Treasurer's Office develop a process to perform rolling on-site audits of select merchant accounts. These on-site audits will provide a greater level of confidence that the merchant is compliant with PCI-DSS and violations can be resolved before a breach of credit card data occurs.

*Management Plan:* The Treasurer's Office and ITS-IIA agree that we prefer a collaborative approach that includes University Audits:

- The Treasurer's Office and ITS-IIA suggest annual meetings with University Audits to review and assess higher risk processing merchants (i.e., SAQ Form C or C-VT). This can help identify areas of concerns and also allow us to focus our limited resources.
- The Treasurer's Office will continue to provide a report annually to University Audits listing all of the University merchants, how they assess compliance (e.g., risk level), and transaction volume. Additionally ITS-IIA will provide a checklist of PCI items to be aware of. This information will hopefully assist University Audits when auditing departments
- The Treasurer's Office and IIA will select a sample of higher risk department groups (i.e., SAQ Form C and C-VT) each year. We will meet with all of the stakeholders of the department (e.g., director, budget administrator, IT contacts, merchant contacts, SUL) and review the compliance status of their higher risk accounts, discuss potential areas of concern, and provide guidance with any gaps discovered. The sample size will fit within what can be managed with existing staffing resources.

### **Required Vulnerability Scans**

*Discussion:* The audit revealed that internal vulnerability scans required by PCI-DSS 2.0 requirement 11.2 are not being completed. Requirement 11.2 is a requirement for SAQ-C and SAQ-D merchants. This requirement in the SAQ C v2.0 asks: "Are internal and external network vulnerability scans run at least quarterly and after any significant change in the network (such as new system component installations, changes in network topology, firewall rule modifications, product upgrades)?" ITS-IIA performs regular vulnerability scans however they are not configured to meet the requirements of PCI-DSS.

*Control Recommendation:* University Audits recommends that the Treasurer's Office, in collaboration with ITS-IIA, develop a process to ensure internal vulnerability scans are completed according to PCI-DSS requirements. This is a necessary process to ensure compliance with PCI-DSS. Another significant benefit will be the identification and resolution of IT-related vulnerabilities, improving the overall security of the U-M infrastructure.

*Management Plan:* During the awareness training ITS-IIA will communicate to merchants that they either need to sign up for ITS-IIA's monthly vulnerability scanning service or make sure they are performing ITS-IIA approved scans themselves.

### **Volunteer PCI Training**

*Discussion:* The Treasurer's Office Merchant Services Policy states that anyone who handles credit cards must complete required U-M merchant training. From the Treasurer's Office Merchant Services Policy: "Complete an online merchant certification course. The merchant contact and *authorized staff* are required to complete this training annually." An authorized staff member is someone who is authorized to process credit card transactions. The audit revealed that volunteers at the Friends Gift Shop have not completed the required merchant training.

*Control Recommendation:* University Audits recommends that the Treasurer's Office work with the Friends Gift Shop, and any other merchants that use volunteers for handling credit card transactions, to develop a process to ensure that all volunteers complete the required training. The process should require new volunteers to complete the merchant training before they are allowed to process credit cards. Existing volunteers should complete the required training as soon as possible.

*Management Plan:* The Treasurer's Office recently worked with another department – Parking and Transportation - that faced a similar challenge. In their situation a number of employees did not have access to computers, so they could not complete the online merchant training. The Treasurer's Office developed an alternative process in order to disseminate the training information to the Parking and Transportation staff.

This alternative process includes providing a printed version of the contents of the merchant certification course to the department so their primary contact for the merchant account can distribute the information directly to their employees. After receiving and reviewing a copy of the material, each employee signs a document, stating that they will abide by all of the policies within the contents of the distributed material. The department keeps a copy of the signed document and this process is repeated annually.

The Treasurer's Office will expand this process to other merchants who may have staff that do not have access to the online merchant certification course, including the Friends Gift Shop.

### **Matthaei Botanical Gardens Parking Meter Firewall**

*Discussion:* The Treasurer's Office and ITS-IIA have stated that the parking meters at Matthaei Botanical Gardens are subject to SAQ-C requirements. PCI-DSS requirements 1.2 and 1.3 require a firewall to separate systems that accept card holder data and untrusted networks. The pay stations in the Matthaei Botanical Gardens parking lots are segmented on their own virtual local area network; however, they are not protected by a centrally supported firewall or mitigating control. The pay stations do not include any open ports (a mechanism that would allow access to an attacker) resulting in minimal risk, however, PCI-DSS requires the presence of a firewall.

*Control Recommendation:* University Audits recommends that the Treasurer's Office work with Matthaei Botanical Gardens and IIA to protect the pay stations located in the parking lots so that they are behind a centrally supported firewall.

*Management Plan:* The Treasurer's Office and IIA will work with Botanical Gardens to verify if this is a gap.

If it is determined to be a gap (i.e., no compensating control in place) we will work with the merchant to close the gap. Additionally, Botanical Gardens leadership will be made aware of this issue and the potential consequences of responding incorrectly to the PCI self-assessment.

### **Merchant Responsibilities**

*Discussion:* The audit identified one missing Merchant Services Policy document for a credit card merchant. The Treasurer's Office requires that all merchants agree to and sign the Treasurer's Office Merchant Services Policy. The Merchant Services Policy also collects required information such as Merchant Contact and a director level approver signature. This document also collects information about the type of credit card processing that is completed and names of personnel authorized to complete a credit card sale. The Merchant Services Policy documents the responsibilities of the merchant and transfers responsibility of PCI-DSS compliance to the merchant.

*Control Recommendation:* University Audits recommends that the Treasurer's Office contact the merchant to obtain a completed and signed Merchant Services Policy document.

*Auditors Comment:* The Treasurer's Office obtained the missing Merchant Contract after the finding was discovered. The original Merchant Contract was misplaced due to an office move, evidence of a control deficiency was not observed. **This item is closed.**

### **Payment Application Anti-Virus**

*Discussion:* PCI-DSS requirement five requires the use of and regular updates to anti-virus software or programs. A machine in Property Disposition was identified as having out of date anti-virus. Error logs showed that the anti-virus had not been updated in approximately four weeks. The IT staff was able to manually update the anti-virus client on the machine and implemented a process to manually verify that updates are successful on a weekly basis.

*Control Recommendation:* The local IT staff at Property Disposition has agreed to implement a compensating control to prevent the issue from recurring. If it is discovered that the issue is a regular occurrence, the anti-virus vendor will be contacted. A process should be developed to periodically monitor for out of date virus protection.

*Management Plan:* ITS is responsible for maintaining these computers, including updating anti-virus software. However, we will follow-up with Property Disposition after 60 days to verify this issue remains closed. Additionally, ITS leadership will be notified of this gap and the potential consequences of providing incorrect information on the PCI self-assessment.

### **Vendor Defaults**

*Discussion:* PCI DSS requirements state: "Do not use vendor-supplied defaults for system passwords and other security parameters". The cash registers in the University Club Cafe were identified as having default vendor supplied passwords in some applications. Further, passwords have not been updated in an unknown period of time.

*Control Recommendation:* University Audits recommends that the Treasurer's Office work with the University Club Cafe to assist them in addressing the identified compliance issue related to password maintenance.

*Management Plan:* The Treasurer’s Office will work with the University Club Cafe to verify this gap is closed. Additionally, Student Affairs leadership will be made aware of this issue and the potential consequences of responding incorrectly to the PCI self-assessment.

*Auditors Comment:* During the audit, the Unions IT staff changed the passwords on the registers in the University Club Cafe. **This item is closed.**

### **Summary**

The number of University credit card transactions is growing at 13% on average per year and credit card sales are growing at 16% annually. As the demand for credit card merchant accounts increases, so does the demand for flexible and agile credit card processing methods. The obligation to be PCI-DSS compliant is often at odds with the need to ensure units can effectively support their mission and accept credit card payments while minimizing costs.

The Treasurer’s Office and IIA have been proactive at developing processes and controls by leveraging a continuous improvement process and balancing the competing requirements of usability, security, and compliance. The PCI-DSS compliance position of the University is a moving target that the Treasurer’s Office and ITS-IIA have successfully been able to hit while enabling units to efficiently accept credit card payments. The audit identified a few areas where improvements will provide greater assurance of PCI-DSS compliance while also improving security of the credit card merchants.

A formal follow-up to the outstanding issues will be conducted during the second quarter of fiscal year 2014.

Medical Center Information Technology and Arbor Lakes/North Campus Data Centers Report issued April 11, 2013	2012-307
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Medical Center Information Technology (MCIT) Infrastructure and Systems Operations (ISO) manages and maintains two data centers, the North Campus Data Center (NCDC) and the Arbor Lakes Data Center (ALDC). These data centers house the University of Michigan Health System (UMHS) servers and network equipment, with NCDC serving as the primary data center and ALDC as the alternate site. IT systems that are considered life safety or mission critical systems have redundant servers located in both data centers, while systems that do not warrant redundancy are only maintained in NCDC.

Maintaining data centers that support life safety and mission critical systems requires coordination between all parties that support network operations, facilities, and data center personnel. Efficient communication between all personnel that provide services and support to the data center is essential to minimize unplanned outages. MCIT has developed numerous controls, policies, and procedures to manage both data centers.

### **Purpose and Scope**

This audit is the third audit of MCIT data centers over the past year and a half. The first two audits focused primarily on North Campus Auxiliary Services Building (NCASB)<sup>3</sup>. The primary objectives of this audit was to verify that physical security controls were in place to protect MCIT data centers from unauthorized access and that continuity of operation documents adequately address recoverability of the MCIT data centers. The auditing process included the following:

- Review of procedures used to manage video feeds for MCIT data centers
- Examination of procedures in place governing access to the data centers
- Determination if there was a continuity of operations plan (COOP) for MCIT data centers

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<sup>3</sup> NCASB is the building that houses NCDC.

- Verification that the Department of Public Safety and Security has identified NCASB and ALDC as critical buildings and are patrolling these grounds

This audit examined the common controls in place at both the MCIT data centers. Interviews were conducted with the Office of Emergency Preparedness, Department of Public Safety and Security, UMHS Security Services, and MCIT management and staff. Applications that are housed at the data centers, their configurations, and application continuity of operations plans were deemed out of scope for this audit.

## **Risk and Control Discussion**

### **MCIT Managed Data Centers' Lack a Comprehensive Continuity of Operations Plan (COOP)**

*Discussion:* The lack of a COOP for MCIT managed data centers increases the risk of service interruptions to life safety and mission critical IT services. MCIT Infrastructure and System Operations defined numerous policies and procedures to ensure adequate controls are in place to maintain continuity of operations at UMHS. Consistent with continuity of operations objectives defined by The National Institute of Standards and Technology:

- MCIT has defined essential applications, infrastructure, and services that support the delivery of the electronic medical records and associated workflow systems that are essential to real-time patient care delivery (Enterprise Operations Complex (EOC)). Standard Operating Procedure CIO-002 describes appropriate steps for reporting an outage affecting the EOC and identifies escalation procedures (i.e., ISO-IOM-020 Major Incident Escalation Procedures)
- MCIT is drafting policy that defines recovery objectives for services (IT infrastructure and applications) based on a tiered structure
- Systems and services have been identified and classified by tier
  - Tier 1- Platinum: Services with operations that have the highest requirement for availability, the lowest recovery time, that require the quickest response time to incidents
  - Tier 2- Gold: Services with operations that have a high requirement of availability, a fast recovery time, and have a fast response time to incidents
  - Tier 3- Silver: Services with operations that have a moderate requirement of availability, can take some time to recover, that have a need for a moderate response time to incidents
  - Tier 4 - Bronze: Services with operations that have the least requirement of availability accept data loss on some scale or entirely, with a need for a response to an incident that can involve some time associated with it

Despite development of a significant amount of documentation and defining numerous key processes, there is no consolidation of the various policies/procedures to form a comprehensive continuity plan.

*Control Recommendation:* University Audits recommends that MCIT develop a continuity of operations plan for the data centers. This may be incorporated in an overall plan for MCIT or be specific to the data centers. Creating a COOP should not be an onerous process. Portions of a plan may already be addressed by existing UMHS policy. Therefore, simply providing a link or policy description in those sections already covered should address issues without having to reproduce and maintain policy and produce unnecessary documentation. While creating the COOP, regulatory requirements should be considered and addressed. At a minimum, the plan should identify the critical functions of the data centers and the personnel assigned to the data center, recovery and continuity strategies to maintain the critical functions, and disaster recovery procedures used to restore IT infrastructure systems that support critical functions of the data center. The COOP should be periodically updated and tested.

*Management Plan:* MCIT management agrees to develop a COOP for MCIT managed data centers. Reference to applicable existing UMHS policy will be included in the COOP. Regulatory requirements will be considered and addressed. The plan will identify the critical functions of the data centers and the personnel assigned to the data centers, recovery and continuity strategies to maintain the critical functions,

and disaster recovery procedure used to restore IT infrastructure systems that support critical functions of the data center. The COOP will be reviewed and updated annually. Table top testing exercises will be conducted initially and when significant changes are made to the COOP. In preparation of the table top exercises, MCIT-ISO will coordinate quarterly meetings with key personnel and departments throughout the University in order to develop a cohesive plan that incorporates all aspects of the data centers operations.

### **Summary**

MCIT Data Centers house IT systems that are critical for supporting life safety systems throughout UMHS. Support and administrative systems that UMHS relies upon to maintain day-to-day operations of the hospital are also housed in the MCIT data centers. Controls are in place to ensure proper management of the security cameras, the video feeds, and physical access.

Maintaining the data centers in a manner that ensures system and infrastructure redundancy during and after a disaster is essential. The design of the NCASB and the availability of ALDC as an alternate site enables MCIT Data Center personnel to quickly recover from outages. However, without a documented plan, the risk of overlooking critical functions increases. By following the recommended mitigation addressed above, MCIT Data Centers would further reduce the likelihood and impact of a data center outage created by a disaster.

University Audits will conduct quarterly reviews, starting in the fourth quarter of fiscal year 2013, to assess progress on management action plans.

### **Health Care**

Department of Family Medicine  
Report issued April 25, 2013, 2012

2012-211

The Department of Family Medicine (DFM) exists to improve the health of patients, their families, and the community, and to develop the next generation of Family Medicine leaders. Over 75 faculty members, along with numerous clinical associates and adjunct faculty members, carry out the Department's core functions of clinical practice, education, and research. Clinical care and medical education are provided via inpatient hospital services and at five outpatient clinics located in Ann Arbor (Briarwood and Domino Farms), Chelsea, Dexter, and Ypsilanti. A sixth outpatient clinic is scheduled to open in 2014. Research activities focus on the total healthcare of the individual as well as the family.

Along with a traditional family medicine practice, DFM offers comprehensive executive physicals to Japanese executives and their families. The Japanese Executive Physical Program (JEPP) seeks to emulate the annual health maintenance exam style Japanese expatriates experience in their home country. Key features of the program include Japanese-speaking physicians, reports written in Japanese, comprehensive health maintenance examinations designed for Japanese populations, and continuity of healthcare beyond annual physicals.

MiChart is the new integrated billing and electronic health records system with a multi-year implementation across the Health System. Scheduling, registration, and billing applications migrated to MiChart on February 1, 2012. Ambulatory Care clinics, including the Family Medicine clinics, implemented MiChart on August 15, 2012. This phase of implementation included clinician documentation tools for facilitating patient care, including electronic health record and online charge entry. The implementation has had a significant impact on Family Medicine's physician practices and clinical business operations.

## **Purpose and Scope**

The audit focused on review of key operational processes within DFM to determine if policies, procedures, and the internal control structure adequately protects University assets and complies with U-M and University of Michigan Health System (UMHS) policies and procedures. Specific areas reviewed included:

- Fiscal responsibility, including budget monitoring and financial oversight
- Purchasing, P-Card, and travel expenditures
- Timekeeping and payroll
- Grant management and effort reporting
- Cash handling and credit card transactions
- Physician variable compensation

In addition, University Audits performed a walkthrough and review of core clinic business processes and charge capture effected by the recent MiChart implementation at the DFM Briarwood and Chelsea Health Centers. Key personnel in DFM, UMHS Revenue Cycle, and the clinics were also interviewed.

Audit procedures included testing of:

- Procedural compliance with U-M fiscal responsibility policies and procedures
- The calculation of physician compensation for accuracy and compliance with compensation plan
- Business processes and billing related to the JEPP at Domino Farms
- Grant expenditures for compliance with grant terms
- Scheduled clinic appointments through MiChart to determine key steps were appropriately completed and professional and facility charges were accurately and timely captured and billed
- Cash handling and credit card controls within clinic operations (Briarwood and Chelsea)

## **Risk and Control Discussion**

Opportunities to improve procedures and strengthen internal controls are discussed below.

### **Japanese Executive Physical Program (JEPP)**

*Discussion:* Knowledge of the Japanese culture and language are critical to the success of the JEPP. A limited number of staff with this skill set manage the program. The type and depth of the annual physicals provided are not usually covered by health insurance. The patient or the patient's employer pays what is not covered by insurance.

Implementation of MiChart has created new challenges for managing the JEPP. In some cases, the incorrect party is billed for the service provided. Monitoring reports are difficult to obtain for reconciliation purposes. Monthly reconciliations were not performed and billing errors were not detected.

*Control Recommendation:* To improve internal controls over operations:

- Review all billing activity from the Ambulatory Care Services MiChart implementation date (August 15, 2012) to detect and correct billing errors.
- Build controls into the appointment process and end of day reconciliation. Establish monitoring activities to ensure the appropriate party is correctly billed for provided services.
- Work with UMHS Revenue Cycle staff to obtain necessary reports for reconciliation activity. Explore whether systematic processes within MiChart can streamline billing and collections.
- Restructure scheduling, billing, collecting, and depositing duties to ensure proper segregation of duties and efficient recordkeeping.
- Create an effective system for tracking and monitoring physical invoices billed, collected, and an aging of outstanding accounts receivable.
- Develop and document detailed procedures for the day to day business processes.

*Management Plan:* Management is working with JEPP staff to develop more robust processes and monitoring of billing, collections, and outstanding receivables. The Department Administrator will provide ongoing oversight and monitoring of the business processes. Billing activity from the MiChart go-live will be reviewed and billing errors corrected. Staff roles will be segregated between billing and cash collections/deposits by adding JEPP cash handling duties to Family Medicine clinic staff that already have clinic cash handling responsibilities. DFM Management will work with UMHS Revenue Cycle staff to obtain necessary reports for reconciliation activities and will also explore whether systematic processes can be developed within MiChart to streamline business processes. As this is the most complex issue to resolve, and given the required coordination with UMHS Revenue Cycle, we anticipate that installation of the recommended controls may extend beyond the preferred six month response period. This effort is managed jointly between the Department and the Clinic.

### **Physician Compensation Model**

*Discussion:* Family Medicine is part of the Medical School's Faculty Group Practice (FGP). FGP physicians receive a base salary and also receive incentive pay based on productivity. Productivity is measured by using standardized work units called Relative Value Units (RVUs). Different procedures are assigned different RVU values based on the complexity of the procedure. DFM tracks the physician's actual RVUs worked as one component used to calculate physician compensation. Data to track RVU activity comes from patient appointment information captured in MiChart. The physician compensation model used to calculate physician pay is a complicated process. It involves multiple steps, and pulls data and input from multiple sources.

University Audits reviewed physician appointments at the clinics and determined that the appointment charge/procedure data was captured in MiChart and the corresponding RVUs were recognized as earned in the physician compensation model. University Audits also reviewed physician compensation for fiscal year 2012 and determined that compensation was calculated correctly and paid in accordance with the plan. No exceptions were noted.

Although no calculation exceptions were noted in our testing, risk exists because the RVUs are calculated on an Excel spreadsheet developed by staff members who are no longer with DFM. Both the update process and spreadsheet formulas lack written documentation and robust spreadsheet controls.

*Control Recommendation:* Develop and document detailed procedures for maintaining and securing the physician compensation payment calculation process. Documentation should include all staff and faculty duties involved in the process. Develop and document processes and controls supporting the Excel spreadsheet that is used to calculate compensation and include:

- Purpose of spreadsheet and how it works
- Source of input data
- Explanation of and backup location for formulas
- Location of spreadsheet backup
- Spreadsheet security controls such as locked cells, access, and version maintenance. For more information on spreadsheet controls, refer to University Audits Guide *Tools for Securing Your Worksheets* <http://www.umich.edu/~uaudits/guides.html> .

*Management Plan:* Management will complete the spreadsheet security control self-assessment tool and implement noted controls. Detailed written procedures for the process will be developed and updated as needed.

### **Procurement Practices**

*Discussion:* Procurement Services has negotiated vendor contracts that provide the benefits of lower procurement costs, higher supplier performance levels, and increased value-added services through the use

of strategic vendors. University Audits identified multiple P-Card transactions for computer accessories. A University strategic vendor was not used for these purchases.

The University requires all transactions \$5,000 or greater to be competitively bid by Procurement Services to ensure that prices are fair and reasonable. Faculty and staff are authorized to make P-Card purchases totaling less than \$5,000. P-Card purchases should not be split between two invoices to circumvent the \$5,000 limit. University Audits noted a P-Card purchase that was split between two invoices to avoid the \$5,000 per transaction P-Card limit. Appropriate use of a purchase order was not used.

*Control Recommendation:* Where applicable, purchases should be made from the University strategic vendors. A purchase order should be used to purchase supplies and services that are over \$5,000. Communicate this requirement to all staff with purchasing responsibility. Remind managers approving P-Card transactions to verify that purchases are not being split into multiple transactions in order to avoid P-Card limits.

*Management Plan:* Management will remind DFM staff with procurement responsibilities of the need to use strategic vendors whenever possible. Staff will also be reminded that splitting invoices to avoid the use of a purchase order is not allowed. Department P-Card approver awareness will be raised to look out for multiple invoices from the same vendor occurring on P-Card statements.

### **Summary**

Overall, the Department of Family Medicine is well-run and maintains a strong commitment to internal controls. We found controls over business processes to be strong and in conformance with University standards in the following areas:

- Statement of Activities and Gross Pay Registers are reconciled to appropriate source documents on a monthly basis
- The annual internal control certification and gap analysis is completed
- Grant administrator regularly communicates with the grant Principle Investigators to provide sufficient fiscal management and oversight of grant activities and expenditures to ensure funds are spent in accordance with grant agreement and U-M policy
- Effective and well documented business processes and procedures are in place and followed

While the control environment is generally strong, several opportunities were identified to strengthen business controls and process flow in the Japanese Executive Physical Program; improve documentation to provide business process continuity and use of the Excel spreadsheet used to calculate physician compensation; and improve procurement practices.

Family Medicine's clinic business operations and charge capture performance has been significantly effected by the implementation of MiChart. After the initial months of using MiChart in the clinics, charge capture performance is improving as clinic staff and the UMHS Revenue Cycle identify process gaps and provide better workflow.

Certain clinical revenue cycle activities included in this audit are managed by Ambulatory Care Services. Opportunities for improvement were identified related to these activities in the following areas:

- Cash and credit card controls at the clinics
- Training, resources, and use of reports and tools for clinic charge capture monitoring
- Development of comprehensive MiChart job aids for clinic front office staff

Since these findings have broader applicability to all ambulatory care units (i.e., not just DFM clinics), University Audits will issue a separate Management Advisory Memo to Ambulatory Care Services leadership with our recommendations related to these items.

University Audits appreciates the time and effort that management and staff in the Department of Family Medicine devoted to the audit. The staff members were conscientious partners in assessing control problems and bottlenecks in the clinic revenue cycle.

A formal follow-up to the outstanding issues will be conducted during the second quarter of fiscal year 2014.

**Follow-up Reviews**

Center for the Education of Women Original report issued June 14, 2012	2012-223 Follow-up report issued February 5, 2013
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University Audits completed a follow-up review of the Center for the Education of Women (CEW) audit. The audit report issued on June 14, 2012, detailed opportunities to improve processes related to managing the Critical Difference Grant program, updating policy and procedure documentation, and aligning the deposit process with University guidelines. CEW management has taken corrective action on the issues noted in the audit. Please see the summary below for details. **This audit is closed.**

- **Critical Difference Grants Program**
  - CEW implemented a new software system for managing the counseling program. As part of the new system, CEW requires counselors to complete a form for all grant requests. The form includes a section for documenting reasons for granting or denying the applicant. CEW will be able to query the system for a report detailing all grant requests for a given time period. The reporting process will be implemented by March 2013.
  - CEW raised the grant amount that must be approved by a higher authority to \$1,500. The increase will significantly reduce the number of grants reviewed by the Associate Director, which permits her to focus on grants of significant value or extenuating circumstances.
  - CEW implemented a policy requiring receipts for grant requests that mirrors the process used in the Office of Financial Aid.
- **Cash Handling:** The audit found instances where deposits were not made within 24 hours of receiving funds. Additional CEW employees took the cash handling/deposit training to provide backups so that deposits can now be made on a timely basis.
- **Policy and Procedures Documentation:** Management is reviewing and revising policy and procedure documentation. Individual departments (e.g., counseling, development, business office) have been delegated the responsibility for updating and maintaining their sections.

North Campus Auxiliary Service Building/North Campus Data Center Original report issued February 3, 2012	2011-301 Follow-up report issued March 5, 2013
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University Audits conducted a review of the North Campus Data Center (NCDC) and issued a report on February 3, 2012. The NCDC serves as the primary data center for the University of Michigan Health System (UMHS). It was built to support UMHS life safety systems (e.g., UM-CareLink, CareWeb, Mi-Chart, and Clinical Data Repository) and is housed in the North Campus Auxiliary Service Building (NCASB). Medical Campus Information Technology (MCIT) Infrastructure and Systems Operations, along with University of Michigan Hospital Facilities manages and maintains the NCASB.

University Audits reviewed corrective action taken by MCIT staff and management to ensure that NCDC maintains continuous operations in an efficient and secure manner. All corrective actions indicated in the audit report have been completed. Specifically, the monitoring of external security cameras and the

agreements between MCIT and UMHS Operations and Support Services have been officially documented in a Service Level Agreement. Further, a Memorandum of Understanding has been created between MCIT and ITS Com describing responsibilities for the interconnection fiber-optic cables between NCASB, Arbor Lakes Data Center, and the medical campus. **This audit is closed**

IT Services Provided to North Campus Research Complex Third Party Companies	2012-312
Original report issued July 18, 2012	Follow-up report issued March 29, 2013

University Audits conducted a review of IT Services provided to third party companies located at North Campus Research Complex (NCRC). The University of Michigan leases space and services the Department of Veterans Affairs Medical Center Ann Arbor (VA) and to numerous small companies. In addition, the Office of Technology Transfer's Venture Accelerator provides laboratory, office space, and business services to startup companies co-located at NCRC. This relationship allows research collaboration between the University and the startups. NCRC provides various services to these companies including information technology (IT) service. IT services provided include basic networking, telephone services, and server hosting. Medical School Information Services (MSIS) is the primary IT support organization, however; other IT providers are involved in these relationships including Medical Center Information Technology (MCIT) and Information Technology and Services (ITS).

University Audits reviewed IT services provided by the University to third party companies located at NCRC to the terms of the underlying lease documents. Issues were identified related to VA Security Requirements and conflict of interest. The potential conflict of interest issue was effectively resolved during the audit. As part of our follow-up, University Audits verified the following corrective action was implemented upon the relocation of the VA to NCRC Building 16:

- **VA Security Requirements:** A formal memorandum has been issued by the VA Center for Clinical Management Research acknowledging security requirements and access requirements for the VA network closet locations at NCRC.

Based on the review of the memo and follow-up interviews with MCIT and MSIS, **this audit is closed.**

ITS MCommunity Sponsored Accounts	2011-304
Original report issued November 22, 2011	Follow-up report issued March 29, 2013

University Audits conducted a review of MCommunity Sponsored Accounts and issued a report on November 22, 2011. The MCommunity Sponsor System allows authorized U-M staff members to obtain unqunames and create online identities for people who are affiliated with the university. Sponsored individuals include conference attendees, contractors, incoming faculty who need access to U-M resources before the hiring process is complete, guests who need wireless access, and others. The sponsored individual's identity type is determined by the amount of data collected and depends on whether the sponsored person needs a regular unquname and a UMID or only transient access. With the limited amount of information gathered for sponsored accounts, it is important that the data used to make an authoritative decision on granting an account is accurate and verified (i.e., positive proof of the sponsored person's identity).

In the course of the audit, issues were identified related to sponsorship administrator roles, improper permissions, monitoring of sponsored accounts, data verification policy, recurring training and policy enforcement. University Audits assessed the following mitigation efforts conducted by the MCommunity project team:

- **Sponsorship Administrators:** The daily report identifying Sponsor System Administrators has been modified to show all personnel with the ability to create sponsorships and now includes ITS staff with 'super user' privileges.

- **Improper Permissions:** A monthly report is now generated and sent to all sponsoring authorities with a list of their sponsorship administrators. This report directs the receiver to review the list and notify the ITS Service Center of any discrepancies.
- **Monitoring of Sponsored Accounts :** New functionality of the sponsorship system allows departments to search for accounts they have sponsored and to modify the expiration dates as needed.
- **Data Verification Policy:** The MCommunity Governance Board reviewed the audit recommendation to specifically identify documents that may be used to verify identities. Current policy and procedures differentiate between identities that require greater scrutiny (known as a strong identity) and an identity that needs little verification (weak identity). Data verification policies already exist governing the creation of a strong identity type. The MCommunity Governance Board feels restricting the weak identity type by forcing stringent identity verification would be ineffective and inefficient. University Audits reviewed this response and concurs with the resolution to leave this policy as is.
- **Recurring Training:** The monthly report generated and sent to the sponsoring authorities includes a statement of the responsibilities and a hyperlink to policy detailing the responsibilities of sponsoring authorities.

These actions effectively mitigate the risks identified and **the audit is closed.**

ITS Mobile Applications	2012-308
Original report issued June 29, 2012	Follow-up report issued April 1, 2013

At the University, faculty, staff, and students are all encouraged to create mobile applications (apps). The U-M Mobile Center maintained by ITS is where the campus community can access resources to build apps and collaborate. This site empowers the University community to design solutions that enhance the way faculty, staff, and students connect and share information.

University Audits conducted a review of Information and Technology Services Mobile Applications and issued a report on June 29, 2012. The objective of the audit was to assess effectiveness of the development process for mobile apps as well as the security of mobile applications developed and administered by ITS for the University of Michigan. This audit examined the effectiveness of controls over the iOS mobile applications that are currently being developed and distributed by ITS. University Audit’s testing indicated that the key controls over ITS processes were effective in creating a robust development process for mobile apps as well as a secure set of U-M mobile applications.

Based upon the audit, one specific recommendation was made to enhance controls. It was recommended that certain minor discrepancies noted in the Travel Registry and the Michigan App related accessibility needed to be corrected. Management has addressed the discrepancies in accessibility noted. The Travel Registry mobile app changes have been made. For the Michigan app, ITS is replacing the iOS native app with an app built on the Quali Mobility Framework to ensure interoperability. Initial quality assurance testing has shown the issues resolved. **This audit is closed.**

UMHS Lost Laptop	2011-809
Original report issued December 7, 2011	Follow-up report issued April 8, 2013

University Audits evaluated the effectiveness of a University of Michigan Health System (UMHS) response to a theoretical exposure of confidential patient data against the privacy and security requirements of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the Health Information

Technology for Economic and Clinical Health (HITECH) Act. University Audits simulated a theft of a laptop in UMHS and proceeded to identify the presence of sensitive information contained on the laptop. The *thief* had no previous knowledge of passwords used to secure the computer or the types of data it contained. To gain access to the computer, the *thief* used typical “hacking” tools and techniques. A desktop drill was conducted with University Audits, the Compliance Office, Information and Technology Services Information and Infrastructure Assurance, the Health System Legal Office, and the Institutional Review Boards of the Medical School (IRBMED) under the premise that a *researcher’s* laptop containing PHI had been either lost or stolen.

Based on an actual request letter from the U.S. Department of Health and Human Services Office for Civil Rights (OCR) to an organization unaffiliated with the University, University Audits requested certain information from UMHS. University Audits reviewed the response provided by the Compliance Office and recommended improvement in the following areas; risk assessments, encryption, and compliance and security awareness training. In response to this exercise, the UMHS Compliance Office has modified its approach to risk assessments, hired one additional FTE, and is in the processes of adding another position to allow better coverage of risk assessments. Also, the Compliance Office, Medical School Information Services (MSIS) and Medical Center Information Technology (MCIT) are expanding the core workstation usage and offering encryption solutions for unmanaged computers. Processes used to identify personnel required to complete compliance and security awareness training are being evaluated by the UMHS Compliance Office, MSIS, and MCIT.

Based upon the efforts detailed above, **this audit is closed.**

Plant Operations Information Management and Reporting	2011-102
Original report issued December 22, 2011	First follow-up report issued June 28, 2012
	Second follow-up report issued April 9, 2013

The original report for the Plant Operations Information Management and Reporting audit was issued on December 22, 2011. The audit identified opportunities to improve the department’s management of many of its data systems, tools, and reports. An initial follow-up review was completed in June 2012 and showed that due to transition in IT leadership, implementation of corrective actions was delayed. New leadership committed to prioritizing efforts to remediate the audit findings.

The department upgraded Plant Operation’s (Plant) proprietary and centrally-maintained system, the Facilities Maintenance System (FMS) to FMS 6.1. This upgrade was rolled out to Plant staff in late February 2013. The department is also tasked with implementing a new timekeeping system for all of Plant Operations. While these obligations have taken a large amount of Plant IT resources, significant progress has been made toward implementing corrective actions.

Given the extensiveness of the FMS upgrade, it will take time to ensure the corrective action plans are fully operational and working effectively. Therefore, University Audits will return to conduct a third follow-up of the corrective action in the first quarter of fiscal year 2014. **This audit remains open.**

- **Plant IT Road Map:** Plant IT developed a strategic plan or “road map” that details the current state (*FMS 6.1 upgrade*), proposed IT priorities, and future opportunities (*Non-FMS integration*) for Plant IT. The plan is currently being reviewed by leadership in Plant Operations.

*FMS 6.1 upgrade:* The upgrade of FMS improved the reporting capabilities for Plant staff. As staff become more familiar with the system changes over the next few months, Plant IT leadership will be able to identify standard reports for monitoring and management of access and data.

*Non-FMS integration:* Plant IT developed a comprehensive list of all non-FMS systems. These systems reside on a shared drive that is backed up, are maintained centrally by Plant IT, and abide by ITS security standards. A plan is underway to move data from primarily Access databases to (1) FMS or (2) web-enabled applications running on MS SQL services. Three systems have been identified as a priority to integrate into FMS (Faster, Trees, and the Keys database). Review and integration of the complete list is a multi-year effort that is dependent on staff resources and IT priorities each fiscal year.

- **Standard Reports and Procedures**

*Reports:* Plant IT identified 400 reports that were used across the department. The upgrade to FMS 6.1 is expected to significantly reduce this number. The upgrade will allow users to customize reports using data stored in FMS, creating a format similar to Business Objects, the official data warehouse querying tool for the University.

*Procedures:* A standardized template is being developed for deployment to units to record their current practices for data/access management and procedures for using systems that are not yet integrated into FMS or MS SQL. The templates will be centrally-stored and continually evaluated for inclusion in FMS or MS SQL.

- **Utilities Billing:** Procurement contacted DTE Energy about the possibility of receiving electronic invoices to streamline billing for Plant. DTE is open to discussing alternative data formats and delivery methods, but requires the involvement of management from Utilities and Plant Engineering. Procurement Services is willing to facilitate the discussion once a contact from Utilities and Plant Engineering has been identified.

UHC Community Health Services-Community Programs and Services	2012-214
Original report issued June 28, 2012	Follow-up report issued April 17, 2012

The University Hospitals and Health Centers Community Health Services-Community Programs and Services (CPS) audit report was issued on June 28, 2012. The audit focused on reviewing the adequacy and effectiveness of controls in the CPS programs. A follow-up review was conducted to determine the status of corrective actions taken. Management’s action plans are in progress and actions taken on the identified items are summarized below.

- **Monitoring Loan Activity:** The Housing Bureau for Seniors (HBS) administers the Foreclosure Prevention Loan Program and is one of several programs coordinated by Community Programs and Services. HBS staff members work throughout Washtenaw County to enable and assist older adults in seeking and maintaining affordable living arrangements. As part of the program, HBS administers a loan fund to assist residents who are at risk of losing their home because of delinquent property tax or mortgage foreclosure. Funding for the program came from the City of Ann Arbor and Washtenaw County. At the time of the audit, loan records were incomplete and inaccurate. HBS staff reviewed 118 files by performing an online search with the Washtenaw County Register of Deeds. The review resulted in identifying 79 active cases and 39 cases ready to be closed due to foreclosure, death, loan discharge, or no lien in place. Contact was made with all loan recipients earlier this year and additional methods of follow-up are being explored.

Action to be taken: Work with U-M Financial Operations to identify steps necessary to discharge identified loans and write off accompanying accounts receivable balances. Continue to monitor and keep loan records and collection activity up-to-date.

- **Cash Handling Practices:** The Department has multiple sources of cash collections: donations, fundraising events, fees, billable services, and sales. The audit identified an inconsistent approach

to cash handling across programs in the Department. CPS is in the process of developing a department procedures manual that will include cash handling and required training. All appropriate department staff have taken the cash handling training.

Action to be taken: Finalize Department Procedure Manual that will provide a consistent approach to cash handling. Centralize collection of room fees for the Wilmot House at Med Inn.

- **Credit Card Controls:** The Interpreter Services program accepts credit cards as a form of payment for classes and book sales. At the time of the audit, the e-commerce site and staff processing credit card transactions had not been properly registered with U-M Treasurer's Office. The e-commerce site operation was not Payment Card Industry (PCI) compliant. CPS is in the process of developing a Department Procedures Manual that will include credit card controls and required training. The e-commerce website was restructured and the Treasurer's Office has confirmed that it is now PCI compliant. The Interpreter Services program manager updated their Merchant Services Policy Document with the Treasurer's Office. All appropriate department staff have taken the credit card training.

Action to be taken: Finalize Department Procedure Manual to include credit card controls and required training. Maintain a current roster of employees authorized to process credit card transactions and maintain documentation of annual completion of the annual training requirements.

- **Interpreter Services Program:** The Interpreter Services Program employs different classification of interpreters and uses a database to document appointment requests, schedule interpreters, and document appointment outcomes. The audit identified that work standards were not monitored or enforced, disclosure and conflict of interest statements were not consistently used, and program performance was not adequately monitored. The work standard guidelines for sign language interpreters have been updated and are in draft form. Use of disclosure and conflict of interest statements has not been implemented. Periodic reports are run for management to evaluate program performance and effectiveness. Management is exploring options that will provide reports more efficiently.

Action to be taken: Finalize work standard guidelines and implement use of disclosure and conflict of interest statements.

- **Monitoring Accommodations Activity:** U-M has contracted with Medical Hotel Management Corporation and Select Hotel Management Inc. as third party vendors to operate the Med Inn Hotel, which is used by inpatient family members and patients receiving outpatient services. CPS also manages two guesthouses. At the time of the audit, CPS management provided limited financial oversight to the vendor who controls both the revenue and expenditure streams. CPS management receives monthly financial operating reports from the vendor and meets with them bimonthly to review activity. CPS management is in the process of restructuring the cash handling, reconciling, and oversight duties for the Med Inn Hotel as well as the two guesthouses.

Actions to be taken: Include the following in the monitoring of the vendor financial performance: review of key indicators, comparing occupancy to revenue and certain expenditures, monitoring trends, investigating variances, and reviewing transaction documentation.

- **Training and Performance Evaluations for Hospital Volunteers:** Volunteer Services manages a large staff of volunteers, many who work in the hospital. At the time of the audit, management was experiencing a low return rate for the Volunteer Orientation and Training Checklist, and had not implemented their departmental policy of completing annual performance evaluations of volunteer

staff. Since the audit, Volunteer Services has hired a new Director and has changed the Volunteer Orientation and Checklist process and completed forms are returned in greater numbers. The annual performance evaluations have not been implemented. Management has identified and is in the process of requesting funding for a data management tool that will enable better coordination of the Volunteer Services business and operational processes.

Action to be taken: Complete performance evaluations of volunteer staff on an annual basis.

- **Annual Certification of Internal Control and Gap Analysis:** At the time of the audit, CPS management had completed the Annual Internal Control Certification, but did not use the required Gap Analysis self assessment tool to assess internal controls. For the fiscal year 2012 Internal Control Certification cycle, the CPS Director completed the Gap Analysis but plans to delegate this process to the individual program team management for the fiscal year 2013 cycle.

Action to be taken: Complete Gap Analysis for all programs by program managers for fiscal year 2013.

CPS management has set a September 30, 2013, target date to complete all audit issues. University Audits will assess the outstanding issues by conducting a formal follow-up during the second quarter of fiscal year 2014.

College of Literature, Science, and Arts Information Technology Asset Management	2011-311
Original report issued June 22, 2011	First follow-up report issued July 19, 2012
	Second follow-up report issued November 2, 2012
	Third follow-up report issued April 17, 2013

University Audits reviewed the LSA ITAM process and issued an audit report on July 22, 2011. This is the third follow-up on ITAM. Previous follow-ups took place in July 2012 and November 2012. LSA and ITS are actively planning to consolidate the LSA ITAM group with other similar groups to make a larger enterprise-wide service. LSA and Information and Technology Services (ITS) are meeting to devise a project charter from which to move forward. Consolidation activities have impacted some of the progress and responses described below. In light of the pending consolidation of ITAM services, the progress made by management to address the audit concerns is considered sufficient to warrant completion of follow-up. **This audit is closed.**

- **Use of the K2 Client:** University Audits recommended mandatory use of the K2 client on each workstation. Management indicated that a policy would be drafted regarding the K2 client for LSA units, a provision would be placed in a Service Level Agreement (SLA) for non-LSA users, and a process to determine that the K2 client has been installed on all IT assets would be created. Previously, only managed Windows and Mac workstations received the key client automatically at build time. This has now been extended to Linux machines built using Red Hat Satellite. The UmichITAM SLA language has been updated to reflect this policy. Progress on documenting exceptions has been steady. A list of exceptions for systems where the presence of the key client would present performance issues or create other concerns has been created.
- **Firewalling License Servers:** University Audits encouraged LSA Information Technology to place the UmichITAM licensing servers behind the LSA firewall and require VPNs for accessing campus resources. Blocking machines by putting them into a deny pool in K2 is now part of standard operating procedure. License servers are now behind the firewall and software licensing ports are documented.

- **Key Process Areas:** University Audits indicated that Software Licensing should document all key process areas that support UmichITAM in order to ensure that ITAM is performed using systematic and well-controlled processes. UmichITAM continues to refine its internal process documentation and has made significant progress due to temporary employee turnover and the need to improve documentation for training purposes.
- **Project Management:** University Audits encouraged Software Licensing to create and document a project management methodology for ITAM to set priorities among competing projects. UmichITAM is working with ITS to transition to a larger enterprise-wide asset management service. Part of what ITS brings to this relationship is in-depth project management methodology, prioritization, and governance. The combined service will leverage those strengths of ITS across all asset management. This addresses the concern
- **Disaster Recovery and Business Continuity Plans Testing:** University Audits recommended that LSA update and test their disaster recovery and business continuity plans on a regular basis. The updating is complete but no actual testing has been done. Due to the transition of LSA ITAM to a larger enterprise-wide service, disaster recovery testing has been deferred. Given the changes being made, this seems a prudent course of action.
- **Management of Copyrighted Software:** Standard Practice Guide (SPG) sections related to software have not been updated in nearly twenty years. University Audits recommended that these SPG sections be reviewed and updated. UmichITAM planned to address this by forming a committee to review existing policy and develop new policy verbiage. The committee was to consist of members of OGC, Office of the CIO, the UM Copyright Office, and others who would add value to the discussion. Subsequent to issuance of this report, Information and Technology Services' Information and Infrastructure Assurance area (IIA) was tasked with addressing these policies. While UmichITAM will contribute to the discussion for updating the software-related SPG's when ITS chooses to pursue updates, the formal responsibility to revise the SPGs no longer resides with LSA ITAM.
- **Licensing Processes:** To more effectively match supply and demand for software titles, University Audits recommended that UmichITAM create a communication mechanism with faculty. A good portion of the classrooms in the College are covered by some course software management system. Initiatives in progress, such as the transition of ITAM to a larger enterprise-wide resource, will address this concern.

Division of Student Affairs Recreational Sports – Club Sports	2010-816
Original report issued March 2, 2011	First follow-up report issued October 25, 2011
	Second follow-up report issued April 22, 2013

At the request of the Division of Student Affairs (DSA), University Audits conducted an audit of the Club Sports Program (a program of the Department of Recreational Sports), which was completed in March 2011. Club Sports are sports organizations composed primarily of students, but may also include faculty and staff. Club Sports vary from student-led teams competing locally to coach-led nationally ranked teams. The audit found that there was solid management and oversight of certain aspects of the program, but there were significant areas of Club Sports activity that were not under University control. The University was assuming legal responsibility for the Clubs without sufficient span of control.

In response to the audit, and because of a broader interest in evaluating Club Sports governance, accountability, and risks, DSA hired a management consulting firm to perform an extensive operational review of the Club Sports Program. The consulting project provided an implementation plan for addressing

the specific risks noted in the audit report, but also provided a broader strategic framework for management consideration.

University Audits completed an initial follow-up review of the issues and reported on the status of management actions in April 2012. At that time, University Audits agreed to conduct an additional follow-up in nine to twelve months to give DSA and Recreational Sports leadership time to complete the implementation plan. As of April 2013, several higher risk issues remain unresolved, including the use of outside bank accounts and lack of coaching agreements for non-employee coaches and assistant coaches. The following tables outline the April 2012 and April 2013 status of audit issues.

<b>Student Sponsored Programs</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Create separate Club Sports University sponsored student organization that addresses their unique requirements	In process	Assessment determined that separate category was not required - <b>Completed</b>
Assess student organization status for non-competing clubs	Recreational Sport Management identified and moved eight of the clubs to voluntary student organization status - <b>Completed</b>	
Create a formal memorandum of understanding between the University and Club Sports Booster Club	Drafted and in review	Drafted and in review, not finalized or implemented
Recognize all Clubs as sponsored student organization or volunteer student organizations	<b>Completed</b>	

<b>Guidance</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Initiate mandatory meetings with Club Sports leadership and coaches to improve team understanding of policies, expectations, and responsibilities	<b>Completed</b>	
Add staff to provide additional oversight and support	<b>Completed</b>	
Identify management software to manage day to day Club Sports activities.	Implementation in process	Software is shared with the Center for Campus Involvement for general student organization use. Implemented and <b>Completed</b>
Provide participation agreement form for student athletes that outlines expectations, legal liability and insurance requirements	Drafted and in review	Implemented Fall 2012 - <b>Completed</b>
Develop coaching agreements, including background checks for all non-employee coaches and	Drafted by Consultant	Club Sports leadership is responding to Office of General Counsel comments on coaching

<b>Guidance</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
assistant coaches		agreement. DSA management represented that background checks were initiated mid-April 2013.

<b>Financial Management and Travel</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Notify remaining sponsored organization teams to close external bank accounts by August 2012	In process	19 of 33 Clubs have open bank accounts. Recreational Sports discontinued monitoring of outside accounts but is in the process of reinstating monitoring. DSA leadership is scheduling meeting with Finance Division leadership to resolve bottlenecks impeding successful implementation of recommendation.
Set-up separate agency chartfield funds to assist in financial management and monitoring of each Club	<b>Completed</b>	
Develop travel policies, specific to Club Sports activities	Policies developed and disseminated to team leadership - <b>Completed</b>	

<b>Practice, Game, and Fitness Space</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Develop a memorandum of understanding between Department of Recreational Sports and the Department of Intercollegiate Athletics regarding facilities usage between the two organizations	In draft	Unresolved, Athletics has proposed reducing access to facilities and other changes to previous agreements; Vice President for Student Affairs and Athletic Director have not reached agreement.
Complete a survey and analysis to address long-term campus-wide recreational facility needs	<b>Completed</b>	
Work with teams to ensure that Recreational Sports management is involved in any processing of contracts for use of facilities that are external to the University	In process	<b>Completed</b>
Provide safety and security training to team members	Now part of regular orientation - <b>Completed</b>	

<b>Medical Support</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Require all participants to provide proof of current medical insurance as a condition of team membership	In process	Implemented Fall 2012 - <b>Completed</b>
Assess the need for Club Sports trainer support	Under assessment	Feasibility assessment complete no current plan to pursue trainer support due to funding limitations - <b>Completed</b>

<b>Property</b>		
<b>Management Action</b>	<b>April 2012 Status</b>	<b>April 2013 Status</b>
Provide policies for acquisition, tracking, maintenance and disposal of significant equipment	In process	Included as part of the Club Sports Manual - <b>Completed</b>
Complete periodic equipment inventories	In process	Partially completed, eight clubs have not responded

DSA management is in the process of developing a workgroup of Procurement Services, Finance, Recreational Sports, and Division of Student Affairs leadership to resolve the remaining issues. University Audits will conduct a third follow-up review in the second quarter of fiscal year 2014 to report on the status of the remaining open issues.

School of Public Health	2011-211
Original report issued May 25, 2012	Follow-up report issued April 25, 2013

University Audits performed an audit at the University of Michigan School Of Public Health (SPH). The audit focused on key processes in the SPH central business office to determine if policies, procedures, and the internal control structure provide sufficient oversight and guidance to academic departments and support areas. The audit report was issued in May 2012.

University Audits performed a follow-up review to assess the status of the corrective actions taken by management in response to the audit recommendations. SPH administrators documented admission and financial aid award processes, enhanced internship award procedures, broadened conflict management practices, and modified payroll procedures to comply with University guidelines. **This audit is closed.** The remainder of this document summarizes specifics of the actions completed.

- **Admission Practices and Financial Assistance:** SPH academic departments have differing processes for admitting students into their programs and awarding financial assistance. The Dean’s Office allocates financial assistance funds to academic units with the expectation that units will admit students and award funds in accordance with Dean’s Office guidelines. During the audit, University Audits noted SPH allowed several students to enroll without confirming the School had all required pre-enrollment tests and documentation, and some academic departments awarded financial assistance that did not meet Dean’s Office criteria. There was no clearly designated responsible party for follow-up monitoring to ensure pre-enrollment requirements were met. SPH Academic Affairs did not have a formal process to review and monitor financial awards for compliance with Dean’s Office criteria.

*Modification to Admission and Financial Award Review Process – SPH Academic Affairs* implemented new procedures to ensure students submit required documentation by the end of their

first semester. Students may not register for subsequent semesters until Academic Affairs receives all required documentation. Dean's Office personnel have taken a more active role in reviewing and monitoring academic department's compliance with established criteria for awarding financial assistance. Academic Affairs personnel met with academic department administrators to discuss and document processes for admitting students and awarding financial awards in each unit. While academic departments continue to have somewhat different methodologies for performing these tasks, the Dean's Office is in the process of coordinating and standardizing processes across all academic departments to create a more cohesive organization.

- **Internship Funding:** SPH Academic Affairs lacked documented policies and procedures for reviewing and monitoring the Global Health Internship Program. A review of application scoring practices showed inconsistencies in assigning scores to applications and translating scores into funding decisions.

*Global Health Internship Enhancements* – Additional staff support was added to the Global Health initiative. Global Health staff enhanced program documentation, including the funding announcement, budget template, and application review form. Use of the new application review form helps create a more transparent and consistent scoring process. At the end of the internship cycle, Academic Affairs receives copies of reports generated by students and their instructors describing the student's internship experience and performance. The reports verify the student's participation in the internship experience and that funds were used according to scholarship stipulations.

- **Conflicts of Interest and Conflicts of Commitment (COI/COC):** SPH lacked a robust process for reporting and managing conflicts and accounting for and tracking faculty consulting days. Faculty/staff did not have an obligation to report conflicts annually. Faculty also did not follow SPH policy to report receipt of honorariums or other compensation received from sources outside the University. The Dean's Office staff did not play an active role in managing conflicts disclosed as part of the sponsored research grant process.

*COI/COC Management Changes* – SPH moved to the University's online COI/COC disclosure system, M-Inform as of August 2012. SPH administrators selected the highest level of coverage for the School which means both faculty and staff are required to report actual and potential conflicts on at least an annual basis. Faculty currently reports via M-Inform; staff begin using M-Inform later this year. Additionally, as part of their annual performance evaluation, management now requires all SPH staff to sign a document attesting that they are familiar with University and SPH COI/COC policy.

- **Timekeeping Practices:** SPH staff had a basic understanding of University timekeeping and payroll guidelines; however, modifications were needed to enhance timekeeping practices and comply with University policy.

*Modification to Timekeeping and Payroll Processes* – Management reassigned timekeeping responsibilities to segregate incompatible duties. Responsibility for job postings, additional pay, and other functions associated with pay/appointment changes shifted to an administrative specialist who is not responsible for reconciling Gross Pay Registers. Management also began reviewing reconciliations and supporting documentation more frequently, staff documented administrative desk procedures, and management discontinued the practice of having a subordinate approve payroll data for a supervisor.

University Audits performed an audit at the University of Michigan Medical School (UMMS) Office of Medical Student Education (OMSE) and issued an audit report on June 29, 2012. The audit report identified opportunities to strengthen operational controls and streamline business processes.

University Audits performed a follow-up review to assess management's progress toward implementing action plans. OMSE administrators strengthened controls over financial aid funds, adopted new documentation standards for admissions and financial aid award processes, developed a process for handling special loans, centralized payroll practices, and provided financial updates to unit administrators. **This audit is closed.** The following is a summary of each audit observation and the corrective actions taken by management:

- **Restricted Funds:** OMSE staff initiates and approves spending, but did not directly monitor and manage financial aid funds, which resulted in a fragmented and incomplete scholarship monitoring process.

*Development of a Central Scholarship Database* – The UMMS Administration Finance Office developed a scholarship database containing fund balances and basic historical information about financial award funds. OMSE Financial Aid Office staff use the database in various ways, including filtering it to group financial information by award type, performing donor intent searches, and verifying available balances.

*Researched Unauthorized Charges on an OMSE Fund* – OMSE staff investigated erroneous expenses charged to an OMSE fellowship fund and determined unauthorized expenses have been reversed.

- **Admissions and Financial Aid:** Over all, the Admissions and Financial Aid offices had well managed processes, but lacked documentation supporting award decisions and procedures for handling special loan requests. The audit also identified an opportunity to enhance controls over OMSE's premedical school coursework process.

*Established Documentation Processes for Admissions and Scholarship Award Decisions* – Both the Admissions and Scholarship Committees are documenting committee meetings. Meeting minutes capture attendance/quorum information and the results of academic/financial decisions.

*Developed Special Loan Process* – The Financial Aid Office developed a procedure for reviewing and approving/denying special loan requests, which involves the Director of Financial Aid, the Assistant Dean for Student Services, and the Associate Dean's Leadership Team.

*Created New Process to Verify Premedical Coursework Requirements* – In addition to reviewing official transcripts, the Admissions Office also enhanced processes for verifying new students completed premedical coursework requirements. Admissions staff now asks new admits to enter courses they completed to satisfy UMMS premedical school coursework requirements into a secondary application. Admissions staff runs queries against the application to determine if there are any new admits with deficiencies. Admissions staff works directly with new admits to complete or waive requirements.

*Auditor's Note:* OMSE has an established process to waive prerequisites, which generally results in a prerequisite substitution as opposed to an actual waiving of a requirement. Administrators are currently in the midst of a review of the existing prerequisites for the OMSE program. They

are considering moving from a ‘completed courses’ model to a ‘fulfilled competencies’ model, which will eliminate the need to perform one-to-one matches of course prerequisites to courses taken at other universities. Administrators may need to update verification processes as a result of the changes expected to be implemented later this spring/summer.

- **Payroll Controls:** A legacy of separate timekeeping processes in each OMSE unit created a decentralized payroll function in which payroll transactions were not consistently verified and certain payroll/timekeeping responsibilities and processes were unassigned or unclear.

*Centralized Payroll Process* – OMSE designated primary and secondary department timekeepers to centralize and improve payroll processes. The Administrative Director performs a review of Gross Pay Registers (GPRs) to ensure time report codes are appropriate, dollar amounts are reasonable, and the correct shortcodes are charged. Management also distributed and clarified department guidelines for using funeral time. The current GPR reconciliation process verifies the correct individuals were paid but does not compare the GPR to appointment and funding data. Management verifies additional pay, salary supplements, and appointment overload payments to department records.

*Auditor’s Note:* OMSE has not yet fully developed procedures for completing GPR reconciliations; they are working on a process including segregation of duties. Additionally, reconciliations are not printed, initialed, dated, and provided to management for secondary review and approval. University Audits provided guidance for preparing payroll variance reports and recommended administrators and timekeepers review University Standard Practice Guide Section 518.01, *Payroll Controls*, for information related to improving the GPR reconciliation process.

- **Financial Training:** The audit highlighted training opportunities that would enhance OMSE’s control environment. OMSE administrators performed the following tasks to increase unit administrators’ awareness of financial accountability:
  - Unit managers received reminders about their fiscal responsibilities and requirement to report expenses to OMSE central administration.
  - Concur approvers were reminded to complete the online Concur Approvers course. All essential staff has completed training.
  - The Administrative Director recently gained access to BusinessObjects and DataMart to better query financial information.

*Auditor’s Note:* OMSE administration continues to use longstanding processes to review financial transactions and have not fully investigated using key management oversight reports in Business Objects and other University reporting environments. Medical School Administration is currently in the process of adopting the University’s real-time financial systems and eReconciliation practices and OMSE will be part of that process. As a result, OMSE’s administrative director plans to incorporate new tools into monthly financial review and reconciliation processes.

Conference Services	2010-102
Original report issued February 25, 2011	First follow-up report issued April 5, 2012
	Second Follow Up Review issued April 25, 2013

The original Conference Services audit report was issued on February 25, 2011. A follow-up memo, issued on April 5, 2012, identified that some planned changes were not yet implemented. Since that time, management revised processes and procedures to remediate the existing risks. This follow-up review assessed the current state after complete implementation. **This audit is closed.**

- **Credit Card Refunds:** Refunds are no longer processed by the individual that made the sale and all support, including approval by Conference Managers, is maintained on the department's shared drive. Refunds are reviewed and approved bi-weekly by the Director of Marketing and Conference Services and are reconciled monthly as part of the Statement of Activity reconciliation performed by the Senior Accountant. Credit card and check information is not allowed to be stored on the shared drive. Cash handling and credit card procedures were updated to reflect the process changes.

- **Tracking of Conference Requirements**

*Contract Compliance:* Prior to arriving on campus, several requirements must be completed by clients (e.g., sign contract, make deposit, provide proof of insurance). Spreadsheets containing client requirements and due dates were developed to track all events by building; all building information feeds into a master spreadsheet. The spreadsheets are accessible to all staff on the shared drive and are updated daily with new information.

Contracts now contain check boxes requiring clients to initial upon completion of each requirement as a way to reinforce client awareness and accountability. It is the responsibility of each Conference Manager to ensure requirements are met and clients are not allowed to check-in without completing all requirements.

*Background Check Verification:* Student hiring and background checks are centralized in University Housing Human Resources. Client background check requests are included as part of the tracking spreadsheet.

- **Billing and Payment Accuracy:** A tiered billing process that defines billing deadlines based on event type (e.g., athletic camps, long-term groups) was implemented in 2012. For the 2013 season, contract language was added to limit last-minute reductions in participants, meals, or other event components. These changes help to streamline department billing efforts.

Conference Managers work with the Conference Services' Billing Group to ensure bills are accurate before sending them to the Housing Billing Supervisor for final review and submission to the client. All individuals have access to the Conference Programmer software and the shared drive to cross reference the contract and event information. Discrepancies are discussed and noted, as necessary, in the Conference Programmer software. Procedures have been documented and communicated to staff.

- **Payroll and Time Reporting:** Overtime is required to be pre-approved via email, which is then stored on the department's shared drive. The revised process has been documented and communicated to all staff. During the monthly review of the Gross Pay Register, the Director of Marketing and Conference Services accesses the approvals to ensure that all overtime is supported before approving the Register.
- **Statement of Activity Reconciliation:** Statement of Activity reconciliations are now up-to-date. Source documentation is maintained on the department's shared drive. The Statement of Activity is a permanent agenda item for discussion at the Conference Services staff meetings and a timeline has been documented and agreed upon by all staff for escalating outstanding support requests.
- **Client Management:** Procedures for developing and sending an annual electronic survey, as well as analyzing and reporting client feedback have been documented. A survey was sent to clients in fall 2012, the data was collected and made available to staff for continuous improvement.

University Audits reviewed the ITS DNS infrastructure and issued a report on May 2, 2012. An initial follow-up review concluded that many of management's corrective actions were delayed due to initiatives related to the ITS Next Generation project (see follow-up memo dated January 7, 2013). A second follow-up review was recently completed and although some corrective actions have been completed, the ITS Next Generation project continues to effect completion of several items. Summarized below is the current status of each audit recommendation.

- **Recursion on Authoritative Name Servers**: University Audits suggested that management disable recursive queries on authoritative name servers in order to guard against DNS cache poisoning. Management indicated a project is underway to replace the Hostmaster DNS servers as part of ITS Next Generation of IT. The project scope includes replacement of authoritative name servers and disabling of recursion. Management estimated a target completion date of June 2013. This item remains **open**.
- **Recursion - External Clients**: University Audits recommended that the Hostmaster group formalize a process to detect and mitigate attempts at cache poisoning and limit recursive queries to internal hosts. ITS agreed to continually monitor and evaluate DNS security and establish a process to detect DNS amplification and denial of service attacks. Management stated that it believes it is important to provide service to the University of Michigan extended community and accepted the risks associated with accepting queries from external hosts. A process to detect DNS amplification and denial of service attacks has been developed and is being tested. This item is **closed**.
- **Zone Transfer<sup>4</sup> Authorization**: University Audits encouraged the Hostmaster group to restrict zone transfers to internal networks. Management stated that it would implement the restriction. A project to address this item was completed effectively mitigating this risk. Testing verified management's assertions. This item is **closed**.
- **Authenticated Zone Transfers**: University Audits suggested that the Hostmaster group implement a process to cryptographically authenticate zone transfers and conduct a review of zone partners to mitigate the risks associated with impersonation. Management asserted that they would work with its partners to authenticate zone transfers whenever possible and apply encryption as appropriate. Management stated that work on this item has not started. Corrective action on this item is scheduled to be completed by June 2013. This item remains **open**.
- **DNS Architecture Documentation**: University Audits suggested that the Hostmaster group create documentation that accurately describes the DNS infrastructure to assist with the management, security, and control of DNS. Management stated that it will prepare and maintain documentation by the end of December 2012. The Hostmaster group has completed a network diagram for the DNS infrastructure and published it in the Hostmaster documentation system. This item **closed**.
- **Host Operating System**: University Audits recommended that ITS develop a plan to migrate DNS servers from the current Linux operating system to the new operating system. Management committed to move a high security risk host to a new platform (with a new operating system). In

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<sup>4</sup> Zone Transfer is a type of DNS transaction in which the databases containing DNS data are replicated across a set of DNS servers.

addition, the remaining hosts will be moved to the new operating system as part of a larger migration away from the current operating system by June 2013. A new server to replace a high-risk server was deployed. However, the single server replacement project was delayed due to a recently approved DNS server replacement project that will replace all Hostmaster DNS servers. Progress on this item will be addressed in a future follow-up. This item remains **open**.

- **Performance Metrics:** University Audits suggested that the Hostmaster group proactively monitor performance metrics and alerts, develop a baseline analysis, and determine thresholds for early warning issue detection. The Hostmaster group was also advised to implement a system to automate the monitoring of performance metrics and alert the appropriate individuals when predetermined thresholds of the core DNS systems are exceeded. Management plans to perform a baseline analysis, develop appropriate performance thresholds, and implement appropriate monitoring of the DNS service by end of fiscal year 2013. Management has not made progress on this item. This item remains **open**.
- **Server Access:** University Audits recommended that the Hostmaster group develop a process to validate accounts on a regular basis and to remove accounts once an employee is terminated or moves to a job role in which access is no longer required. Management agreed to review accounts quarterly and discontinue access as appropriate. In addition, management agreed to separate the DNS staging function and move it to a new host (with a new operating system) by December 2012. Work on this item has been halted pending a DNS server replacement project. The target date for this item is June 2013. This item remains **open**.

University Audits will conduct a third follow-up during second quarter of fiscal year 2014 to assess progress made toward addressing the open action items.

U-M Flint Office of the Provost	2012-204
Original report issued April 17, 2012	Follow-up report issued April 26, 2013

University Audits issued an audit report on the U-M Flint – Office of the Provost in April 2012. The report highlighted the following opportunities to support the Provost’s efforts to strengthen internal controls and streamline procedures in his office, throughout Academic Affairs, and across campus:

- Develop a funding plan for implementing Strategic Plan Initiatives, including a timeline and formal process to assess the amount of funding needed to support each initiative.
- Work with UM-Flint HR to review the Provost’s Office organizational structure and assess roles and responsibilities.
- Continue planned improvements to the overall control environment including documenting policies and procedures, documenting authority delegated by the Provost, expanding management oversight reports, and developing a plan to effectively use the existing balance in an endowed visiting professorship.
- Coordinate with the Director of the Thompson Library and other experts in the University to identify a cost-effective method for preserving and making accessible the office’s important, historical documents and materials.

Due to organizational changes and other campus priorities competing for time, the Provost has asked for additional time to ensure these recommendations are implemented effectively and underlying risks adequately addressed. University Audits will follow up on the outstanding issues during the first quarter of fiscal year 2014.

U-M Flint Educational Opportunity Initiatives  
Original report issued February 18, 2011

2010-211  
First follow-up report issued April 26, 2012  
Second follow-up report issued April 26, 2013

University Audits concluded an audit of EOI's fiscal and operational controls in February 2011. The audit identified a number of opportunities for improvement in oversight and operations. University Audits first reported on management's corrective actions in a follow-up memo issued in April 2012. A portion of the corrective actions recommended, particularly those related to strategic planning, budget management, and employment controls require the support of campus leadership and the assistance of campus service units.

During the first follow-up, there were significant changes to reporting lines, budget oversight, and financial management practices; however, EOI was still working to improve controls in the following areas:

- Strategic oversight and guidance
- Campus support and collaboration
- Budget and financial management
- Staff management
- Event Management
- Continuity of operations and disaster recovery
- Documentation of policy and procedure

Given the significant changes and competing priorities, the EOI Director and the Provost asked for additional time to ensure these recommendations are implemented effectively and underlying risks adequately addressed. University Audits will follow up on the outstanding issues during the first quarter of fiscal year 2014.

School of Dentistry – Admissions and Financial Aid  
Original report issued October 26, 2011

2011-812  
Follow-up report issued April 26, 2012

University Audits performed a review of the School of Dentistry's (SoD or the School) admissions and financial aid processes in October 2011. University Audits documented our observations and recommendations in the audit report issued October 26, 2011. University Audits performed an initial follow-up review to assess the status of management's action plans in June 2012. The SoD took corrective action on several recommendations but three unresolved issues remained. University Audits has performed a second follow-up review and the issues have been remediated. **The audit is closed.** A summary of the School's corrective actions is noted below.

- **Multiple Mini Interviews**

The SoD uses an interview process called the Multiple Mini Interview (MMI) methodology to select candidates for the Doctor of Dental Surgery program. The process is relatively new and the SoD trained their interviewers using staff-led training sessions. University Audit made the following recommendations:

- Document the review process.
- Establish a robust training program
- Formalize a process for evaluating MMI admissions data as a predictor of academic success.

The SoD documented a policy and procedure for conducting the MMI interviews. MMI interviewers now receive an introductory email with links to training options and supporting materials such as handouts and talking points. Using MMI data to evaluate predictability of student success in the DDS program is an ongoing effort. SoD established an assessment process to test MMI's effectiveness. As the process is relatively new, the School continues to collect information for analysis. They are still several years away from having sufficient data to draw conclusions on

the success of the MMI process. University Audits encourages SoD to continue with the analysis and make necessary changes to the process based on the results of their analysis.

- **Documentation**

The Admissions Office did not have all key processes documented for admissions procedures. There were gaps, such as defining a quorum of committee members needed to make decisions. Well documented policies add transparency and assist in staff training. The Admissions Office has completed documenting policies, procedures, and guidelines for key admissions processes.

- **Application Fees**

The SoD charges a \$65 fee that applicants pay online through NelNet<sup>5</sup>. The School reconciles the fees collected to the report provided by NelNet. At the time of the initial follow up, there was a variance that could not be reconciled. The School worked with the Treasurer's Office and determined the problem was chargebacks. Chargebacks occur when applicants inadvertently double-pay the fee and a refund is processed. The NelNet report does not capture refunds which explained the variance and SoD is now able to reconcile effectively.

UM-Dearborn Office of the Provost

2011-210

Original report issued June 30, 2011

Follow-up report issued April 26, 2012

University Audits issued the UM-Dearborn Provost Audit Report on June 30, 2011. An initial follow-up review was conducted in July 2012. A second review was recently conducted to assess progress of management's plan to strengthen internal controls examined during the audit. Considerable progress was noted towards improving the control environment surrounding UM-Dearborn Collections and Exhibitions. **This audit is closed.** The following summary of each audit observation details corrective actions taken by management.

- **UM-Dearborn Collections and Exhibitions**

Exhibitions and shows, as well as the deaccessioning process, have been put on hold until all items have been catalogued and inventoried into the recently purchased PastPerfect museum collection database.

*Cataloguing and Inventorying:* Substantial progress has been made in cataloguing and inventorying art in PastPerfect. All art and inventory information previously housed in a Microsoft Access database has been transferred to PastPerfect. Roughly half of the items have been catalogued in PastPerfect. With the hire of two part-time employees and one intern, the process has gained efficiency. All art in the collection is scheduled to be catalogued in PastPerfect by the end of fiscal year 2014. Staff will continue to catalogue and inventory art to ensure that art is appropriately documented in PastPerfect.

*Maintenance:* Maintenance of art and the available space has improved dramatically. As art has been placed around campus, it has freed up storage space. All art on loan is now appropriately documented. As items have been catalogued, methods to organize the art have been identified. Storage rooms now have catalogued items organized neatly in boxes and grouped by types of art. Staff are working to identify additional storage space around campus and within the Mardigian Library. The integrity and safety of the art no longer appears to be compromised by the lack of space or inappropriate storage.

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<sup>5</sup> A third party, University Strategic Vendor that processes online payments.

- **Policies and Procedures**

Purchasing, timekeeping, and other administrative procedures have been documented for the Office of the Provost and the Fairlane Center. Some procedures and process templates for the Collections and Exhibitions have been adopted from the University Standard Practice Guide and the University of Michigan Museum of Art. Although all procedures have not been documented for the UM-Dearborn Collections and Exhibitions, there is a clear plan to ensure that they will be.

International Institute

2012-101

Original report issued June 29, 2012

Follow-up report issued April 26, 2012

University Audits issued the International Institute Audit report on June 29, 2012. The audit report identified opportunities to strengthen operational controls and minimize redundancies. A follow-up review was conducted to determine management's progress toward strengthening internal controls examined during the audit. The International Institute (II) has improved oversight and monitoring of center and program financials, created processes to ensure better oversight of international travelers, and identified and implemented Concur practices appropriate to the needs of the department. The organization is in the process of shifting administrative activities from the individual centers within the II to a shared services model. **This audit is closed.** The following summary of each audit observation details the corrective actions taken by management:

- **Oversight and Monitoring:** The following functions have been or will be shifted to a shared services model in the near future: finance, contract/grant and budget support, event planning and logistics, web communications, HR, and IT. The II Business Office has discontinued the use of some shadow systems and minimized redundancies as they have been identified during the process. The Business Office now uses eReconciliation. As the unit transitions to a shared services model, management will continue to identify, assess, and reduce redundancies and shadow systems when possible.

Oversight and monitoring of center operations is expected to improve as the shared services model is implemented. Central II management has identified helpful reports to provide a better review of center financials. This is, in part, due to the guidance and documented expectations provided by LSA management.

- **International Travel**

*Review and Oversight of Expenses for Incoming Travelers (Fulbright Hays Doctoral Dissertation Research Abroad (DDRA) Fellowship)* – The DDRA Fellowship requires detailed expense reporting and submission of receipts. While these items were provided and reconciled, the process lacked oversight and review from a higher administrative authority. A process for the review and oversight of DDRA Fellowship financial activity by the Business Office Manager has been implemented.

*Review and Oversight of Expenses for Incoming Travelers* – The II has developed a process for reporting of travel expenses for awards in which sponsors do not require expense reporting. A post-trip report (II Individual Fellowship Report) was created and must be completed by awardees within one month of returning. The report requires the traveler to answer numerous questions related to the trip experience, complete an expenditure report, and provide pictures of the trip.

*University Travel Registry* – A process has been implemented to ensure student travelers and Fulbright Program recipients have registered with the University Travel Registry. II will continue to work and identify opportunities to create a similar process for faculty and staff.

- **Concur**

*Concur Expense Reports* – As faculty and staff have gained a better understanding of Concur and expense reports, the process has improved. Most employees are creating one expense report per month, which improves efficiency over the review process. Processes are also in place to coordinate with other departments to approve expense reports that include charges from other departments.

*Concur Training* – A report of the current status of Concur training is included in the quarterly reports received from the LSA Finance Office. The II Business Office uses these reports to remind Concur users and approvers of training needs.

- **Unit Subcertification of Financial Results and Internal Controls:** The II has worked closely with centers to educate administration on internal controls and assisting units with completion of the gap analysis as part of the annual Internal Controls Certification process. Center administrators worked with the II Business Manager to complete the gap analysis for fiscal year 2012 as a group. All center directors and administrators will be required to certify to their internal controls for fiscal year 2013.
- **Copies of Checks:** The II has discontinued the practice of copying checks

**Open Audits Follow-up Table**

As of April 30, 2013

Audit Title	Report Date	Issues	Expected Completion
UM–Flint Business Continuity 2011–303	8/12/2011	University impact analysis; BCP standards template; business continuity testing; disaster recovery plan	First Follow-up March 2012 ----- Second Follow-up December 2012 ----- April 2013
Office of the Vice President for Global Communications and Strategic Initiatives 2012-211	1/30/2013	Procurement management; oversight; document retention; delegation of authority; A/R reconciliation; imprest cash; conflict of interest/commitment; temporary staff appointments; timekeeping	June 2013
Information and Technology Services DNS - Domain Name Service 2012-301	5/2/2012	Recursion on authoritative name servers; recursion; authenticated zone transfers; DNS architecture documentation; host operating system; performance metrics; server access	First Follow-up April 26, 2013 ----- December 2013
ITS Michigan Academic Computing Center 2012-807	8/23/2012	Role based access approval process; user access removal; third party employee vetting process; video monitoring; door alarm response; incident response procedure; load transfer test; disaster recovery hardware replacement contract	March 2013

Audit Title	Report Date	Issues	Expected Completion
MCommunity Enterprise Directory and Identity Management System 2012-310	1/11/2013	MCommunity server security; service agreements, identity management policy; server access; password hub; test environment; security information and event management; SIEM security	June 2013
C.S. Mott Children's Hospital and Von Voigtlander Women's Hospital - Telecommunication Closets 2012-313	1/31/2013	Communication cabling layout; room signage; locking cabinets and doors; environmental temperature; inventory process; ownership; access controls; security camera monitoring; access monitoring controls; servers in the communication rooms	September 2013
Payment Card Industry Data Security Standards 2013-310	4/11/2013	Security Unit Liaison PCI-DSS training; self-assessment process; required vulnerability scans; volunteer PCI training; Matthaei Botanical Gardens parking meter firewall; anti-virus; vendor defaults	September 2013
Medical Center Information Technology and Arbor Lakes/North Campus Data Centers 2012-307	4/26/2013	MCIT Managed Data Centers' Lack a Comprehensive Continuity of Operations Plan	June 2013
University of Michigan–Flint Educational Opportunity Initiatives 2010–211	2/18/2011	Strategic oversight and guidance; campus support and collaboration; budget and financial management; staff management; event management; business continuity; documentation of policy and procedure	First Follow-up April 2012 ————— Second Follow-up April 26, 2013 ————— September 2014

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
Division of Student Affairs Recreational Sports – Club Sports 2010–816	3/2/2011	Sponsored student organizations; guidance; financial management; practice, game, and fitness space; medical support; property	First Follow-up October 2011 _____ Second Follow-up April 2013 _____ December 2013
University of Michigan Flint Office of the Provost 2012-204	4/17/2012	Strategic plan funding model and procedure; organizational structure and resources; policy and procedure manual; delegation of authority; management oversight; gift fund management;	First Follow-up April 26, 2013 _____ 2nd 2014
University Unions 2011–814	6/15/2011	General control environment; financial monitoring and oversight; purchasing management; human resource management; building renovation and maintenance	The audit of University Unions below (2012-201) served as a follow-up to this audit.
University Unions 2012-201	4/25/2013	Supplemental systems; imprest cash funds; payroll processes – AFSCME overtime record keeping; documented procedures; credit card merchant processes	December 2013
Financial Considerations for International Activity 2011–101	6/30/2011	Coordination of effort; documented policies and procedures; currency exchange; cash purchases; international bank accounts	June 2013

Audit Title	Report Date	Issues	Expected Completion
Plant Operations Information Management and Reporting 2011-102	12/22/2011	Data management; reporting and analysis	Review progress June 2012 ----- Second Follow-up April 2013 ----- - Third Follow-up July 2013
e-Verify 2011-302	2/20/2012	Contract information; identification of employees; document retention; e-Verify notice requirements; subcontract language; e-Verify System user access	June 2013
UM-Dearborn College of Engineering and Computer Science 2012-302	6/29/2012	Financial oversight; documented policies and procedures; conflict of interest and commitment; training and facility safety; contracts, grants, and agreements; asset management; gift handling and monitoring; Engineering professional development; incident response plan; key logs; vulnerability scans; configuration control policy; disaster recovery plans of IT; data security procedures	June 2013
Transportation Research Institute 2012-502	9/13/2012	Standardized project management; compliance with University guidelines; fiscal responsibilities; monitoring and budget reporting; information technology controls; documented procedures and expectations	June 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
Cooperative Institute for Limnology and Ecosystems Research 2012-221	10/23/2012	Management oversight; grant management reporting; laboratory training, documentation, and certification; retroactive salary distribution changes	June 2013
Residential Dining Service 2012-216	11/21/2012	strategic planning, implementation, and evaluation; financial management and oversight; employment practices; cbord training and development	May 2013
Travel and Expense Management System 2012-103	11/27/2012	Central Monitoring; unit reporting; training and customer service; data validation; expense report auditing	December 2013
Samuel Zell & Robert H. Lurie Institute for Entrepreneurial Studies 2012-222	1/22/2013	Cash handling; management oversight;	June 2013
School of Information 2012-215	3/22/2013	Development office procedures; faculty appointments; continuity of operations; RECON; travel registry; Concur approval	December 2013
Detroit Center 2012-814	4/8/2013	General control environment; financial monitoring and oversight; funding model; space management/reservation system; procurement, travel, and hosting; continuity of operations planning; asset management	September 2013

Audit Title	Report Date	Issues	Expected Completion
College of Literature, Science, and the Arts Kelsey Museum of Archaeology 2012-201	4/26/2013	Museum store purpose and objective; inventory management, pricing and security; cash handling; use of a cash register; change fund; security staff; security training; physical access control; international travel planning	March 2014
U-M Hospitals and Health Centers Valet Parking 2012-107-2	3/26/2012	Reconciliation practices; vendor employee use of patient/visitor parking space; valet parking vouchers, imprest cash fund and cash handling practices; annual certification of internal controls and gap analysis; background checks on vendor employees	First Follow-up December 2012  June 2013
UMHHC Community Health Services- Community Programs and Services 2012-214	6/28/2012	Monitoring loan activity; cash handling practices; credit card controls; interpreter services program; monitoring accommodations activity; training and performance evaluations for hospital volunteers; annual certification of internal controls and gap analysis	Firat follow-up April 2012  October 2013
UMHHC Wireless Medical Devices 2012-315	10/29/12	Wireless connection security; inclusion of MCIT in the procurement process	April 2013
School of Nursing 2012-209	11/21/12	Clinical site affiliation agreements; international travel/global outreach; low risk internal control opportunities	September 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
University of Michigan Health System Friends Gift Shops 2012-818	11/21/12	Cash handling processes; inventory management practices; financial monitoring and reporting practices; timekeeping and scheduling processes; procurement practices	October 2013
Medical School Department of Family Medicine 2013-211	04/25/13	JEPP program; physician compensation model; procurement practices;	December 2013