

**Item for Information**

Subject: Report of University Internal Audits  
**May and June 2011**

Background:

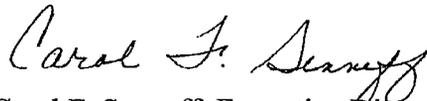
This is the report of the Office of University Audits activities for the period **May and June 2011**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit, and Investment Committee and included in discussions at Committee meetings.

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **June 30, 2011**.

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

Respectfully submitted,



Carol F. Senneff, Executive Director  
University Audits

University Audits  
May – June 2011  
Summary of Reports Issued

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**ORIGINAL REPORTS**

**Campus**

Financial Analysis - Management of Asset Data, Space Data, and University Surplus #2010-111  
Report issued May 10, 2011

University Audits conducted a comprehensive audit of the University departments that manage University property, including processes for:

- Tagging and tracking capital and government-titled assets
- Asset disposal
- Tracking space and location data

The Property Control Office, the Property Disposition Office, and the Office of Space Analysis manage these processes. All three of these departments report to the same business operations manager who reports to the Director of Financial Analysis. Their scope of responsibility includes all University of Michigan campuses, including the Medical Campus<sup>1</sup>. Financial Analysis is a reporting unit within the Office of the Vice President for Finance.

**Property Control Office**

The Property Control Office (Property Control) is responsible for tagging, tracking, and conducting periodic inventories of University capital equipment and government-owned equipment. Property Control, with assistance from Financial Operations, reviews financial data in M-Pathways to identify new assets and adds them to the University's asset management systems. Property Control is also responsible for clearing equipment purchased on federal grants or contracts prior to its sale or transfer. Currently, Property Control tracks 475 government-titled assets and over 18,000 capital assets.

**Property Disposition Office**

University departments are required to dispose of all surplus goods through the Property Disposition Office (Property Disposition). A wide variety of items are processed through Property Disposition including vehicles, computers, copiers, office and dormitory furniture, lab equipment, pictures, hospital equipment, athletic equipment, and kitchen supplies. University departments and the general public are allowed to purchase items directly from the Property Disposition warehouse.

Surplus is sold at the Property Disposition warehouse, at off-site department sales, at auction, or on eBay. Surplus property can be disposed of in several ways:

- Transferred/sold to another University department, an outside institution or organization, or the general public
- Sold to a scrap dealer
- Recycled
- Moved to a landfill

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<sup>1</sup> Property Control tags and tracks government-titled assets on all University campuses. Other University personnel tag and manage capital assets on the Medical, Flint, and Dearborn campuses. Tagging processes for these campuses were outside the scope of this audit.

Over the last four fiscal years, gross revenues from sales of surplus have ranged between \$1.4 million and \$2.4 million. Property Disposition generally distributes 90% of sales revenues back to the University departments that previously owned the surplus items.

### **Office of Space Analysis**

The Office of Space Analysis (Space Analysis) is the steward of space data for University owned and leased buildings, structures, and land. Space Analysis maintains data regarding square footage, number of floors, room number, occupancy, room type, and room functions. Recently, they began collecting additional data about classroom equipment, such as white board size and audio visual capability.

This data is used:

- As a key component in the indirect cost recovery negotiations with the federal government
- For strategic and facilities planning
- To schedule classrooms

Per the 2010 fiscal year survey, University of Michigan has a physical plant consisting of:

- Approximately 35 million gross square feet of building space (includes data for all three campuses, including the Medical Campus)
- 586 major buildings

The objectives of this audit were to review controls over the management of asset data, space data, and the sale of University surplus and assess the effectiveness of processes to:

- Track and manage asset data for University and government-titled assets
- Dispose of surplus assets
- Track and manage space data for University owned and leased spaces

Specific areas examined during the audit included:

- Access and data integrity controls
- Price controls and cash handling
- Asset identification, tagging, and tracking
- Inventory management and security
- Collection of surplus asset proceeds, including sales tax

## **PROPERTY CONTROL OFFICE**

### **Risk and Control Discussion**

- Staff Oversight - Inventory coordinators are responsible for tagging and recording assets. They spend most of their time in the field and are not required to report to the office on a regular basis. Work is assigned on a monthly basis by territory. Coordinators are not required to document or otherwise inform management which building(s) they plan to visit on any particular day. There is not a standardized process or deadline for tagging and entering information. Because coordinators primarily work off-site, they could potentially take unauthorized and unapproved leaves without management knowledge.

**Management Plan** - Inventory coordinators will be required to update electronic calendars on a daily basis and identify specific buildings with approximate timeframes and tag counts. They will also be required to schedule data entry time to promote timely updates to the system. Work plans will include a one week timeframe to enter tagging data into University systems. Management will monitor work effort and compare daily calendar logs to payroll timesheets to ensure timekeeping reflects actual effort.

- Capital Asset Inventory Management - Property Control oversees bi-annual inventories of equipment. If an asset is missing, the department is given a two year period to locate it. If it is not found during that time, the asset is written off the books. Current practices do not require that anyone report missing inventory to department management. If a department reports that missing equipment is later found, there is no process to verify that it actually exists or that it is the same item that was reported missing.

**Management Plan** - When equipment is reported missing without an official declaration of surplus, a memo will be sent to the department administrator requesting an explanation. If a sufficient explanation is not received within thirty days, Property Control will contact a higher level authority for follow up. A manager will follow up if a second memo fails to produce the missing asset.

- Government-Titled Assets - The University is required to follow the Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, for all federal grant expenditures. OMB A-110 requires physical inventories of government-titled equipment at least once every two years and annual submission of a listing of government-titled property.

Currently, Property Control performs two physical inventories of government-titled assets per year. One inventory coordinator is responsible for the entire process. Process changes to consider:

- Reduce the number of official physical inventories
- Increase the number of unannounced spot checks for high risk equipment, such as high-end laptops and audio visual equipment
- Complete physical inventories in a shorter time frame utilizing the entire staff to ensure completeness and accuracy
- Update Property Control's procedure manual to reflect current practices

**Management Plan** - Property Control will reduce physical inventories of government-titled assets to once per year. All inventory coordinators will be dedicated to this task, if necessary. A 'frequent mover list' (i.e., equipment susceptible to theft) in addition to the high dollar equipment list has been established for government-titled equipment and periodic random site visits will be made. The procedure manual was last updated in June 2010. Procedures will be reviewed annually and updated as required.

- Asset Tagging - Property Control does not have a process to ensure untagged items noted during fieldwork are subsequently tagged. Inventory coordinators visit various buildings and rooms during the month to tag assets. During these visits, they occasionally observe assets that should be tagged but are not. Coordinators do not log untagged items observed in the field. The control system relies on coordinators to remember to follow up on observations noted during fieldwork to ensure equipment is properly accounted for and monitored.

**Management Plan** - Effective November 2010, inventory coordinators began logging untagged equipment. Coordinators record pertinent information about untagged assets observed during fieldwork (i.e., asset type, model number, location) and perform spot checks to verify the asset subsequently received a tag. Coordinators will contact the appropriate personnel to follow up on assets that have not been tagged within a reasonable time frame.

## PROPERTY DISPOSITION OFFICE

### Risk and Control Discussion

- Data Security - Computers and other electronic devices are included in the surplus property processed by Property Disposition. Departments that send surplus electronic equipment to Property Disposition for sale are required to ensure all software and data are removed from the equipment (cleansed/wiped) and sign an affidavit attesting that the equipment has been cleansed. Property Disposition conducts quarterly audits of surplus electronic equipment to ensure departments comply with the University's electronic equipment cleansing guidelines. For these audits, staff targets machines that are least likely to be cleansed (e.g., deliveries containing a single computer). After the review, Property Disposition creates a quarterly report listing data or software left on computer systems by department name. Property Disposition notifies areas that did not properly cleanse machines and examines future deliveries from those areas more thoroughly to ensure compliance with cleansing guidelines. Prior to sale, Property Disposition cleanses any examined machine that had not been thoroughly cleansed by the sending department.

University Audits reviewed one of the quarterly audit reports in detail, noting that Property Disposition's tests identified some improperly cleaned machines. We recommend the following:

- Include detailed instructions on Property Disposition's website describing how to cleanse equipment. Include examples of the types of devices that should be cleansed (i.e., computers, copiers, cameras) and list internal and external sources that can assist departments with this process.
- Determine the feasibility of providing cleansing tools to the departments to ensure that machines are effectively cleansed before they are sent to Property Disposition.
- Expand testing to include a significant sample of machines from every multi-machine lot delivery. If any software or data is found on the machines tested, all machines in the lot should be tested and cleansed (if required) at the expense of the department disposing of the machines and department leadership should be notified.
- Test all single machine submissions.

**Management Plan** - In order to establish a baseline of clean machines for sale, in January 2011, all machines were pulled from the sales floor at Property Disposition. From that point forward, all hard drives of surplus machines have been wiped and Property Disposition staff will continue to wipe all machines received until a final resolution to the cleansing issue is determined and implemented. This resolution will include:

- Working with Information and Technology Services (ITS) and Procurement Services to license and make available cleansing software on a University-wide basis
- Reviewing and revising current cleansing instructions on Property Disposition's website
- Testing single machine deliveries and at least one or two machines from every multi-machine lot delivery
- Educating the University community about cleansing guidelines and procedures and posting relevant information on Property Disposition's website

Property Disposition is working with ITS and Medical Center Information Technology (MCIT) to develop a plan for cleansing surplus machines. Property Disposition is also adopting a two signature Declaration of Surplus (DOS) form for surplus computers to ensure departments effectively take responsibility for cleansing the machines they turn in to Property Disposition. It is management's intent to have the person who cleansed the machine sign the DOS in addition to the standard signature. The person who cleansed the machine will be defined as the 'accountable' person.

- Outside Trucking - An outside trucking company, reviewed during the audit, regularly picks up surplus from University of Michigan offices, departments, hospitals, and clinical sites and temporarily houses these items offsite in their warehouse. Most sites do not follow the guidelines outlined on Property Disposition's website regarding the completion and submittal of a Declaration of Surplus (DOS) form, which are used to inform and alert Property Disposition staff about incoming surplus items prior to delivery. Incomplete DOS forms create the following risks:
  - Hazardous items and other items that need to be processed through Occupational Health and Environmental Health (OEH) may not be cleared before delivery to Property Disposition.
  - There is no way to verify that the trucking company delivers surplus goods intact.
  - Departments cannot be contacted about concerns related to delivered items.
  - There is not sufficient information to determine which department should receive a portion of the sale proceeds.

**Management Plan** - Property Disposition will work with Procurement Services to establish a service level agreement to ensure proper control over deliveries including compliance with University Policy Standard Practice Guide Section 520.1, *Acquisition, Use, and Disposition of Property*. Additional instructions and emphasis on following procedures will be provided to departments. Property Disposition will also update its website as needed to provide additional guidance to departments.

- Sale of Goods - When Property Disposition receives surplus goods, items are scanned into the point of sale system, price tags are generated, and the items are offered for sale. Price stickers indicate the price of an item and which department will receive credit for the sale. For bulky items, an interested buyer removes the sticker from the equipment and takes the sticker to the cashier to pay for the item. University Audits noted the following:
  - Once the sticker is removed, most items do not contain additional information identifying item price or the department that should receive credit for the sale. In these instances, sales staff must use their judgment, based on the item, to determine which department should receive credit.
  - There is a risk that higher price stickers could be removed and replaced with lower price stickers.
  - For less expensive unmarked items, sales staff arbitrarily credits sales to departments that are regular customers, such as the Health System and University Housing.
  - Procedures describing processes for crediting sales to Property Disposition and University departments are difficult to follow.
  - Price adjustments are set by warehouse managers and there are no written guidelines. There is no separate upper level management review of price adjustments or overrides.
  - Written policies and procedures are limited. There are no discount, refund, or exchange policies.
  - Michigan sales tax contacts need to be updated and current tax forms should be used.

**Management Plan** - Property Disposition will investigate the use of a two-tag process for pricing surplus goods. Management will also consider the feasibility of requiring departments to affix a department shortcode (using tags or markers) to items prior to delivery. Management will update procedures for crediting sales, including credit review processes. Exception policies and procedures will be documented and updated as necessary.

- Physical Security of Assets - Property Disposition is located in a large open warehouse with numerous entry/exit points. The warehouse is open for sales during specific days and hours.

Staff monitors the warehouse floor during public sales hours to deter inventory theft. University Audits observed customers on the sales floor during hours when the warehouse was not open for sales. The customers were allowed to roam the warehouse unsupervised. Unescorted customers on the sales floor during non-business hours puts inventory at risk for theft.

**Management Plan** - Property Disposition has implemented a polite/random 'do you have a receipt?' questioning as customers leave the warehouse. Buyers picking up items during non-public hours will be announced on the public address system or escorted by Property Disposition staff while in the warehouse. Management will investigate the use of signage to discourage non-Property Disposition employees from loitering in the warehouse.

- System Access/Data Integrity - A review of the PeopleSoft Space Management System (the authoritative source for all University space data), the PeopleSoft Asset Management System (the authoritative source for capital asset information), and a stand-alone database system used by Property Control to track government-titled assets revealed potential risks to data integrity:
  - A number of individuals have system access that is not required for their job functions.
  - Some University departments can access and modify non-financial data (such as serial and model numbers) in the Asset Management System giving them the ability change inventory data. Property Control staff do not authorize or review changes.
  - ITS automatically terminates system access assigned to employees who leave the University. However, access rights granted to staff that move to another department may not be terminated for several months or longer.

**Management Plan** - Online Access Requests (OARs) have been processed by the Financial Analysis Unit Liaison (UL) to terminate access for people who no longer work in Space Analysis or Property Control. The UL will use a checklist for subsequent terminations. Information and Technology Services (ITS) will be asked to create a public query and manager work plans will be modified to include system access review. ITS will be asked to make serial and model number fields view only or reports will be developed to monitor changes to these fields.

## OFFICE OF SPACE ANALYSIS

### Risk and Control Discussion

- Space Survey Submissions - Space Analysis facilitates a year-end validation of all University occupied space to update the Space Management System. During the month of August, the Cost Reimbursement Office pulls data from the Space Management System for the indirect cost rate development. In 2010, the final deadline for departments to submit space survey information varied between March 25 and May 30 depending on the department. A review of 2010 space survey results showed several departments submitted late surveys. Late submissions could potentially affect the accuracy of indirect cost rate development. Surveys should be returned, reviewed, and loaded into the Space Management System on a timely basis.

**Management Plan** - An official memo (rather than a phone call) will be sent to the submitter within two weeks of survey due date and the controller (the person in the department who determines and appoints the submitter) will be copied. If surveys are not received within four weeks, the controller will be sent an official memo and a higher level authority will be copied.

- Building Phase Definitions - Space Analysis is responsible for maintaining accurate use of space, including building phases. Building phases describe the status of space (i.e., under construction, in-service, demolished, affiliated). University Audits noted there is not a consistent understanding of terminology used to classify buildings.

**Management Plan** - Building phase definitions will be reviewed, updated as needed, and official definitions applied.

University Audits will follow up on the status of management action plans during the second quarter of fiscal year 2012.

College of Literature, Science, and the Arts Center for Afroamerican and African Studies #2010-820  
Report issued June 1, 2011

University Audits performed an initial audit of the Center for Afroamerican and African Studies (CAAS or the Center) during fiscal year 2010. Since that audit identified a weak internal control structure, substantive testing of department policies and procedures could not be performed. The audit report issued on June 25, 2010, summarized key processes and outlined opportunities to strengthen internal controls. CAAS leadership, with support from the College of Literature, Science, and the Arts (LS&A), immediately began restructuring many business procedures and increased CAAS' working relationship with LS&A Finance. A second audit was recently performed to assess the updated structure and determine compliance with new or revised policies.

During the second audit period, the U-M Board of Regents approved CAAS' elevation to department status effective September 2011. A director was appointed for the period of July 2010 through June 2011, and a new director has been selected to start in July 2011. In addition, a new business manager was hired in September 2010.

The scope of this second audit included:

Financial Controls	Purchasing Controls	Human Resource Controls	Academic Programs Controls	Information Technology Controls
Monitoring and oversight	General purchasing process	Payroll	Academic programs	Data security
Travel administration and expense	POs and non-POs	Employment processes	Study abroad programs	Asset tracking
Cash management	P-Cards	Additional employee benefits	Hosting activities and event planning	IT best practices

Audit procedures included extensive interviews with staff in LS&A Shared Services, the Center for Global and Intercultural Study, and CAAS. New or updated policies and procedures were reviewed and sample testing of transactions was performed to determine compliance with the new processes. This involved review of records and other documentation held by both CAAS and LS&A Shared Services. The review period focused on transactions from June 2010 to February 2011. The discussions and control recommendations below represent the conditions as they were observed during the second audit. In most cases, management immediately began to implement corrective actions. Management responses detail either the actions already taken to mitigate the risk or those actions planned for the immediate future.

## **Risk and Control Discussion**

### **Financial Controls**

CAAS has made significant progress toward improvement of its financial standing. LS&A devoted considerable resources to researching and correcting account transactions. Funds were divided into unique project/grant numbers to isolate revenues and expenses associated with specific projects,

employees were reassigned to work partially or exclusively with CAAS, and a backlog of previously unreconciled accounts were researched and reconciled. Most significantly, LS&A Shared Services was delegated the responsibility for reconciliation of CAAS accounts and processing procurement orders. LS&A Shared Services and CAAS now work together to address routine business activities. Additional opportunities for improving financial internal controls are noted below.

- Cash Handling Procedures - At the start of this audit, the Department Manager was the only employee with access to the receipt book, and was the only employee able to receive funds. There was no process to accept funds in his absence. CAAS modified cash handling procedures in response to this concern to allow additional employees to accept cash, but that resulted in both the Department Manager and the Student Services Coordinator having the ability to accept payments, issue receipts, and make deposits. This concentration of duties could allow funds to be accepted and not deposited.

**Management Plan** - Cash and checks are generally discouraged. However, the business process will be updated to prohibit those with depositing responsibilities from accepting payments. The Department Manager will do a periodic review of pre-numbered receipts to ensure documentation is complete and accurate. The new process will be documented in May 2011 and issued by the Center Director.

- Travel Advance Procedures - There is no department process for issuing or monitoring travel advances. One \$4,900 travel advance was issued to a graduate student in support of a spring 2010 study abroad trip where the faculty lead had already been issued a \$10,000 advance. A lack of coordination between the approvers may have resulted in more funds being authorized than intended.

University Audits reviewed a sample of travel advances and noted that repayments of unused funds for two travel advances were coded to an incorrect chartfield. Travel advance reimbursements should be coded at the department level, not to the project/grant, since the advance itself applies against the department.

CAAS is now using the Concur system to process travel and expense reimbursements. Concur allows for efficient tracking of expenses, including those for international trips, and has a short processing time for repayment of funds. Encourage CAAS faculty and staff to use Concur for expense reimbursements to limit the amount of travel advance funds issued.

**Management Plan** - Travel advances are now generally discouraged as a routine LS&A business process; however, due to business practices of a visit location, there may be times when this alternative is utilized. In the event a travel advance is necessary, approval from the Director and/or LS&A must be obtained. Tracking of lump sum/travel advances will continue to be done so that at a glance, all outstanding advances can be easily viewed and understood.

Previous errors in accounting for travel advance reimbursements were related to the complicated process for depositing and coding returned cash. Now that all LS&A units are using Concur, cash advance transactions are processed behind the scenes by Accounts Receivable. These types of errors should not occur in the future.

### Purchasing Controls

CAAS leadership has done an effective job of communicating and emphasizing University procurement policies to faculty and staff. The new coordination with LS&A Shared Services has helped ensure that expenses are authorized and have legitimate business purposes. This new process also ensures that purchasing duties are appropriately segregated. Employees have demonstrated an increased sense of

fiscal responsibilities and stewardship of University resources. Purchasing controls could be further enhanced by addressing the opportunities for improvement detailed below.

- Purchasing Review - University Audits performed extensive reviews of department expenses from the most recent calendar year. Some purchases were difficult to validate due to lack of supporting documentation, although most expenses were ultimately deemed appropriate. Further strengthening purchasing controls will decrease the amount of research needed during future account reconciliations.

**Management Plan** - CAAS procedures have been updated to ensure each staff member has a P-Card for their business related expenses and has received training on proper documentation and record keeping. CAAS faculty are asked to utilize the most reasonable form of transport to the airport as possible. Some shuttle services are in line with the cost of a taxi or private car mileage and airport parking. Faculty and staff have been reminded to review receipts for sales tax exemption and of the shortcodes for which they are responsible. The Department Manager reviews staff P-Card expenditures for accuracy, and LS&A has existing hosting guidelines for meetings with meals.

- P-Card Concur Processes - CAAS transitioned to the Concur system for expense reports in the fall of 2010. A benefit of Concur is its robust audit trail. Every step taken on an expense report is recorded. Review of the audit trail for some expense reports showed that the approver did not view the electronic receipt images. Even if the approver viewed hard copy receipts, it is important to base approval on the actual electronic file, since there is a risk of receipts being edited, omitted, or added before the electronic file is submitted.

In addition, the Department Manager was the assigned approver for the Director and authorized some of her expense reports. A higher administrative authority should approve the Director's expense reports.

**Management Plan** - Approvers will view all electronic receipt images. The Director's expense reports are now being routed to a higher authority within LS&A for approval. The LS&A Finance department performs a secondary review of approved expense reports and had already identified the instances where the Department Manager approved the Director's expense reports.

#### **Human Resource (HR) Controls**

LS&A Shared Services also assists CAAS with various HR-related activities, such as payroll and new employee processing. This new process has adequately segregated HR functions and ensured consistency for routine processing. Continued improvement of HR controls should be pursued in the areas mentioned below.

- Conflicts of Interest - Related Faculty - A management plan has not been implemented to avoid conflicts of interest (COI) related to a married couple working within CAAS. SPG Section 201.23, *Appointment of Relatives*, requires units to create a management plan when two related individuals have the same immediate supervisor. In October 2010, the Department Manager sent an e-mail to all faculty and staff requesting any disclosures to comply with the COI policy. The need for a management plan for the married employees was not realized by either the couple themselves or CAAS management.

**Management Plan** - A draft plan for the married couple is currently under review with the LS&A COI officer. In-person COI/COC training for faculty and staff will be conducted during fall 2011.

- Payroll Records - A temporary employee from Information and Technology Services (ITS) was paid through a CAAS faculty member's research funds from October 2010 until February 2011. Another employee required multiple lump sum adjustments of nearly \$15,000 to correct inaccurate payroll data involving HR transactions processed during fiscal year 2010. These transactions were corrected and subsequently impacted payroll data in fiscal year 2011. This situation was difficult to trace due to a lack of documentation.

**Management Plan** - CAAS clearly understands the need for, and the importance of, reconciling all charges made to CAAS funds. Any commitments made will be documented after consultation with the appropriate parties to ensure compliance with University and LS&A HR policies. LS&A Shared Services is now up to date with account reconciliations and will be able to timely detect any future errors. Both instances have been corrected.

- Management of CAAS Equipment - Equipment purchases for employees in support of department activities generally remain the property of CAAS. Purchases have included computers, digital cameras, printers, and global positioning systems. Some purchases did not contain sufficient documentation to identify the ultimate recipient. For example, a requisition of eight computers in August 2010 had no information on the custodial employees. Maintaining an equipment inventory is particularly important in a unit such as CAAS, where most faculty have dual appointments with other departments, and there is a high risk of confusion over equipment's ownership.

The CAAS termination checklist had no step that would remind management to inquire about CAAS-purchased equipment that must stay with the department. The computer inventory would be a useful tool to review at an employee's termination to verify any equipment that needs to be returned.

**Management Plan** - An electronic database with an inventory of all computer equipment was created and has been updated with the records from the August 2010 purchase order. Any additional changes will be processed in a timely manner. The CAAS termination checklist has been updated to include the collection of any departmental equipment.

*Auditor's Note: Auditor reviewed the updated termination checklist and noted the new step requiring employees to certify they have returned all CAAS-owned property. Testing will be conducted during the follow-up review to assess implementation of the updated checklist.*

- M-Pathways Record of Supervisor - At the time of the second audit, a terminated employee was listed in HR records as the supervisor for five CAAS staff. The CAAS new hire process does not include a step to update HR records for new supervisors.

**Management Plan** - Steps to update the supervisor record in M-Pathways were taken in September 2010, but in January 2011 it was discovered that this field was not updated in all areas. A request was made to University HR to update information. The new employee checklist will be updated as a reminder of this step when a new supervisor is hired.

*Auditor's Note: University Audits verified that the supervisor for the employees referenced above has been updated in the HR database. In addition, it was confirmed that the checklist has been updated as a reminder of this process. This item is closed.*

### Academic Programs Controls

The academic program review was specific to study abroad administration and the grade change process. CAAS was able to utilize the knowledge of LS&A's Center for Global and Intercultural Study (CGIS) to

administer study abroad programs. This arrangement provides CAAS with considerable expertise for financial and other administrative tasks, and still allows CAAS academic freedom in the course design.

- Study Abroad Program Administration - CAAS has two study abroad trips to different regions of South Africa. Study abroad administration has improved considerably with the support of CGIS. However, certain procedures managed by CAAS have opportunities for strengthening internal controls.
  - The pre-travel orientation sessions do not have a structure that would provide assurance that key topics, such as necessary vaccinations or visa requirements, have been shared with the students.
  - A graduate student received airfare and hotel accommodations for a trip in summer 2010 but there was nothing to explain the reason for this compensation. Also, the student may not have clearly understood her responsibilities during the trip.

As program administration duties transfer from CAAS to CGIS, it would be beneficial to document which department is responsible for which activities. This ensures a clear understanding of who is accountable for certain key actions, such as enrolling students in HTH travel insurance, the travel registry, or discussing health and safety topics.

**Management Plan** - A CGIS working group is being established to develop standard protocols for the many areas of support CGIS offers, including administrative support and health and safety oversight. This will strengthen the relationship between CGIS and all LS&A study abroad offices, not just CAAS. Once this has been completed, likely in fall 2011, a memorandum of understanding between CAAS and CGIS will be prepared.

- CAAS Grade Changes - Although CAAS follows the LS&A policy for grade changes, there is no department process to document who within CAAS has the authority to enter grade changes and under what circumstances.

**Management Plan** - While CAAS adheres to LS&A's overall grade change policy, CAAS' informal policy will be documented to reflect center-specific procedures. The only staff member in CAAS with grade change authority is the Student Services Coordinator (SSC). The SSC must obtain the course instructor's and the Director's permissions before entering grade changes, and only if the instructor has no internet access. This policy will be written and distributed by the Director by April 1, 2011.

*Auditor's Note: Review of the new policy confirmed documentation of CAAS' informal process, as indicated above. This issue is closed.*

### **Information Technology Controls**

This audit did not involve a detailed review of IT services provided to CAAS, such as desktop support or network access. These areas are managed by LS&A IT. However, during the review it was noted that CAAS could benefit from implementing the following IT best practices.

- Storage of Business Critical Data - There is no policy outlining data storage guidelines for business critical information. This has caused great disruptions in business when crucial data was stored on individual hard drives and inaccessible to other employees. Such disruptions occurred with financial transactions maintained by the former key administrator and critical vendor and guest information maintained by the receptionist within her Microsoft Outlook account. In the case of the receptionist, her network account was left active after her departure in order to allow LS&A IT to copy the critical information.

The department's termination checklist has a step to confirm if business related files are stored on the employee's home directory, however, the checklist was not reviewed in detail until the date of departure.

**Management Plan** - CAAS is currently working with LS&A IT to utilize network drives for storage of critical business data. CAAS will schedule a presentation for staff by LS&A IT about data protection and other relevant IT issues.

*Auditor's Note: A new termination checklist has been created and approved. Auditor reviewed the new checklist and noted the additional step to confirm that business related files are not on the employee's home directory. Implementation of the checklist and discussion about IT best practices will be confirmed during the follow-up review.*

LS&A and CAAS have made significant strides in improving CAAS' internal control environment. Many new policies and procedures have been implemented, tremendous resources were dedicated to organizing the department's finances, and a more structured oversight role was established. A follow-up review will be conducted during the second quarter of fiscal year 2012 to assess ongoing efforts to stabilize the department.

Emergency Loans in Financial Aid  
Report issued June 7, 2011

#2010-112

The University of Michigan offers interest-free, emergency loans to assist students with unexpected expenses. Loans are considered short term and students are responsible for paying them back within 90 days. During fiscal year 2010, the UM-Ann Arbor Office of Financial Aid disbursed 1,404 emergency loans totaling \$1,133,497. The UM-Flint Office of Financial Aid processes emergency loans for students on the Flint campus. Emergency loans are not as common in Flint as they are in Ann Arbor, with just 54 loans processed in fiscal year 2010. Emergency loans are not offered by the UM-Dearborn Office of Financial Aid. This audit focused on emergency loans processed by the UM-Ann Arbor Office of Financial Aid.

There are two methods for approval of an emergency loan - manual or electronic through the eUloan program in Wolverine Access. While the main lender of emergency loans is the Office of Financial Aid, other schools on the Ann Arbor campus provide emergency loans (e.g., Law School and Medical School). On an annual basis, the known campus lenders outside of the Office of Financial Aid process less than 100 emergency loans in total. Manual loans are approved by the school before they are sent to the Office of Financial Aid for processing. This review focused only on the central lending process.

Some loans processed on behalf of campus lenders are sourced using funds that charge interest during the lending period. Monitoring of this type of emergency loan for compliance with federal regulations is an important responsibility of the Office of Financial Aid. Loans that charge interest during the lending period require additional consumer information disclosures under the Truth-in-Lending Act (TILA). Regulation Z of TILA requires the University to provide education about payback responsibility to the borrower.

In addition to the Office of Financial Aid, the loan process involves several other departments in the processing, disbursement, and collection of loans. They include Teller Services, Student Financial Services, and Student Loan Collections. As multiple departments are involved in the process, inter-departmental communication and coordination of efforts is critical.

The objective of this audit was to review the student emergency loan process within the Office of Financial Aid and assess the risks and controls associated with the approval, disbursement, and repayment of emergency loans. Specific areas audited include:

- Compliance with financial aid reporting regulations
- Loan approval requirements and disbursement of funds
- Communication to borrowers and pre-collection process
- Disbursement from and repayment to source funds
- Monitoring of source fund requirements
- P-Card cash advances (ATM withdrawals) used to fund emergency loans

### **Risk and Control Discussion**

- **Inconsistent Processing** - To receive an emergency loan through either the manual or eUloan process, a student must meet the following eligibility criteria as established by the Office of Financial Aid:
  - Be a currently enrolled student (Medical and Law School students must be full-time)
  - Have no financial or academic holds on student record
  - Request a minimum of \$100 and a maximum of \$500 (without override approval)
  - Have received no emergency loan in the last 90 days

In the automated eUloan process, a student can apply in Wolverine Access. Approval can take up to two business days. Automatically approved loans are capped at \$500. Loan requests for higher amounts may be honored, but a student must first receive override approval from a counselor in the Office of Financial Aid. All approved eUloan students are charged a \$10 processing fee to their student account in M-Pathways. Once approved, students can request loan checks at Teller Services. In fiscal year 2010, the eUloan program processed 874 loans totaling \$561,849.

Manual loan requests are reviewed by the Office of Financial Aid using a paper application. This method is generally used when a student is from a specific school or program of study and the loan will be sourced using school or department funds. Some schools, such as the Ross School of Business, have their own emergency loan funds that they must approve for disbursement. In these instances, the student applies at the school and, if approved, the paper application is sent to the Office of Financial Aid for processing. All manual loans and funds used to source the loans are tracked using an Excel spreadsheet. There is a no processing fee charged for manually approved loans.

The use of two approval methods creates inconsistencies within the emergency loan process.

- **Interest Rates** - The interest rate charged for loans in default is set according to the approval method, unless otherwise specified by a donor. Manually approved loans are charged 3% in default, whereas eUloans are charged 7%.
- **Loan Processing Fee** - Students approved through the eUloan program are assessed a processing fee of \$10 to their student account in M-Pathways. Manually approved loans are not processed through M-Pathways and no fee is charged.
- **Student Loan Activity** - Manually approved loan information is not entered in M-Pathways; the information is sent to Student Loan Collections and is entered into ECSI, a third party billing system. Loan repayments for manual loans are tracked within ECSI by Student Loan Collections. As a result, students are not able to view their emergency loan activity as part of their student account in M-Pathways; they do not have access to ECSI. The first statement students with manually approved loans receive is notice that the loan is due in thirty days; eUloan students receive monthly emails stating their loan balance as part of the student account.
- **Interest Accrual Delay** - When a student defaults on an eUloan, the loan is reviewed as part of a pre-collection process by Student Financial Services before it is sent to Student Loan Collections

to be entered into ECSI. The pre-collection process is performed to ensure there are no misapplied loans payments in an eUloan student's account in M-Pathways. The review does not begin until 30 to 60 days after the loan is due. The pre-collection process is not necessary for manually approved loans because the loan information is already in ECSI. As a result, students with eUloans have a longer period of interest-free repayment.

- Multiple Loan Approval - Loan eligibility criteria state that a student cannot receive an emergency loan if they have received one in the last 90 days. For eUloans, M-Pathways reviews student loan history information within the system to determine eligibility. Because manually approved loans are tracked outside of M-Pathways, a student with an outstanding manual loan has the ability to be approved for an additional eUloan.

University Audits Recommendation - Work with Information and Technology Services, Student Loan Collections, and Student Financial Services to streamline the emergency loan process. Determine the feasibility of consolidating the loan approval methods. To increase accuracy and efficiency, develop reports within University systems to limit the use of Excel spreadsheets to track approved loans and fund balances.

Regardless of approval method, ensure the emergency loan process is equitable for students in all instances, including:

- Assessment of processing fee
- Interest charged in default
- Length of time before being sent to Student Loan Collections
- Accessibility of loan information

**Management Plan** - While we agree with some of the recommendations, the recommendations to "streamline the emergency loan process" and "consolidate the loan approval methods" are not conducive to our current operating environment. The emergency loan process was streamlined as much as possible when we moved to the online approval process. This process works for the vast majority of short-term loans made by the University. The manual, paper loan approval process continues to be necessary as we have loan funds that have very specific requirements. The eUloan system cannot adequately screen for these detailed requirements. Most of these loan funds are controlled by the academic unit and must be approved by that unit before the loan is made.

We plan to implement the following corrective actions:

- The interest rate for all loans is now 3% (effective May 3, 2011).
  - To address the multiple loan approval, we revised the policy to allow students to have more than one University loan at a time, such as a manual loan and an eUloan. The system will continue to prohibit approval of multiple eUloans within the same 90 day period.
  - We have requested the \$10 processing fee be eliminated. Estimated time for completion is November 1, 2011.
- Regulatory Compliance - Regulation Z of the Truth-in-Lending Act requires disclosure of general information to students about loan rates, fees, terms, potential availability of federal student loans, and where to locate additional information for loans that extend beyond one year. The Office of Financial Aid provides disclosure forms to students approved for long-term loans and loans that accrue interest during the lending period.

The private educational loans (PEL) disclosure provisions within Regulation Z exclude loans with a term of less than 90 days, or a term of less than one year when no interest is charged. The Office of Financial Aid does not provide disclosures for short term, emergency loans. General disclosure requirements are met in the form of the promissory note used for all loans, regardless of term.

However, if a student is unable to repay an emergency loan after 90 days, the Office of Financial Aid may choose to issue a new loan with a new 90 day due date or extend the current loan beyond 90 days. The intent of these actions weakens the position that emergency loans are excluded from PEL provisions. Noncompliance with Regulation Z involves monetary penalties.

In addition, a \$10 processing fee is charged to the student's account for approved eUloans. Denied applications and manual loans are not charged a processing fee. Assessing the fee in this manner qualifies it as a finance charge, which requires additional disclosure to the borrower.

**Management Plan** - The Office of Financial Aid met with the Office of General Counsel in April 2011 to discuss this finding. The Office of General Counsel requested additional information, which was provided in April. To date, we have not been advised by the Office of General Counsel on how to proceed. Once the review of the requested information and the legal issues surrounding the finding has been completed, we will immediately begin to implement corrective actions recommended by the Office of General Counsel.

- **Policies and Procedures** - Procedures performed by Student Financial Services to transition past due emergency loans to Student Loan Collections are not formally documented. Comprehensive documentation of emergency loan procedures that is accessible to all departments with a role in the process assists in the standardized performance of duties. Current and accurate documentation also aids in the transition and education of employees to a new or different role in the process.

**Management Plan** - The Office of Financial Aid and Student Business Services will work together to ensure that the policies and procedures involved in the emergency loan process are accurate and detail the process in its entirety. Any procedures that have not been documented will be documented and made accessible to personnel involved in the emergency loan process.

The use of two different approval methods, manual and eUloans, has led to several discrepancies within the emergency loan process at the Office of Financial Aid. These discrepancies have resulted in inequitable processing fees, interest rates, repayment periods, and access to loan information for students. Streamlining the emergency loan process to eliminate these discrepancies is recommended and will require support and assistance from Information and Technology Services, Student Financial Services, and Student Loan Collections. Coordination of monitoring efforts with these departments is necessary to ensure compliance with federal regulations.

Throughout the audit, University Audits noted that a lack of documented procedures by the Office of Financial Aid, Teller Services, and Student Loan Collections was a consistent cause for loan process confusion and inefficiencies. Documented procedures help to define expectations and promote standardization. It is essential that the Office of Financial Aid utilize relationships with these departments to document the entire emergency loan process as a way to effectively implement and manage recommended process changes. It is important that the procedures are accessible by all departments with a role in the emergency loan process.

University Audits will conduct a follow-up review during the second quarter of fiscal year 2012 to assess the effectiveness and adequacy of improvements implemented by management.

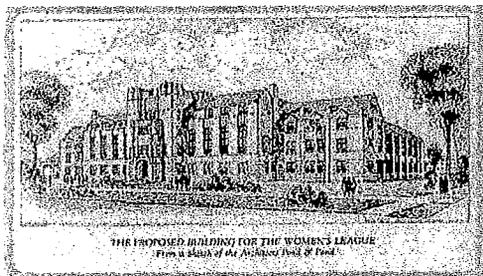
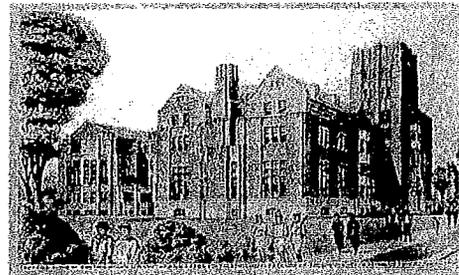
University Unions

#2011-814

Report issued June 15, 2011

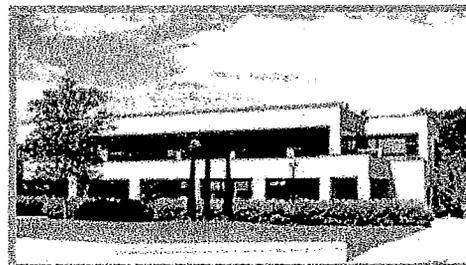
University Audits recently completed a review of the University Unions (UU), an auxiliary unit within the Division of Student Affairs (DSA). UU is responsible for the oversight of services, programs, and facilities at the University's three student unions:

**Michigan Union** – Established in 1919 at its present site, to house the Michigan Union organization, an “all inclusive Union” focused on providing feelings of unity for “Michigan Men.” Women gained equal access to the “Union” in 1968.



**Michigan League** – Established in 1929, through the efforts of the Women's League of the University of Michigan, to serve as a center for women's social, cultural, and recreational activities on campus. During the 1960's and 1970's the “League” began providing space for conferences, seminars, and receptions to the University community at-large.

**Pierpont Commons** – Established in 1965 to provide space for the services needed to support the growing North Campus Community. The “Commons” was named after Wilbur K. Pierpont, the Vice-President and Chief Financial Officer who championed unprecedented growth on North Campus during his tenure.



Each student union benefits from its own Board of Representatives, or in the case of the League, Board of Governors. Each board, which is comprised of a combination of students, faculty, staff and alumni, advocates for its specific student union and consults on all aspects of operations, including fundraising, renovation, policy, and practice.

Although UU is an auxiliary unit responsible for raising the necessary revenues to support operations, it receives an annual general fund allocation to support various University-sponsored events and activities. In 2010, UU's revenue totaled just over \$19 million from the following sources:

External department revenue (e.g., weddings, meetings)	\$ 8,000,000
Internal recharge revenue (e.g., seminars, retreats)	\$ 9,200,000

General fund appropriation	\$ 1,800,000
Gifts, endowment, and investment distributions	\$ 92,000

The objective of this review was to evaluate UU business practices and internal controls in the following areas:

- Purchasing compliance and efficiency
- Financial stewardship
- Human resource management
- Renovation and construction oversight

Interviews with key UU staff, central administrative experts, and analysis of recent transactions indicate many controls within UU are ineffective at preventing or detecting inappropriate activity. Although some controls exist, management override of these controls was not uncommon. The purpose of this report is to share the following high-level observations with management.

- Lack of regard for the importance of internal controls and compliance with University policy - Many staff do not understand the fiscal stewardship obligations inherent to their role as University employees. Some staff who do exhibit a respect for policy and procedure, do not feel comfortable escalating concerns beyond their direct supervisor.
- Lack of purchasing/spend oversight and monitoring - Use of non-strategic vendors and non-compliance with Procurement Services policy and procedure related to facilities maintenance and renovation is common.
- Ineffective financial management and monitoring - The finance area is inefficiently structured. Controls around budgeting, reporting, segregation of duties, and reconciliation are weak or missing. Supervisors and staff do not have a clear understanding of their roles, responsibilities, and accountability for compliance with policy and procedure.
- Lack of oversight and monitoring of renovation and construction projects - Cost overruns and untimely completion of projects appear to go unmanaged. Documented procedures and controls do not exist in this area. Verification of work quality and completion prior to payment rarely occurs.
- Ineffective management of employment processes and activities -
  - Two employees were on Performance Improvement Plans, yet their annual performance evaluations did not indicate poor performance.
  - Some known conflicts of interest were not disclosed during the annual COI/COC process. Documented management plans were not readily available for conflicts that were disclosed.
  - There was little oversight of personnel decisions leading to untimely action, poor documentation, and inconsistent human resource action.
  - Management of employee files is not compliant with University guidelines.
- Poor morale and lack of a sense of unity among staff in different departments and buildings - All non-supervisory staff interviewed said that many UU staff were anxious about the stability of their employment over the last few years.

DSA leadership is currently reorganizing the UU Finance and Human Resource areas and evaluating business processes. The detailed recommended control improvements in the section below should be considered during organizational restructuring and incorporated into the new policies and procedures.

#### **Risk and Control Discussion**

- General Control Environment - Change in leadership represents an optimal time to reinforce fiscal responsibilities and set an appropriate tone at the top. Management within both DSA and

UU must actively identify opportunities to reiterate the importance of controls and financial stewardship. It is essential UU leadership understand the importance of their unit's role in the University and convey that message to staff in a manner that fosters a sense of community, belonging, and responsibility.

- Review UU's organizational structure to ensure barriers to communication, collaboration, and compliance are addressed. It may be necessary to enlist the help of experts in organizational design to achieve this goal in a timely way.
  - Sufficiently train new appointments within the Finance and Human Resource areas so they have a clear understanding of their fiscal responsibilities and administrative duties. Additional training and periodic meetings with DSA management are needed to enforce this accountability.
  - Communicate appropriate processes for escalating compliance or other concerns in response to inaction by direct supervision. Care must be taken to ensure staff are safeguarded from any potential retribution. Communicate the nature and availability of reporting mechanisms outside UU and DSA, including the University Compliance Hotline.
- Financial Monitoring and Oversight
    - Revisit all internal control gap analyses completed as part of this year's Certification of Financial Results and Internal Controls, including:
      - Employment
      - P-Card for Concur Users
      - Journal Entry
      - Cash Handling - Cash/Checks
      - Cash Handling - Credit Card
      - Gift Cards
      - Employee Travel and Expense (Concur)
    - Work with the Office of Internal Controls, as needed, to ensure review is comprehensive and accurate. Develop plans to fill control gaps.
    - Evaluate the need for financial reporting and operational shadow systems. Where possible, work with Information and Technology Services (ITS) to redesign and expand UU's chartfield-based accounting structure to support multi-level reporting and data analysis within M-Pathways. If it is not feasible to eliminate the use of a particular shadow system, follow best practices related to documentation, security, efficiency, and accuracy. Regular reconciliation to M-Pathways is a critical control.
    - Improve oversight reporting and monitoring by leveraging existing business intelligence information within M-Pathways and M-Reports. For analysis and reporting to be meaningful, review and reconciliation procedures must verify that project costs are assigned to the appropriate accounts. Work with ITS to restructure accounts and develop custom reporting to support unit and divisional goals and assess performance. Specifically, develop regular procedures for analyzing and routinely auditing budget-to-actual expenditures in the following areas:
      - Renovation and construction
      - Travel and hosting
      - Event, particularly entertainment costs
      - Catering and other food service
      - Overtime
      - Consulting
    - Conduct comprehensive cost/benefit analysis on the use of outside contractors versus use of skilled trades employees for maintenance and renovation projects.

- Appoint a financial contact within DSA to conduct a high-level review of UU financial activities on a monthly or quarterly basis, including project-based budget-to-actual analysis. DSA exception reporting must be improved to better detect UU management override of controls.
- Evaluate and document overall roles and responsibilities for all employees, verifying no person is responsible for a transaction from start to finish.
- Train financial staff in all departments on proper account reconciliation procedures, including reconciling to original documentation for accounts receivable and accounts payable functions. As an example, invoices should be compared to work orders prior to payment.
- Purchasing Management
  - Train all staff with responsibility for any part of a purchasing transaction on appropriate purchasing methods and policies. Emphasize the importance of complying with University's bidding procedures on all purchases exceeding \$5,000.
  - Use U-M strategic suppliers wherever possible to leverage negotiated discounts.
  - Work with Procurement Services to analyze spend and pursue contracts with non-strategic vendors where appropriate.
  - Verify all purchases support UU business needs. The UU Director should pre-approve purchases in certain categories such as renovation, construction, entertainment, travel, and hosting. DSA must develop oversight reporting to monitor UU spend.
  - Work with Procurement Services and the Office of the General Counsel to ensure contracts for services received (e.g., regular elevator maintenance) and services rendered (e.g., providing facilities and catering services for weddings) are well designed, compliant with University policy, and properly executed.
  - Assess P-Card use by all UU employees, adjusting access and limits as necessary. Limit the number of P-Cards assigned to one approver and verify all approvers have direct knowledge of the appropriateness of purchases made.
  - Verify all employees who are P-Card purchasers or approvers have completed the mandatory P-Card training for their respective responsibilities. Require and track annual refresher training for P-Card approvers and for purchasers as necessary.
  - Enforce rules prohibiting sharing of P-Card numbers (either by providing numbers to another person or allowing another person physical use of the card), and purchasing of restricted commodities including office furniture and appliances (e.g., dishwashers).
- Human Resource (HR) Management
  - Work with University Human Resources (UHR) to develop programs to improve employee morale and promote a sense of unity among employees and departments.
  - Coach employees with supervisory responsibilities on establishing effective work performance reviews. Work plans should both further the employee's development and align with the employee's job duties. Any disciplinary problems should be documented and discussed during the evaluation process.
  - Revisit the importance of full COI/COC disclosure and documentation of management plans with all UU staff.
  - Work with DSA to ensure proper segregation of duties and oversight of HR activities.
  - Provide training on maintenance of personnel files.
- Building Renovation and Maintenance
  - Develop comprehensive procedures and internal controls around building maintenance and renovation projects. Specifically, develop mechanisms for verifying quality and timely completion of work prior to payment of invoices. DSA Housing Services

Facilities area is in the process of implementing new workflow procedures that may also serve UU's needs. Plant Operations can also provide guidance.

- o Clearly define roles and responsibilities with adequate segregation of duties so that no one person has responsibility for a project from beginning to end without proper monitoring and oversight.
- o Develop oversight reporting to detect non-compliance with policy and inappropriate expenses.

In addition to the areas described above, there are additional business processes that were not reviewed but may have opportunities for strengthening internal controls. Recommended control enhancements include:

- o Payroll - Consider transitioning to self service time entry to take advantage of inherent efficiencies and controls.
- o Cash handling - Minor non-compliance with cash handling best practices such as copying of checks was noted during the review. Develop and document plans to address gaps identified during the cash handling gap analysis process recommended above.
- o Travel and hosting - UU transitioned to Concur in February 2011. Assign responsibility for Concur-related questions and compliance issues to an individual familiar with travel and hosting policy.
- o Inventory - Develop and maintain an inventory of valuable, facilities-related goods (e.g., portable air conditioners). Assign responsibility for this type of inventory to someone without purchasing authority.
- o Information Technology (IT) - Review IT best practices for security controls with all employees, such as password security. During preliminary meetings with UU employees, it was noted many store passwords on post-it notes next to their computer monitor or keyboard.
- o Temporary employees (student and non-student) - Numerous instances of confusion over UU and University temporary employment policy were observed during the course of the review. DSA Housing Services Human Resources Office has recently improved controls over management of temporary employment and can provide guidance on best practices.
- o Event Services - Expand event evaluation and performance measurement to include feedback from other UU departments, including Food Services. Conduct trend analysis on events managed by fiscal year and customer type (e.g., student group, external customer) and investigate any negative trends.
- o Student Organizations - The Student Organization Accounts Service office (SOAS), a department within UU, oversees the financial management of approximately 1,200 recognized student organizations with the possible exception of two large groups staffed by U-M employees. SOAS oversight responsibilities related to these two organizations is unclear. Verify that appropriate segregation of duties and oversight by either a DSA or UU office exists.

## REFERENCE MATERIALS

As department procedures are evaluated, assessed, and rewritten, the following items should prove helpful in providing guidance regarding University policies or best practices:

- o The University of Michigan Standard Practice Guide (SPG) (<http://spg.umich.edu/>); in particular, but not limited to:
  - o SPG Section 500.01, *Fiscal Responsibilities*
  - o SPG Section 507.01, *General Purchasing Policies and Procedures*
  - o SPG Section 507.04, *Independent Consultants*
  - o SPG Section 507.10-1, *Travel and Business Hosting Expense Policies and Procedures for Concur users*
  - o SPG Section 519.03 *Cash Management Policies*

- SPG Section 601.24 *Delegation of Authority to Bind the University to External Agreements on Business and Financial Matters.*
- Office of Internal Controls (<http://www.umich.edu/~avpf/InternalControls.htm>)
  - Internal control matrices
  - Gap analysis tools
  - Written procedures templates
  - Management oversight reports
- My LINC training and document repositories for:
  - Human Resource Development
  - ITS (M-Reports, M-Pathways)
  - Procurement Services
  - Treasurer's Office
- Office of University Audits Control Guides (<http://www.umich.edu/~uaudits/guides.html>)
  - Spreadsheet Controls
  - IT Control Best Practices
  - The Fraud Triangle
  - Documenting Procedures
  - Segregation of Duties
- Compliance Resource Center (<http://compliance.umich.edu/>)
- Procurement Services (<http://www.finance.umich.edu/procurement>)
  - Restricted Commodities (<http://www.finance.umich.edu/procurement/restricted-commodities-and-special-approvals>)

**Management Response** - The Division of Student Affairs agrees with the findings of this audit and affirms its commitment to developing strong internal controls in all areas, including:

- Purchasing compliance and efficiency
- Financial stewardship
- Human resource management
- Renovation and construction oversight
- Management oversight and communication

DSA accepts all recommendations of the audit. Division leadership is considering a number of different options for implementing corrective actions, focusing particularly on the most effective way to heighten awareness and understanding of internal controls among staff and management.

Primary objectives of our overall improvement strategy include:

- Strengthening existing controls
- Evaluating our organizational structure
- Updating business processes where needed
- Creating new controls to ensure compliance with documented processes
- Establishing monitoring and oversight to ensure University compliance and appropriate stewardship of University resources
- Clarifying roles and responsibilities, ensuring clear accountability for compliance
- Documenting key procedures and control processes

Lessons learned from this audit and previous audits of DSA units will be used to guide process improvements and monitoring within University Unions and across the division as a whole. This will include evaluating our end-of-year financial and internal controls certification process to see where improvements can be made in our unit-level sub-certification process.

We are very committed to improvements in the administrative operations within DSA. Senior DSA leadership will be collaborating with the University Unions leadership team on financial reporting, staff training, work planning and performance management, and review of business practices on a regular basis to ensure success.

University Audits will return for a comprehensive operational audit during the third quarter of fiscal year 2012. This should allow management sufficient time to design and implement new operating routines. Testing will determine if a strong control environment has been established and validate controls are operating as intended.

#### Leased Employees

#2011-108

Report issued June 22, 2011

Employee leasing is an arrangement, ideally under contract, between the University and an external organization to provide staffing for the external organization. Employee leasing aids external organizations by allowing them increased manpower without increased administrative costs, and the University benefits by fostering beneficial relationships, such as with higher education or research-driven companies. Leasing employees is a complex process because although work is performed for the external organization, the University retains responsibility and liability for employment functions such as payroll and benefits administration.

There is no common terminology on campus for a concise definition of a leased employee. The University has multiple types of employment scenarios, each with their own advantages and risks. During this review, University Audits considered only employees paid through the University's payroll systems who work part or full time on behalf of an external organization. Other employment arrangements that are outside the scope of this review include:

- Sabbaticals, where faculty are on leave from usual duties to pursue scholarly activities, but are still paid by UM
- Employees working 100% at UM, paid by UM, but a portion of their salary is funded via gifts
- Initiatives or projects co-funded with other institutions
- Professor exchanges with other universities
- Employees on unpaid leave of absence or reduced appointments that are employed and paid by external organizations
- Those employed by and paid by an external organization who perform work on behalf of the University

Leasing employees creates both direct and indirect costs and challenges for the University, such as

- Units and central support services carry a high administrative responsibility to support them. This increases the overhead of each participating unit and the University as a whole.
- Increases the University's liability for worker's compensation or unemployment claims
- Presents employees with limited University oversight, potentially creating unrecognized or unmanaged risks for effort reporting, occupational safety, or other compliance concerns
- HR matters, for example performance reviews, retirement, and severance can be difficult to address.
- When relationships between the University and the external organization terminate (either due to lack of funding or changed visions), the HR aspects are difficult to untangle. Past scenarios have been costly and time-consuming to resolve, involving multiple University units and often coordination with external legal counsel.

Analysis of the agency funds<sup>1</sup>, where some external organizations fund payroll payments for leased employees, indicates that there are at least 140 external organizations with approximately 500 known leased employees. However, there are additional unknown numbers of arrangements outside of the agency funds that are unable to be quantified. Both the size and level of dependency on the University vary.

The University continues to encourage public and private partnerships through, for example, the acquisition of the research facilities at the North Campus Research Center. Therefore leased employee arrangements will likely increase in number, and establishing a streamlined process for managing those relationships will be even more important.

**Process**

At the University, external organizations using leased employees must be sponsored by an academic or administrative University unit. University Audits selected the following external organizations using leased employees and their corresponding sponsoring unit as our sample.

External Organization	Sponsoring University Unit
Merit	Information and Technology Services
Society for College and University Planning (SCUP)	School of Education
Society for Research in Child Development (SRCD)	Office of the Vice President for Research through the Center for Human Growth and Development
Michigan Society for Medical Research (MISMR)	Unit for Laboratory and Animal Medicine
University Activities Center (UAC)	University Unions (formerly reported directly to the Division of Student Affairs)

We met with representatives from the sponsoring units; only the duties and processes for overseeing the controls related to the leased employees were evaluated. Similarly, University Audits met with the external organizations to understand their processes, but the organizations themselves were not audited. During these meetings, areas of concern were identified by both parties.

University Audits also interviewed central units on campus to discuss risk or compliance areas they observe while supporting these external organizations. These included the Office of the General Counsel, the Division of Research and Development Administration, Risk Management, the Office of the Controller, the Provost’s Office, and Human Resources.

In the context of this report, “external organization” refers to external organizations that lease employees from the University of Michigan. “Sponsoring units” refers to the University unit that provides oversight, regardless of the level of oversight, to those external organizations.

**High-Level Risk and Control Discussion**

- Central Process Owner - Many University units, both academic and administrative, have involvement with leased employee arrangements, yet no unit has been assigned the responsibility of being the process owner. Some units, such as the Office of the General Counsel or the Division of Research and Development Administration, can advise on the most appropriate actions but have no authority to require them. A central process owner would provide a single point of contact to establish policies or procedures related to leased employees.

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<sup>1</sup> Agency funds are monies belonging to external organizations that are held by the University and dispensed according to the requests of that organization.

These procedures should include an identification method, clear guidance, and contract requirements.

- Identification Method - An identification method for leased employees does not exist. HR, Financial Operations, nor any other unit maintains a definitive list. Leased employees are listed in the HR databases along with regular employees, but there is no indicator or code to distinguish them. University Audits attempted several different analysis methods and was unable to isolate these employees.

The Agency Funds listing was a valuable resource to identify likely leased employees, but was not completely reliable for this purpose. Isolating expenses in the Agency Fund accounts for salary and benefits identified many likely leased employees, but also many false positives (e.g., honoraria paid to a faculty member for speaking at a student organization's meeting). In addition, some external organizations manage their own funds outside the University's accounts and therefore are not on the Agency Funds listing. This means that payments for some leased employees are made or reimbursed through some other arrangement, and are difficult to identify.

The ability to easily identify these employees is necessary. An identifier could aid HR reporting; for example, by removing leased employees who could create outliers in salary analysis. In addition, some UM discounts, such as those for software licensing, are negotiated only for UM employees and may not have been intended to apply to those in external organizations. Finally, if it is determined that the University is affected by the new Professional Employer Organization Regulatory Act<sup>2</sup>, an efficient identification method for leased employees would be critical to develop reporting.

- UM Guidance - Clear policy and guidance around leased employees is needed. This will enable sponsoring units to better understand and manage the risks created by their relationship with external organizations. Sponsoring units may perform one or many support roles for external organizations, including financial oversight, administrative or regulatory support, purchasing, or employment. Other external organizations may receive little or no input from their sponsoring unit. Even in our sample, this variation was observed as summarized below.

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<sup>2</sup> The State of Michigan recently passed the Professional Employer Organization Regulatory Act (effective July 1, 2011). Under this new legislation, businesses who intend to lease employees to external organizations must register with the State of Michigan and submit various reports to the State.



- Contracts - Management of leased employees may be excessively complicated, often due to ambiguous contracts or lack of a contract. Effective contracts will help manage the risks associated with leased employee arrangements.
  - *Use of Contracts* - University Audits reviewed several contracts between University units and external organizations involving leased employees and noted a wide variety in structure or availability. For example, some sponsoring units did not have a contract of any type with the external organization. Others have not been reviewed and updated in many years and are lacking current, robust language. Clear, well-written contracts are critical to limit or eliminate potential areas of later conflict. For example, one unit was able to simply resolve a potential intellectual property dispute since there was a contract section related to intellectual property. This section was not noted in other contracts, but was crucial in avoiding what could have been a lengthy process.
  - *Periodic contract review* - Contracts between the sponsoring unit and the external organization should include specific term limits (e.g., every two to five years). The renewal should encompass a justification for the continued support, and be documented by appropriate authorities. The leased employee language should be reviewed to ensure that contract limitations such as job restrictions are still applicable. One unit had reassigned an employee to perform financial and accounting duties for a third organization. These activities were specifically prohibited in the contract.

When creating or updating contracts, consider the following:

- *Consideration for cost implications* - Two units reviewed used a Business Operations Recharge rate to recover the cost of the central support services provided by HR and Payroll. One external organization chose to cover a portion of the salary of an employee in the sponsoring unit. Other units had no type of recharge rate to cover their University support services. The cost of providing services to the external organizations must be considered and addressed appropriately in the contract.
- *Available HR benefits* - Leased employees may not be eligible for “reduction in force” (RIF) benefits, per contract. Some sponsoring units were unsure if this distinction had been shared with the employees themselves. Clarity in the contract and in communication with the leased employees is critical.
- *Use of other U-M services* - Contracts should clearly state which U-M services are accessible to external organizations and which are not, such as purchasing or information technology. Some support units could provide services to leased employees without realizing they are not eligible for those services. Cost factors and service level agreements should be considered in the contract accordingly.
- *Sub-contracted grant* - In some cases, grants are issued to the external organization and sub-contracted to the University to be performed by the leased employees. In these instances, sponsoring units should ensure the external organization has an adequate method of tracking and certifying effort. Other compliance matters may also need to be addressed in these circumstances, such as communication and coordination in the event of an audit by the granting organization.
- *Use of University space* - Sponsoring units that accommodate leased employees in University space should consider effective utilization and properly document the arrangement in the contract.
- *Sponsoring unit considerations* - The contract should include obligations of the sponsoring unit, so both they and the external organization have a clear understanding.
  - *Training* - Training or other processes specific to sponsoring units should apply to leased employees, as appropriate. For example, one unit requires annual confidentiality statements of all employees due to the sensitive materials physically stored in their area. A leased employee, who has access to the same

space, was not required to complete the confidentiality statement. (*Note: HR is able to ensure leased employees are included in any University-wide training, such as sexual harassment, since leased employees have a UMID and are included in the HR databases.*)

- *Communication* - The level of communication with leased employees varied, with some operating completely remotely and others being included in the department's regular e-mail distribution lists and/or staff meetings. Without some form of connection to University updates or notices, external organizations could be unintentionally excluded from new or updated University procedures. One external organization relied entirely on a specific sponsoring unit employee to forward any e-mails that were necessary to the external organization. The external organization was without information when that employee left the unit and the external organization was not notified of the employee's departure.
- *Internal Controls* - Internal controls should be discussed and considered. Sponsoring units should determine which internal controls, for example employment and timekeeping controls, may apply to their particular leased employee arrangement.

### **Next Steps**

At the conclusion of audit work, University Audits met with stakeholders from administrative units on campus involved with leased employees to discuss risks and observations noted in the audit report. The meeting included Human Resources, the Office of the General Counsel, the Division of Research and Development Administration, the Provost's Office, Internal Controls, and the Office of the Vice President for Research. The group was engaged in discussing the risks and agreed that coordinated attention across the University is necessary. Key points discussed at the meeting included:

- Adequately addressing these risks will require sufficient time to develop and implement corrective actions
- Other University projects or models that could reveal tips or lessons learned to assist in determining a leased employee identification method
- The possibility of initially creating a method to track leased employees going forward, at either the organization or the leased employee level, and later developing a methodology to retroactively identify similar groups
- Whether some current leased employee arrangements would be more appropriately restructured as sponsored activity.

The group agreed to reconvene and discuss short and long term strategies to address the risks associated with leased employee arrangements. Short term action items will likely include establishing common terminology and identification methods for leased employees. Human Resources agreed to work with employee data experts to explore the options for identifying leased employees, and the Office of the Vice President for Research will begin discussions on the applicability of regulatory requirements for leased employees. In addition, the Office of Internal Controls will include this topic, at a high level, during annual unit certification meetings, raising awareness among the University community about these arrangements. Long term strategies will continue to be discussed and evaluated in future meetings. University Audits will provide detailed information gathered during the audit as needed to aid in ongoing efforts.

University Audits will reconvene with the meeting attendees to discuss progress of short term corrective actions and long term plans during a follow-up review in the third quarter of fiscal year 2012.

The goal of payroll processing at the University of Michigan is to ensure that employees are paid timely and accurately. The first step in the payroll process is entry of employee time data in the Time and Labor module of the M-Pathways Human Resources Management System (HRMS). The Time and Labor module is the HRMS component where employee time and labor data, such as hours worked and leave time, are recorded and tracked. It is highly integrated with the Payroll module of HRMS, which is used by the University's Payroll Office to manage the payroll process. Every payroll cycle, employee attendance and timekeeping data flows from the Time and Labor module into the Payroll module for processing. The Payroll Office oversees payroll and time and labor processes for the University. The related IT systems are supported by the HRMS division of Information and Technology Services (ITS).

There are several methods for entering and approving employees' time at the University:

- **Timekeeper approach** - The timekeeper approach has been the traditional timekeeping method at the University. According to this process, employees report time on hardcopy time reports. The time reports are routed to the employee's supervisor for approval and signature. Once signed by the supervisor, a departmental timekeeper enters the time data in the Time and Labor module in M-Pathways.
- **Self-service approach** - The timekeeping in self-service approach was introduced in 2008. Employees enter time directly into the Time and Labor module in M-Pathways. Supervisors approve employee time in this system. The time data is not processed for payroll until approved. Timekeeping via self-service is available for the Ann Arbor, Dearborn, and Flint campuses and for the U-M Hospital and Health Centers.
- **Time clocks, web clocks, and punch time devices** - Some time clocks, web clocks, and punch time devices are integrated with the Time and Labor system. Once staff members record their time in these devices, the reported time data is automatically imported in the Time and Labor module. Supervisors approve time directly in the Time and Labor module in M-Pathways. Time clocks and punch time devices are primarily used in units with a large number of student employees dispersed over multiple locations (e.g., Housing, Recreational Sports, and Athletics).
- **Departmental systems** - A few units use their own timekeeping systems. The systems are not part of M-Pathways and are specific to each department. Time data is entered by staff members and approved by their supervisors in these systems. Each departmental system is interfaced to the M-Pathways Time and Labor module; every payroll cycle the system produces an interface file that is uploaded in M-Pathways Time and Labor module. The interface process is set up with assistance from ITS. Examples of units that use their own timekeeping systems include Plant Operations and the Institute for Social Research.

The purpose of this audit was to assess the adequacy of the time reporting process via self-service. To accomplish this objective, University Audits:

- Assessed the process for assigning and managing security roles related to time reporting in self-service
- Evaluated controls that ensure time in self-service is approved by appropriate individuals
- Assessed training and education procedures for time reporting via self-service
- Reviewed the escalation process for missing or unapproved time in self-service

The scope of the review included time entry and approval via self-service. Timekeeping processes via time clocks and interface systems were generally considered outside the scope of the audit. However, supervisory approval processes in self-service, whether time was reported directly in self-service, via time clocks, or through an interface system, were considered within the scope of the review.

## TIME REPORTING VIA SELF-SERVICE REVIEW

### Process Roll-Out

Electronic timekeeping will soon replace the hardcopy approach for all campus employees. The Payroll Office manages and coordinates the process for migrating University units from the timekeeper approach to the self-service approach. The goal is to move all campus units from hardcopy timesheets to timekeeping in self-service by the end of calendar year 2011. Units that utilize their own interface systems, time clocks, or punch time devices will continue to use these same timekeeping methods. The table below summarizes the main differences between the hardcopy time reports approach and self-service approach related to basic steps in the timekeeping and payroll process.

Process Step	Timekeeper Approach (Hardcopy Time Reports)	Time Reporting via Self-Service
<i>Maintaining Static Groups<sup>3</sup></i>	A departmental timekeeper maintains these M-Pathways pages as needed to meet departmental time entry needs.	A departmental timekeeper maintains static groups to meet approvers' needs.
<i>Completing Timesheet</i>	Employee completes hardcopy time report.	Employee completes online timesheet.
<i>Approving Timesheet</i>	Employee's supervisor approves reported time by signing the hardcopy time report.	Employee's supervisor approves the timesheet online.
<i>Submitting Time Data</i>	Timekeeper enters time report data into M-Pathways.	Step no longer needed because time is already entered and approved.
<i>Verifying Payroll Transactions</i>	An individual other than the timekeeper reviews the Gross Pay Registers for accuracy of appointments and time data.	Gross Pay Registers are reviewed for accuracy of appointments. A departmental timekeeper reviews payable time for reasonableness.
<i>Making Prior Period Adjustments</i>	A departmental timekeeper enters prior period adjustments as necessary.	Employees, timekeepers, or approvers may make prior period adjustments as necessary. If time is adjusted after approval, it must be reapproved in the system.

As of May 2011, approximately 69 percent of campus employees, excluding the health system, report time in self-service and the remaining 31 percent report time through hardcopy time reports. These figures do not include approximately 3,400 campus and plant employees that report time via departmental interface systems. The majority of the health system employees report time on hardcopy timesheets, time clocks, or interface systems, and only 10 percent report time in self-service.

### Training and Education

As usually is the case with large-scale system implementation at the University, there is a learning curve with this process. Training is key to a successful and smooth transition as a large number of individuals

<sup>3</sup> Static Groups are lists used in M-Pathways that give units the flexibility to arrange employees in their department in groups in the Time and Labor system. For example, departments can create static groups based on approver, pay frequency, etc.

throughout campus need guidance on how to use the system. University Audits observed the Payroll Office has developed robust training and education resources for time reporting via self-service. Specifically:

- The Payroll Office works with designated department coordinators to assist them with the timekeeping and payroll processes and prepare them for any changes as a result of migrating to self-service. Department coordinators manage the implementation efforts at the department level.
- The Payroll Office holds in-person training sessions with each department. These sessions familiarize employees and approvers with policies and procedures for time reporting via self-service.
- An optional online training course is available for approvers through MyLINC.
- Departmental timekeepers play an important role in training employees and approvers because they have the system knowledge and experience. In the timekeeper approach, time is entered in the system through many of the same navigation paths and interfaces that employees would use to report and approve time via self-service.
- Numerous materials, step-by-step procedures and instructions, and system simulations are available on MyLINC or the Payroll Office's website.
- The employee online timesheet has a help link that connects to training and educational resources.
- The Standard Practice Guide Section 518.01, *Payroll Controls*, was revised in 2010 to include key policies, procedures, and internal controls related to timekeeping in self-service.

#### **Other Significant Controls**

There are other significant controls built in the self-service process including:

- Employees, including those who have approver access, cannot approve their own time
- Audit tables in M-Pathways capture employee and supervisor electronic signatures and date stamps
- Similar to the hardcopy process, missing or unapproved time is reported to department managers via automatic biweekly emails. The Payroll Office increases escalation efforts for missing or unapproved time that is six months or older

#### **FUTURE CONSIDERATIONS**

##### **Security Roles**

There are two main security roles related to timekeeping in self-service: the time approver role and the timekeeper role. The approver role allows access to approve employees' time in M-Pathways. The timekeeper role performs tasks that assist the department with timekeeping processes, such as maintaining static groups and entering prior period adjustments. Security roles in self-service raise the following concerns:

- The approver role in M-Pathways is not restricted at the department or unit level. An individual with an approver security role may be able to enter and approve time data for anyone at the University. This security role setup is not specific to timekeeping in self-service; it applies to all University financial and human resource systems. M-Pathways is purposely set up to allow universal access and not to restrict access at the unit level.
- The timekeeper security role allows access to the employee online timesheet page. Timekeepers are able to see and update the time report of any University employee, including employees that participate in self-service time entry. M-Pathways' security does not allow restricting timekeepers' access to the employee time report page at a unit or department level. Although they are not 'approving' time, this allows timekeepers to update and 'submit' time for self-service employees directly in the Time and Labor module.

Both these items increase the risk that employee time may be inappropriately approved by an individual who does not have direct knowledge of the hours reported. Implementation of workflow by restricting access at the unit or department level would improve internal controls built into the time reporting process in self-service. Management has indicated that restricting access roles at a unit level is currently not a viable solution for the University. Such a project would need to be implemented across all financial and human resource modules in M-Pathways and would require a significant amount of resources.

Currently, compensating controls that ensure employee time reported via self-service is approved by an appropriate supervisor are placed at the unit level. Electronic signatures of employees and approvers and date stamps of their actions in self-service are stored in audit tables in M-Pathways. Payroll and ITS have developed a number of public queries based on these tables. Approvers or their designees can use these queries to monitor the accuracy and completeness of time data. While Payroll assists units on how to design appropriate processes and controls, the responsibility for executing controls as designed is placed with the departments.

Time reporting via self-service is the approach by which time and attendance data is entered by the employee and approved by the supervisor directly in the Time and Labor module in M-Pathways. This process will soon replace timekeeping via hardcopy time reports across all campus units and departments, excluding the U-M Hospital and Health Centers. The goal of this project is to stop the paper flow of hardcopy time reports, reduce duplicate data entry, and provide for better audit trails in M-Pathways. Lack of workflow in the system is not a shortcoming of timekeeping in self-service process design, but rather a limitation stemming from the setup of the financial and human resource management system at the University. The Payroll Office has done a good job working with units to train and educate new system users and assist with changes in policies and procedures as a result of the new process. Through training and education, the Payroll Office should continue to remind departments of their responsibility to design robust business processes and maintain a strong system of internal controls, including monitoring and oversight controls over the accuracy and validity of payroll transactions. **This audit is closed.**

University of Michigan-Dearborn Office of the Provost  
Report issued June 30, 2011

#2011- 210

University Audits completed an audit of the UM-Dearborn Provost Office. As the chief academic officer for the campus, UM-Dearborn Provost is responsible for academic programs, teaching and research, resource development, and faculty governance. The Provost's Office works to enhance students' educational experience, manage faculty and staff personnel matters, and monitor budgeting and operations. Four colleges and schools, along with several academic units, report to the Provost.

The Provost Office has experienced management changes over the last several years, including the hiring of a new Provost in 2009. In support of the new Provost's vision, organizational restructuring efforts have taken place, including additions to staff and a newly appointed Assistant Provost with a focus on strategic and resource planning.

In fiscal year 2008, University Audits conducted an audit of the UM-Dearborn Provost Office that focused primarily on business operations in the central office and Fairlane Center. The issues identified in that audit were subsequently addressed, and the control environment within the Provost Office remains strong.

The purpose of this audit was to evaluate controls in the Office of the Provost as part of a normal transition review. To accomplish this objective, we reviewed central processes to determine if the policies, procedures, and internal control structure continue to support the mission of the Office of the Provost and comply with University guidelines. Based on risk analysis, the review focused on the following key operational and administrative activities:

- Fiscal responsibilities
- Documentation of policies and procedures
- Conflict of interest/ conflict of commitment
- UM-D Collections and Exhibitions
- Fairlane Center operations

The Fairlane Center and UM-Dearborn Collections and Exhibitions were also reviewed during this audit as non-academic units reporting to the Provost's Office. The Fairlane Center is adjacent to the UM-Dearborn campus and houses the School of Education and College of Business. The facility is used to host many campus events and is also rented to external organizations, making it the only unit reporting to the Provost that accrues revenue on a regular basis. UM-Dearborn Collections and Exhibitions was selected for review and analysis based on the risk identified with the maintenance and deaccession of art.

### **Risk and Control Discussion**

#### **Central Provost Office**

- **Segregation of Duties** - The designated reconciler of the Gross Pay Register (GPR) collects and submits time data in the payroll system for employees. The reconciler has the ability to create or alter information on timesheets. The GPR reconciliation is not reviewed by a higher administrative authority.

**Management Plan** - Management will revise and codify the process to include a regular GPR reconciliation review by a higher administrative authority to ensure the accuracy and completeness of payroll records.

- **Timekeeping** - The Provost's staff maintains and inputs timesheets for all Provost Office employees and some units that report to the Provost's Office. During testing, it was found that some timesheets lack the signature of a supervisor.

**Management Plan** - Timesheets will be signed by the appropriate supervisor, and the timekeeper will review compliance before system time entry. The Provost Office is scheduled to implement self-service timekeeping within the next six to twelve months and will adjust processes accordingly.

#### **Fairlane Center**

- **Timekeeping** - Employees have delivered their own approved hardcopy timesheets to the Office of the Provost, which provides the opportunity to manipulate the data.

**Management Plan** - The Special Events Assistant will receive and disseminate timesheets to employees for time reporting. The Special Events Manager will approve timesheets and submit timesheets via mail or fax. The Special Events Manager will verify the accuracy of the timesheets to the GPR. Self-service time entry will be implemented within the next six to twelve months, which will eliminate the need to deliver paper timesheets.

- Deposits - Depending on the staffing for the day, the employee that prepares the deposit and delivers the funds to the Cashier's Office may also be responsible for verifying the cash receipt ticket to the deposit slip. This could result in manipulation of funds going undetected.

**Management Plan** - The Special Events Assistant or Student Assistant will deposit checks. The Special Events Manager will verify the cash receipt ticket to the deposit slip.

- Purchasing - There is no formal process for the Provost Office to verify or monitor the physical existence of Fairlane Center purchases. Audit testing revealed three Purchase Orders for computer equipment that did not include supporting documentation; there were no invoices or receipts. Email communication about authorization and guidance for the purchases was provided but were not attached to the SOA.

**Management Plan** - The Special Events Manager will track computers and other valuable equipment and perform periodic physical inventory checks. The Fairlane Center will provide adequate support documentation for purchases, including items/services completed through Concur.

#### **UM-Dearborn Collections and Exhibitions**

Historically, UM-Dearborn accumulated fine art with a goal of building a campus art museum. The original vision for this project has changed. Instead of building a museum, the current Provost is establishing the UM-Dearborn Collections and Exhibitions. The permanent collection will consist of studio art glass and works by Michigan artists. The vision statement for the UM-Dearborn Collections and Exhibitions details a plan for hosting carefully selected exhibitions each year, creation of a website, and expansion of partnerships with art galleries and organizations. The permanent collection is currently valued at over \$4.5 million. Most of the art, which showcases an extensive art glass collection, is located in the Alfred Berkowitz Gallery, within the UM-Dearborn Mardigian Library. The remainder of the collection is securely displayed in locations around campus.

An impressive collection of art has been accumulated over the years but there has not been a formal process for adequately managing and tracking the collection. A process is currently being identified and implemented through collaboration with the U-M Museum of Art and benchmarking with similar organizations. Only art that meets the current vision statement will be added to the permanent collection. The current collection is being sorted and evaluated for deaccessioning or installation in select, secure public places around campus. University Audits observed the following areas of concern:

- Cataloguing and Inventorying - Art is not always catalogued and managed effectively. For example, roughly 400 boxes of donated art were stored off-campus for over a decade due to lack of storage space. This art was initially catalogued manually, but was only recently transported to campus to be formally catalogued, identified, and insured. As a result, some art is not identified and insured.

**Management Plan** - The Curator of Collections and Exhibitions will transition from an aging Access database to a customized collections software (e.g., Past Perfect) to track and catalogue all pieces of the collections. The process of sorting and de-accessioning will be used to ensure that all existing pieces are included in the new database. This will begin no later than September

1, 2011. Updates to the database will be sent to insurers in December 2011 and again in March 2012 or sooner if cataloguing is complete.

- Maintenance - Almost all art for the project is stored on the third floor of the Mardigian Library. The art placed around campus appears to be safe and secure. The library location is locked and secured but the quality and condition of some of the art has been compromised due to lack of storage space. Some art is disorganized and difficult to locate. Existing art is not reconciled to inventory records.

**Management Plan** - During academic year 2011-2012, the Curator of Collections and Exhibitions will significantly reduce the number of pieces in the collection, which will improve the quality and order of the storage area in the existing gallery space. The strategy to place more art on campus will help make the current storage space adequate for the collection, although implementation of this strategy will extend over more than one academic year.

- Donor Intent/Gift-in-Kind Form - Donor intent and gift-in-kind transmittal forms are not consistently used. Art is considered a gift-in-kind that is deductible by the donor. The Office of Gift Administration and Development Legal Services recommend completion of transmittal forms for any gift-in-kind. Donor intent forms should be completed for every gift so that the wishes of the donor can be established and referenced.

**Management Plan** - The Curator of Collections and Exhibitions will ensure completion of a gift-in-kind transmittal form for each art donation and a donor intent form for each donor. The Curator will follow the gifts-in-kind guidelines prepared by the Office of Gift Administration and Development Legal Services. Document the process of receiving art and use of the gift-in-kind transmittal form.

### Policies and Procedures

- The Office of the Provost, Fairlane Center, and UM-Dearborn Collections and Exhibitions could benefit from more thoroughly documented procedures for critical processes. Documenting procedures can help solidify or improve current processes as well as improve efficiency and knowledge of staff. It is important to have documented procedures to ensure effective continuity and transfer of critical information.

For UM-Dearborn Collections and Exhibitions, consider communication with U-M Museum of Art (UMMA) or other experts to gain a better understanding of best practices. Develop and document procedures for key operational processes and activities including:

- Office of the Provost:
  - Reconciliation procedures
  - Purchasing roles and responsibilities
  - Clear procedures for Concur and self-service time entry
- Fairlane Center:
  - Timekeeping
  - Depositing
- Collections and Exhibitions:
  - Cataloguing and inventorying of art
  - Insuring of art
  - Tracking and tagging of art
  - Completing gift-in-kind transmittal and donor intent form
  - Implementing proper storage and maintenance best practices

- Documenting collection and disposal of art/inventory

**Management Plan** - The Senior Executive Secretary will coordinate the development of the policies and procedures identified above. The policies and procedures will be researched using leading practices and will be refined:

- Office of the Provost
- Fairlane Center
- Collections and Exhibitions

Effective monitoring of activities at the Fairlane Center will assist informed decision making. Continuing to define and implement the vision for the UM-Dearborn Collections and Exhibitions is key to minimizing risks and ensuring effective stewardship. These continued efforts will augment overall operational efficiency in support of the Provost's strategic goals. University Audits will evaluate the status of planned process improvements in the third quarter of fiscal year 2012.

Financial Considerations for International Activity  
Report issued June 30, 2011

#2011-101

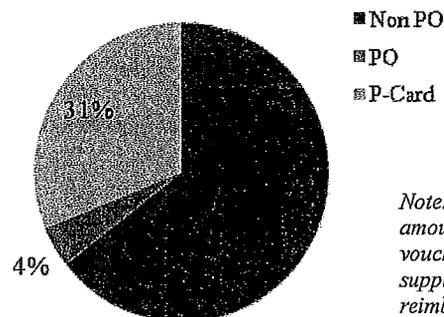
The University of Michigan is committed to seeking reciprocal, mutually productive engagements with nations and institutions around the world to enhance education, advance knowledge, and promote understanding. The President of the University has launched three initiatives to strengthen U-M's international engagement: Enriching the Student Global Experience, the Africa Initiative, and the China Initiative. The University has several institutes and centers with an international focus, such as the African Studies Center, the Center for Japanese Studies, and the International Institute. All 19 of the University's schools and colleges offer international programs of varying levels and have faculty and staff traveling abroad for collaboration, educational, and research efforts.

International activity, including related financial issues, has been the most common concern raised by all levels of management during University Audits' annual risk assessment process in recent years. This concern is magnified as global engagement efforts and activities of University schools, colleges, and departments continue to increase. The following charts demonstrate the University's volume of and increasing trend in international expenses.



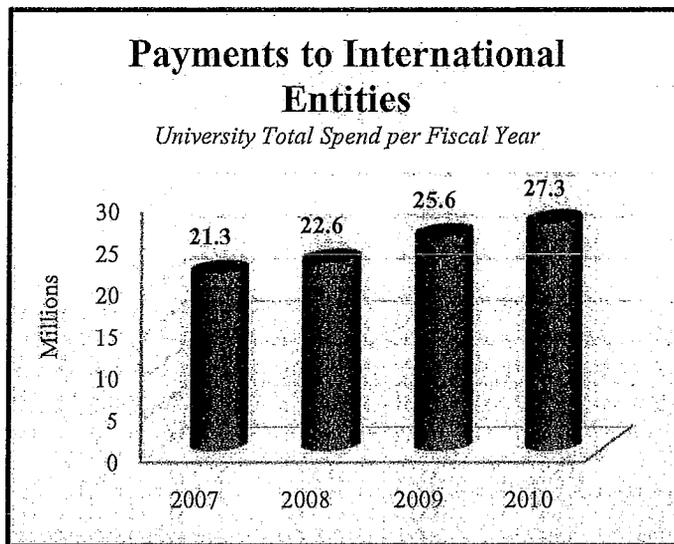
### Foreign Travel Expenses

*FY2011 Procurement Method Used*



*Note: Non PO amount includes vouchers to suppliers and reimbursements to employees.*

*Note: The charts above only represent expenses that were coded to one of the foreign travel accounts.*



*Note: This chart does not include P-Card purchases.*

In fiscal year 2010, University Audits completed an audit focused on procedures to prepare for students' health and safety during international travel. The audit identified several opportunities to coordinate efforts and activities related to student safety preparedness. The Council on Global Engagement is a University-wide group focusing on streamlining processes and procedures related to study abroad programs. The group incorporated audit recommendations, as they initiated:

- The establishment of working groups from units across the University, which helped raise unit-level concerns to leadership
- Updates to the international travel policy that will require all faculty, students, and staff traveling for University business or with any level of University sponsorship to register their travel centrally and obtain the appropriate health insurance

This audit is the second phase of University Audits' plan to continuously assess risks and conduct audits with an international focus.

In planning for this audit, University Audits met with personnel from the Office of the President, Provost's Office (including the Vice Provost for International Affairs), Office of Financial Aid, Office of the Vice President for Research, Office of University Development, and Procurement Services to better understand the numerous ways in which financial activity is conducted internationally. Many of the risks discussed during these meetings are difficult to include in an audit test or analysis, but should be considered as opportunities to establish University policy and procedure. Some of these risks, not directly assessed in the audit, include:

- Inequities for students based on access to and awareness of various funding opportunities for international activities
- Negative impact on the University's international reputation when faculty, staff, or students representing the University do not have an adequate understanding of a country's financial infrastructure and other cultural affects before conducting business with the country
- Faculty and staff may enter into financial agreements on behalf of the University with individuals and institutions in other countries without having full knowledge of the implications of the agreement

Audit procedures included interviews with various personnel across central administrative units including Procurement Services, Payroll Office, Treasurer’s Office, Financial Operations, and Sponsored Programs to gain an understanding of key processes and standard procedures, and perform detailed testing of the following areas:

- Lump sum and cash advances for international travel or expenses
- Payments to international vendors
- University owned international bank accounts

To evaluate procedures at the departmental level, University Audits selected a sample of representative units that conduct research internationally and units that offer study abroad programs. Units were selected from the Ann Arbor, UM-Flint, and UM-Dearborn campuses. Departmental reviews involved discussions with staff to understand processes such as methods used to pay international expenses, level of coordination with central University units (including the Office of Financial Aid for awarding scholarship funds) and procedures for managing currency exchange. Sample documentation was also reviewed to perform additional analysis of these processes and confirm consistency with University guidelines. Detailed observations were shared with each individual unit and, as applicable, incorporated into this report at a high level.

**High-Level Risk and Control Discussion**

- Coordination of Effort and Documented Policies and Procedures - There are numerous offices across the University with expertise in various aspects of conducting business globally, and several websites with useful resources, but nothing that connects the various components and no central decision-making authority for developing policies and procedures and sharing best practices.

Many international finance processes require assistance across the University’s central administrative offices, for example:

Process Area	Central Offices Involved
Payments to International Vendors	Procurement Services, Payroll Office, Treasurer’s Office, Tax Department
Lump Sum/Cash Advances	Financial Operations, Sponsored Programs, Procurement Services
International Bank Accounts	Treasurer’s Office, Financial Operations, Procurement Services
Scholarships/Awards to Students	Office of Financial Aid, Financial Operations, Payroll Office

Individual units across campus make payments to international vendors on a regular basis. Faculty and staff from all of the schools and colleges obtain cash advances and lump sum advances to travel internationally for conferences, study abroad, training, and research purposes. Some schools have more advanced international resources and offices, while others have faculty that may occasionally take a handful of students abroad for research or educational purposes. Currently, it is unclear where to look or who to contact for the best guidance related to finances of an international transaction or process. Also, there is a general lack of documented policy and procedures for processes dealing with financial aspects of international activity, for example:

- Procedures for establishing international bank accounts, including criteria for opening an account considering risks and the specific business need, and expectations of the department responsible for monitoring activity on the account
- Procedures for withholding tax from payments to international vendors
- Procedures for approving, reconciling, and monitoring lump sum and cash advances

Without clearly documented procedures, personnel at varying levels within central units may not be aware of all relevant procedures, subject matter experts, or authority. Bringing all of the available expertise and resources together would significantly improve efficiency and knowledge University-wide.

- Currency Exchange - An exchange rate is the current market price for which one currency can be exchanged for another. There are many things to consider when working with exchange rates. Procedures for managing exchange rates were discussed and reviewed throughout the audit. The University does not have central guidance or requirements related to exchange rates, and the following concerns were identified during the audit:
  - Lack of supporting documentation for the conversion rates used when reconciling cash and lump sum advances
  - Inaccurate rates used when reconciling advances
  - No procedure or guidance for units that have a significant loss or gain from fluctuating rates
  - Exchange rate changes from the time an invoice is created to when it is actually paid
  - Using the same rate to reconcile advances when the actual rate for individual transactions, per receipts was different
  - Conversion rates used inappropriately when reconciling expense documentation (e.g., subtracting the rate instead of multiplying to get the US dollar amount)
  - Exchange rates that are significantly less favorable than available rates per online resources, due to the rushed need for exchanging funds or inability to “shop” for the best rates
  - Varying methods used for converting rates when reconciling expenses:
    - Average rate for the duration of the trip
    - Actual daily rate for individual transactions
    - Rate obtained when funds were exchanged
    - Using rate automatically populated in Concur, whether it was the rate obtained or not
    - Overriding the Concur rate to input the actual rate obtained

The University’s central financial units should evaluate the impact that exchange rates can have on various business operations as a whole and establish guidelines and best practices. Best practice guidance could include procedures for when it is best to exchange currency, sources that usually provide the best rate, examples of countries that have high fluctuation, and methods for considering exchange rates when planning and budgeting.

- Cash Purchases - A recurring theme expressed during various interviews for this audit centered on the difficulty in dealing with financial infrastructures in other countries as they vary significantly from the United States and also among each other. In addition, many international purchases can only be made with cash. Some countries do not accept credit cards and others only accept specific types of credit cards.

The University has several means for making a purchase with cash:

- Cash advance obtained through Concur
- ATM withdrawal using a P-Card
- Lump sum advances processed through Financial Operations
- Imprest cash funds used to fund international bank accounts
- Paying for expenses out of pocket and obtaining reimbursement via Concur

Based on the review, it seems unnecessary and inefficient to maintain all of these processes. Central administrative units that approve and monitor cash transactions offer varied opinions as to which methods for obtaining cash are the best for University business. The processes to approve advances do not include evaluation of whether cash is the best option to address the departmental need. University Audits testing revealed:

- Significant amount of current outstanding lump sum advances are past due
- The majority of lump sum advances were not reconciled timely
- Inadequate documentation to support expenses for lump sum and cash advances
- Unclear business purpose for lump sum advances
- U-M Standard Practice Guide (SPG) section 501.08, *Lump Sum Advance Policy and Procedures* is outdated

Individual units also expressed concern about the safety of faculty and staff carrying large sums of cash when they travel internationally, but were not aware of any other way to meet their financial needs. This is another opportunity for collaboration and sharing of other procurement methods that could be used, such as direct wire transfers, P-Card purchases, or working with Treasury to open a University-owned international bank account, if deemed appropriate.

A committee of central administrative units should evaluate current methods for obtaining cash to pay international expenses for opportunities to streamline the processes. Procedures for approving, reconciling, and monitoring cash transactions should be formally documented and made available to University units. Specific items to consider when approving requests should be outlined. An escalation process should be developed and indicate consequences for noncompliance, including steps to recoup un-reconciled funds from employees via payroll deduction.

- International Bank Accounts - The University currently has six bank accounts in other countries. The Treasurer's Office authority and responsibility to establish bank accounts, international and domestic, in the University's name is clearly stated in both SPG Section 519.01, *Banking and Treasury Services* and *Regent Bylaw 3.01*. The Treasurer's Office does not have any additional documented procedures or guidelines on how to establish, monitor, or report taxes for international bank accounts.

University Audits confirmed that the individual University departments responsible for monitoring transactions in and out of the six international accounts have adequate procedures. One department opened a money market account without working with the Treasurer's Office. While this account is restricted to transactions with the University-owned account and was opened for the sole purpose of earning interest, the unit has not been tracking the interest income earned thus far.

A central resource for international activity could provide information about proper procedures for international bank accounts so that individual units do not open their own accounts. Consider international bank accounts as another option for managing international transactions, especially for those that require cash. The Treasurer's Office should investigate options to ensure the University is getting the best possible interest rates for funds maintained in international accounts and best practices for tracking the interest income should be established and shared. Documented procedures should also include expectations for the departments that are responsible for monitoring transactions in and out of the accounts.

### **Overall Recommendation**

Increasing internationalization is critical to the University's mission. As global engagements increase, the impact and likelihood of associated risks also increase, which make it equally important to identify and manage these risks. University Audits recommends formulating a committee of representatives from the University's central administrative units, academic departments, and other units with international expertise to thoroughly consider all financial risks associated with international activity. To ensure comprehensive representation on the committee, consider other units to include such as the Office of the Vice President for Research and the Office of Financial Aid. The committee should evaluate existing processes and determine the most appropriate next steps for addressing the specific risks presented in this report, existing risks not included in this report, and any others that may arise.

A website providing guidance on policies and procedures for managing financial matters related to international activity would significantly improve collaboration and sharing of best business practices and lessons learned. Consider staffing and web resources, and link to current and planned international resources, including the Global Portal, Travel Registry, and MCompass.

### **Next Steps**

The Associate Vice President for Finance will lead efforts to form a committee that will consider the financial risks associated with the University's international engagements, including the risks detailed in this report and others that may not have been specifically raised. The committee will include representatives from Financial Operations, Procurement Services, Treasurer's Office, Tax Department, Office of the Provost, and any others as deemed necessary. The committee will determine the best next steps and formulate plans for connecting international components and resources across the University, developing policy, and documenting procedures to enhance University-wide preparedness for increasing international business operations.

### **Summary**

The University's increasing engagements with countries around the world present unique financial challenges. Units across all campuses are continuously looking for ways to strengthen and improve international connections that enhance departmental goals as well as the University's overall mission. Due to the increasing trend in the University's international activity, it is important that the University formulate plans to address and manage the associated risks in the near term. Individuals with expertise and vested interest in the University's global operations should collaborate to discuss these risks and determine the most appropriate next steps to manage them. A central website that connects international components related to financial matters would significantly improve efficiency and effectiveness of the University as a whole and improve sharing of best practices and lessons learned. There may also be opportunities for providing training sessions that cover international operations, policy, and procedures. University Audits will follow-up during the third quarter of fiscal year 2012.

Intercollegiate Athletics NCAA Compliance Review  
Report issued June 30, 2011

#2011-401

As a member of the NCAA, the University of Michigan is required to comply with NCAA rules and regulations. At U-M, the Compliance Services Office (CSO) is tasked with primary responsibility to oversee conformity with these guidelines. University Audits completes an NCAA Compliance Review on an annual basis to provide assurance to the Athletics Office that CSO processes are effective. The review process for varsity sports ensures each sport is included at least once over a five year cycle, with higher profile sports receiving more frequent reviews. Booster clubs are rotated once every five years. The current year's targeted sports and booster clubs are noted below.

Targeted Sports	Booster Clubs
<ul style="list-style-type: none"> <li>• Football</li> <li>• Men's Basketball</li> <li>• Ice Hockey</li> <li>• Baseball</li> <li>• Softball</li> <li>• Women's Soccer</li> </ul>	<ul style="list-style-type: none"> <li>• U-M Club of Northville</li> <li>• U-M Club of Toledo</li> <li>• Bob Ufer Quarterback Club</li> </ul>

University Audits' procedures for assessing CSO oversight processes are documented below. Unless specifically noted otherwise, procedures were performed only for the targeted sports and for the 2010/2011 academic year.

Overall, University Audits observed no NCAA violations that were not already appropriately identified by the CSO's regular monitoring processes.

#### **Rules Education**

- Reviewed documentation from past rules education meetings to ensure key topics such as financial aid, recruiting, and eligibility were included.
- Confirmed that rules education programs exist for coaches, non-coaching Athletics employees, non-Athletics staff members (e.g., Registrar's Office, Financial Aid), and boosters.

#### **Playing and Practice Seasons**

- Confirmed Countable Athletically Related Activities forms (CARA forms) were completed accurately and submitted on time to the CSO. For football, the entire 2010/2011 season was reviewed. Four weeks of the playing season and four weeks of the off season were reviewed for the men's basketball 2010/2011 season. For all other targeted sports one playing season week and one off-season week were reviewed.
- Reviewed process used to monitor compliance with self-imposed restrictions on CARA time for the football team.
- Verified compliance with restrictions on start and (if applicable) length of playing seasons.

#### **Coaching Staff Limits**

- The coaching staff lists for each targeted sport were used to confirm compliance with NCAA coaching limits. Job descriptions for a sample of employees were used to verify coach responsibilities.

#### **Financial Aid**

- For the entire student-athlete population, used an automated data analysis program to compare financial aid amounts in M-Pathways to the data reported to the NCAA. This process confirmed that the amount of aid per student-athlete in M-Pathways did not exceed the amount of aid reported to the NCAA.
  - *The CSO office will begin using this same process to complete financial aid reviews during the fall and winter semesters going forward, replacing the current manual process. The CSO will work with University Audits to update the script to account for different rules related to spring and summer semesters or continue the manual process in those terms only.*
- For the targeted sports, verified NCAA financial aid team limits.

#### **Eligibility**

- Initial Eligibility - For a sample of incoming student-athletes, confirmed each student-athlete:

- Had initial eligibility reports or other documentation from the NCAA Eligibility Center
- Certification of initial eligibility was completed prior to the student-athlete's initial competition
- Was enrolled in a full-time program leading to a degree
- Continuing Eligibility - For a sample of continuing student-athletes, confirmed each student-athlete:
  - Was enrolled in a full-time program leading to a degree
  - Was within the NCAA prescribed number of seasons of eligibility
  - Met specific NCAA and Big Ten progress toward degree and minimum grade point average requirements
- Transfer Eligibility - For a sample of incoming transfer student-athletes, confirmed each student-athlete:
  - Met the one-year residency requirement or qualified for a waiver
  - Had a copy of the release from previous institutions on file
  - Met eligibility determinations for practice and competition
- Periodic Eligibility - Reviewed the process for the CSO to evaluate student-athlete eligibility during the academic year and prior to competitions.

### **Recruiting**

- On-Campus - Reviewed prospects who made an official visit to the University and confirmed:
  - The visit took place after the first day of classes of the prospect's senior year
  - The file contained academic documentation and test scores or NCAA Eligibility Center verifications
  - The visit lasted no more than 48 hours
  - Lodging, meals, and entertainment were compliant with NCAA regulations
  - Official Visit and Code of Conduct forms were accurately completed
- Off-Campus - Reviewed contacts and evaluation logs for prospects identified during on-campus official visit testing. Confirmed that the contacts and evaluations for the prospect did not exceed NCAA limits and occurred during allowable periods.
- Phone Calls and Texts to Prospects - Reviewed potential discrepancies for reasonable explanations or, if necessary, violations documented and reported to the NCAA.

The CSO has an automated process whereby 100% of phone calls and text messages to recruits are captured and analyzed. This process flags possible discrepancies for further review by the CSO, in conjunction with coaching staff. Through this review process, the CSO effectively identified some violations where recruits received phone calls or text messages that exceeded NCAA limits. These violations were reported to the NCAA. Based on information gathered by the CSO, the violations do not appear to represent either willful violations of NCAA rules or concerted efforts to provide Michigan athletics with a recruiting advantage. University Audits determined the review process is thorough and found no additional violations.

### **Camps and Clinics**

The Athletic Director is reassessing oversight of external camps and clinics. In May 2011, a new Camp Administrator was hired. The job duties and responsibilities of this role are being established. Due to this transition, no camp reviews were performed this year. University Audits did meet with the new Camp Administrator and representatives of the Athletics Business Office to discuss plans for the Camp Administrator's oversight role and to prepare for future camp review processes.

### **Boosters**

- Reviewed each booster club's Statements of Disclosure and financial records for fiscal year 2010. Determined if an adequate system to track financial activity existed and figures on the Statement of Disclosure were accurately reported to Athletics. Each booster club received a memorandum relevant to any suggested process improvements in their area; no compliance issues were observed.

### **Complimentary Tickets**

- For one football, men's basketball, and ice hockey regular season game, confirmed:
  - Recipients of complimentary admissions (student-athlete guests, prospects, or non-UM coaches) were clearly authorized on the PassList.com or PlayerGuest.com systems
  - NCAA limits on number of tickets were observed
  - Complete supporting documentation was available
- For one postseason game for all targeted sports, confirmed complimentary tickets for student-athlete guests met the same restrictions as noted above.

University Audits also obtained general information on processes used by the CSO and other relevant offices to oversee:

- Investigations and Self-Reporting of Rules Violations
- Academic Performance Programs

No testing was performed in these areas; rather, interviews were conducted to assess, at a high-level, the overall adequacy of the procedures.

University Audits' analysis of documentation, written procedures, and process reviews determined that the CSO has adequate controls for monitoring compliance with NCAA guidelines in the areas of rules education, playing and practice seasons, coaching staff limits, financial aid, eligibility, recruiting, boosters, and complimentary tickets. The CSO has confirmed their intent to improve their operational procedures, including replacing manual processes with more efficient automated procedures, and has maintained operations during a period of significant change within the CSO itself and Athletics as a whole. University Audits, the CSO, and the Athletics Business Office will meet in the second quarter of fiscal year 2012 to plan for the 2012 NCAA audit.

### **Information Technology**

Information and Technology Services eResearch Proposal Management  
Report issued June 27, 2011

#2010-306

The eResearch system supports research administration activities at the University of Michigan. This system is built on an application framework that was purchased by the University and is specifically targeted at research-related business processes. eResearch is comprised of three modules, all of which are continuously growing and improving. Regulatory Management, introduced in 2005, supports the oversight of research activity subject to government regulation, primarily research involving human subjects. Proposal Management, added in 2009, supports the review and submission of sponsored activity to project sponsors. A third module covering Animal Management, launched in April 2011, supports oversight and management of research involving animal subjects.

University Audits has completed a review of eResearch Proposal Management. This audit focused on the Proposal Management module's design and operation, as well as certain aspects of general eResearch development and data management. A previous examination of eResearch Regulatory Management by

University Audits in 2007 concentrated on overall system design, IT infrastructure, and other software development controls. This review builds on that audit.

Governance of eResearch was restructured in 2010. An eResearch Executive Leadership Team now provides high-level guidance and oversight for the entire eResearch effort. This Executive Leadership Team includes representation from the Office of the Vice President for Research (OVPR), Financial Operations, and Information and Technology Services (ITS). Teams representing management and users from both central offices and academic units have been formed for each eResearch module. ITS continues to develop, maintain, and administer all eResearch modules.

### **eResearch Proposal Management**

eResearch Proposal Management (eRPM) facilitates the routing and approval of proposals within U-M and the submission of proposals to external sponsors including Grants.gov<sup>4</sup>. It also supports award notification and supplies data for management reporting by the Division of Research Development and Administration (DRDA) and OVPR through the U-M Data Warehouse.

eRPM benefits the University by:

- Automating manual, paper-intensive research administration processes
- Eliminating redundant data entry
- Providing on-demand status tracking and quicker communication between research collaborators and central offices
- Standardizing the pre-award submission process
- Efficiently complying with federal requirements to submit proposals through Grants.gov
- Enhancing the data and reporting on U-M's total research activities

Screens in eRPM can link to information entered in the Regulatory Management module. Ongoing development efforts will establish more connections with Regulatory Management information, Animal Management data, training systems, and compliance processes.

This review sought to determine whether eResearch and the Proposal Management module are designed and managed to mitigate significant risks to administrative data, ensure continued system operation, and support regulatory compliance efforts. University Audits accomplished this by:

- Reviewing constraints on and oversight of vendors' remote access to eResearch
- Verifying adherence to least privilege regarding system administrator access
- Evaluating how robustly the completion of compliance reviews is validated
- Determining whether management reports are developed and maintained with assurance of accuracy and integrity
- Reviewing classification of eResearch data and controls over sensitive data
- Examining the management of the centrally controlled 'Interested Parties' access role
- Determining whether changes to eResearch are reasonably prioritized and adequately tested
- Reviewing how eResearch governance structures ensure that reporting needs are considered and appropriately prioritized, so ITS or DRDA can correctly deploy their development resources

### **Risk and Control Discussion**

Sensitive data must be identified to apply security controls effectively and judiciously. A formal data classification effort for eResearch has only been performed for the data sets extracted to the Data Warehouse.

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<sup>4</sup> Grants.gov is a federally managed website used by organizations and individuals to find and apply for over 900 grant programs from the 26 federal grant-making agencies.

Faculty and staff responsible for University-wide compliance and oversight of research activity are granted a special access role named 'Interested Parties.' This role has read-only access to most of the information stored in eResearch for each project. Requests for 'Interested Parties' access are appropriately documented and approved in a ticketing system. The list of individuals with 'Interested Parties' access is reviewed annually and unnecessary access is revoked.

ITS Research Administration Systems follows an iterative development process, releasing regular product updates. This strategy entails an ongoing cycle of fixing and testing. Bugfixes and enhancements are tested by multiple ITS staff. Documenting bugs and development work in a systematic way allows management to identify related defects and follow up with the vendor. Testing practices and documentation overall are sound.

Thorough testing is most critical before implementing significant changes in custom application systems like eResearch. The test plan for the next major release of eRPM is progressing toward completion, and the testing steps, which are planned and written, correspond appropriately to the system specs.

Strong customer demand for reports based on Proposal Management data has resulted in a backlog. Requests for reports are queued by priority and built as resources allow. Allocating additional resources for report development would benefit the U-M research community.

Regulatory compliance is a significant risk in research. Compliance oversight is complex, involving numerous specialized committees. Compliance activity often generates documents such as approval letters from review boards and oversight committees. Some original compliance documents such as conflict of interest management plans are reviewed by DRDA during the PAF (Proposal Approval Form) approval or award process. These documents are intended to be attached to the project in eRPM to facilitate DRDA's review and any compliance audits by internal or external entities. ITS plans to integrate more compliance functions into eResearch to streamline the compliance processes and improve access to documentation.

- Contractual Restrictions on Vendor Access - A limited number of vendor employees have highly privileged access to production eResearch modules, including Proposal Management, to ensure timely and effective support. ITS expressed a valid business reason for the vendor to have this access. The vendor can use this access at any time without supervision. With this level of autonomy, control of vendor access is limited. U-M is forced to rely on the Master Agreement for software and support services (contract) to specify the vendor's responsible use of privileged access and safeguarding of confidential or sensitive data, U-M's right to monitor those activities, and remedies for potential violations of these rights and responsibilities.

The confidentiality risk associated with Proposal Management data is relatively low because much of this data is public knowledge. However, this contract also governs the eResearch Regulatory Management and Animal Management systems, which contain both sensitive and confidential data.

The contract with this vendor does not explicitly address vendor access to U-M production systems, or vendor protection of confidential U-M data. Contracts have matured significantly in the areas of security and confidentiality since this contract was written. This can be witnessed in contracts for other major U-M systems such as the Donor and Alumni Relations Tool (DART).

**Management Plan** - ITS Research Administration Systems will seek an amendment to the vendor contract to address provisions for safeguarding production systems and sensitive or private/confidential University data.

- **'Site Manager' Access** - 'Site Manager' is the privileged access role assigned to application support personnel. It is used for system configuration, management of special role security (like 'Interested Parties'), and vendor support. Significant changes to system functionality can be made with this access.

University Audits reviewed the list of users with 'Site Manager' privileges in the production Proposal Management system. Access is generally based on business need or job requirement. Some individuals appearing on this list have a questionable need for production 'Site Manager' access to Proposal Management. Two other listed individuals no longer work in ITS Research Administration Systems.

**Management Plan** - ITS Research Administration Systems has deleted access from any person whose current job duties do not require this degree of access to Proposal Management, and has established formal policy stating:

- All requests for Site Managers should be approved by one of the eResearch Management Team.
- When a staff person leaves ITS or moves into a role where Site Manager access is no longer needed, the current access for the development, test and production stores should be removed.
- An annual review of all current Site Managers will be conducted at the start of the academic year.

*Auditor's Comment: University Audits reviewed an updated access list and confirmed the inappropriate individuals have been removed. Based on this action and the process changes, this item is closed.*

eResearch Proposal Management has simplified the proposal approval process and increased the efficiency of review. The design and management of the system and its data are professional and effective. Data is appropriately classified, based on review of the eResearch data sets in the Data Warehouse and on management's characterization of the limited additional data that may be in the production Proposal Management system. Management of 'Interested Parties' access is particularly well controlled. Based on tests verifying the results of the access review process, 'Interested Parties' access is appropriately managed. Planning and execution of system changes balances continuous incremental improvement with an appropriate degree of caution. Evidence of testing is apparent in the change tickets reviewed. Governance structures incorporate all stakeholders, and are successfully guiding the overall eResearch system through significant expansion and enhancement. Further constraints on privileged system access will bolster security.

eResearch has not undergone a thorough risk assessment as part of ITS security planning. Risk assessment through an accepted framework such as RECON is necessary to ensure that appropriate security measures have been identified. Because they share infrastructure, all eResearch modules should be assessed together to most efficiently render a complete picture.

A formal follow-up to the outstanding issue will be conducted in the second quarter of fiscal year 2012.

Health Care

UMHS Professional and Hospital Customer Service Charity Care Policy  
Report issued June 21, 2011

#2011-107

The University of Michigan Health System (UMHS) is committed to serving patients who cannot obtain necessary medical care in the community because of their inability to pay. UMHS established a Charity Policy in 1985 to offer charity care to Michigan residents who do not have insurance and who have an inability to pay for health care in accordance with U.S. Federal Poverty Guidelines. "M-Support" is the name of the UMHS charity care program.

The current UMHS policy is under revision as a result of recently enacted Patient Protection and Affordable Care Act (PPACA). This federal statute was signed into United States law on March 23, 2010. PPACA and the Health Care and Education Reconciliation Act of 2010 (signed into law on March 30, 2010) are part of current federal health care reform. The laws focus on changes to the private health insurance market, coverage for individuals with pre-existing conditions, Medicare prescription drug coverage, and extending the life of the Medicare Trust fund by at least 12 years<sup>5</sup>.

PPACA establishes specific statutory requirements that hospitals must meet to qualify as tax exempt organizations described in Section 501(c)(3) of the Internal Revenue Code. These requirements are included in the new Section 501(r) of the Internal Revenue Code. Failure to meet requirements could result in an excise tax of \$50,000 and/or trigger an IRS review and potential revocation of our tax exempt status.

The UMHS is updating *UMHS Policy 01-03-003, Professional and Hospital Customer Service Charity Care Policy and Procedure* and the *UMHHC Bad Debt Policy* to comply with health care reform. Management has taken this opportunity to make some elective changes to the policy. The updated policies should be in place by July 31, 2011. Below are two tables highlighting the policy changes.

<b>Charity Care Policy Revisions</b>			
<b>Topic/Area</b>	<b>Current Policy</b>	<b>Proposed Policy</b>	<b>Comments/Rationale</b>
Income threshold	55% discount provided to qualifying patients at 350% of the federal poverty level.	55% discount provided to qualifying patients at 400% of the federal poverty level.	Consistent with PPACA top income level for eligibility to receive federal insurance subsidy.
College/university students	Not eligible unless enrolled at a college that does not provide student insurance	Not eligible	The exception was not adding value to our patient population while adding unnecessary complexity to policy administration.
Asset test	Medicaid limits apply, generally \$2,000 asset limit	Limit raised to \$10,000 and applies to liquid assets only	The \$2,000 limit was deemed to be out dated. Including tangible non-liquid assets was difficult to administer

<sup>5</sup> <http://www.whitehouse.gov/healthreform/myths-and-facts#healthcare-menu>

Insured patient exceptions	n/a	Patients eligible for COBRA <sup>6</sup> are expected to purchase COBRA; exception if COBRA policy cost exceeds 25% of income	Current policy was silent on COBRA situations
Prescriptions	n/a	Added coverage of up to 30 days of prescription drugs from U-M pharmacies.	Considered a necessary enhancement and will improve patient compliance.
Non-UMHS services	n/a	Clarify that non-UMHS services are not covered, note that joint ventures follow the host hospital policies.	Clarification only. It should be noted that under the expedited discharge practices UMHS may cover post-acute care costs at sub-acute facilities, but this is a separate policy.
Retroactive coverage	Balances under 90 days old will be waived	All prior balances outstanding will be waived	Patients who qualify for charity generally cannot afford to pay outstanding balances.

Charity Care Proposed New Policy	
Topic/Area	Proposed Policy
Changes to conform to PPACA requirements	<ul style="list-style-type: none"> <li>Additional statement that UMHS complies with EMTALA<sup>7</sup> requirements to treat patients in Emergency Department without regard to financial status.</li> <li>New provision asserting that the discount complies with PPACA test that charity care net of discounts not be in excess of hospital's best insurance contracts.</li> <li>Strengthen policy and practices to widely publicize charity care availability for qualifying patients.</li> <li>Additional reference to the separate billing/collection policy, which outlines the process for collection agency and credit agency reporting. Also asserts that UMHS will not undertake extraordinary collection efforts without screening patient for charity care.</li> </ul>

University Audits reviewed the *UMHS Policy 01-03-003, Professional and Hospital Customer Service Charity Care Policy and Procedure* and the *UMHHC Bad Debt Policy*. University Audits consulted with the Office of General Counsel to obtain an understanding of the PPACA requirements affecting charity care, and met with management to understand how the UMHS is currently complying. Listed below are key accomplishments towards health care reform charity care compliance:

Health Care Reform Policy and UMHS Practice Discussion

- **Establish a written financial assistance policy that includes eligibility criteria for financial assistance, and states whether such assistance includes free or discounted care**  
The UMHS Charity Care policy already includes verbiage describing top household income levels for eligibility to receive a charity care subsidy. Other criteria must also be met for the

<sup>6</sup>The Consolidated Omnibus Budget Reconciliation Act (COBRA) became law in 1986. It gives employees the right to keep health insurance they have through their employer after a job loss or other qualifying event

<sup>7</sup>Emergency Medical Treatment and Labor Act (EMTALA) is a federal law that requires anyone coming to an emergency department to be stabilized and treated regardless of their insurance status or ability to pay

patient to be approved for a Charity Care adjustment, and these conditions are also listed in the current policy. **No changes are needed to meet PPACA requirements.**

- **Establish a written financial assistance policy that includes the method for applying for financial assistance**

The UMHS Charity Care policy already includes verbiage describing the application process and deadlines the patient must meet. The current policy also details financial support documents the patient needs to provide. **No changes are needed to meet PPACA requirements.**

- **Establish a written financial assistance policy that includes the basis for calculating amounts charged to patients**

PPACA requires that amounts charged to patients are limited to not more than the amounts generally billed to individuals who have insurance covering such care. The Act prohibits billing patients gross charges. UMHS Finance has determined that reducing gross charges by applying a discount rate to a level that is lower than the average of the three lowest negotiated commercial rates meets this requirement. Senior management has represented that there is sufficient documentation to support the methodology. UMHS Finance will continue to monitor this adjustment threshold for continued compliance. The Charity Care policy will be updated to include the discount percentage information.

- **Establish a written financial assistance policy that outlines actions the organization will take in the event of nonpayment, including collections action and reporting to credit agencies.**

PPACA prohibits extraordinary billing and collection activities until after reasonable efforts have been made to determine whether a patient is eligible for financial assistance. UMHS has a separate billing and collection policy titled *Bad Debt Policy* that describe the actions taken in the event of nonpayment, including collection actions and reporting to credit agencies. Current collection practices comply with the PPACA requirements. Language will be added to the policy stating that UMHS will not take extraordinary collection actions against an individual prior to making reasonable efforts to determine whether the individual is eligible for assistance under the Charity Care Policy.

- **Establish a written financial assistance policy that includes measures to widely publicize the policy within the community UMHS serves**

Currently, UMHS makes individual efforts at time of service to ensure that patients without insurance are aware of available financial assistance programs. This is done through written materials and access to financial counselors. Management is still pursuing ways to expand overall visibility of these programs by including making materials available throughout the UMHS patient care sites that inform patients of the financial assistance program and how patients may request financial assistance. Dissemination of new materials will begin in the summer of 2011.

- **Establish a written policy requiring the organization to provide care without discrimination**

PPACA requires that UMHS provide care for emergency medical conditions to individuals regardless of their eligibility under the financial assistance policy. UMHS is strongly committed to providing emergency care without discrimination. The Charity Care policy will be updated to include verbiage that UMHS provides care for emergency medical conditions without discrimination to individuals regardless of their Charity Care eligibility status.

- **Conduct Community Health Needs Assessment**

PPACA also includes a section about assessing the health needs of the community served by UMHS. The community health needs assessment requirements are effective as of July 1, 2012.

UMHS must conduct a community health needs assessment every three years and adopt a strategic plan to meet the needs identified. The assessment must take into account input from public health experts and other individuals who represent the broad interests of the community in the area served by UMHS.

In 1994, UMHS joined a coalition with other community based organizations and the Washtenaw County Public Health Department to create the Washtenaw County Health Improvement Plan (HIP). Every five years, a telephone survey of 1,000 households provides data on individuals' health related conditions, behaviors, and beliefs that affect quality of life. The coalition identifies priority areas and encourages health organizations to focus energy on these areas. The University of Michigan Health System co-funds the assessment process, provides leadership on the HIP Coordinating Council, and has many representatives working to address the HIP findings. A new reporting cycle began in fiscal year 2010 and the coalition is on track to evaluate progress from previous years and identify priorities for the next five years.

This five year assessment will be the continuing basis for the PPACA required community health needs assessment. Since PPACA requires assessments on a three year cycle, senior management plans to perform a quality improvement evaluation of the services UMHS provided to address community needs between HIP assessments.

Certain aspects of PPACA related to charity care were effective as of July 1, 2010. The current UMHS charity care policies and practices already substantially comply with PPACA. Management is working steadily towards refining policy and practice to ensure full compliance by July 31, 2011. University Audits will conduct a follow-up review in the third quarter of fiscal year 2012 to assess full implementation of charity care reform within the Health System.

University of Michigan Comprehensive Cancer Center  
Report issued June 24, 2011

#2011-203

The University of Michigan Comprehensive Cancer Center (Cancer Center) was established in 1986. Its mission is the conquest of cancer through innovation and collaboration. The Cancer Center is one of forty U.S. centers to earn the National Cancer Institute's (NCI) "Comprehensive" designation by meeting strict guidelines for:

- Extensive, interactive, and innovative clinical and laboratory research
- Participation in NCI testing of new therapies
- Significant cancer prevention and control research
- Provision of patient education, community service, and outreach as well as training for health professionals

The Cancer Center is also a founding member of the National Comprehensive Cancer Care Network, a consortium of twenty-one cancer centers developing national guidelines to ensure consistent, high-quality, and cost-effective cancer care.

The Cancer Center provides:

- Clinical Care -The clinics bring together teams of experts needed to develop complete, comprehensive diagnosis and treatment plans for patients. The Cancer Center is the only place in the Midwest, and one of only a handful of cancer centers in the country, to provide fourteen different multidisciplinary cancer clinics.
- Community Outreach and Patient/Family Support Services - These services develop and coordinate information, programming, and special events aimed at promoting cancer awareness among patients and their families, health professionals, and the community, with particular emphasis on underserved populations. Additionally, support services offered by the Cancer Center assist patients and their families in managing the cancer diagnosis, controlling symptoms, and treating side effects.
- Research Programs - 353 University of Michigan faculty maintain membership in the Cancer Center representing 36 departments across nine UM schools. The members are required to have an active practice in the clinical care of cancer patients and/or collaborate in basic, clinical, or population research. The Cancer Center currently ranks first in the nation among academic Medical Centers in grant funding received from NCI. Its researchers received over \$157 million in grants each year from the National Institutes of Health and other agencies in 2010. The Cancer Center's research portfolio consists of six basic science research programs, five clinical research programs, and two prevention and control research programs.

During fiscal year 2010, the Cancer Center’s clinical activity continued its sustained trajectory of growth as follows:

- 83,649 outpatient visits
- 44,715 infusion treatments
- 1,632 courses of radiation treatment
- 4,352 radiation consults provided at University Hospital and seven off-campus locations
- 3,894 cancer patients admitted to University Hospital

The scope of the audit was to evaluate the effectiveness of internal controls within the large and diverse business operations of the Cancer Center. The scope did not include clinical and research department activities separately managed by Medical School departments affiliated with the Cancer Center. University Audits evaluated the following areas noted below.

Areas Reviewed	Purpose
Grant Management	Assess: <ul style="list-style-type: none"> <li>• The adequacy of business operation controls to ensure compliance with federal and/or sponsored programs policies</li> <li>• The effectiveness of controls and practices surrounding effort reporting, including tracking, certification, and appointment management</li> <li>• Whether clinical trials business processes adhere to University policies</li> </ul> The review focused on the large NCI Cancer Center Core and SPORE (specialized program of research excellence) grants.
Development Processes	<ul style="list-style-type: none"> <li>• Confirm the adequacy of controls to ensure compliance with cash management and gift and endowment policies, including donor intent</li> </ul>
Recharge Activity	<ul style="list-style-type: none"> <li>• Evaluate procedures for ensuring that all direct, eligible costs, including high-cost, specialty equipment depreciation, and service expenses are identified and noted in recharge rates.</li> </ul>

	<ul style="list-style-type: none"> <li>• Determine if service unit billing procedures completely and accurately capture and record revenue.</li> </ul>
	Review focused in particular on cores managed by the Cancer Center.
Business Operations	<ul style="list-style-type: none"> <li>• Verify that purchases are authorized, appropriate, and made at lowest possible cost for value</li> <li>• Assess whether controls are sufficient to ensure travel and hosting transactions adhere to University guidelines</li> </ul>

Audit procedures included interviews with Cancer Center personnel and analysis and testing on a sample basis of grant documentation, effort reporting, clinical trials, gifts, and procurement transactions.

Controls over business processes were generally strong and conformed to University standards in most areas reviewed, including effort certification, clinical trial processes, gift and endowment handling, recharge rate development, and procurement activities. A few opportunities for improvement are described in the Risk and Control Discussion section below.

### **Risk and Control Discussion**

- Travel and Hosting Expenses - Based on the review of a sample of travel and hosting transactions, University Audits found that, in general, Cancer Center travel and hosting was well managed and appropriate. Several opportunities for improvement were noted in the Health Communications Core:
  - A manager's Concur expense reports were approved by a subordinate
  - Meal per diems were not always reduced when meals were provided at conferences
  - Non-reimbursable expenses were charged to the University
  - A ground transportation charge was paid twice
  - The business purpose of the expenses was not always clearly noted

Attendee lists were not always included as supporting documentation for Cancer Center hosted events, which is required by University policy. Attendee lists assist management in monitoring expenses and verifying that University hosting guidelines are met.

**Management Plan** - Health Communications staff will refresh their Concur training and will review the procurement related Standard Practice Guide Sections and specifically SPG 507.10-1, Travel and Business Hosting Expense Policies and Procedures for Concur Users. All overpayments identified during the audit will be repaid by the respective employees. Cancer Center management will remind staff that attendee lists are required for hosted events.

- Recharge Activity - The Cancer Center has several shared core service units providing specialized testing or regulatory services for University research investigators. These service units are supported by recharging other University units for services. University Audits reviewed the following core service units: Immunologic Monitoring, Tissue Microarray, and the Clinical Trials Office (CTO) and identified the following:
  - CTO is charging \$7,400 for a study initiation fee instead of the approved rate of \$6,400.
  - The Tissue Microarray core service unit has not been charging University units for testing services since October 2009, but is actively providing services to other units. The Office of Financial Analysis approved recharge rates for the unit in April 2010. The unit is currently in a \$9,000 deficit position because no recharge revenue has been billed

for the past 18 months. Cancer Center management and the Office of Financial Analysis were not aware of the unit director's decision to stop recharge billing.

**Management Plan** - The approved study rates will be charged to study clients going forward. CTO management is working with the Office of Financial Analysis to correct prior overcharges and develop new rates that reflect the current costs of the studies. Management will follow-up on the status of the Tissue Microarray core service unit and resolve the deficit and whether it needs to continue as a recharge unit.

- **Financial Review** - Cancer Center financial activities are reviewed on a timely basis by management and include reviews of key indicators, trend, and budget variances. Statements of Activities (SOA) reconciliations are timely and well-documented. University Audits noted that duties of the reconcilers of the Gastro-Intestinal (GI) SPORE grants and the Health Communications Core grants include procurement activity. Unauthorized purchases may go undetected.

To ensure sufficient oversight and segregation of duties, procurement and reconciliation duties should be segregated. If the duties cannot be segregated management or other knowledgeable staff should review the SOA reconciliations.

**Management Plan** - Cancer Center management will ensure SOA reconciliation duties are sufficiently segregated.

- **Donor Access Databases** - The Cancer Center Development Office has strong gift processing controls that are appropriately segregated and ensure that donor intent is followed. The staff uses Access databases to monitor and track donor activity. Gifts are categorized by memorials, honorarium, events, and other donations and contain sensitive donor information such as names and addresses. The databases are not password protected and are on a shared network drive that is accessible by all Cancer Center Development Office staff. This could lead to unauthorized access to donor personal information or corruption of the databases.

**Management Plan** - Management is working with MSIS to develop the appropriate security solution for the donor Access databases.

The Cancer Center management is committed to a strong internal control environment. The findings noted above were isolated to certain areas and were not representative of what was otherwise a well-managed operation across diverse units. To improve control consistency, consider periodically meeting with unit administrators to review internal controls, reinforce staff training, and share best practices. University Audits will conduct a follow-up review in the second quarter of fiscal year 2012.

University of Michigan Health System Clinical Research Billing  
Report issued June 30, 2011

#2011- 501

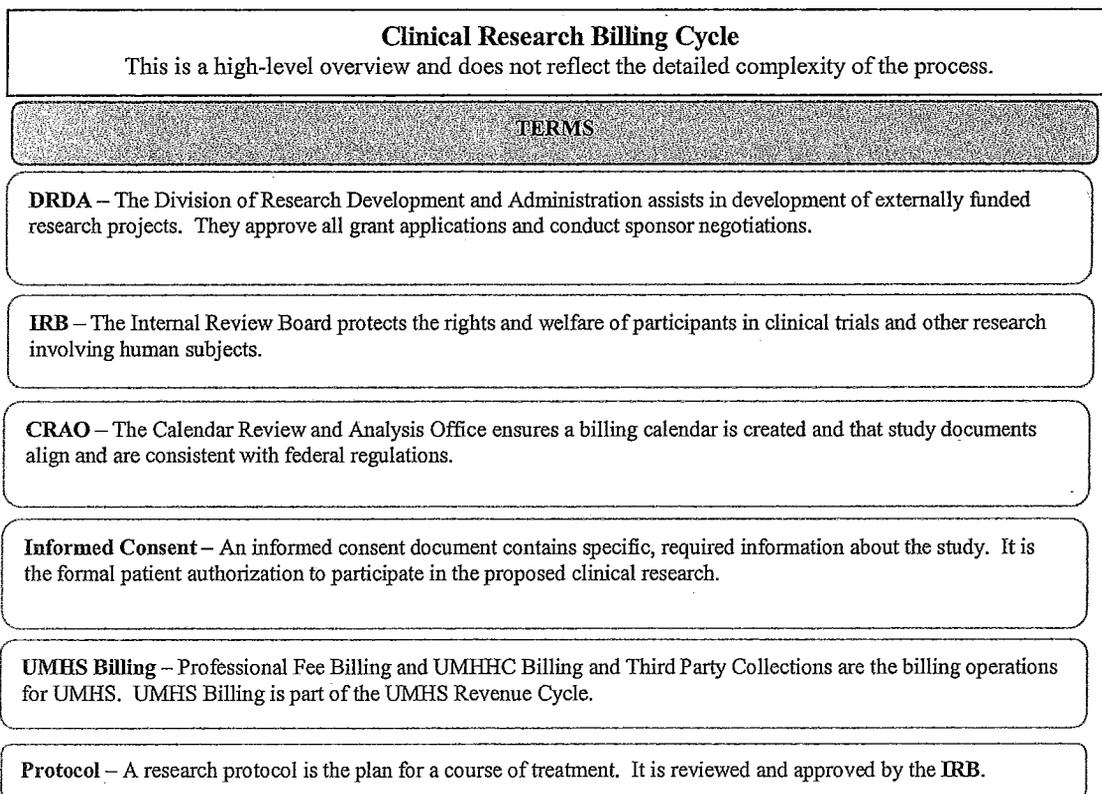
University Audits performed a process review and control assessment of clinical research billing in the fall of 2009<sup>8</sup>. That audit identified significant risks and inefficiencies due to a lack of a fully integrated process. As a result of that audit, significant process development activities are well underway. UMHS management has reached milestones in several areas. This report is an update on the current status of clinical research billing at the University of Michigan Health System (UMHS).

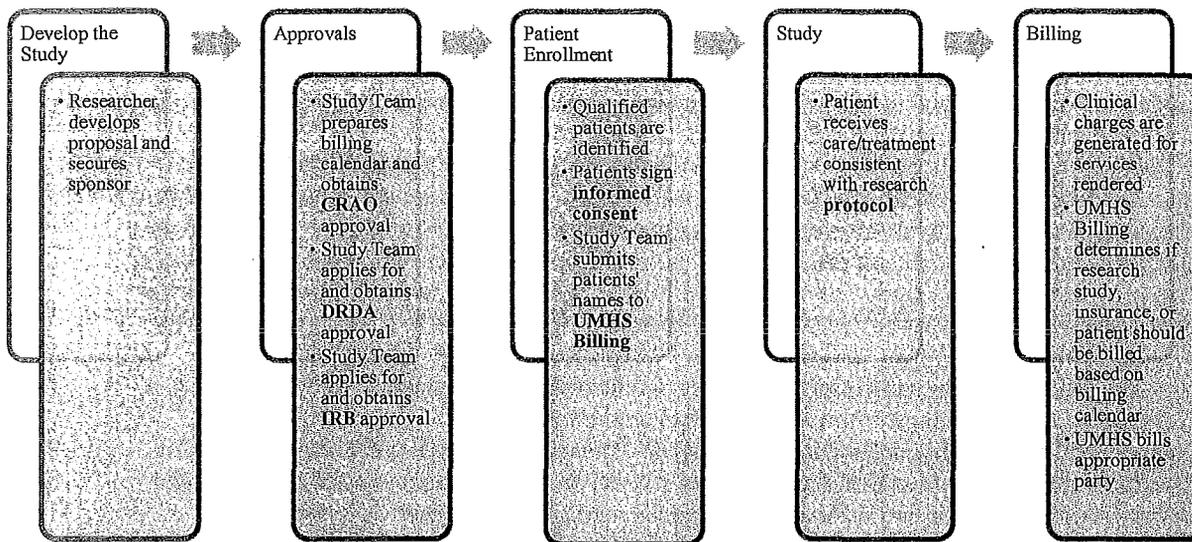
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<sup>8</sup> See Audit Report #2009-402 *UMHS Clinical Research Billing* dated September 30, 2009.

UMHS is a major clinical research site that supports numerous clinical trials. Health insurance, federal regulations, and the intricacy of health care billing add complexity to billing for patients enrolled in clinical research trials. For eligible beneficiaries, Medicare covers routine patient care costs of clinical trials, as well as reasonable and necessary services used to diagnose and treat complications arising from participation in trials. Routine patient care costs include all services that are otherwise generally available to Medicare beneficiaries. Medicare does not cover the procedure, device, or drug under investigation, nor does it pay for data collection and analysis. In general, UMHS follows Medicare clinical trial billing principles for other insurance carriers.

There are multiple units across the health system and University campus that contribute to the clinical research billing process. The process is sequential and each step is integral for compliant clinical research billing. Once the researcher develops the proposal, a complete and accurate billing calendar is the foundation for correctly billing charges. The information gathered through the calendar process is used by UMHS Billing to determine the appropriate payer. A high-level view of the clinical research billing cycle is presented below:





The billing calendar is a core compliance tool used to manage the clinical research billing process. The billing calendar process is managed by CRAO (Calendar Review and Analysis Office). This office assists research teams in understanding the purpose of and completion of billing calendars. CRAO ensures that all study documents (protocol, consent, budgets, contracts/grants, billing coding, etc.) align and do not conflict with federal or University research billing policies. CRAO also reviews and approves billing calendars. CRAO has made substantial progress in implementing an electronic billing calendar, which is the lynch pin in developing a fully integrated clinical research billing system. Significant milestones achieved by leadership, CRAO, and UMHS Revenue Cycle are listed below.

### Significant Milestones

- **Integrated Solutions** - An integrated electronic system called MBECT (Michigan Budget Enrollment Calendar Tool) was selected for clinical trial budgeting, billing calendar creation, and enrollment. MBECT was recently implemented across the University research community and is mandatory for most new research studies. This system is an important step to creating a fully integrated process. Further system integration is planned with the implementation of MiChart<sup>9</sup> over the next few years. The MBECT integration with MiChart should substantially reduce manual work-arounds that continue to exist in the billing process.
- **Leadership** - A process improvement steering committee, including clinical research faculty, research administrators, and billing administrators, was created to help create a streamlined, compliant research billing process. A director with extensive experience in the health care industry, including billing unit management and medical coding, began managing CRAO in September 2009. The Director reorganized the group and added customer focused, experienced personnel. A lean process improvement exercise was used to identify ways to reduce billing calendar wait and process time, leading to a more streamlined process.
- **Research Planning** - CRAO became an Ancillary Committee in March 2010, which means the billing calendar process is now part of the University's human subjects research proposal workflow and no research study involving billing for items or services can begin the study and enroll patients without CRAO's approval. This integrates clinical research billing with the grant approval and human subject approval process to ensure a compliant and efficient process.
- **Policies and Procedures** - CRAO drafted an authoritative, institutional, clinical research billing policy that applies to all clinical research that requires IRB submissions and approval and will

<sup>9</sup> MiChart is a multi-year, clinical information system implementation that will transform information flows within UMHS related to patient care, clinical research, and billing processes. The first phase implementation of MiChart, which includes billing, is scheduled for the spring of 2012.

generate charges through the UMHS billing system. The policy explains the purpose, process, roles, and responsibilities of the different parties, and states how the policy will be enforced.

- Communication and Education - CRAO created several educational programs for the research community and has given presentations at town hall meetings, new research faculty orientations, and other University forums in an effort to reach the entire research community. The programs address many aspects of the clinical research process from why billing calendars are important to how to submit enrollee information to UMHS Billing. CRAO redesigned their website to focus on researchers' needs, email help desks have been created, and specific hours are dedicated to helping researchers comply with the process. CRAO's concentration on education and communication has helped the research teams to understand why certain processes are in place, their role in the process, and how they can meet requirements.
- Improved Billing Calendar Backlog Management - Management represented that a significant backlog noted in the prior audit has been resolved. University Audits reviewed the most recent listing of research studies in process and noted the percentage of unapproved studies is low compared to the total volume of new research studies. This is a positive indicator that the backlog is controlled and processing times are substantially improved. Management estimates that it now takes fifteen days or fewer to approve a study. Due to current constraints in management reporting, University Audits was unable to examine system generated reports to confirm improved backlog management. See further discussion of Management Reporting in *Observations and Recommendations* below.

### **Observations and Recommendations**

UMHS Management has made a substantial effort and financial commitment to improving the clinical research billing environment. CRAO has significantly improved the billing calendar process. Due to the complexity and scope of the undertaking, it will be a work in process for several more years. As efforts are shifted out of the initial phase of developing a robust billing calendar process, additional focus is needed on integration of patient research study enrollment and billing office functionality.

- Management Reporting - CRAO has developed several reports for monitoring activity within the billing calendar creation process, but leadership does not receive regular, high-level monitoring reports of integrated metrics for the entire clinical research billing process. Currently, information necessary to provide robust management reporting cannot be easily obtained from the various clinical research systems. Without regular, informative reports, it is difficult for management to accurately measure progress and identify areas for further improvement. University Audits recommends that management, using lean principles, develop a phased management reporting plan that will provide essential management tools throughout the implementation of the integrated systems. An additional, dedicated resource should be considered to develop evolving reporting needs.
- Patient Enrollment and Charge Capture - At the time of the 2009 audit, an add-on to the UMHS billing system was in development to automate billing for research patients. The system was never fully developed because of the superseding decision to implement a new billing platform as part of the MiChart project. MiChart will change many current business and clinical processes and systems across the Health System. UMHS Billing is working closely with the developer to create a clinical research billing solution that will automate many tasks that are now performed manually.

Capturing patient enrollment on a timely basis within the billing system is critical to correctly billing research-related charges. Going forward, MBECT will be the single repository for providing information to the billing platforms for study patient enrollment. Effective June 2011,

the study team is entering patient enrollment information directly into MBECT for all new studies. Until MiChart is implemented, UMHS Billing will review the enrollee information entered into MBECT and then manually enter it into their billing systems to ensure that charges for research patients are appropriately billed. Since MBECT, by design, does not store information from studies approved prior to the mandated use of MBECT, UMHS Billing must continue to use multiple manual processes to identify research patients in the billing system. Over time, as the older studies conclude, the need for manual work-arounds will diminish or be eliminated.

Until MiChart is fully integrated with MBECT, there is a risk that not all research patients have been identified within the billing process. Studies that began before the mandated use of MBECT and that are still underway could be enrolling patients for several years to come and there will not be one source of enrollment information. As the process becomes more integrated and less manual, University Audits recommends management pay particular attention to this area, to ensure enrollment is adequately captured and reconciled to the source systems.

- Policies and Procedures - An authoritative UMHS policy is currently in draft that includes overall compliance requirements and incorporates an escalation process and sanctions. University Audits supports expeditious approval of the draft policy and distribution to the UMHS community.

**Management Plan** - Significant progress has been made with the overall Clinical Research Billing process in the past 18 months. Work is already underway regarding the few items mentioned for additional focus.

- Management Reporting - Several reports have been established within the CRAO, which are used to assess work volume, staff productivity, as well as aid in ensuring compliance with CRAO policy. For example, the CRAO Director receives a monthly report to show the number of exempt studies. The CRAO Coding Analysts conduct routine audits to determine the ability of the study teams to accurately exempt their studies from submitting a billing calendar and CRAO review. With this reporting functionality, an ongoing audit schedule has become an integrated component of CRAO's standard business practice. However, due to the lack of integration of IT teams (MCIT, MSIS and ITS) and competition with their respective priorities, obtaining timely and accurate reports for monitoring the Clinical Research Billing process is challenging. We will continue to work with all relevant groups to develop integrated reporting of performance metrics across the process to enable timely monitoring of the entire clinical research billing process.

eResearch is emerging as the institution's base IT platform for many research processes, including proposal management and regulatory management for both humans and animals. To that end, we strongly support University Audits' recommendation for additional institutional investment into resource tracking and reporting on performance metrics. Automated reporting functionality would benefit many units relying on the system today, including CRAO, the Institutional Review Boards, Ancillary Regulatory Committees, grants administration of schools and colleges, and the Division of Research Development and Administration. Reporting capability will be important components of implementing additional IT systems across the Clinical Research Billing process, especially with MBECT and MiChart.

The CRAO has decreased the review process time from 164 days to 14 days turn-around time. A recent report from eResearch, the IRB regulatory application that is supported by ITS, supports the decrease in the review time. It is important to note that since the implementation of MBECT, it is expected that turnaround times will be affected due to the learning curve for all users. This means there may be a slight upturn in turn-around time while the study teams learn the new MBECT system; however, turnaround times are expected to return to levels similar to pre-implementation of MBECT. The turnaround time is an area that management will closely monitor and will introduce interventions if needed.

- Patient Enrollment and Charge Capture - The enrollment process has evolved since the September 2009 initial University Audit. Oversight and management of the staff adjudicating the billing charges is the responsibility of the UMHS Revenue Cycle. The CRAO has been educating study team members on the process to submit enrollment since January 2010. The CRAO and UMHS Revenue Cycle are working in concert to improve the process.

With the implementation of MBECT, study team members will now submit patient enrollment within MBECT for all new studies. MBECT will become the central repository for enrollment data. For those existing studies that already have a CRAO-approved billing calendar (legacy studies or amendments to previously approved studies), enrollment will continue to be submitted via the enrollment spreadsheet process. Although there currently is not one centralized source of enrollment information and studies that began before the mandated use of MBECT that are still underway could be enrolling patients for several years, management believes that this risk is relatively low. The rationale for this determination is the majority of patients enrolled in legacy studies are on a maintenance phase and have no active billing issues. Patients on maintenance phase generally only require lab tests that are considered standard of care and are not discussed within the scientific protocol, therefore alleviating the risk of billing the incorrect source. Maintenance phases of studies usually follow patients specifically for status of survivorship and disease relapse. That said, the lack of a centralized source of enrollment is a priority of management and, therefore, is a focus of a planned interface between MBECT and MiChart at which time MBECT will be mandated as the single source for enrollment data. The CRAO will work with the UMHS Revenue Cycle leadership to develop reports to follow the quality and timeliness of enrollment reporting.

- Policies and Procedures - A clinical research billing policy is currently under review by the UMHS Compliance Committee, and it is management's expectation that the policy will be approved by July 30, 2011.

UMHS Senior Management, the Calendar Review and Analysis Office, and the UMHS Revenue Cycle have made significant progress in developing an effective and efficient billing process. The MBECT and MiChart implementations will be instrumental in completing a fully integrated system. Until systems are fully implemented and integrated, there is moderate risk due to manual and parallel processes, the number of systems involved, and system transformations. University Audits will continue to be involved in monitoring the clinical research billing transformation and plans to do a follow-up review as part of a MiChart audit in fiscal year 2013.

Michigan Health Corporation (MHC) is a separate corporation wholly owned by the University of Michigan and managed by the University of Michigan Health System (UMHS). MHC, a non-profit, non-stock membership corporation, was created to enable UMHS to enter into partnerships, acquisitions, joint ventures, and other business activities with outside entities. Currently, MHC has 20 external partnership relationships that include Henry Ford Health System, Trinity Health, and Beaumont Hospital. Consolidated net asset value of MHC at June 30, 2010 was \$16,459,587.

MHC is governed by a board that includes members from the Office of the Executive Vice President for Medical Affairs, University of Michigan Hospitals and Health Centers, the Office of the Executive Vice President and Chief Financial Officer, the Office of the Provost, and University of Michigan Medical School. As a matter of good governance and best practice, the MHC Board requested University Audits to perform an operational audit of the management and oversight control activities of the corporation.

**MHC’s Major Joint Ventures**

The joint ventures have diverse business operations, due to the nature of their individual activities. They generally can be classified into three types of operations:

- Clinical operations staffed by UMHS physicians at partner locations - Partners provide clinic staffing and manage day-to-day operations. UMHS processes all patient billing for these ventures (e.g., Radiation Oncology Ventures).
- Offsite clinical operations staffed by UMHS physicians and staff - The partner provides logistics and high-level management support. UMHS processes physician billing; the partner processes facility billing (e.g., Michigan Dialysis Services).
- Healthcare service networks and alliances to expand coverage and promote efficiencies - Clinical activities are managed directly by the participating member and the venture is administrative in nature (e.g., Eye Care Alliance, Joint Venture Hospital Laboratories, Physician Organization of Michigan, and Pennant Health Alliance).

Joint Venture (Incorporation Year)	Partners	Purpose	U-M Percent Ownership (6/30/10)	Operating Revenue (06/30/10)	Net Assets (6/30/10)
CMCHRO – Central Michigan Community Hospital Radiation Oncology (2005)	<ul style="list-style-type: none"> <li>• Central Michigan Community Hospital</li> </ul>	Radiation oncology clinical facility in Mt. Pleasant, MI, staffed by U-M physicians	16.44%	\$200,030	\$411,958
ECA – Eye Care Alliance (1997)	<ul style="list-style-type: none"> <li>• GRO Ventures</li> <li>• Henry Ford Health System</li> <li>• P-COR, d/b/a<sup>10</sup> Henry Ford OptimEyes</li> <li>• Michigan Eye Association</li> </ul>	Network of affiliated eye care organizations	20%	\$42,092	\$22,316

<sup>10</sup> d/b/a = doing business as

Joint Venture (Incorporation Year)	Partners	Purpose	U-M Percent Ownership (6/30/10)	Operating Revenue (06/30/10)	Net Assets (6/30/10)
JVHL – Joint Venture Hospital Laboratories <sup>11</sup> (1995)	<ul style="list-style-type: none"> <li>• Oakwood Healthcare Services</li> <li>• Trinity Health Services</li> <li>• Mt. Clemens Regional Medical Center</li> <li>• St. John Hospital and Medical Center</li> <li>• St. John Macomb Hospital Corporation</li> <li>• William Beaumont Hospital</li> </ul>	Network of clinical laboratory services provided to members of contracted third-party payors	12.5%	\$10,541,864	\$11,370
MDS – Michigan Dialysis Services (1998)	<ul style="list-style-type: none"> <li>• Renal Research Institute of Michigan-</li> </ul>	Dialysis services located in Ann Arbor and Livonia, MI (physicians and clinic staff are U-M employees)	51%	\$5,437,719	\$3,329,104
NEMCC – North Eastern Michigan Cancer Center (1998)	<ul style="list-style-type: none"> <li>• Alpena General Hospital</li> </ul>	Radiation oncology clinical facility located in Alpena, MI, staffed by U-M physicians	50%	\$1,273,769	\$1,265,957
PHA – Pennant Health Alliance (2010)	<ul style="list-style-type: none"> <li>• Metro Health Corporation</li> <li>• Trinity Health – Michigan</li> </ul>	Support services network designed to strengthen hospitals, physician practices, and other providers in Michigan	33.33%	not applicable (formed in FY 2011)	not applicable (formed in FY 2011)
PMHC – Providence Michigan Health Corporation Cancer Center (1998)	<ul style="list-style-type: none"> <li>• Providence Hospital and Medical Centers</li> </ul>	Radiation oncology clinical facilities located in Novi and Southfield, MI, and staffed by U-M physicians	50%	\$5,470,272	\$10,738,811
POM – Physician Organization of Michigan (2010)	<ul style="list-style-type: none"> <li>• Physicians' Organization of Western Michigan</li> </ul>	Support services network designed to strengthen independent physician practices in Michigan	80%	not applicable (formed in FY 2011)	not applicable (formed in FY 2011)
ROA – Radiation Oncology Alliance (1996)	<ul style="list-style-type: none"> <li>• Ingham Regional Medical Center</li> <li>• Michigan State University</li> </ul>	Radiation oncology clinical facility located in Lansing, MI, staffed by U-M physicians	33.33%	\$1,705,333	\$931,045
WMRO – West Michigan Radiation Oncology (2008)	<ul style="list-style-type: none"> <li>• Metropolitan Hospital</li> </ul>	Radiation oncology clinical facility located near Grand Rapids, MI, staffed by U-M physicians	50%	\$1,387,097	\$(88,987)

Each joint venture has a separate governing board consisting of two or more members from each partner organization. MHC administrative office personnel monitor venture activities; review, analyze and investigate financial trends with venture staff; perform MHC, UMHS, and University accounting functions; maintain corporate records; submit corporate filings as agreed to with certain ventures; provide governance support; function as a resource to venture, partner, UMHS, and University staff; and provide administrative support as necessary. On a day-to-day basis, MHC staff interact with representatives from joint venture member organizations to facilitate the success of the ventures and

<sup>11</sup> JVHL is a financial pass-through, with all profits distributed out to the partners. As such, there are minimal net assets retained.

meet the MHC, UMHS, and University missions. Six of the ventures are clinical operations that are staffed and/or overseen by University of Michigan physicians.

The objective of this audit was to assess key financial and operational controls over the following processes:

- Local board operations and oversight
- Financial monitoring
- Equity investment accounting
- Patient billing
- UMHS incurred costs allocated to ventures

Audit procedures included interviewing MHC and University of Michigan management and staff, reviewing MHC and joint venture board minutes, and performing focused testing on some of the larger clinical ventures. No contact was made with joint venture partner staff. The following table describes additional audit analysis performed:

Items Reviewed	Purpose
<ul style="list-style-type: none"> <li>• MHC financial statement consolidation</li> <li>• Management financial review procedures</li> <li>• Journal entry procedures</li> </ul>	Confirm MHC has adequate controls and documentation to support amounts recorded on consolidated financial statements.
<ul style="list-style-type: none"> <li>• Joint venture trend reviews</li> <li>• Joint venture finance and operation committee reports</li> <li>• MHC and joint venture board meeting minutes</li> </ul>	Evaluate controls over monitoring joint venture operations.
<ul style="list-style-type: none"> <li>• Radiation Oncology Billing and Collection Summary</li> <li>• Radiation Oncology Billing Report</li> <li>• Consult and Treatment Billing Schedule</li> </ul>	Evaluate billing processes for patients seen at joint venture clinics and billed by UMHS.
<ul style="list-style-type: none"> <li>• Joint venture compliance monitoring</li> <li>• MHC conflicts of interest policy and procedures</li> </ul>	Review how MHC and individual boards obtain assurance about regulatory compliance matters.
<ul style="list-style-type: none"> <li>• UMHS payroll allocations to MDS</li> <li>• UMHS billing management fees</li> </ul>	Determine if controls are sufficient to ensure UMHS allocated expenses are appropriate.

University Audits found that MHC is actively involved in providing administrative support to the joint ventures. Although MHC and its partners share financial responsibility for the joint ventures, the partners are primarily responsible for scrutinizing financial data and assembling financial statements. University Audits noted the following regarding UMHS-managed processes within MHC:

- MHC has dedicated staff that provide accounting and financial monitoring functions for the consolidated MHC financial statements. Individual venture financial activity was monitored on a timely basis, within thirty days after receiving partner-prepared financial statements.
- University Audits reviewed the detailed consolidation spreadsheet as of June 30, 2010, and noted all financial information agreed in total to venture-provided financial statements. Any reclass entries made to conform to MHC reporting classifications appeared accurate.
- UMHS billing for radiation oncology ventures is well integrated within the Faculty Group Practice Billing operations. Adequate processes exist to ensure patient visits at venture locations are billed and consistent with normal UMHS operational standards and billing fees are appropriately assessed.
- Timekeeping and payroll costs for UMHS personnel that staff Michigan Dialysis Services (MDS) are appropriately tracked and allocated to the venture. UMHS personnel that staff MDS are dedicated and do not carry split appointments with other UMHS departments.

The following is a detailed discussion of audit observations, including potential risks and opportunities to streamline processes.

- **Compliance** - For most joint ventures, the partners' compliance departments are responsible for monitoring compliance with applicable federal and state laws and regulations.<sup>12</sup> Partners provide periodic compliance updates at board meetings. Updates occur once a year for most joint ventures. This poses a potential risk as partners' compliance policies and procedures may not fully meet applicable federal and state healthcare laws and regulations. There is also a risk in clinical joint ventures that there may be gaps in the compliance process due to the offsite nature of the facilities and the shared management model.

Opportunities for Improvement - Work with the UMHS Compliance Office to develop a plan to periodically assess the effectiveness of the joint venture compliance programs, especially at clinical ventures. Ensure that:

- Partner compliance policies and processes are complete.
- Compliance roles between partner and UMHS are clearly understood. Areas of particular note include:
  - Compliance education and training for UMHS physicians and staff
  - Licensing and credentialing of UMHS physicians and staff
  - Clinical research activity
- Policies cover key healthcare compliance areas such as medical record documentation, charity care, patient privacy, data security, excluded parties, and conflict of interest.
- Partner compliance offices are sufficiently staffed with trained personnel and have clearly defined reporting lines and follow-up processes.
- Partner compliance programs are active at the venture location and have:
  - Regular and complete compliance training and education for venture employees, contractors, and volunteers
  - Robust hiring, background checks, licensing, and credentialing practices for all venture employees
  - Widely publicized policies, procedures, and disciplinary standards at the ventures
  - An internal compliance auditing and monitoring program that includes the venture locations
  - A hotline or other anonymous reporting program for venture patients and staff

**Management Plan** - The UMHS Chief Compliance Officer will work with the venture compliance officers to create an annual attestation process to the MHC Board to assure compliance with federal and state healthcare laws and regulations applicable to the joint ventures.

- **Financial Oversight** - Partner organizations maintain detailed financial records and most charge a management fee to the venture. All payroll, procurement, and operational expenditures are generally managed by one or more of the partner institutions. Billing for UMHS physician services is generally processed by UMHS and revenues are generally retained by the UMHS Faculty Group Practice<sup>13</sup>. Facility billing is processed by UMHS or by the partner, depending on the venture. Facility revenues are retained by the venture. In fiscal year 2010, the larger joint

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<sup>12</sup> The UMHS Compliance Office provides compliance services for the Physician Organization of Michigan (POM).

<sup>13</sup> Radiation Oncology Alliance pays UMHS physician salaries and retains physician billing revenues.

ventures either had externally audited financial statements or agreed upon procedures performed by external auditors.

MHC performs detailed trend analysis of partner-prepared financial statements but does not have routine access to all supporting documentation. Unusual items, significant variances from budget, fluctuations from prior months and prior years, and other items of interest are investigated with the venture partner or UMHS unit and documentation is requested. Ventures have regular venture board meetings and the dialysis and radiation oncology ventures also have regular finance and operations committee meetings in which MHC staff and other UMHS staff review venture operations, planning, activity, and various financial reports and indicators. As MHC management and staff do not have day-to-day direct operational control and management of venture revenues and expenses, there is potential risk that some partner organizations may misallocate revenues and costs.

*Opportunities for Improvement* - Adopt standardized management analysis and operational reporting based on venture type. For the clinical operations, consider developing key operating indicators, such as productivity and supply cost per case, to further analyze financial activity and budget variances. Consider benchmarking with applicable industry cost surveys, such as the Medical Group Management Association. The Ambulatory Care management reporting models may be helpful for analyzing clinical operations and ensuring reported revenue and expenses are consistent with key non-financial indicators.

**Management Plan** - MHC management will work with the ventures and with our internal UMHS staff to create standardized indicators across ventures as an additional analytical tool as recommended. This will be in addition to our current detailed tracking and trend analysis of the detailed venture financial statements and trial balances. We also believe that *active* participation in venture finance and operations committees and board meetings are the optimal way to assure that partners are not misallocating revenues and costs.

- Equity and Consolidation Accounting - Venture partners prepare and report financial results to MHC on a regular basis. Some ventures report monthly, one reports quarterly. Some partners send Excel files, some send PDF files, and one partner mails hard copy financial statements from their external CPA firm. MHC receives individual financial results approximately 30 days after the end of the venture's reporting period, consistent with venture agreements. On a quarterly basis, MHC staff compile this financial data using an Excel spreadsheet, and use it for financial review, to prepare an MHC consolidated financial statement, and to prepare the journal entry for entering MHC business that is external to the University into the University system. An MHC staff member prepares an upload journal entry to record the MHC share of venture activity in the University system and then sends a "dat" file to Financial Operations. Financial Operations coordinates with Information and Technology Services (ITS) to reopen the ledger to a prior period and records the activity as a post-closing entry. For example, MHC venture financial activity for the period July 1 through September 30 is recorded in the University ledger as a post-closing entry in November. This entry is made as a post-closing entry to allow the actual, as opposed to estimated, venture activity to be reported in the period in which it actually occurred. While this process is complicated and time-consuming, it has worked to provide accurate reporting in the University system.

*Opportunities for Improvement*

- The compilation process for financial data is manual and time-consuming. All financial information is rekeyed, which increases the risk of error. Develop a spreadsheet

template for the partner organizations' use to facilitate compilation. Using a template will also standardize financial line item classifications for each venture.

- Work with Financial Operations to explore the possibility of using financial accounting software to streamline consolidation accounting and financial review.
- Adopt simple security procedures for Excel spreadsheets that are used to prepare the post-closing journal entries. Consider using passwords and cell protection to improve data integrity and minimize the risk of inadvertent errors and data loss. Refer to University Audits' guide on Spreadsheet Controls (<http://www.umich.edu/~uaudits/guides.html>) for more information on spreadsheet security.
- Someone knowledgeable of consolidation accounting should review the data entered for the external ventures to assure it reflects the MHC portion of the ventures' activity prior to closing the University's financial statements at year end.

**Management Plan** - Develop a spreadsheet template for the partner organizations use to facilitate compilation. Using a template will also standardize financial line item classifications for each venture.

- MHC will discuss this recommendation with each of the venture partners to see if we can standardize as much as possible. This may likely be difficult for these organizations to adopt, and with multiple organizations interpreting our classifications it may cause more inconsistency, but we will explore this with our partners and report back to the MHC Board.
- Work with Financial Operations to explore the possibility of using financial accounting software to streamline consolidation accounting and financial review.
  - MHC management and staff will work with Financial Operations leadership to explore the possibility of using financial accounting software to streamline consolidation accounting and financial review.
- Adopt simple security procedures for Excel spreadsheets that are used to prepare the post-closing journal entries.
  - MHC management and staff will review additional security options for these spreadsheets and implement them.
- Someone knowledgeable of consolidation accounting should review the data entered for the external ventures to assure it reflects the MHC portion of the ventures' activity prior to closing the University's financial statements at year end.
  - MHC management will work with Financial Operations leadership to identify the appropriate review of the data entered for the MHC portion of the ventures' activity prior to closing the University's financial statements.
- Conflicts of Interest Policy - MHC's Board of Directors adopted a Conflicts of Interest (COI) Policy for MHC. Most joint venture boards also adopted this policy. Each year, members are asked to review the policy and complete a COI disclosure form. University Audits reviewed the policy to determine if it contained the standard elements of COI disclosure as documented in UMHS Policy 01-04-003, *Outside Interest and Conflicts of Interests*. The review showed:
  - UMHS' policy states staff must promptly disclose any potential and actual COI pertaining to themselves or their family members, defining family members as spouses, domestic partners, and dependents. The MHC policy definition for family is more specific, including grandparents and in-laws; however, it does not include domestic partners.
  - UMHS and University policies state that in addition to potential and actual conflicts of interest, staff members must also disclose situations that could potentially give the

appearance of a conflict of interest. The MHC policy does not require board members to report situations that may cause the appearance of a conflict of interest.

- o The MHC policy does not address other COI policy elements:
  - Examples of situations that create conflicts of interest
  - Guidelines for soliciting and accepting gifts
  - COI education

**Management Plan** - MHC management and the UMHS Compliance Office will review the relevant UMHS COI policies and update the current MHC policy and disclosure form to agree with these guidelines. The updated policy will be presented to MHC and joint ventures' Boards of Directors for approval.

- Joint Venture Board Minutes - MHC staff provides administrative support for most of the boards and confers with venture staff to develop an agenda. University Audits reviewed all board meeting minutes from fiscal year 2010 to date and noted venture boards meet on at least a quarterly basis, except for Eye Care Alliance, which only needs to meet once per year per the Operating Agreement. In general, boards meet regularly, review operations and financial matters, and provide governance. The amount of details within board minutes varies by venture. The table below compares documented board activity:

	MHC	ECA	JVHL	MDS	NEMCC	PMHC	ROA	WMRO
	(Michigan Health Corporation)	(Eye Care Alliance)	(Joint Venture Hospital Laboratories, LLC)	(Michigan Dialysis Services)	(North Eastern Michigan Cancer Center)	(Providence Michigan Health Corporation)	(Radiation Oncology Alliance)	(West Michigan Radiation Oncology)
Frequency of meetings	As needed with a minimum of 3 times per year	Annually and as needed in accord with the ECA Operating Agreement	Every 2 months	Quarterly and as needed				
Board member attendance rate	Board members attending are listed but not those absent	No attendees or board members are listed	from 41% to 88%	Board members attending are listed but not those absent	Board members attending are listed but not those absent	Board members attending are listed but not those absent	Board members attending are listed but not those absent	Board members attending are listed but not those absent
Attendee list with employment titles	Partial	No	No	Yes	No	No	No	No
Length of meeting	28 - 63 minutes	No times are listed	60 - 90 minutes	40 - 90 minutes	30 - 90 minutes	30 - 100 minutes	15 - 40 minutes	20 - 60 minutes
Use of agenda	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Approval of prior period minutes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Financial statement review	Yes	Cash position only	Yes	Yes	Yes	Yes	Yes	Yes
Financial statement analysis	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Operations budget approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

	MHC	ECA	JVHL	MDS	NEMCC	PMHC	ROA	WMRO
Discussed annual conflicts of interest disclosure	Yes	No	N/A	Yes	Yes	Yes	Yes	Yes
Discussed annual external audit/agreed upon procedures	Yes	N/A	Yes	Yes	Yes	Yes	Yes	N/A
Discussed analysis of visits, revenues per visit, etc.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Management Plan** - MHC management will contact representatives from each venture board, except JVHL which already meets this requirement, and request that non-attendance be included in the board minutes. MHC management will continue its efforts in working with representatives from ECA to improve the documentation of board activities.

MHC administrative office personnel and MHC/joint venture boards of directors are an integral part of organizational processes and decision making and are actively managing the ventures. The collaboration between the venture partners and MHC supports the University of Michigan Health System. Significant joint venture financial transactions and processes occur outside the direct control of University operations. Personnel from partner organizations principally manage day-to-day operations and monitor regulatory compliance. Due to the unique organizational structure of the joint ventures, effective oversight controls need to continue and be strengthened, where possible, to protect the University from financial, regulatory, and reputational risks.

University Audits will conduct a follow-up of management's progress on action plans in the fourth quarter of fiscal year 2012.

UMHS Staff Licensure/Certification/Registration Policy Review  
Report issued June 30, 2011

#2011-107-2

The University of Michigan Health System (UMHS) is committed to ensuring that all personnel practicing a profession within a clinical care setting are appropriately licensed, certified, and/or registered as required by the State of Michigan and the Joint Commission<sup>14</sup>. UMHS also requires additional credentialing beyond regulatory requirements for certain positions. In 1990, a policy was created to communicate the responsibility, frequency, and process for verifying that required licenses and certifications are current.

Department managers are responsible for ensuring that all employees in a job classification have appropriate credentials prior to hiring and that credentials remain current. A copy of the applicable license/certification must be kept in the employee's employment folder. Department managers have many resources available to help them understand and comply with the process. Training is regularly

<sup>14</sup> The Joint Commission, formally JHACO, is a not-for-profit organization that accredits health care organizations and programs in the U.S. by evaluating their compliance with federal regulations.

held to educate departments on how to meet requirements and a website offers additional assistance on verifying and reporting compliance.

Departments are required to annually review license/certification requirements for all applicable employees and report the results in M-Pathways, the University's Human Resources Management System. UMHS Human Resources monitors to ensure that the departments are verifying credentials and reporting the results timely. UMHS Human Resources also periodically reports summarized compliance data to senior management.

The purpose of the audit was to review the effectiveness of controls over the UMHS staff credentialing process that is overseen by UMHS Human Resources. Physician credentialing and privileging is handled separately, by the Medical School Office of Faculty Affairs, and was not part of the scope of this audit.

The verification process is working as intended. All sampled licenses held by UMHS personnel were current and UMHS HR is regularly monitoring departmental compliance with credential verification. During the review, University Audits noted the following opportunities for improvement.

#### **Risk and Control Discussion**

- Non-State Mandated Certifications - UMHS requires certain credentials that are not required by regulation; for example pharmacy technicians are required to obtain certified pharmacy technician credentials. This certification was not on the list of credentials that must be verified. The Joint Commission standard HR.01.02.05, EP2 states *when the hospital requires licensure, registration, or certification not required by law and regulation, the hospital both verifies these credentials and documents this verification at time of hire and when credentials are renewed*. When a UMHS department requires a license that is not required by regulation, the department must still verify that the correct credentials are obtained and current.

**Management Plan** - UMHS HR provided specific guidance to the Pharmacy Department on ensuring all applicable credentials are included in the verification process. Copies of the pharmacy technician certification will be placed in the employment folder for employees holding this certification. UMHS HR added this topic to the June newsletter that went out to departmental personnel responsible for ensuring compliance with licensing.

- Credentialing Time Extension - Additional time for obtaining necessary credentials may be granted when:
  - An existing job classification credential changes and employees in that class do not already have the appropriate credentials. Departments should work with Human Resources to implement these changes.
  - A new hire is close to obtaining the required credentials for a position.

University Audits noted that in some cases, departments are placing employees into positions before all credentials have been obtained. It is the intent of UMHS and the Joint Commission that staff placed into a job classification specifying needed credentials have already obtained them. Staff awaiting their certifications should not be placed into that job classification until their credentials are complete.

A new classification should be created for employees who do not have the listed credentials. Refresher training on how to properly classify employees offered a grace period for

credentialing completion should be given to personnel responsible for licensing across the UMHS community.

**Management Plan** - UMHS HR will add this topic to the next newsletter that goes out to the personnel responsible for ensuring compliance with licensing.

- Annual Review of the Licensure Matrix - Human Resources maintains a matrix of job classifications and required credentials and regularly update the listing to comply with UMHS and regulatory license requirements. Department managers and other appropriate personnel are responsible for ensuring their employees have the requirements listed. University Audits identified that the pharmacy buyer job classification on the matrix listed a pharmacist license as a requirement when a pharmacy technician certification is needed.

Department managers in areas where licensure is required should periodically review the listing to ensure they are knowledgeable of the licensure requirements for each job classification and to ensure all new licensure requirements were appropriately added to the listing. Discuss all discrepancies between job classifications and required credentials with UMHS Human Resources.

**Management Plan** - A process will be created to ensure department managers review the listing on an annual basis and report updates as needed.

Overall, the process to ensure compliance with *UMHHC Policy 04-06-040, Verification of All Applicable Current Staff Licensure/Certification/Registration* is sound. Controls will be strengthened by providing additional guidance and training for the unique situations identified in the report.

University Audits will conduct a follow-up review during the third quarter of fiscal year 2012 to assess the effectiveness of improvements implemented by management.

#### Follow-up Reviews

University of Michigan-Dearborn School of Education  
Original report issued April 26, 2010

#2010-205  
First follow-up issued October 1, 2010  
Second follow-up review issued May 26, 2010

At the time of the initial follow-up review, turnover in the dean and associate dean roles delayed implementation of one audit item. A second review has been performed to determine the status of this item.

- Agreements with External Entities - The School has developed a spreadsheet to track all agreements with external organizations. This spreadsheet indicates the type of agreement (articulation agreement, student teacher placement, etc.), the contract period, and any required reports or other deliverables. The template for student teacher agreements has also been reviewed by the Office of the General Counsel and updated with their recommendations. The template will be used for any school district that requires a contract to participate in the University's student teacher placement program. In addition, language from the student teacher agreement regarding the school district's obligations has been added to the Student Teaching Handbook to detail responsibilities for the principal or department chair of the school district.

The actions undertaken have satisfactorily addressed the final audit recommendation. **This audit is now closed.**

In response to the original audit, a central administrative working group comprised of senior-level subject area experts met with School of Social Work (SSW) to advise and assist with implementation of corrective actions. University Audits recently completed a review of SSW's efforts to strengthen internal controls. Review observations are detailed below. Based on progress-to-date, and management's commitment to continued collaboration with University experts, **this audit is closed.**

- Gift Fund Management - SSW is continuing to work with the Office of the Provost and in consultation with the Office of Budget and Planning to develop and implement a strategic plan for effectively utilizing its quasi-endowment distributions and accumulated expendable balances. Beginning in 2009, SSW annually increased allocations from endowed chair accounts. SSW recently allocated approximately \$550,000 in quasi-endowment distributions to support a financial aid initiative for recruitment of special area fellows in Gerontology, Community Organization, Child Welfare, Community Based Initiatives, and Jewish Communal Leadership. It is important SSW continue to work closely with the Provost and the Office of Budget and Planning to develop longer-term strategies and budget plans so that the school's significant gift funds are effectively leveraged.
- Supplemental Information System - SSW maintains a complex operational Filemaker information system developed primarily by the SSW Director of Administration to support the School's key operational processes. SSW's Research Manager developed and maintains a separate Excel-based system to manage research grants. Specific corrective actions taken include:
  - Systems maintenance - The Assistant Director of Administration has been trained in the maintenance and repair of the Filemaker system. The Assistant Director attests that she has had numerous opportunities to repair the system during the Director of Administration's absence and feels confident in her knowledge of this system. During a follow-up meeting with the Associate Vice Provost of Academic and Budgetary Affairs and the SSW Dean, the Administrative Director confirmed that she has received training in the maintenance and repair of the Excel-based research grant management system. SSW is encouraged to further strengthen systems maintenance controls by supplementing data diagrams with system documentation detailing data flow and the structure of automated mechanisms (e.g., macros) for each system as a best practice. A log of repairs documenting type of repair and frequency is also recommended.
  - Efficiency - Information Technology Services management was included in the central administrative working group that assisted SSW with corrective actions. Opportunities to increase efficiencies are under review. Ongoing communication with ITS is crucial to ensure redundancy of effort is minimized and centrally-provided resources are effectively leveraged.
  - Security of sensitive data - Additional internal controls have been implemented to raise information system security to the level of centrally supported systems, including:
    - Transition to a domain login
    - Scanning of the transmission between the Filemaker application and the server to identify any vulnerabilities. None were noted.

- Family Assessment Clinic - During the course of the audit, communication between the clinic and the UMH Compliance Office and the Office of Risk Management was re-established. The Dean is now providing a brief annual report on clinic operations to the offices of the Provost, General Counsel, UMH Compliance, and Risk Management to support oversight activities by these entities.
- Inventory Management - SSW has clarified its assignment of responsibility for inventory management to the Computing and Technical Support (CATS) office. The equipment inventory, completed during the first quarter of fiscal year 2011, was expanded to include key equipment costing less than \$5,000, such as audio-visual equipment. Inventory will continue to be reviewed annually in this manner.
- Technical Tools Policy - SSW has worked with the Tax Office and the central administrative working group to verify the appropriateness of the unit's technical tools policy. A central policy on the tax treatment of technical tools is expected soon and SSW has agreed to revisit its policy once the central policy is issued to ensure compliance. In the meantime, SSW has changed their procedures to ensure that technical tools are not charged to faculty discretionary fund accounts and to require the Dean's approval on technical tool purchases over \$1,200.
- Signature Authority - The Administrative Director worked with the Division Controller for Accounting Services to manage delegation of signature authority through University systems, which allows for more than one higher administrative authority. When other administrative processes must be delegated due to planned absences, SSW intends to use a written delegation detailing the delegate's name, the specifics of tasks being delegated, and the time period of the delegation.
- Segregation of Duty - SSW has improved segregation of duties going forward by requiring the Dean's approval on any journal entries processed by the Director of Administration. Management has also agreed to enhance their internal control gap analysis procedures by requiring that the acceptance of any risk associated with an internal control gap must be approved by a person of higher authority than the individual responsible for completing the gap analysis.
- Documented Procedures - Accounts receivable and billing procedures for the Family Assessment Clinic have been updated to comply with University guidelines. SSW will ensure future gap analyses of cash controls includes the Continuing Education area. As of fiscal year, 2011 the Office of Global Activities no longer accepts travel fee payments.

PeoplePay

Report issued July 16, 2010

#2010-107

Follow-up report issued June 10, 2010

PeoplePay is a web-based decision tree tool that helps users select the appropriate method for paying individuals for non-appointment related items or services. Examples of types of payments for which information can be found in PeoplePay include consultants, honoraria, travel or lump sum advances, subject fee payments, moving expenses, prizes, gifts, and awards. PeoplePay is managed by the PeoplePay Lead team. The team is made up of key personnel from Payroll, Human Resource Records and Information Services (HRRIS), and Procurement Services. This team works with Information Technology Services (ITS), Michigan Marketing and Design (MMD), and other central offices to continuously develop and maintain the website.

The PeoplePay Lead Team has enhanced documentation, clarified system capabilities, and standardized policy and procedure. In addition to improving the user experience, these efforts are helping to facilitate future PeoplePay improvements. Automated transaction processing and data storage capability are likely upcoming enhancements. **This audit is closed.**

- Payroll Office Review - The Payroll Office has expanded its review of non-salary payments made using PeoplePay forms to include all employment relationships:
  - Non-exempt employee with temporary appointment(s) only
  - Non-exempt employee with at least one regular appointment
  - Exempt employee (monthly paid or faculty)
  - Employee with no-pay status
  - Not employed but was within past 12 months
  - Not employed within past 12 months or never employed

Payroll and HRRIS have also refined and documented non-salary payment processes and clarified training materials and payment instructions on the PeoplePay website. These changes, along with the future use of Additional Pay Workflow<sup>15</sup>, will help reduce the risk associated with a lack of payroll exception reporting noted during the audit.

The complexity of the tax treatment for non-salary payments makes effective exception reporting difficult. The PeoplePay Lead Team is working with ITS and MMD to incorporate automated workflow, storage of transactional data, and oversight reporting into a second PeoplePay implementation phase.

- PeoplePay Capabilities - Actions taken to improve user awareness of PeoplePay as a web-based decision tree tool as opposed to a transactional system with built-in processing controls and data storage include:
  - Clarification of the web tool's intended purpose and limitations on the PeoplePay welcome page
  - Refinement of PeoplePay references and information on the Procurement Services website
  - Reiteration of system capabilities during update meetings with users
- Change Management - The PeoplePay Lead team, in collaboration with MMD, developed and documented a change management process to ensure proper approval and timely testing of changes to the web tool. This process includes:
  - Development and documentation of policies and procedures for updating and maintaining the web tool
  - Posting of instructions and procedures to a workgroup collaboration tool (SharePoint) that all PeoplePay Lead Team members can access
  - Enhancement of the web tool tracking log including verification of pre-production review of changes, implementation dates, and turnaround times for all web tool updates or repairs
  - Development and implementation of a service level agreement with Michigan Marketing and Design documenting performance standards around turnaround times and testing

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<sup>15</sup> The Additional Pay Workflow will replace paper payment forms with electronic transactions processed through workflow for approval and submission of many of the PeoplePay payments made using the payroll system.

- User Feedback - Opportunities for enhancements identified by users during the audit and implemented by the PeoplePay Lead Team include:
  - o Development of a pop-up dialog box, alerting users to web tool changes, that appears the first time users log in after changes move to production
  - o Addition of a drop-down list in the web tool menu bar that provides a history of website updates and changes
  - o Addition of a hyperlink to instructions on "grossing up" payments on the Payroll website
  - o Expansion of the content in the "Contact Us" section of the web tool

UM-Flint Early Childhood Development Center  
 Report issued July 19, 2010

#2010-118

First follow-up report issued December 22, 2010

Second follow-up report issued June 17, 2011

University Audits conducted an audit of the Early Childhood Development Center (ECDC or the Center) to assess key business processes and childcare operations. An initial follow-up review indicated management had made good progress toward completion of corrective action plans. However, some items were still in progress. University Audits recently conducted a second follow-up review to re-evaluate the status of those items. Actions taken by ECDC management reduce the risks identified during the audit and improve the Center's operations. Details of the review are summarized below. **This audit is now closed.**

- Financial Decision-Making - ECDC operates as an auxiliary unit within the UM-Flint School of Education and Human Services (SEHS). ECDC is primarily supported by tuition fees and state and federal grants; it receives limited general fund support. Oversight and communication between the Dean of SEHS and the ECDC Director have improved. The Dean and Director meet regularly to discuss budgetary and financial matters. To generate sufficient revenue, the Center is considering offering supplemental programs for children and pursuing additional grants. The tuition rates were recently reviewed and updated. Efforts for collecting receivables have improved. The Center works with the Flint Cashier's Office to turn over delinquent accounts to collections. The Dean and ECDC Director should continue to work together to ensure budgetary and strategic decisions are in line with the mission and goals of ECDC and SEHS at large.
- Kid's Care System - ECDC has upgraded the daycare management system to a product called EZ-Care. The new software system provides improved scheduling capability, enhanced reporting functionality, and better system access management. Many of the improved features, such as scheduling and attendance reporting, are already being used in the Center's daily operations. We encourage ECDC to take advantage of system capabilities that assist with proper segregation of duties, such as setting up separate accounts for each user, or establish independent oversight procedures as a compensating control.
- Transportation Agreements - ECDC utilized two service providers for field trip transportation: First Class Limo and MTA. To mitigate any potential risks from using these providers, ECDC developed a procedure to disclose child transportation rules to these companies. The agreement with First Class Limo was previously signed and will be renewed on an annual basis. MTA, which was rarely used by ECDC, has recently increased their rates. Therefore, ECDC management has made the decision to stop using their services.

Outstanding issues were recently evaluated by University Audits as part of a second follow-up review. Management has taken appropriate corrective action to strengthen controls on all the remaining issues. **This audit is now closed.** The status of the new wire transfer process rollout and details of each issue are summarized below.

### **New Process Rollout Update**

A new wire transfer process is integrating the wire transfer request with the voucher review and approval process in M-Pathways. The new process is still in the pilot phase. The Treasurer's Office, Accounts Payable, Financial Operations, and Information and Technology Services (ITS) have been working collaboratively to make enhancements and resolve issues during this phase. The new target date for campus-wide rollout is July 2011. Once made available to the University community, this process will reduce the paper flow of documentation, eliminate duplicate data entry, and increase data security.

- Authorized User List - Finance Human Resources is working on developing comprehensive on-boarding and off-boarding checklists for all Finance units, including the Treasurer's Office. Meanwhile, the Treasurer's Office has developed a document that outlines roles and responsibilities over wire transfers. This document is used to manage online access to banking platforms for Treasury employees with responsibilities over wire transfers.
- Transaction Limits - As part of the new wire transfer process, a Treasury Analyst transfers a daily file of vouchers that will be paid via wire transfers from M-Pathways to the Western Union (which recently acquired Custom House) online portal. During the first follow-up review, University Audits noted that controls over this process could be improved by eliminating the need for manual upload or by ensuring no modifications were made to the file during transmission. ITS and Treasury investigated ways to make the upload process more secure. However, Western Union's IT infrastructure does not currently allow for an automatic transfer of the data file. As a compensating control, a Treasury Manager compares the daily transactions from M-Pathways with the receipts from Western Union to ensure no modification have been made.
- Wire Transfer Policy - During the audit, University Audits noted that in some cases wire transfer requests from units did not allow adequate time to process the transfer and make the payment in a timely manner. Accounts Payable has established and documented a process for reviewing the timeliness of wire payments. A query has been developed to identify key dates for wire transfer including invoice date, voucher entered date, and payment date. Because the pilot group is relatively small, the amount of data that can be analyzed is limited. We encourage Accounts Payable to continue to analyze the data after the new process is implemented University-wide. Identifying units that do not submit wire requests in a timely manner will help focus education efforts with these units. Significant progress has been made toward the completion of this goal.
- Controls Over Wire and ACH Transfer Process - The Treasurer's Office has developed a comprehensive document that outlines the roles and responsibilities related to movements of funds at the University, including wire and ACH transfers. View only access for other key individuals across campus is reviewed annually. In particular, Banking Services has updated their off-boarding checklist to include a reminder to notify Treasury when employees with banking access are terminated or transferred.

University Audits recently conducted a follow-up review of the UM\_Flint School of Education and Human Services (SEHS or the School) to assess the status of management's corrective actions. SEHS continues to face financial and operational challenges. The School continues to work with UM-Flint administration to leverage careful, ongoing budget and financial monitoring with long-term growth and sustainability planning. A major goal for the upcoming year is to successfully obtain the NCATE (National Council for Accreditation of Teacher Education) accreditation. SEHS leadership has taken significant positive steps to strengthen the internal control environment. Improvements are summarized below. **This audit is closed.**

- Financial Reporting and Budget Monitoring - SEHS had incurred a budget deficit of approximately \$1.35 million over the past few years. The School is on track to meet their goals of improved financial performance for fiscal year 2011. SEHS and the UM-Flint Financial Services and Budget Department report that current spending is within expected levels and projections indicate the deficit will decrease at the end of the fiscal year. A number of procedures have been established to improve financial monitoring and oversight. Specifically:
  - There is increased focus on preparing budgets based on historical financial information and current needs of SEHS departments.
  - The Statements of Activity (SOA) are reconciled and reviewed in a timely manner.
  - Actual revenues and expenses are regularly compared to budget, and variances are investigated.
  - The state of the budget was presented to SEHS department chairs and faculty members to assist with decision making.
  - To ensure budgetary allocations are consistent across the School, the Dean has decided to absorb the small Department of Early Childhood Education into the Education Department.

An Administrative Assistant Senior with a forty percent appointment is currently the only individual responsible for budget and financial monitoring. She reconciles the SOA, prepares budget projections, reviews and investigates expense variances, and assists the School with purchasing. This does not provide for sufficient resources to assist with long-term, strategic and financial planning. The School has expressed the need for a combination of budgeting, financial planning, and academic program development resources to support continuous, robust growth. As the financial situation continues to improve, opportunities for new positions are being explored. SEHS and the UM-Flint administration have demonstrated commitment to continue discussing and exploring future options.

- Segregation of Duties - Several improvements have been made to enhance segregation of duties at SEHS.
  - Timekeeping - Supervisors in the Education Department recently started approving employee time via the self-service functionality within M-Pathways. Direct supervisors in the Dean's Office and the Social Work Department verify employee time in hardcopy before it is approved in the system by a designated individual. While this process provides compensating controls, best practice is for supervisors to approve time directly in self-service. Doing so ensures that individuals with direct knowledge of hours reported by staff are approving time online. It also increases the overall efficiency of time reporting and approval processes. University Audits encourages SEHS to take

advantage of time reporting via self-service to ensure proper segregation of duties and efficient, consistent procedures across the School.

- Purchasing - The Administrative Assistant Senior is responsible for procurement and reconciliation of SOA. The Dean, as the higher administrative authority, reviews and approves purchases over \$500 as part of monitoring and oversight.
- Children's Reading Center - One individual in the Education Department is responsible for billing, collection, and depositing funds. Therefore, it is important for the School to perform an independent review of the revenue deposited against the sign-in sheet or class attendance roster. Revenue received from this program is now reconciled to class enrollment documentation by the Administrative Assistant Senior.

The School continues to face segregation of duties issues, primarily because of a lack of available resources. Management monitoring and oversight have been improved as compensating controls.

- Faculty Release Time - A draft policy on faculty course release time has been developed and approved by the SEHS Stewardship Executive Committee. The policy sets a general framework for course release time. The Dean of the School evaluates course releases on a case-by-case basis. Documentation of course releases takes various forms, including contracts and grant agreements.
- Conflict of Interest and Conflict of Commitment (COI/COC) - All SEHS faculty and staff updated the COI/COC disclosure forms in fall 2010. The Dean of the School has reviewed the forms.
- Policies and Procedures - SEHS is developing a handbook of policies and procedures for faculty and staff. The development of the handbook is a comprehensive process with input from the School's departments. Throughout the audit, the Dean's Office has shown an understanding of the importance of documented procedures and commitment to continued enhancement of the SEHS handbook. Significant progress has been made toward the completion of this goal.

University of Michigan Hospitals and Health Centers Hospital Cashier's Office

#2008-206

Report issued October 17, 2008

First follow-up report issued June 30, 2009

Second follow-up report issued June 24, 2011

University Audits recently performed a second follow-up review to determine the status of the open item. UMHS Finance is responsible for performing (Hospital Cashier's Office (HCO) bank statement reconciliations. Until recently, staffing problems and the complexity of the reconciliation impeded progress on resolving this issue.

Bank Statement Reconciliation - UMHS Finance personnel have made significant changes to bank statement reconciliation processes:

- UMHS Finance personnel successfully reconciled bank statements for the period June 2010 through April 2011 with consistent small dollar differences ranging between \$354 and \$456. Management believes differences result from unreconciled, prior period transactions. Management plans to reconcile transactions on the April 2010 and May 2010 bank statements to determine if they can resolve differences. Otherwise, these differences will be written off.
- HCO and UMHS Finance adopted new procedures that facilitate the reconciliation:

- In May 2011, HCO began providing explanations to UMHS Finance for voided checks.
  - UMHS Finance assumed responsibility for processing journal entries for voided HCO checks.
  - HCO agreed to provide bank upload information to UMHS Finance at the end of the month and to document differences between bank upload and journal entry amounts.
- UMHS Finance committed itself to performing the following tasks to further enhance bank reconciliation processes:
    - Obtain an independent source for retrieving billing data used in the reconciliation process. Currently, HCO provides this information to UMHS Finance.
    - Move Accounts Payable (AP) activity to a separate general ledger account. Currently, certain checks written in AP share the same general ledger account as HCO processed checks.
    - Authenticate AP and HCO check totals obtained from billing system reports to ensure the correct amounts are reconciled to the bank statement.
    - Investigate and resolve differences between AP checks and the general ledger. As of April 2011, the difference was approximately \$11,000.
    - Document bank reconciliation processes in detail, including procedures for gaining access to required systems (i.e., access to PNC Bank account details).
    - Contact PNC Bank to obtain a good understanding of bank statement codes and terminology as well as the rationale for coding certain checks as suspect checks.

The actions undertaken have satisfactorily addressed the final audit recommendation. UMHS Finance's commitment to improve accounting processes will enhance the reconciliation process. Implementation of the Epic billing system at UMHS will further facilitate reconciliation. **This audit is now closed.**

Division of Research Development and Administration – Export Controls Compliance #2010-402  
 Report issued April October 10, 2010 Follow-up report issued June 28, 2011

The scope of the original audit included export controls compliance processes in research activities at the University of Michigan. Federal export regulations impose controls over certain sensitive technology, services, and information. University Audits recently performed a follow-up review to assess the status of management action plans. The purpose of this memo is to provide an update on progress made. A second follow-up review will be conducted during the third quarter of fiscal year 2012.

- Training and Education - Raising awareness of export regulations across the research community through training and education programs is key for export controls. Improvements have been made in the following areas:
  - DRDA experts continue to conduct training and education sessions at the College of Engineering and other academic areas where export regulations could apply.
  - Applicable research administrators and information technology (IT) staff are now included in these training sessions.
  - A new Compliance Resource Center web site provides a comprehensive overview of the full range of legislative and regulatory compliance obligations that impact activities across the institution, including export controls.

DRDA should continue to enhance the training and education infrastructure by:

- Targeting individual principal investigators (PIs) or labs to bring more focus on project or lab-specific export issues.

- Developing an online training module similar to PEERRS<sup>16</sup> to provide a systematic training approach for new researchers.
  - Reaching out to graduate students or other support personnel that may come in contact with export controlled technology to further raise awareness on export regulations.
  - Developing practical tools or checklists that will assist the research community with identification of common regulatory flags.
- Technology Control Plans (TCP) - DRDA has made the following improvements in technology plan management:
    - A simple checklist was developed to provide guidance to project representatives and PIs on how to create and monitor for compliance with TCPs.
    - Up-to-date and valid documentation is retained in the internal Special Service Projects (SSP) database.

No single data repository provides a complete picture of University research projects with export controlled technology. This limits DRDA's ability to establish monitoring mechanisms to track projects beyond the initial documentation of the TCPs. No formal communication mechanism requires PIs to report on compliance with specific TCP elements. DRDA plans to migrate the SSP database to the eResearch Proposal Management (eRPM) system to create a single repository and provide better tracking and monitoring tools. This change will also allow the College of Engineering and other units to access export controls related documentation as needed. The migration is scheduled for fiscal year 2012.

- Information Technology - DRDA is proactively including IT support staff at the department level in the development of the TCPs. IT staff assists PIs with specific IT controls related to export controlled software or data that resides in a network or standalone computer. DRDA should reach out to other key IT administrators, such as the Computer Aided Engineering Network and the Center for Advanced Computing at the College of Engineering to ensure that software or data that resides in computing clusters is protected by adequate IT controls.
- Disposition - No clear policies and procedures regarding disposition of technology or data once a project has ended currently exist. DRDA should continue to work on developing processes and tools that will assist the research community with disposition of export controlled technology or data. Establish a follow-up process and perform regular compliance checks. The IT staff should be included in the next steps for protecting and/or disposing of software and data at project end. The anticipated migration of the SSP database to eRPM will provide better reporting tools regarding disposition of export controlled technology.
- Foreign Nationals - Effective February 2011, the U.S. Citizenship and Immigration Services added a "Deemed Export Acknowledgment" question to Form I-129. The *I-129 Petition for a Nonimmigrant Worker* form is a federal form completed by employers who hire foreign nationals. The acknowledgement requires the University to verify that the employment of the foreign nationals complies with export control regulations. At U-M, the International Center (IC) verifies, tracks, and submits visa related documentation, including Form I-129. This change has prompted the University to develop comprehensive internal procedures to effectively address the new requirement. DRDA has worked with the IC to create a supporting form that will assist

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<sup>16</sup> PEERRS is the web-based instruction and certification program for members of the University of Michigan community engaged in or associated with research. It incorporates a number of modules, including material on human subjects research.

the University to properly address the deemed export question. This supporting form is distributed to units hiring foreign nationals and, through a number of questions, guides units to provide relevant information to IC about the circumstances of the employment. The IC uses the information to respond to the I-129 question on deemed exports.

Use of Federal Hardware in the Flux HPC<sup>17</sup> Cluster  
Report issued April 12, 2011

#2011-810  
Follow-up report issued June 28, 2011

The original audit report contained two open action items. A follow-up review brings this update:

- Keeping Federal Hardware Out of the Fluid Pool - Management completed the Center for Advanced Computing's new policy on "Adding Contributed Hardware to Flux" that fully implements the control recommendation from the audit. The policy requires suitable proof that contributed hardware is non-federal in order to place it in the fluid partition where unused cores are available to any Flux user or project. No hardware contributions have been made to Flux that would trigger this policy since it went into effect March 18, 2011.
- Recharge Rate - The Flux fee structure is scheduled to undergo a comprehensive review during fiscal year 2012, with new rates effective July 2012. ITS will ensure that these revised rates enable users who bring their own computing hardware to the cluster to pay an appropriate share of the depreciation on core networking and storage infrastructure.

University Audits will follow up in the fourth quarter of fiscal year 2012 to confirm the remaining corrective action item has been addressed.

International Programs – Student Safety Preparedness  
Report issued March 15, 2010

#2009-111  
First follow-up report issued December 20, 2010  
Second follow-up report issued June 30, 2011

In December 2010, a follow-up review identified that some audit observations had been fully addressed while others remained in progress. A second follow-up has been performed to determine the status of the remaining observations. Each issue has been satisfactorily addressed, and there are clear indications that efforts will continue to progress in the future. A summary of the final audit observations and their current status is noted below. **This audit is closed.**

- Pre-Travel Orientations - The International Travel Oversight Committee (ITOC) has been reviewing possible methods to aid smaller units who do not have the means to establish a robust pre-travel orientation program for their students. In the interim, a pre-travel checklist, written by the Council on Global Engagement (CGE), has been distributed to travel administration offices across campus and has also been added as a resource on the Global Portal.
- HTH Travel Abroad Health Insurance and Graduate Students - The Provost's Office is drafting a new international travel policy for implementation in the fall of 2011. This policy includes a requirement that all University-sponsored travelers must obtain HTH travel insurance. This would apply not only to graduate students, but also to faculty and staff (undergraduate students were already required to have HTH travel insurance). The new policy has already been advertised to the University community via The Record and should be finalized in the fall of 2011.

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<sup>17</sup> High Performance Computing