

**Item for Information**

Subject: Report of University Internal Audits  
**May - June 2013**

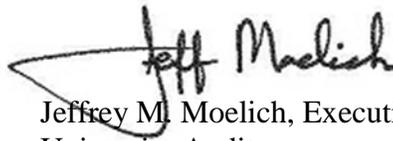
Attached is the report of activities completed by the Office of University Audits for the period **May – June 2013**.

Included in the report are a:

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

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

Respectfully submitted,

A handwritten signature in black ink that reads "Jeff Moelich". The signature is written in a cursive style with a large, sweeping initial "J".

Jeffrey M. Moelich, Executive Director  
University Audits

University Audits  
May - June 2013  
Summary of Reports Issued

**Original Reports**

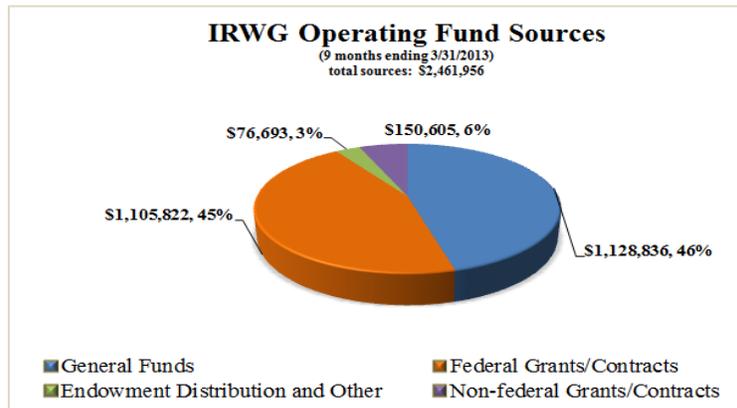
**Campus**

Institute for Research on Women and Gender  
Report issued June 13, 2013

2013-218

The Institute for Research on Women and Gender (IRWG) is an interdisciplinary research unit reporting to the Office of the Vice President for Research (OVPR). Established in 1995, IRWG is housed in Lane Hall at the University's Ann Arbor campus and acts as an institutional umbrella for research focusing on women and gender throughout the University. In addition to administering a wide variety of sponsored and non-sponsored projects, IRWG provides direct research support and offers expertise to researchers seeking external funding. IRWG also sponsors lectures, symposia, and forums on women and gender. In July 2012, IRWG appointed a new Director.

Major external funding sources are the National Institutes of Health, the Women's Sports Foundation, the National Science Foundation, and the Henry Luce Foundation. The Institute also receives approximately half of its support from University general funds. The following chart provides a pictorial representation of IRWG's operating funds for the first nine months of the fiscal year ending June 30, 2013.



IRWG's operating revenues, expenditures and fund balances for fiscal years 2010, 2011, and 2012 are shown in the table below.

	2010	2011	2012
Beginning Fund Balance	\$3,016,505	\$2,424,445	\$2,463,935
Operating Revenues	\$1,921,061	\$2,727,893	\$2,577,961
Operating Expenditures	\$2,513,120	\$2,688,403	\$2,552,167
Net Change	(\$592,060)	\$39,490	\$25,794
Ending Fund Balance	\$2,424,445	\$2,463,935	\$2,489,730

## **Purpose and Scope**

The primary objective of the audit was to evaluate key financial and operational controls to obtain reasonable assurance that IRWG is in compliance with University policies and procedures and applicable federal and state requirements. To fulfill this objective, University Audits evaluated the internal control environment over the following business processes:

- Research grant management
- Procurement
- Financial management
- Financial aid
- Other administrative activities

## **Summary**

University Audits previously reviewed IRWG's internal control environment as part of an investigation in fiscal year 2010. At the time of the investigation, the IRWG control environment lacked robust business processes and key operational duties were not segregated. During the current audit, University Audits noted significantly improved business practices, appropriately segregated duties, and well-documented procedures. University Audits was able to obtain reasonable assurance that IRWG has a sound operational control environment that fosters effective oversight and efficient decision making. There are no critical control deficiencies that warrant the immediate attention of management.

Three leading practice recommendations were provided to management to further strengthen internal controls (see below). IRWG management indicated support for the recommendations, which have already been implemented. As a result, no formal follow-up is required.

## **Travel and Expense**

Administrative staff review expense reports in Concur and managerial review is included in the approval flow. Travel and hosting expenditures were properly supported by receipts and other documentation. The control environment can be improved by:

- Consistently documenting a clear business purpose for all travel and hosting expenditures
- Using the departmental reference field in Concur to group related expenses that fall over several Concur reporting periods to facilitate management review
- Using Concur or a strategic vendor for University business-related expenses such as car rentals; this will ensure adequate liability coverage and competitive rates
- Ensuring expense reports processed in other departments using IRWG funds are consistently routed to the IRWG administrator for approval prior to submission
- Requiring supporting documentation such as conference brochures to verify appropriateness of travel days, hotel costs, and claimed meal per diem
- Requiring all Concur reviewers and approvers to keep current on the required training

A helpful resource for Concur best practices is the University Procurement Services site at <http://www.finance.umich.edu/procurement/travelexpense/concur/resources>.

### Procurement

University Audits analyzed vendor spending by category to identify unusual trends or expenditures. Appropriate buying methods such as purchase orders and P-Cards were used in compliance with University policies and procedures. Purchases for restricted commodities such as furniture were approved by Interior Design. The control environment can be improved by consistently:

- Using strategic vendors wherever possible to take advantage of discounts
- Using purchase orders instead of Non-PO vouchers to ensure fair and reasonable prices in a competitive environment
- Following appropriate buying methods (e.g., purchase orders) while purchasing restricted commodities (<http://www.finance.umich.edu/procurement/restricted-commodities-and-special-approvals>)
- Maintaining documentation of principal investigator concurrence that invoiced subcontractor work product meets contractual requirements

### Timekeeping Supervisory Review

IRWG supervisors appropriately approve payroll timekeeping for their direct reports. When a supervisor is not available due to travel or vacation, an authorized backup approver will sign on behalf of the supervisor. University Audits recommends that IRWG maintain documented confirmation of after-the fact supervisory review of reported time when hours are approved by the backup approver.

Knight-Wallace Fellows Program  
Report issued June 18, 2013

2013-202

The Knight-Wallace Fellows Program (KWF) is an application-only opportunity that provides select, mid-career journalists with an academic year of study. Fellows devise a personalized study plan based on their area of academic interest, are involved in weekly seminars, and audit University of Michigan courses as part of their individually designed projects. A core component of the KWF experience is travel, including two international trips (e.g., Brazil, Argentina, Turkey) during the year. A typical KWF class is comprised of twelve domestic and six international journalists. Fellows receive stipends to cover their study and are encouraged, along with their families, to participate in the many opportunities that are afforded to them throughout the year.

KWF is led by a Director and five support staff. Previously, the department reported to Rackham and now reports to the Office of the Provost. Additional oversight is provided by the KWF Board, made up of 16 University and non-University members that are selected by the Director. KWF is supported by donations and endowments with assets valued at



Wallace House

approximately \$53 million. Wallace House, gifted by newsman Mike Wallace, is home to the KWF offices as well as the Livingston Awards for Young Journalists.

The Livingston Awards honors outstanding achievement by professionals under the age of 35 in local, national, and international reporting. Each year, three journalists and a senior mentor are selected by a judging panel to receive cash prizes at a New York luncheon in June. Together, these programs support and recognize the efforts of exceptional journalists.

### **Purpose and Scope**

The audit reviewed processes in place to verify compliance with University's Standard Practice Guide (SPG) policies. University Audits evaluated the adequacy of internal controls related to:

- *Fiscal Management*, including procurement, cash handling, and financial reporting
- *Leadership and Strategy*, including long-term planning and strategic operations
- *Organizational Structure and Employment*, including conflict of interest and commitment, timekeeping and payroll, and additional pay
- *Endowment and Gift Funding*, including compliance with donor intent, project grant reconciliations, and the Livingston Awards
- *Fellow Selection and Management*, including the application process, compensation, and safety

### **Risk and Control Discussion**

#### Procurement

*Competitive Bidding:* The Yale Club of New York City has been used to host events held in New York for KWF and the Livingston Awards for multiple years. Many times, expenses are over \$5,000, which requires requisitioning and competitive bidding through Procurement Services. In prior years, contracts for these events were signed by the department. However, Procurement Services maintains signature authority for all procurement contracts and agreements; units are not allowed to enter into contracts on behalf of their unit or the University.

*Recommendation:* In accordance with the University of Michigan Standard Practice Guide (SPG) Section 507.01, *General Policies and Procedures*, requisition purchase orders through Procurement Services for amounts over \$5,000 and forward all agreements or contracts requiring a signature to Procurement Services.

*Management Action Plan:* Management concurs with recommendation. This year Procurement Services signed contracts for the Livingston Awards event venues at The Yale Club and The Century Association. We will continue to implement this recommendation and have approximate costs outlined on the contract.

*Auditor's Note:* The process was implemented in May 2013 and will be tested as part of follow-up.

*Strategic Vendors:* Review of procurement expenses showed instances where strategic vendors were not used to make purchases (e.g., coffee supplies).

*Recommendation:* The strategic supplier program is designed to reduce overall costs while maintaining or improving quality. Departments should use strategic vendors whenever possible. The program is not focused only on cost, but on the total cost of ownership (e.g., administrative timesavings). Communicate to staff that as part of the P-Card program, P-Cards are not to be used when an item is available from a strategic or internal service provider.

*Management Action Plan:* The University policy on using strategic suppliers and staff P-Card usage has been discussed in staff meetings and an email was sent to all staff members as a reminder on May 7, 2013. Knight-Wallace Fellows will continue to use strategic vendors whenever possible.

*Flight Upgrades:* Seat upgrade charges were noted for travel to South America. While upgrades are permissible on flights that are over eight hours nonstop, any upgrade must be pre-approved. The noted charges were not approved in advance of the travel.

*Recommendation:* Receive preapproval from the Office of the Provost for upgrades that are permissible by University SPG Section 507.10-1, *Travel and Business Hosting Expense Policies and Procedures for Concur Users*.

*Management Action Plan:* The Assistant Director thought that only flight upgrades to Business Class or First Class have to be preapproved on an individual basis, but that Economy Comfort Class is bookable for flights over eight hours. Subsequent Economy Comfort Class upgrades (for example, to Turkey in March 2013) have been preapproved by Associate Vice Provost for Academic and Budgetary Affairs on February 25, 2013.

*Expense Support and Reconciliation:* Travel, hosting, and transportation transactions are split between several individuals within a trip or time period, increasing the challenge of accurately reconciling total expenses. For example, review of submissions for the KWF trip to South America showed that visa fees for guests of three Fellows were not reimbursed to KWF as well as the cost difference of a Fellow who chose not to travel on the same day as the group. These discrepancies were not identified during the reconciliation of trip expenses as they were not reviewed in aggregate.

Expense testing showed that conference expenses were not supported by an agenda or itinerary, making it difficult to determine if meals were provided. When meals are offered as part of a conference or when the traveler hosts or is hosted by another party while on travel status, the per diem rate must be adjusted to comply with federal policy.

*Recommendation:* Reconcile expenses using a unique trip identifier in the department reference field in Concur, the University's travel and expense system, to verify expenses are complete, appropriate, and timely. To increase the efficiency and accuracy in reconciling and submitting expenses for payment,

include conference brochures, itinerary information, seminar agendas, or other supporting materials as part of expense documentation to adjust per diem rates accordingly and prevent duplicate payment. Meal and incidental expenses in excess of the per diem are not reimbursable. Avoid using a P-Card to pay for travel meals when collecting per diems.

*Management Action Plan:* The Financial Manager will continue the established practice of using a unique trip identifier in the department reference field in Concur and on non-PO vouchers. Itineraries, brochures, or agendas are now being added to expense supporting documentation. Correct use of the P-Card for travel expenses has been discussed in staff meetings and an email was sent to all staff members outlining these policies on May 7, 2013.

### **Time and Pay**

*Compensatory Time:* Some employees track time spent at work or educational, work-related events outside regular working hours as compensatory (comp) time to be taken at a later date in place of vacation time. Based on exemption status and the documented job responsibilities of some employees, comp time is not compliant with University SPG Section 201.38, *Overtime* and Section 201.64-0, *Vacation*. In accordance with the Fair Labor Standards Act, there are legal limits on the number of hours of comp time that can be accumulated and the continuation of comp time accrual may put the exempt employee status at risk.

*Recommendation:* Work with Human Resources to determine the options available and appropriate methods for handling the accrued comp time. Assess the job responsibilities of employees tracking comp time to determine if the exemption status continues to be accurate. Work with Human Resources to document appropriate methods for recognition of employees going forward.

*Management Action Plan:* The Assistant Director will meet with the unit Human Resources representative to discuss exempt employees and the accrual of overtime and vacation. The Assistant Director will then implement discussed action, inform exempt employees, and document new rules.

*Additional Pay Approvers:* KWF, at times, pays University employees (e.g., professors) to speak at weekly seminars. Payments are processed through the Additional Pay Workflow in M-Pathways and are approved by the Associate Vice Provost for Academic and Budgetary Affairs; however, not all payments were approved by an approver from the recipient's respective school/college. Including approvers from each department is a good practice to address any potential conflicts of interest and commitment or adjustments to effort.

*Recommendation:* Document the procedures for processing an additional pay through M-Pathways. As part of the documentation, include the appropriate approver(s) for KWF and the requirement of including an appropriate approver from the recipient's respective unit. Clarify the use of earn codes for submitting payments (e.g., salary supplement, services unrelated to appointment).

*Management Action Plan:* The Financial Manager will document procedures for processing additional payments for KWF seminar speakers who are University faculty, including adding an appropriate approver from the recipient's unit. This additional approver will be added to all future payments. The earn code, "SAL" has been verified by contact at the Provost's Office.

*Time Approval Separation of Duties:* All employees' time is approved in the M-Pathways system by the Accountant. This includes approval of the Assistant Director's time, the Accountant's direct supervisor. This approval process does not sufficiently separate duties. Adequate separation of duties is essential to maintain an appropriate system of checks and balances.

*Recommendation:* To confirm time worked is accurate and the approval is adequately separated, the Director should approve the time of the Assistant Director's time. Document exception procedures for time approval in instances when the Director is inaccessible or does not have computer access to approve time. Examples of such procedures include preapproval of known time prior to the Director's departure or approval by the Office of the Associate Vice Provost for Budgetary Affairs.

Reconcile time recorded in M-Pathways to actual time taken by employees that is recorded on the central administrative calendar.

*Management Action Plan:* An OARS request is being submitted so that the Director can be authorized to approve Assistant Director's time. Time recorded on timesheets is reconciled to central administrative calendar.

### **Administrative Processes**

*Memorandum of Understanding:* For multiple years, KWF has entered into arrangements that obligate the program to accept international Fellows from a specific region or company. These obligations are not formally documented or signed by the appropriate personnel.

*Recommendation:* Document all obligations of KWF, including acceptance of Fellows, using a contract or memorandum of understanding and verify that it is reviewed and signed by the appropriate University personnel. Review and update existing contracts or memos on an annual basis. Work with the Office of General Counsel to review the Eligibility and Terms section of the KWF website to state the Fellowship opportunities for international applicants.

*Management Action Plan:* Obligations of KWF to accept international Fellows from a specific region or company will be documented as a contract or memorandum of understanding that has been reviewed and signed by appropriate University personnel. Contracts or memos will be reviewed and updated on an annual basis. The KWF website will be updated as needed.

*Process Documentation:* Policies and procedures are not documented and/or up to date for all KWF and Livingston Awards processes. Documented processes help to establish expectations and consistent behavior for department employees.

*Recommendation:* Update and/or document KWF policies and procedures to reflect current processes, specifically:

- *Procurement:* steps and limits for obtaining travel advances/lump sums, expectations for travel and hosting submissions (e.g., conference brochures, using the Concur department reference field), requisitioning competitive bids, signing contracts.
- *Time and Pay:* process for requesting and approving overtime, steps for including additional pay approvers, policy regarding disallowance of compensatory time, process for evaluating the performance of staff on an annual basis
- *Continuity Plans:* documenting existing long-term program goals and strategic objectives into a procedures manual
- *Fellow Sponsorship:* procedures for obtaining and updating contracts or memoranda of understanding where the University has an obligation to accommodate a Fellow
- *Oversight:* process for selecting KWF Board members and the Fellows Selection Committee as well as their roles, responsibilities, and expectations. Also, including procedures for identifying and managing potential conflicts of interest between applicants and donors, the KWF Board, Selection Committee, or Staff.
- *Livingston Awards:* all processes and procedures relating to the awards, including selecting judges, screening applications, preparing for the awards ceremony, and reconciling expenses.

Reference related policies from the University SPG where appropriate and clearly define the department policy when it is more restrictive than the SPG. Clarify job responsibilities and training requirements in the department procedures and confirm segregation of duties exist in the process. Identify training opportunities for staff to increase their knowledge of University systems, reports, and processes where applicable. Establish a procedure to periodically review documentation so that it is reflective of current processes.

*Management Action Plan:* KWF policies and procedures will be updated and/or documented to reflect current processes.

*Conflict of Interest and Commitment (COI/COC):* SPG Section 201.65-1, *Conflicts of Interest and Conflicts of Commitment*, requires that all actual and potential conflicts be disclosed to a designated University official as they arise or are identified. Units are required to develop their own COI/COC implementation policy that is consistent with the SPG and addresses the expectations and responsibilities of their staff. KWF does not have a unit-level COI/COC policy. Not all previous KWF conflicts followed the University's required disclosure process.

*Recommendation:* Report all potential or actual conflicts to the Office of the Provost during the annually required process and as necessary. Develop a unit specific COI/COC policy that includes procedures for disclosing, updating, and managing conflicts. As part of the documented procedures and monitoring efforts, include, at a minimum, the following:

- Employees are made aware of the policy and sign-off on any actual or potential conflicts upon hire
- Employees are reminded on at least an annual basis to report potential conflicts
- Noted conflicts are reviewed timely by the appropriate individual(s)
- A management action plan is on file for each noted conflict
- A reconciliation is performed on an annual basis to confirm all employees have reported or updated their conflict of interest/commitment forms

*Management Action Plan:* KWF will develop a unit specific COI/COC policy with information given to employees and annual reminders.

*Delegation of Authority:* A sole source justification form was signed by the Assistant Director on behalf of the Director. However, there is no documentation on file supporting the documents or activities that have been delegated by the Director to this individual.

*Recommendation:* To assist authorized individuals in performing delegated responsibilities appropriately, it is a leading practice to have a written delegation of authority on file that contains the following: names and titles of individuals with delegated authority, a list of delegated responsibilities, guidelines for applying delegated authority, and expiration date(s).

*Management Action Plan:* KWF will create delegation of authority document to be reviewed annually.

*Fine Art Collection:* KWF has a fine art collection of original political cartoon drawings that are insured through Risk Management by the University's fine art policy; however, the insured value has not changed in the last five years and may not reflect market value. There are other items (e.g., University plates, African art) of value that may also need to be assessed and insured.

*Recommendation:* Work with Risk Management to validate insurance coverage is sufficient and determine an ongoing schedule for review and assessment of the art. If the assessed value is \$5,000 or higher, verify the item is included on the University asset listing for KWF.

*Management Action Plan:* KWF will work with Risk Management to determine an ongoing schedule for review and assessment of art. If items are assessed at \$5,000 or higher, the item will be added to the University asset listing for KWF.

## **Summary**

The Knight-Wallace Fellows Program provides a unique opportunity to mid-career journalists, connecting the University of Michigan to the world of journalism in a unique

way. KWF and the Livingston Awards have long been supported by donor contributions and endowments that have continued to provide financial stability to the program. The unique reporting relationship and nature of the program necessitates well-documented and controlled processes. Encouraging employees to participate in University training and administrative meetings will help to extend their knowledge of University compliance requirements, promote consistency in operations, and assist in making procedures more efficient.

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

Frankel Center for Judaic Studies  
Report issued June 20, 2013

2013-219

The field of Judaic Studies has a rich history at the University of Michigan extending over forty years. Judaic Studies began in 1970 with a \$40,000 grant from the Jewish Welfare Federation of Detroit and the support of William Haber, Dean of the College of Literature, Science, and the Arts (LSA). In 1976, the University authorized the Bachelor of Arts in Judaic Studies degree and established the Program in Judaic Studies. In 2001, the University authorized the Master of Arts in Judaic Studies degree.

In 2005, the Frankel family donated \$20 million to endow the Frankel Institute for Advanced Judaic Studies. The Institute provides annual fellowships for scholars and artists from around the world to conduct research. Established through a contribution from the Jean and Samuel Frankel Jewish Heritage Foundation, the Institute is the only one of its kind at a public university in the United States. Through its interdisciplinary work spanning multiple eras, the Institute aims to offer global leadership in Jewish Studies. The Institute also aims to advance the field by innovating and expanding undergraduate, graduate, and post-graduate studies.

The Frankel Center (the Center) employs 29 faculty and four staff, and is funded primarily by gifts and endowment distributions. In fiscal year 2012, the Center's \$2.67 million budget was made up of about 83% gift funds, 14% general fund, and 3% sponsored funds. The Center functions administratively as an LSA department and receives guidance, oversight, and support from LSA.

### **Purpose and Scope**

The objective of the audit was to evaluate the Frankel Center's operational and administrative activities. University Audits reviewed policies, procedures, and internal controls to test compliance with University guidelines and other regulations. A risk analysis led us to focus on the following activities:

- Management oversight
- Financial management
- Procurement
- Payroll
- Grant management
- Gifts and endowments

- Cash handling
- International travel and hosting

Opportunities to improve internal controls are noted below.

## **Risk and Control Discussion**

### **Expense Reporting**

*Discussion:* The Director of the Frankel Center approved seven expense reports for the Key Administrator in fiscal year 2012 and two reports in fiscal year 2013, totaling approximately \$10,000. Based on the “audit trail” function in Concur, supporting receipts attached in Concur were not reviewed during the approval process by the Director; however, they were reviewed in the system by the LSA Dean’s Office afterwards. Management stated that original receipts were reviewed by the Director instead. If original receipts reviewed outside of Concur are not compared to the receipts uploaded in Concur, it may lead to approval of expenses that are incorrect or not allowed by University policies.

*Control Recommendation:* Individuals responsible for approving expense reports should perform a detailed review of all supporting receipts in Concur. Approvers are responsible for determining the appropriateness and reasonableness of all expenses, as well as compliance with the University Travel and Business Hosting Expense Policy (SPG Section 507.10-1).

*Management Action Plan:* The Center has already taken steps toward this action plan and is now reviewing all electronic receipts through Concur.

### **Cash Handling**

*Discussion:* The Frankel Center occasionally receives and deposits cash: \$60,000 was processed in fiscal year 2012 and \$1,600 has been processed year-to-date in fiscal year 2013. These deposits were the result of a single \$60,000 gift received from a donor, sales of books published by the Frankel Center, and sales of football tickets to faculty and staff members. The current process may allow one person to receive, deposit, and reconcile cash. The office has the following mitigating controls:

- Key Administrator and Director approve cash deposits after the Administrative Secretary has compiled and prepared them for the bank
- Key Administrator approves Statement of Activity (SOA) reconciliation after the Administrative Secretary performs the reconciliation
- Administrative Secretary maintains a log of cash/checks received
- Deposits are sequentially numbered

Despite these mitigating controls and the fact that cash is normally received by a different person, the current procedure could allow cash to be diverted from the deposit process.

*Control Recommendation:* We recommend assigning different stages of the cash handling process to different individuals and updating the written procedures accordingly.

*Management Action Plan:* Effective immediately, the cash handling responsibilities will be segregated as detailed below. The GAP Analysis written procedures have been updated appropriately.

- Receive – Key Administrator
- Deposit – Student Services Coordinator
- Reconcile – Administrative Secretary

### **International Travel Registry**

*Discussion:* When attempting to verify the Frankel Center's use of the University Travel Registry, we observed that the Center does not confirm that its international travelers register with the University's Travel Registry. Because most faculty members have joint appointments and, as a result, their trips may be funded by other departments, the number of trips per month or year could not be determined. The University's International Travel Policy (SPG Section 601.31) issued March 2012 requires that all faculty, staff, and students traveling abroad for University-related purposes register their international travel in the University Travel Registry before the expected departure date.

*Control Recommendation:* Management should proactively communicate to travelers the need to register with the University Travel Registry and monitor for non-compliance.

*Management Action Plan:* The Frankel Center has historically encouraged faculty and students to register international travel with the University's Travel Registry. This has been done through verbal communications with faculty and/or students when the administration has been aware of such travel. Going forward, the Center will educate faculty twice a year, once per term, at their faculty meetings. The Frankel Center already does this with students in the winter term, at a student meeting, prior to the students pursuing their summer travels.

In addition, the Frankel Center will mandate that all faculty, students, and staff travelers use the Travel Registry when traveling. To monitor registration, the Frankel Center will require travelers to use the Activity/Program Contact function in the Travel Registry that notifies an administrative contact via email when the registration is complete. Faculty and staff will use the unit's Administrative Secretary as the administrative contact and students will use the unit's Student Services coordinator as their administrative contact. The confirmation email from the Travel Registry will be included as part of the back-up materials for reimbursement.

Communication regarding the above mandate was shared at the April 26, 2013, faculty meeting by the Director of the Frankel Center.

Beyond the above, if faculty, students, and staff do not comply with University policy and the unit mandate, the Frankel Center will need to consult with the LSA Dean's office to make additional efforts to ensure implementation at the unit level or college wide.

### **Conflicts of Interest or Commitment**

*Discussion:* Faculty conflicts of interest or commitment are initially disclosed to the Frankel Center and discussed with appropriate central offices and the LSA Dean's Office. However, potential conflicts were not reported as required by the LSA Policy on Faculty Conflicts of Interest and Conflicts of Commitment. In addition, when the circumstances surrounding a potential faculty conflict from 2009 changed in 2012, it was not reviewed with all appropriate offices.

*Control Recommendation:* Management should communicate and reinforce with the faculty the LSA Policy on Faculty Conflicts of Interest and Conflicts of Commitment. Management should also review the policy and strengthen their implementation in the following ways:

- Require disclosure of potential conflict of interest or commitment to the Director in writing
- Include recurring or long-term commitments in the annual report of each faculty member to the Director
- Report all COI/COC issues and the Center's procedures for managing them to the appropriate Divisional Associate Dean by the end of each year

*Management Action Plan:* The Frankel Center department recognizes that they need to have a clearer method and communication as to how faculty annually disclose and certify on COI/COC. They will be working with the LSA Dean's Office to determine the best language and vehicle for this going forward.

### **Administrative Procedures**

*Discussion:* Management has documented many academic and operational processes. However, some key administrative procedures, such as preparing budgets, reconciling the Statement of Activity, or reviewing the Gross Pay Register, are not documented. As a result, these key oversight functions could be disrupted by unplanned staffing changes.

*Control Recommendation:* Management should maintain written documentation of all key administrative procedures.

*Management Action Plan:* The Frankel Center will be experiencing staff turnover mid-June. They are in the process of evaluating the current organizational structure and staffing needs of the unit. It is likely that some administrative functions in some units may eventually migrate to Shared Services as a result of the Administrative Services Transformation (AST) Project. Once this occurs, the unit can further address the local procedures outlined above in conjunction with the LSA Dean's Office.

*Auditor's Comments:* During follow-up University Audits will re-assess the need for corrective action in the context of organizational or process changes.

### **Summary**

The administrative staff of the Frankel Center for Judaic Studies is attentive to internal controls and strives to comply with University and LSA policies and procedures, and to

educate the rest of the department. They are working closely with the LSA Dean's Office to improve oversight. All staff members were engaged, open, and responsive during the audit.

University Audits will conduct a formal follow-up to the outstanding issues during the second quarter of fiscal year 2014.

NCAA Compliance Review Report issued June 20, 2013	2013-402
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As a member of the National Collegiate Athletic Association (NCAA), the University of Michigan is required to comply with NCAA rules and regulations. At U-M, the Compliance Services Office (CSO) has the primary responsibility to oversee conformity with these requirements. University Audits completes an annual NCAA Compliance Review to provide assurance that CSO monitoring processes are effective. These annual reviews incorporate all varsity sports over a five-year cycle, with higher profile sports receiving more frequent reviews. University Audits procedures also include a review of select external camps and booster clubs to determine whether processes for tracking financial activity are adequate. Booster clubs and external sports camps are reviewed on a five-year cycle. The following sports, booster clubs, and external camps were reviewed this year.

Selected Sports	External Camps	Booster Clubs
<ul style="list-style-type: none"> <li>• Football</li> <li>• Men's Basketball</li> <li>• Ice Hockey</li> <li>• Men's Soccer</li> <li>• Men's Tennis</li> <li>• Rowing</li> <li>• Volleyball</li> </ul>	<ul style="list-style-type: none"> <li>• Women's Soccer</li> <li>• Rowing</li> <li>• Wrestling</li> <li>• Water Polo</li> <li>• Men's Lacrosse</li> </ul>	<ul style="list-style-type: none"> <li>• UM Club of Ann Arbor</li> <li>• UM Club of Mt. Clemens</li> </ul>

**Compliance Review Procedures**

The section below outlines detailed procedures performed for each compliance area. Unless specifically noted, procedures were performed only for the selected sports and for the 2012/2013 academic year.

**Rules Education**

- Confirmed that the rules education program includes student-athletes, coaches, non-coaching Athletics employees, and other representatives of the University's athletics interest (e.g., boosters).
- Reviewed selected CSO rules education information provided on the intranet site for meetings held during fall 2012 and winter 2013 to ensure coverage of key NCAA rules and regulations, including topics such as financial aid, recruiting, and eligibility.

### **Playing and Practice Seasons**

Since fall 2011, the process for submitting and monitoring Countable Athletically Related Activities (CARA) is done through the CSO's compliance monitoring software, JumpForward. This process requires all sports to report weekly activities for each of their athletes. JumpForward then identifies a random sample of athletes who will receive an email requesting anonymous verification of the hours reported by the coach.

To complete the review of playing and practice seasons, University Audits:

- Confirmed each of the selected sports reported their CARA activity in JumpForward within the CSO's established timeframes for the full academic year
- Confirmed that all athletes in the CSO's random sample had logged in to JumpForward and confirmed the schedule.
- Verified compliance with NCAA weekly hour limits and day-off requirements and confirmed adequate follow-up with student-athletes based on their responses. For football, the entire season was included. For men's basketball, four weeks of the playing season and four weeks of the off-season were reviewed. For all other selected sports, one playing season week and one off-season week were reviewed.
- Verified compliance with restrictions on start and (where applicable) length of playing seasons.

### **Coaching Staff Limits**

- Verified compliance with NCAA coaching limits by reviewing the coaching staff lists
- Confirmed that non-countable staff (volunteer and other non-coaching positions) signed the agreement that details permissible and non-permissible activities.

Note: A change to NCAA rules resulted in the creation of a new type of non-countable coach this year. Given the unique duties of this position, CSO did not have individuals in this category sign the existing non-coaching staff agreement as parts were not applicable. While NCAA rules do not require an agreement for all non-countable coaches, we recommend establishing a new agreement for coaches of this type. This will help clarify permissible versus non-permissible activities and increase accountability.

### **Financial Aid**

- For the entire student-athlete population, used data analysis software to compare financial aid amounts in M-Pathways to the data reported to the NCAA. Specifically:
  - Verified that total financial aid and athletic-based financial aid reported in the University's system for the fall 2012 and winter 2013 terms was within NCAA limits.
  - Confirmed the financial aid amounts in the University's system were not greater than the amounts actually reported to the Big Ten on the squad lists.
- For the sampled sports, verified compliance with NCAA 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
- Had their certification of initial eligibility 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 releases from previous institutions on file
  - Met eligibility determinations for practice and competition

### **Recruiting**

- **On-Campus** - Reviewed documentation for a sample of prospects from the selected sports 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 in high school
  - 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** - For a sample of prospects from the selected sports, reviewed a report from JumpForward that details all contacts and evaluations. Confirmed that the contacts and evaluations for the prospect did not exceed NCAA limits and occurred during allowable periods.

### **Camps and Clinics**

- Reviewed compensation documentation submitted to Athletics to confirm that compensation for coaches and student-athletes is reasonably consistent with other counselors of like teaching ability and camp experience.
- Confirmed that free or reduced admissions were recorded with an explanation on Athletics forms and compliant with NCAA regulations.
- Reviewed bank statements and supporting documentation to ensure transactions are reasonable, have a clear business purpose, and appear to be related to the operations of the camp.
- Confirmed reasonableness of amounts reported on the Athletics Financial Disclosure form, based on documentation provided.

Recommendations to improve business operations for the camps were shared with the camp owners at the time of the review as well as in a separate memorandum addressed to the Camp Administrator, the CSO, and Athletics management.

### **Boosters**

- Reviewed each booster club's Statement of Disclosure and financial records and assessed their processes for managing and tracking financial activity. Each booster club received a memorandum with suggested process improvements in their area as applicable; no compliance issues were observed.

### **Complimentary Tickets**

- For one regular season game for football, men's basketball, and ice hockey:
  - Reviewed the complimentary ticket reconciliation form and supporting documentation for completeness.
  - Confirmed compliance with NCAA limits on student-athlete guest complimentary tickets.
  - Confirmed compliance with NCAA limits on complimentary tickets to high school, college preparatory and two-year college coaches.
  - Confirmed compliance with NCAA limits on complimentary tickets provided to prospective student-athletes.
  - Reviewed the staff complimentary ticket sign-up sheet for completeness.
- For one postseason game for football, men's basketball, and ice hockey confirmed that:
  - Student-athlete guests were clearly authorized.
  - NCAA limits on number of tickets were adhered to.
  - Complete supporting documentation was available.

### **Student-Athlete Employment**

- Reviewed CSO's policies and procedures for monitoring student-athlete employment.
- Using the MPathways, identified current student-athletes with an active appointment at the University and for a sample of student-athletes confirmed the CSO had the appropriate paperwork on file.

Note: The CSO does not require student athletes who disclose their employment at a rules education meeting to additionally complete the Student Athlete Employment Form. This is because it would be inefficient since much of the information on the form is redundant to the disclosure and the NCAA student athlete employment rules were shared at the meeting. This process is acceptable but we recommend the CSO consider adding the rules and corresponding attestation to the disclosure form and update their policy to reflect the current practice.

### **Agent Relationships**

- Obtained general information on processes used by the CSO and other Athletics personnel to oversee agent relationships, and benchmarked practices with peer universities. Review included the CSO's policy on agent relationships and additional information available for agents in the Compliance section of Athletics' website.

## Summary

Based on University Audits review of written procedures and documentation, 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, complimentary tickets, student-athlete employment, and agent relationships. The CSO continues to look for ways to refine and enhance their monitoring procedures, including replacing manual processes with more efficient automated procedures. University Audits did not observe any NCAA violations that were not already appropriately identified by the CSO's regular monitoring processes and reported to the NCAA. University Audits, the CSO, and the Athletics Business Office will meet in the second quarter of fiscal year 2014 to plan for the 2014 NCAA Compliance Review.

## Health Care

Molecular and Behavioral Neuroscience Institute  
Report issued May 15, 2013

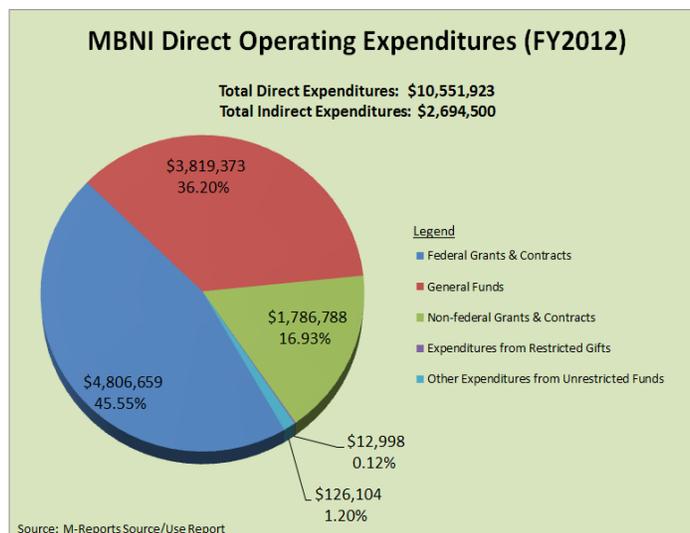
2012-214

The Molecular and Behavioral Neuroscience Institute (MBNI), which opened in 1955 as the U-M Mental Health Research Institute, is an interdisciplinary research institute engaging researchers across multiple U-M schools and colleges conducting collaborative laboratory-based neuroscience research.

Regent's Bylaw Chapter XI, *The Schools and Colleges and Affiliated Units*, Section 11.40, *The Medical School: The Molecular and Behavioral Neuroscience Institute (originally issued 1957 and revised April 2005)*, established MBNI under the administrative guidance of the University of Michigan Medical School's (UMMS) Department of Psychiatry. Initially, MBNI received separate annual funding directly from the State of Michigan. Over the years, separate State line item funding was folded into the University's state funding budget allocation. MBNI currently participates in the UMMS financial budget model.

MBNI operates as an independent research institute within the Medical School under the long-time leadership of two co-directors. Major research funding sources are the National Institutes of Health and the Pritzker Foundation. Since 2000, MBNI has been the coordinating institution for the Pritzker Neuropsychiatric Disorders Research Consortium. MBNI's direct operating expenditures for fiscal year 2012 are presented in the chart on the right.

MBNI downloads financial data from the University's financial management



system into their financial management tool, a commercial software package. Management stated that this allows more robust budgeting and financial reporting than the University's financial management system. MBNI financial staff use the software to incorporate encumbrances and projections into monthly financial reports. These reports are provided to primary investigators (PI) and administrators to monitor spending. Grant financial reports provide detailed expenditure information and include known encumbrances through the project grant end date.

## Purpose and Scope

The purpose of the audit was to assess MBNI business operations and internal controls to support stewardship and fiscal responsibility. University Audits evaluated the adequacy and effectiveness of controls governing the following MBNI processes:

- Grant management, including sub-recipient and sub-contract monitoring, effort certification, and human subject incentive payments
- Procurement, travel, and hosting practices, including approvals, P-Card limit reviews, and training
- Financial budgeting, monitoring, and reporting
- Payroll, timekeeping, and human resource management
- Conflict of interest and conflict of commitment management
- Building and lab safety and security
- IT systems and data management, including access control, account management, configuration management, disaster recovery, incident response, and physical, network and data security

Audit procedures included interviews with MBNI personnel, analysis and testing of grants, procurement, travel, timekeeping, and payroll activities, and reviews of training reports, internal control gap analyses, and safety inspection reports.

Audit observations, including concerns about MBNI's long-term financial viability, and opportunities to strengthen business practices, address building and lab safety and security, and enhance information technology management are described below.

## Audit Observations

### Long-term Financial Viability

*Discussion:* Approximately 75% of MBNI operating funds are from external sources.

<b>MBNI General Fund Balance</b>					
	2009	2010	2011	2012	February 2013
<i>Beginning Balance</i>	\$142,743	(\$468,370)	(\$1,112,234)	(\$5,687,646)	(\$6,183,718)
<i>Total Sources</i>	3,415,046	3,196,163	3,202,893	3,323,301	2,124,388
<i>Total Usage</i>	4,026,159	3,840,027	7,778,305	3,819,373	3,039,180
<i>Net Change</i>	(611,113)	(643,864)	(4,575,412)	(496,072)	(914,792)
<i>Ending Balance</i>	(\$468,370)	(\$1,112,234)	(\$5,687,646)	(\$6,183,718)	(\$7,098,510)
<i>Faculty Commitments*</i>	\$0	\$0	\$3,879,424	(\$269,580)	\$178,218
<i>Balance Adjusted for Commitments</i>	(\$468,370)	(\$1,112,234)	(\$1,808,222)	(\$2,573,874)	(\$3,310,448)

\* Due to a change in accounting practices in fiscal year 2011, the Medical School began recording commitments at the department level. MBNI commits funds to faculty for research startup costs, recruitment and retention, academic incentives, and other faculty use. Commitments represent funds MBNI plans to use in the future. They do not impact current operations. MBNI management stated they have set aside money in an FFAE (Funds Functioning as Endowment) account to settle these future commitments.

These funds are sponsored research and gift funds and generally cannot be used to support on-going administrative and facility costs. The table presented above shows that MBNI has continued to annually overspend general fund allocations over the last few years. In fiscal year 2009, the general fund balance moved into a deficit (negative) position. The underlying cause is MBNI does not generate sufficient unrestricted funds to support current administrative and facility costs. In addition, MBNI's unique function as a Medical School research institute does not yield revenues from clinical operations, student tuition, or alumni and patient gifts.

University Audits contacted University of Michigan Health System (UMHS) Finance and Medical School administrators in December 2012 to determine their awareness of MBNI's financial position and to find out what, if any, corrective measures had been taken to improve and manage MBNI finances. UMMS Finance and Medical School Administration were not aware MBNI was facing increasing financial difficulties. Although it is unclear why MBNI did not stand out as an individual unit with a growing deficit, UMMS financial managers promptly began communicating with MBNI administrators to gain a better understanding of the situation. UMMS management concluded that additional analytical data and meetings with MBNI management are needed to develop and implement a corrective strategy.

*Recommendation:* MBNI administrators, UMHS Finance, and Medical School Administration need to work together to reduce the deficit and develop a process to manage and monitor MBNI's budget and financial health going forward.

*Management Action Plan:* MBNI management initiated cost reduction measures through departmental reorganization and reduction in staff, including elimination of an in-house cafeteria. MBNI administrators, UMHS Finance, and Medical School Administration are working together to provide ongoing monitoring of MBNI's budget and financial health. MBNI and UMHS Finance management are meeting quarterly to review financial status and options for deficit reduction.

### Business Practices

Overall, MBNI has good processes tracking business expenses at the individual project/grant level; however, the following opportunities for improvement were noted.

### Approvals

*Discussion:* MBNI has internal processes in place to verify that material and supply purchases are authorized and accurate, but needs to improve the approval process over travel, hosting, and payroll transactions. In an effort to minimize administrative burdens on management, PIs, and research staff, MBNI financial staff members approve most of MBNI's financial transactions, including Concur expense reports of an immediate supervisor and a majority of MBNI researchers and staff. Financial staff members also approve payroll data for each other, an immediate supervisor, and research staff they do not directly supervise. Some approvals are based on reasonableness, as opposed to direct knowledge or oversight, which increases the risk for mistakes and mismanagement.

*Recommendation:* Assign timekeeping and Concur approval responsibility to administrators or PIs in the best position to determine the validity and reasonableness of travel, hosting, and payroll transactions. University policy states that while it is acceptable practice to have multiple approvers review expense reports, the final approver should be in a higher level position of authority and be able to determine the appropriateness and reasonableness of expenses. Similarly, individuals approving time data must have direct (or indirect) knowledge that hours reported are true and accurate.

*Management Action Plan:* Approval flows have been reassigned to appropriate higher administrative authority. Direct supervisors are reviewing and approving expense and timekeeping data for their direct reports or alternatively providing approvals via e-mail to departmental timekeepers and expense approvers.

Training

*Discussion:* Management believed staff had completed all required training. However, a review of training certifications maintained in M-Pathways, the University’s financial management system, showed several individuals involved in the human subject incentive payment (HSIP) process have not completed cash handling training. Treasurer’s Office procedures states “...all individuals handling/distributing HSIP should complete the online cash handling course TME 103.” In addition, an individual authorized to approve expense reports in Concur, the University’s Travel and Expense Management System, has not completed the online U-M Concur Approver Training course TEE 102. University faculty and staff whose responsibility includes approving expense reports should complete the course. Procurement Services recommends the training be completed annually.

*Recommendation:* All required employees should complete TME 103 and TEE 102 as soon as it is feasible. Going forward, periodically review training reports available through M-Pathways to assess departmental training needs and completion of required training. Some helpful M-Pathways resources are:

<i>BusinessObjects Query</i>	<i>Verifies</i>
FN06 Procurement Travel and Expense Approver Report by EmplID, DeptID, or DeptGrp	Concur Approver Training Certification (TEE102)
FN03 JrnlDetail Deposit Management Report	Treasurer’s Office Depository Certification (TMT101)
FN03 CMB TME103 Cash Handling Certification Management Report	Treasury Management Cash Handling Certification (TME103)
FN03 CMB Treasury Office Certification Course	<ul style="list-style-type: none"> <li>• Merchant Certification (TME102)</li> <li>• Cash Handling Certification (TME103)</li> <li>• Depository Certification (TMT101)</li> </ul>

*Management Action Plan:* All MBNI staff have completed or are in the process of completing required training. Going forward, management will develop a process to ensure training is kept up-to-date.

### Other Business Practices

*Discussion:* The audit identified the following internal control improvements that would reduce workloads, enhance productivity, and reduce financial and operational risks:

1. Although MBNI verifies that expenditures tie to department Statements of Activity, key financial business process controls such as preparing and reconciling budgets and reviewing higher-level business reports are not reviewed on a regular basis.

*Recommendation:* Fully implement University policy Standard Practice Guide (SPG) Section 500.01, *Fiscal Responsibilities*, including reviews of higher-level business reports.

2. University Audits was unable to review and confirm that the 2012 internal control gap analyses were completed, although University Audits confirmed they were completed in the prior year. Management stated that they did not receive timely notifications from UMHS Finance to complete the fiscal year 2012 process. Management completed the gap analyses after receiving an alert from UMHS Finance; however, due to technical difficulties, the completed 2012 gap analyses were not saved in the system.

*Recommendation:* Work with UMHS Finance to ensure the MBNI Administrative Director receives regular and timely communications regarding internal control assessments and certification processes.

3. Management does not require staff to complete the annual UMHS Code of Conduct attestation. The Code summarizes the standards of conduct for all UMHS employees, including employees working in units that report up through the U-M Medical School.

*Recommendation:* Require staff to complete the UMHS Code of Conduct attestation form annually. Completed forms should be maintained on-site in employee personnel files.

4. Review of P-Card holder limits showed limits for most employees are set well above average monthly spends, and in some instances, well above the highest spend amounts made in the sixteen-month period between July 2011 and October 2012.

*Recommendation:* Reassess P-Card limits for all P-Card holders and adjust limits as needed based on spend patterns. Use the P-Card Limit Change Form to request changes to the monthly credit limit, keeping in mind that Procurement Services can process temporary limit increases if necessary. Close infrequently used P-Cards and contact Procurement Services if you need help identifying alternatives to issuing P-Cards.

*Management Action Plan:* 1) MBNI will fully implement SPG Section 500.01 Fiscal Responsibilities within the Institute and will develop a schedule to review relevant higher level management reports. 2) Management contacted UMHS Finance to

make sure the Institute receives appropriate internal control assessment notifications. Going forward, control gap analyses will be completed and documented on time as part of the annual internal control certification. 3) UMHS Code of Conduct attestations will be completed in June as part of the annual staff evaluation process. 4) P-Card necessity and limits are currently under review and will be adjusted to reflect current and anticipated business needs. Management will periodically review and adjust P-Card limits as needed.

### Familial Relationships

*Discussion:* There are multiple instances of familial relationships at MBNI. Management is aware that several employees have family members working at MBNI and asserts that no one reports directly to a family member. MBNI does not maintain documentation describing the relationships or how they are managed. Human Resources is unaware of these relationships. University policy SPG Section 201.23, *Appointment of Relatives or Others with Close Personal or External Business Relationships; Procedures to Assure Equal Opportunity and to Avoid the Possibility of Favoritism (Nepotism)*, states, “if an individual is to be assigned to a position that is under the supervision or control of a relative who has or may have a direct effect on the individual’s progress or performance, a management plan must be devised and approved by the head of the organizational unit (e.g., dean, director) and the unit’s senior Human Resources officer.”

*Recommendation:* Document and examine familial relationships at MBNI. Consult Human Resources to determine if management plans need to be developed to prevent the actual or perceived appearance of favoritism with respect to appointments, promotions, wages, hours, expense reviews, or other conditions of employment.

*Management Action Plan:* MBNI management is working with UMHS Human Resources to document related employees and determine if management plans are needed.

### Building and Lab Safety and Security

The Department of Occupational Safety and Environmental Health (OSEH) periodically conducts fire, food safety, and lab inspections. MBNI management has addressed known inspection issues; however, OSEH initiated comprehensive MBNI building-wide lab inspections are not performed on a regular basis. This issue is discussed in a separate management advisory addressed to OSEH.

### Information Technology Management

MBNI and specific labs associated with MBNI maintain their own IT infrastructure (e.g., network domains), which provides email, file storage, identity management, and high performance computing. University Audits noted the following opportunities to improve the security of the IT infrastructure.

### Account Management

*Discussion:* MBNI’s documented procedures for provisioning and de-provisioning accounts (e.g., user access accounts) are over eight years old and out-of-date. Guest,

students, and temporary employees have expiration dates set on the accounts; however, MBNI lacks documented procedures to identify when these individuals leave MBNI prior to the set expiration date. Monitoring of account creation or escalation no longer occurs. This activity, previously performed by running a script, was inadvertently discontinued when the administrator responsible for maintaining and running the script left the department. Monitoring account creation and modification is a key element in identifying unauthorized access and minimizing the impact of a security incident.

*Recommendation:* MBNI should document policies and procedures used to manage user access accounts. Appropriate details need to include authorization to create, delete, and modify user accounts. Procedures should identify methodology used to ensure unauthorized account activity is captured.

*Management Action Plan:* The MBNI IT Department will update existing user creation and deletion forms to ensure consistency during the provisioning and de-provisioning of user accounts. Current procedures will be updated to include the use of the user creation and deletion forms. Procedures will also include running quarterly Active Directory queries to identify dormant accounts that have not been accessed within the last three months. IT administrators will reinstate monitoring scripts, which compare domain user lists on a day-to-day basis, to detect the creation of unauthorized accounts.

### Configuration Management

*Discussion:* MBNI maintains secure domains that are logically isolated from the other MBNI and University networks. Vulnerability scans showed patches and updates were not applied to computer assets residing on the isolated MBNI networks. Although the computers are segregated from the internet, this does not eliminate the risk of malicious code infecting unpatched computers and, given the sensitivity of these networks, elevates the effect of an incident.

*Recommendation:* Develop procedures addressing the management of updates to isolated networks and domains. Include update schedules, testing procedures, and methodology used to deploy system patches to isolated networks.

*Management Action Plan:* The MBNI IT Department will research and implement a system to update the isolated networks on a monthly or bimonthly basis.

### Disaster Recovery

*Discussion:* A disaster recovery plan (DRP) is a documented process or set of procedures designed to help an organization protect its IT infrastructure and recover from disruptive events. DRPs have not been developed for MBNI IT services or systems. In accordance with University policy SPG Section 601.12, *Institutional Data Resource Management Policy*, and following best practice guides, a DRP should be developed for essential operations to include data backup, disaster recovery, and emergency mode operation procedures. Failure to create a DRP can cause unnecessary delays in the recovery of the department's critical IT assets.

MBNI file server backups are currently stored onsite. The co-located backups protect the data from hardware failures and data corruption, but there is no protection from environmental hazards such as fire or flood. IT administrators are working with several U-M departments to find alternate sites for file server backups.

*Recommendation:* Identify critical systems and develop a DRP. The DRP should support resumption of operations critical to the MBNI mission, including regaining access to data, communications, and alternate sites to house servers if necessary. Establish Recovery Time Objectives, the time estimated to restore systems and operations after a catastrophic event, and Recovery Point Objectives, the point in time of data restoration (i.e., date of most recent transaction). The DRP should be tested and updated periodically to ensure the plan meets the needs of the department. Data backups of the file servers should be moved to alternate locations to protect from unnecessary loss of data in the event of a disaster. Agreements between the alternate sites and MBNI should include all security and access requirements.

*Management Action Plan:* MBNI is in the process of finalizing offsite backup server relocation. Management moved servers to an offsite location and will document agreements between MBNI and the host locations. Management will also identify critical systems and create step-by-step procedures to ensure recovery of vital systems.

### Incident Response

*Discussion:* MBNI does not have an Incident Response Plan. University policy SPG Section 601.25, *Information Security Incident Reporting Policy*, directs units to “...develop and implement unit-level policies, procedures, communications, and education programs that are consistent with University-wide policies and procedures.” An Incident Response Plan assists IT personnel when responding to a security incident. The plan should identify the proper notifications and escalations when sensitive data is involved in an incident.

*Recommendation:* Work with the designated IT Security unit liaison to develop an Incident Response Plan that meets all requirements of SPG Section 601.25. All personnel that would respond to an IT security incident should be trained on proper procedures for handling security incidents and know how to escalate incidents involving sensitive information.

*Management Action Plan:* The MBNI IT Department will document steps to minimize damage in the event of a security breach by developing an at-a-glance (one page) procedure for individuals to quickly identify and report security incidents to the proper agencies.



### **Summary**

MBNI has been running a general fund deficit for the past several years. UMMS and MBNI management need to review current cost structures supporting the MBNI research infrastructure, including funding sources, allocations, potential redundancies, and cost benefits. Partner with Medical School Information Services (MSIS) to optimize information and data management practices. Redefining administrative roles and responsibilities and implementing basic management reviews will strengthen the overall business control environment and fiscal oversight. MBNI policies and procedures should be documented, with appropriate monitoring to detect non-compliance.

Medical School and MBNI leadership need to work together to determine the strategic direction and financial viability of the Institute. Institutional governance and management oversight should be appropriately focused to promote strong internal controls and fiscal responsibilities.

University Audits will conduct a mid-fiscal year follow-up review in December of 2013 to review progress on management's action plans.

### **Follow-up Reviews**

UM-Flint Housing	2012-213
Original report issued November 1, 2012	Follow-up report issued May 14, 2013

University Audits reviewed the UM-Flint Housing Office and issued an audit report November 1, 2012. The report identified an opportunity to improve financial oversight and coordination between the Office of Student Affairs (to which Housing reports) and the Housing Office staff. A follow-up review has determined that this item has been satisfactorily addressed as summarized below. Actions were also taken to address efficiency and process improvement suggestions made during the original review. **This audit is now closed.**

- **Financial Oversight:** The Accountant in Student Affairs, in keeping with the cluster accounting model, has gradually taken on more of the financial reporting responsibilities that were previously performed by Housing staff. Documentation has been created to clearly define the tasks for which each unit is responsible. UM-Flint Financial Services and Budget department, which provide significant oversight for the Accountant, should continue to monitor for appropriate segregation of duties and ensure the Accountant's workload remains balanced as additional duties are assigned.

The Accountant and the Administrative Assistant make sure that receipts, evidence of approvals, and other necessary documents are available for reconciliation of the financial statements. The Accountant has streamlined existing reports and created new reports for the Housing Office, and the Housing Office has decommissioned a financial shadow system that is no longer necessary because of the new reporting.

These changes have allowed the Administrative Assistant to devote more time to other Housing projects. Monthly meetings and as-needed phone calls between the Housing Director, the Housing Administrative Assistant, and the Accountant allow for review of the financial reports at a high level or in detail.

Michigan Academic Computing Center  
Original report issued August 23, 2012

2012-807  
Follow-up report issued May 23, 2013

The Michigan Academic Computing Center (MACC) audit report was issued on August 23, 2012. The audit identified opportunities to improve access management, security, business continuity, and disaster recovery plan efforts.

Management has made significant progress on addressing the items identified in the audit report. Management has also taken the initiative to standardize policies, processes, and procedures across all Information and Technology Services (ITS) managed computing centers. This standardization effort is a collaborative process that includes University of Michigan personnel and affiliates. Although substantial progress has been made, additional time is required to complete several of management's corrective actions.

**University Audits will conduct a second follow-up of the remaining open items in the first quarter of fiscal year 2014.**

- **Role Based Access Approval Process:** University Audits recommended that the process for physical access to the MACC should be standardized and thoroughly documented. Requests for access should be tracked using a ticketing system and paper request forms should be stored and organized for easy retrieval. Management has made significant progress on developing a policy that will govern access request requirements to all ITS managed computing centers. Electronic tracking of access requests has been delayed due to a pending IT Service Management System project. This item remains open.
- **User Access Removal:** University Audits recommended that management strengthen and document the quarterly user account audit process to better address dormancy, employment termination, employee transfer to an unrelated unit, or change in job role. The agreement with MACC tenants should require units to inform MACC Operations when an employee transitions out of a role that required access to the MACC. Management has developed a process to purge dormant accounts and included verbiage in the access policy to inform tenants of these requirements. The access policy includes documentation of the quarterly audit process. Once the policy has been approved by the appropriate personnel, a review of accounts will be completed in the next follow-up. This item remains open.
- **Third Party Employee Vetting Process:** University Audits recommended that management develop an authorized approvers list as stated in the Rack License Agreement and review the list for accuracy on a regular basis. Management has developed a list of authorized approvers and a process to keep it current. This item is closed.

- **Video Monitoring:** University Audits recommended that security camera feeds from the MACC should be sent to a network operations center to facilitate monitoring. These feeds should be monitored on a schedule no less frequent than other ITS administrative datacenters. Management should also identify critical systems in order to ensure those systems are monitored with security cameras. A project to install a new IP based camera system in all ITS computing centers is in progress. The project will allow for 24/7/365 monitoring by operations staff. Identification of critical ITS systems has not been started. This item remains open.
- **Door Alarm Response:** University Audits recommended that management work with the appropriate vendor to remediate the issue(s) causing false alert entries in the door alert logs. Management should also work with the property owner to determine the appropriate notification procedure when the northeast egress alarm is triggered. A process of reviewing the alert logs, once the false alert entry issue has been resolved, should also be developed. This item remains open.
- **Incident Response Procedure:** University Audits recommended that management develop an incident response procedure and educate personnel once the procedure has been developed. Management asserted that development of this item is in process. The building leaseholder and MACC Operations are collaborating on this effort. This item remains open.
- **Load Transfer Test:** University Audits recommended that MACC Operations should regularly perform a test of the redundant power systems. Management has developed a process to regularly test redundant power systems. The redundant systems have proven effective during recent power outages. This item is closed.
- **Disaster Recovery Hardware Replacement Contract:** University Audits recommended that MACC Operations submit the list of machines required in the contract, to avoid any delays in hardware replacement if a disaster should occur. Management was able to perform an inventory of ITS systems and provide the list to the hardware replacement vendor. This item is closed.

Cooperative Institute for Limnology and Ecosystems Research

2012-221

Original report issued October 23, 2012

Follow-up report issued June 26, 2013

The Cooperative Institute for Limnology and Ecosystems Research (CILER) has addressed all concerns identified in the audit report issued October 23, 2012, by University Audits. **The audit is closed.** We observed that CILER has strengthened controls in the following ways:

- **Management Oversight:** CILER and the School of Natural Resources and Environment (SNRE) prepared a Service Level Agreement to delineate the responsibilities of each unit for Human Resources functions. The CILER Business

Administrator began scheduling weekly meetings with the SNRE Business Manager. These meetings are intended to foster cooperation and coordination between the units. Meeting notes are placed in Google Docs to allow monitoring and oversight by the directors. The new CILER Administrator is an experienced University grant administrator, so training by the Office of Research and Sponsored Projects was not necessary.

- **Grant Management Reporting:** At the conclusion of audit fieldwork, CILER worked with Information and Technology Services (ITS) to revise their grant management reporting. The IT changes were an improvement, but did not address all the needs of CILER's principal investigators (PIs). The new SNRE Business Manager and CILER Associate Administrator adapted a report used at the Institute for Social Research that requires minimal manual entry and provides the level of detail needed by CILER PIs.
- **Laboratory Training, Documentation, and Certification:** CILER began monitoring lab safety training after the audit was completed. They documented the policy for safety training in the manual and prepared an Excel spreadsheet to track staff training needs and their completion status.
- **Retroactive Salary Distribution Changes:** When CILER pays employees for work on grants whose funds have not yet been disbursed, they now use hardship accounts to reduce the number of retroactive salary distribution changes between grants. Under the hardship process, a sponsored project/grant can be established prior to actual receipt of the final award document.

Samuel Zell & Robert H. Lurie Institute for Entrepreneurial Studies	2012-222
Original report issued January 20, 2013	First follow-up report issued June 28, 2013

The Samuel Zell & Robert H. Lurie Institute for Entrepreneurial Studies (ZLI) has revised several processes in response to the audit recommendations from the audit report issued January 20, 2013. A few unresolved items remain and University Audits will complete a second follow up in October. A summary of the corrective actions follows:

- **Cash Handling:** ZLI and Treasury collaborated to secure a single function mobile credit card processing device for the Michigan Growth Capital Symposium. All attendees paying by credit card at the symposium were processed without problem using the new device. Using the single function processing device is compliant with Payment Card Industry security standards. **This issue is closed.**
- **Management Oversight:** ZLI has been working to tighten documentation of management oversight controls in the following key ways:
  - Documentation of key processes is a work in progress. ZLI has formally documented a majority of program processes. ZLI should finish the documentation process for the remaining programs and revise procedures when necessary. There are still opportunities to improve documentation for the financial processes, including clearly noting individuals responsible for

reconciling and approving transactions like payroll, cash deposits, and authorizing procurement payments.

- There is evidence that ZLI is monitoring key reports and taking action when appropriate. **This item is closed.**
- ZLI leadership has clarified expectations and procedures for missing documentation and late payments; however, they have not yet been formally documented.
- The audit identified a need to formally approve transactions to demonstrate segregation of duties and provide accountability. ZLI has not fully implemented the formal approval process.

ZLI leadership is changing with the Executive Director, Managing Director, and Administrator leaving the department later this summer. We encourage the new team to contact the Ross School of Business CFO's Office for guidance during the transition and for assistance in reinforcing these controls as part of ZLI's standard practices. University Audits will follow up on the remaining open items in October but is available to answer any questions.

## **Open Audits Follow-up Table**

As of June 30, 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
University of Michigan–Flint Educational Opportunity Initiatives 2010–211	2/18/2011	Strategic oversight and guidance; campus support and collaboration; budget and financial management; staff management; event management; business continuity; documentation of policy and procedure	First Follow-up April 2012 _____ Second Follow-up April 2013 _____ September 2013
Division of Student Affairs Recreational Sports – Club Sports 2010–816	3/2/2011	Sponsored student organizations; guidance; financial management; practice, game, and fitness space; medical support; property	First Follow-up October 2011 _____ Second Follow-up April 2013 _____ December 2013
Financial Considerations for International Activity 2011–101	6/30/2011	Coordination of effort; documented policies and procedures; currency exchange; cash purchases; international bank accounts	September 2013
UM–Flint Business Continuity 2011–303	8/12/2011	University impact analysis; BCP standards template; business continuity testing; disaster recovery plan	First Follow-up March 2012 _____ Second Follow-up December 2012 _____ July 2013
Plant Operations Information Management and Reporting 2011-102	12/22/2011	Data management; reporting and analysis	Review progress June 2012 _____ Second Follow-up April 2013 _____ Third Follow-up July 2013

Audit Title	Report Date	Issues	Expected Completion
C.S. Mott Children's Hospital and Von Voigtlander Women's Hospital - Telecommunication Closets 2012-313	1/31/2012	Communication cabling layout; room signage; locking cabinets and doors; environmental temperature; inventory process; ownership; access controls; security camera monitoring; access monitoring controls; servers in the communication rooms	September 2013
e-Verify 2011-302	2/20/2012	Contract information; identification of employees; document retention; e-Verify notice requirements; subcontract language; e-Verify System user access	August 2013
U-M Hospitals and Health Centers Valet Parking 2012-107-2	3/26/2012	Reconciliation practices; vendor employee use of patient/visitor parking space; valet parking vouchers, imprest cash fund and cash handling practices; annual certification of internal controls and gap analysis; background checks on vendor employees	First Follow-up December 2012 <hr/> October 2013
University of Michigan Flint Office of the Provost 2012-204	4/17/2012	Strategic plan funding model and procedure; organizational structure and resources; policy and procedure manual; delegation of authority; management oversight; gift fund management;	First Follow-up April 26, 2013 <hr/> September 2013
Information and Technology Services DNS - Domain Name Service 2012-301	5/2/2012	Recursion on authoritative name servers; recursion; authenticated zone transfers; DNS architecture documentation; host operating system; performance metrics; server access	First Follow-up April 2013 <hr/> December 2013

Audit Title	Report Date	Issues	Expected Completion
UMHHC Community Health Services-Community Programs and Services 2012-214	6/28/2012	Monitoring loan activity; cash handling practices; credit card controls; interpreter services program; monitoring accommodations activity; training and performance evaluations for hospital volunteers; annual certification of internal controls and gap analysis	First follow-up April 2012 <hr/> October 2013
UM-Dearborn College of Engineering and Computer Science 2012-302	6/29/2012	Financial oversight; documented policies and procedures; conflict of interest and commitment; training and facility safety; contracts, grants, and agreements; asset management; gift handling and monitoring; Engineering professional development; incident response plan; key logs; vulnerability scans; configuration control policy; disaster recovery plans of IT; data security procedures	September 2013
ITS Michigan Academic Computing Center 2012-807	8/23/2012	Role based access approval process; user access removal; third party employee vetting process; video monitoring; door alarm response; incident response procedure; load transfer test; disaster recovery hardware replacement contract;	First Follow-up May 2013 <hr/> December 2013
Transportation Research Institute 2012-502	9/13/2012	Standardized project management; compliance with University guidelines; fiscal responsibilities; monitoring and budget reporting; information technology controls; documented procedures and expectations	August 2013
UMHHC Wireless Medical Devices 2012-315	10/29/2012	Wireless connection security; inclusion of MCIT in the procurement process	July 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
Residential Dining Service 2012-216	11/21/2012	Strategic planning, implementation, and evaluation; financial management and oversight; employment practices; cbord training and development	July 2013
School of Nursing 2012-209	11/21/2012	Clinical site affiliation agreements; international travel/global outreach; low risk internal control opportunities	September 2013
University of Michigan Health System Friends Gift Shops 2012-818	11/21/12	Cash handling processes; inventory management practices; financial monitoring and reporting practices; timekeeping and scheduling processes; procurement practices	October 2013
Travel and Expense Management System 2012-103	11/27/2012	Central Monitoring; unit reporting; training and customer service; data validation; expense report auditing	December 2013
MCommunity Enterprise Directory and Identity Management System 2012-310	1/11/2013	MCommunity server security; service agreements, identity management policy; server access; password hub; test environment; security information and event management; SIEM security	July 2013
Samuel Zell & Robert H. Lurie Institute for Entrepreneurial Studies 2012-222	1/22/2013	Cash handling; management oversight;	First Follow-up June 2013 <hr/> October 2013
Office of the Vice President for Global Communications and Strategic Initiatives 2012-211	1/30/2013	Procurement management; oversight; document retention; delegation of authority; A/R reconciliation; imprest cash; conflict of interest/commitment; temporary staff appointments; timekeeping	August 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
Law School 2012-208	02/04/2013	Disclosure of Conflicts; Fund Establishment; Event Reconciliation; Administrative and Staffing Efficiencies; Procurement Compliance; Clinic Administration; Gift and Cash Handling; International Travel Registry; VendaCard Dispenser Form	August 2013
School of Information 2012-215	3/22/2013	Development office procedures; faculty appointments; continuity of operations; RECON; travel registry; Concur approval	December 2013
Detroit Center 2012-814	4/8/2013	General control environment; financial monitoring and oversight; funding model; space management/reservation system; procurement, travel, and hosting; continuity of operations planning; asset management	September 2013
Payment Card Industry Data Security Standards 2013-310	4/11/2013	Security Unit Liaison PCI-DSS training; self-assessment process; required vulnerability scans; volunteer PCI training; Matthaei Botanical Gardens parking meter firewall; anti-virus; vendor defaults	September 2013
University Unions 2012-201	4/25/2013	Supplemental systems; imprest cash funds; payroll processes – AFSCME overtime record keeping; documented procedures; credit card merchant processes	December 2013
Medical School Department of Family Medicine 2013-211	04/25/2013	JEPP program; physician compensation model; procurement practices;	December 2013
Medical Center Information Technology and Arbor Lakes/North Campus Data Centers 2012-307	4/26/2013	MCIT Managed Data Centers' Lack a Comprehensive Continuity of Operations Plan	First COOP Meeting June 2013  Next COOP meeting is scheduled for September 2013

<b>Audit Title</b>	<b>Report Date</b>	<b>Issues</b>	<b>Expected Completion</b>
College of Literature, Science, and the Arts Kelsey Museum of Archaeology 2012-201	4/26/2013	Museum store purpose and objective; inventory management, pricing and security; cash handling; use of a cash register; change fund; security staff; security training; physical access control; international travel planning	March 2014
Molecular and Behavioral Neuroscience Institute 2012-211	5/15/2013	Long-term financial viability; business practices; billing and lab safety and security; information technology management;	December 2013
Knight-Wallace Fellows Program 2013-202	6/18/2013	Procurement; time and pay; administrative processes	December 2013
Frankel Center for Judaic Studies 2013-219	06/20/2013	Expense reporting; cash handling; international travel registry; conflicts of interest/conflicts of commitment; administrative procedures	December 2013