UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

Subject: Report of University Internal Audits
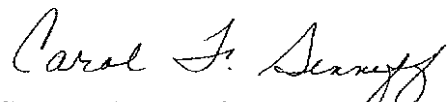   **March through April 2009**

Background:

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

Included in this report:

- Summaries of each audit report issued during the period, including Management's Plan to enhance specific control processes discussed with the audit client and presented in the report.
- Summaries of follow-up review reports issued during the period, including the actions taken by Management. Follow-up reviews are designed to give assurance that Management's Plan for corrective action has been implemented and controls are working appropriately.
- A report on the status of follow-up reviews as of **April 30, 2009**.

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

Respectfully submitted,

Carol F. Senneff, Executive Director
University Audits

ORIGINAL REPORTS

Campus

Department of Public Safety Fiscal Responsibilities   # 2008-201
Issued March 19, 2009

The University of Michigan Department of Public Safety (DPS) is a fully accredited law enforcement agency. DPS Officers are licensed by the Michigan Commission on Law Enforcement Standards, which has responsibility to promote public safety in Michigan by setting standards for selection, employment, licensing, and funding in law enforcement and criminal justice in the State of Michigan. DPS Officers have the authority and responsibility to investigate, search, arrest, and use reasonable force as necessary to protect persons and property and to enforce the laws of the State of Michigan and the ordinances of the Regents of the University of Michigan.

DPS has six basic functions:
1. Patrol
2. Monitoring
3. Physical Security
4. Prevention
5. Reporting
6. Investigation

To better fulfill these functions, DPS management recently restructured their department and created four bureaus within the department, each with its own department ID and fiscal responsibilities:
1. Director's Office (including all information technology functions)
2. Staff Services
3. Patrols
4. Auxiliary Services

The restructuring of the department was undertaken to help DPS obtain accreditation from CALEA (the Commission on Accreditation for Law Enforcement Agencies) that the department is currently pursuing. This accreditation program provides law enforcement agencies an opportunity to voluntarily demonstrate that they meet an established set of professional standards. Adherence to the CALEA standards helps law enforcement agencies improve the delivery of public safety services.

This audit focused on determining if policies, procedures, and other internal controls are in place and working appropriately to ensure compliance with University Standard Practice Guide Section 500.1 *Fiscal Responsibilities* and DPS departmental policy.

University Audits also reviewed the internal controls related to:
- Information technology (IT)
- Regulatory obligations (e.g., Clery Act[1], MICR[2] (Michigan Incident Crime Reporting), various grant-related requirements)

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[1] The Clery Act requires all colleges and universities that participate in federal financial aid programs to keep and disclose information about crime on and near their respective campuses.

- Assets (vehicle/equipment) management
- Firearms
- Seized evidence and forfeited property handling

University Audits reviewed written DPS policies and procedures and interviewed personnel within DPS to gain an understanding of the internal control environment within the department. The audit included testing and analysis of fiscal responsibilities, the IT control environment, regulatory compliance, asset management, and handling of seized evidence and forfeited property.

Control Issues:

1. <u>Internal Recharge Rate</u> - OMB Circular A-21, "Cost Principles for Educational Institutions," was developed and issued by the Federal Office of Management and Budget. This Circular establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. For the University to be compliant with the regulations of A-21, University of Michigan's Office of Financial Analysis requires the following:

   Annual Review:
   - All departments charging various other University units for the services they provide should have an internal recharge rate review, at least annually, by the Office of Financial Analysis.
   - A formal analysis of costs and recharge revenue should be submitted to the Office of Financial Analysis for review at least once every two years.

   Revision of Rates:
   - When the current approved recharge rate does not result in breakeven results, a request for revision of rates must be submitted with the cost and revenue analysis to the Office of Financial Analysis.

   DPS provides law enforcement and security services for numerous routine and special events held on campus. A significant amount of the internal billings for security services is billed to the Athletic Department for security at intercollegiate athletic events, most notably football games. DPS works closely with the Athletic Department on these charges. However, DPS has not performed any internal analysis of their recharge rate in fiscal year 2008, and they have not obtained an approval of the recharge rate from Financial Analysis in more than three years.

   Management Plan - DPS will partner with the Facilities and Operations Business Manger and staff from the Office of Financial Analysis to conduct the suggested review of the internal recharge rate. This collaboration will also produce a methodology to be used by DPS in conducting the required annual review.

2. <u>Statement of Activity (SOA) Reconciliation</u> - Standard Practice Guide Section 500.1 *Fiscal Responsibilities* requires monthly reconciliations of the Statement of Activity (SOA) to help ensure accuracy and completeness of all financial transactions. DPS internal policy requires that staff in each bureau perform a reconciliation of the SOA and forward the reconciled statement to the Accounting Clerk in the Staff Services Bureau with all supporting documents. The Accounting Clerk is responsible for reviewing the SOA against the approved budget and communicating all discrepancies to the Staff Services Bureau Commander. Although all bureaus have been performing the SOA reconciliations, a backlog existed for the April 2008 – October 2008 period at the time of the audit.

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[2] Michigan participates in this voluntary national program to collect crime statistics. The program is administered by the Federal Bureau of Investigation. The types of data collected include the number of offenses, clearances, types, and values of stolen and recovered property, and the age, race, and sex of persons who are arrested.

Management Plan - DPS has created a new internal form to document reconciliations of the SOA. The new Statement of Activity Reconciliation Report includes dates and signoffs on all reconciliations. DPS has completed all SOA reconciliations as of February 2009. In bringing the SOA reconciliations current, no inappropriate or unauthorized expenditures were noted and no discrepancies discovered.

Auditor's Comments: This issue was resolved during the course of the audit and University Audits verified use of the new form. **This issue is closed.**

3. Payroll - Standard Practice Guide Section 518.1 *Payroll Controls* requires adequate and timely reconciliation/review of the Gross Pay Register (GPR) to source documents. There must be appropriate segregation of duties or other mitigating controls in place for all payroll processing related activities.

Discussion with the DPS Payroll Clerk revealed:
- The Payroll Clerk does not initial and date the reconciliation of the GPR.
- The Payroll Clerk who is responsible for entering the timesheet data in the University system is also performing the GPR reconciliation. This does not represent proper segregation of duties because the same person should not both enter and reconcile data.
- No supervisory review is performed by the Captain of Staff Services on the GPR reconciliation performed the Payroll Clerk.

The Captain of Staff Services monitors the payroll process in aggregate using the Everest budgeting system. This review ensures that the overall payroll is reasonable in total, but does not address the level of detail implicit in the GPR review.

Management Plan - DPS has created a new form to document reconciliations of the GPR. The Gross Pay Register Reconciliation Report includes dates and signoffs on all reconciliations and is currently in use.

Auditor's Comments: This issue was resolved during the course of the audit and use of the new form used to document reconciliations and University Audits verified supervisory review. **This issue is closed.**

4. Procurement - University Audits examined DPS procurement processes used for hosting transactions and P-Card purchases against University requirements and departmental guidelines. These processes have changed in recent months to accommodate the restructuring of the Department into four separate bureaus with their own budgeting and transaction processing responsibilities.

DPS hosting policy requires UM Facilities and Operations (F&O) approval for all hosting expenditures incurred by DPS unless the charges are "pass-thru" charges (i.e., reimbursed by an outside entity).
- Testing of such "pass-thru" charges revealed the hosting/event planning forms did not contain any specific documentation of approval by DPS management in accordance with department policy.
- Additional testing revealed a hosted event which was not approved by F&O. All charges paid for the event were valid and because payment was made using a P-Card, back-end approval of the event was performed through signoff on the P-Card statement by F&O.

- Some P-Card statements reviewed during the audit were not being reconciled on a monthly basis. This appears to be related to the change made in processing procedures when the department was restructured and is not indicative of systemic control weakness.

Management Plan - Bureau support staff now maintain original documentation of all purchases made for their respective bureaus until either the SOA or P-card statements are reconciled each month. Once reconciled, the statements, along with the original supporting documents, are forwarded to the DPS Senior Financial Clerk for processing and central filing. DPS management takes its fiduciary responsibilities very seriously and has stringent internal purchasing controls in place, including a multi-layered review and approval process for most non-emergency purchases, hosting included. DPS management did approve the hosting charges associated with presenting the FBI Violent Crime Seminar described above. The front-end hosting approval by DPS management is inherent in the agreement of DPS to "host" the training event. The direct cost related to this hosting was subsequently reimbursed by the FBI. It should also be noted that management review and approval can also be verified by signed P-card statements.

5. <u>Grant Management</u> - Testing revealed that University systems do not always reflect accurate balances for all DPS grants because DPS is not transferring grant-related expenses from the General Fund to the appropriate project/grant funds on a timely basis. For example, expenses related to the "Dispatcher Training Fund" (N009645) incurred during January and April of 2007 were paid out of the General Fund. A journal entry was made to transfer these expenses to the appropriate project grant during November of 2008. It should be noted that these expenses were appropriate to be changed to the grant and all external reporting related to the grant was handled properly.

Not transferring expenses from the General Fund to appropriate project/grant fund increases the risk of misrepresenting DPS's financial position in the University system and could lead to inaccurate budget preparation. The DPS Business Office needs all relevant grant guidelines available to them to make such transfers and ensure that financial transactions are complying with grant requirements.

Management Plan - The DPS Business Office currently has been provided a copy of necessary grant documents to assist in the financial management of each of the grants. Increased awareness and attention by bureau support staff to eligible grant expenses should limit the necessity of later transferring expenses from the general fund into the appropriate grant account. It should be noted that DPS's financial position in the University system has not been misrepresented and has not led to inaccurate budget preparation.

6. <u>Tracking Mandatory Training</u> - DPS is one of the most highly trained police forces in the State of Michigan. Consequently, DPS staff is required to complete a variety of training sessions to comply with department requirements and various regulatory obligations. For instance, training in the use of force and department issued/authorized weapons is mandatory. DPS staff is also encouraged to participate in additional training to enhance skills and promote career development.

The DPS Training Unit is responsible for maintaining all training attendance, training content, and weapon proficiency records as outlined in the Training Records policy. They use a document that lists all required training and which staff need to complete this training and how often. Matching attendance records to training requirements for individual employees is a labor-intensive manual process since

DPS does not have an automated process in place to efficiently ensure that each staff member is completing the required trainings and career development programs.

Management Plan - DPS takes great pride in the quality, quantity, and diversity of training programs offered to staff. These programs enable DPS to field highly dedicated, professional staff in service to the University community. In fact, a recent audit process conducted by the Commission on Accreditation for Law Enforcement Agencies (CALEA) confirmed that DPS training programs and proofs of compliance met or exceeded all accreditation standards related to in-service training. DPS management concurs with the control recommendation offered by this report in so far as an automated database would enhance the efficiency of the training function. In order to facilitate the implementation of this control recommendation, we ask for assistance from University Audits in identifying what University software or other resources are available to DPS.

7. "Inventory Audit" Documentation - The Auxiliary Services Commander is responsible for maintenance of DPS property and is notified when such property is lost, stolen, destroyed, recovered, becomes obsolete, or becomes inoperable. As part of this notification process, DPS policy states that an inventory of all department-owned equipment should be conducted annually. Results of each inventory review are forwarded to the Auxiliary Services Commander for review and investigation of any discrepancies.

The last inventory was performed on July 1, 2008. The inventory reports for this inventory do not document the inventory date or the name and title of the person who performed the review.

Management Plan - DPS has added 'Date of Inventory' and 'Inventory Performed by' lines on the documentation form for current and subsequent inventories. DPS has a signed and dated equipment inventory on file.

As part of its pursuit of CALEA accreditation, DPS has restructured the department by creating four bureaus each with its own administrative support, department ID and fiscal responsibilities. This restructuring has resulted in significant change to DPS business processes. The impact of the decentralization of department business processes is still being felt. As these new processes mature, those issues discussed above related to documentation, approvals, and segregation of duties can be addressed by DPS management.

Another result of the accreditation process has been creation of detailed department policies and procedures. These policies and procedures are effectively documented, well monitored, and adequately communicated to staff and supervisors by management. The policies and procedures created comply with University guidelines and other applicable regulatory obligations.

DPS management has demonstrated a knowledge and understanding of the importance of proper internal controls within their business processes. With the exception of those areas discussed above, DPS policies, procedures, and other internal controls are in place and working appropriately to ensure compliance with University policy related to:
- Fiscal responsibilities
- Information technology
- Compliance with the regulatory obligations
- Assets management
- Firearms control
- Seized evidence and forfeited property handling

University Audits will conduct a follow-up review in the first quarter of fiscal year 2010 to review the progress on strengthening control processes.

<u>School of Kinesiology Fiscal Responsibilities</u>   # 2009-203
Issued April 14, 209

Kinesiology is the science of human movement, including the study of psychology, biochemistry, developmental motor control, and the mechanics of motion in subjects from birth through adulthood.

The School of Kinesiology, one of the nineteen schools and colleges at the University of Michigan, reports to the Provost and Executive Vice President of Academic Affairs. The School was initially established in 1984 as the Division of Physical Education, and has since grown to the Division of Kinesiology (effective 1990) and is now the School of Kinesiology (effective December 2008). Currently, the School has the fourth largest undergraduate enrollment at the University of Michigan. Kinesiology offers four academic majors: athletic training, movement science, physical education, and sport management. The School is presently undergoing an academic search for a new Dean.

The School consists of three operating units:
1. **Kinesiology** (unit) hosts all faculty instruction and the majority of the labs. Some operating and administrative functions, such as human resources, are centralized at the Kinesiology unit for all three units.
2. **Health Management Research Center** (HMRC) houses a significant part of the School's research activity. The HMRC also performs health risk assessments for clients outside the University as a revenue-generating opportunity. These assessments offer clients the opportunity to receive aggregate health information on their employee population.
3. **U-Move** offers physical fitness courses, summer day camp programs, and youth activities taught by Kinesiology students in the physical education major.

The School recently hired a business administrator associate, whose duties include overseeing operating and financial controls at the HMRC. This position reports to the director of budget and administration within the Dean's office and has no direct reports.

The objective of this audit was to assess whether the School of Kinesiology has adequate control procedures and business practices in place to monitor the following processes:
- Information Technology
- Business Integrity
- Cash Management
- Purchasing
- Payroll Management
- Financial Reporting
- Camps
- Accounts Receivable
- Grant Management
- Employment Records
- Royalty Payments
- Development

To achieve these objectives, University Audits interviewed employees within the School and its units, reviewed department procedures, and performed walkthroughs of the School's IT facilities in Ann Arbor and Flint. University Audits also performed analysis and testing, on a sample basis, of revenues, cash deposits, expenditures, payroll, employment, grants, financial reports, and camps.

Control Issues:
1. <u>Effort Certification Process – Kinesiology Unit</u> - University Audits identified seven employees who have not yet certified their effort for fiscal year 2008, although the deadline was September

15, 2008. The Human Resources (HR) officer is tasked with reminding faculty members of their yearly effort certification requirements. However, HR does not utilize the Effort Certification Status report in the M-Pathways Human Resource Management System to identify faculty who have not certified. Two of the seven employees are on sabbatical and have not responded to email requests for certification.

The As Needed Effort Certification report (also in the M-Pathways Human Resource Management System) is required to be submitted for all employees leaving the University. Terminated employees do not consistently sign this report as part of their exit interview, although it is noted in the exit interview procedure documentation. Attempts to obtain the certification months after the employee has left the University have proven difficult and time-consuming.

Management Plan - The HR officer will run the Effort Certification Status report two weeks after faculty and staff members receive the original notice from the Office of Cost Reimbursement to certify their effort. HR will forward the original message to those who have not yet certified and remind them to do so by the September 15 deadline. The HR officer will run the Effort Certification Status report again before the deadline. Any faculty or staff members that have not certified their effort will be sent another email, which will be copied to the director of budget and administration. Two weeks after the deadline, the HR officer will again run the Effort Certification Status report, and a list of those that have still not certified will be sent to the director of budget and administration and the associate dean for research (ADR). The ADR and the director of budget and administration will work with the HR officer to take additional action necessary to ensure those faculty and staff certify their effort. If necessary, the Dean will be notified and will take additional action to ensure compliance. The ADR will also make annual announcements at various faculty meetings and senior administrator meetings stressing the importance of timely effort certification.

The HR officer will schedule a brief exit interview with all faculty and staff leaving Kinesiology. At this time, management will be sure to cover all necessary termination information per our exit interview checklist and will ensure that terminated faculty and staff have certified their effort prior to their departure. The HR Officer will also meet with faculty and staff members who will be out of the office for the short term (i.e., sabbaticals, medical leave) and ensure they certify their effort prior to their departure.

These processes will be implemented in both Kinesiology and the HMRC.

2. Effort Reporting – HMRC Unit - Quarterly, the administrative specialist reports effort for all employees within the HMRC. Grant meetings are listed on the unit's bulletin board, and longer or more frequent meetings are taken into account for effort reporting purposes. However, faculty and staff do not provide direct input for this reporting process.

   Management Plan - Each quarter, the Salary Distribution Spreadsheet will be submitted to the HMRC director for approval. The director will then submit his approval email with the spreadsheet to the business administrator associate or the administrative specialist.

3. Statements of Activity (SOA) Reconciliation and Review – HMRC Unit - At the HMRC, a part-time office clerk reconciles the SOA. The clerk collects all supporting documentation to verify amounts are accurate and funds were assigned to the proper grant. Upon completion, the SOA is filed. No other review is performed unless the clerk has a question on a specific purchase which would be referred to the administrative specialist.

Management Plan - The administrative specialist will collect receipts, verify the amounts are accurate and that funds are assigned to the proper grant, and coordinate discrepancy follow-up. The office clerk will match receipts to the SOA, then forward to the administrative specialist, who will review, initial, and date all SOAs. The office clerk will then file the statements. On a quarterly basis, the Kinesiology Dean's Office business administrator associate will perform a high-level review of the SOAs and initial them.

4. <u>Gross Pay Register Review – HMRC Unit</u> - The Kinesiology Dean's Office created and filled the business administrator associate position in May 2008 to improve the internal control environment at the HMRC. Duties for this role include review and reconciliation of the Gross Pay Register (GPR). To perform this review, the business administrator associate used a format of the GPR that was sorted and grouped by project, making it extremely difficult to validate total hours worked by employee. As a result, the administrator only scans the report for names not associated with the HMRC. Reconciliation to source documentation (timesheets, etc.) is not performed, and a copy of the GPR is not initialed, dated, or retained as documentation of review.

   Management Plan - In addition to the current payroll report grouped by project grant, the administrative assistant will generate a customized report that reflects staff names and total time by category. This report will be used to compare hours reported by earning code to timesheets for each pay period. As evidence of review, the administrative specialist will initial the report and coordinate follow-up of any discrepancies. The administrative specialist will be responsible for comparing time paid to timesheets and reviewing the distribution of dollars to sponsored projects. Additionally, the business administrator associate will use a customized Business Objects query to review the total hours reported by earning code for each employee for each pay period. This report will be reviewed for overall reasonableness (e.g., employee names, consistent holiday hours, signed, dated, and retained.

5. <u>Unsecured Credit Card Terminal – HMRC Unit</u> - A credit card terminal that is used to process payments for HMRC clients is located in the employee kitchen at the HMRC. The location was chosen based on the availability of a dedicated phone line shared with the fax machine. Although HMRC management indicated a password was required to process credit card refunds, a test of the system by University Audits allowed a refund to be processed with no password.

   Management Plan - The credit card machine has been moved to a Business Services area (second floor), away from the kitchen area. The credit card machine will be locked in a desk drawer accessible only by the administrative assistant and the administrative specialist when not in use. The administrative assistant will process refunds and, once a month, the administrative specialist will review and initial refund transactions.

6. <u>Time Reporting Review – HMRC Unit</u> - The School of Kinesiology uses manual timesheets and timesheets are not processed consistently. University Audits noted the following exceptions:
   - One employee did not use the standard biweekly timesheet.
   - University Audits was unable to reconcile hours reported for this employee to the Gross Pay Register, as two selected timesheets did not include dates.
   - Timesheets for the same employee were not signed by the employee or her supervisor. Overtime hours were included in both timesheets.
   - HMRC has five employees that work more than 50% offsite. The administrative specialist indicated team leaders have begun completing timesheets for these employees if the employee fails to submit a completed timesheet. When this practice began, the frequency of employees failing to submit their own timesheets increased.

Management Plan - A timesheet (in pdf format) has been created for offsite exempt and nonexempt timesheets. Offsite employees will be required to use this form with their electronic signature and submit to their team leader for approval at the appropriate time according to payroll schedules and University policies. All timesheets will be signed by both the employee and their supervisor. Team leaders will ensure that the timesheets of team members are reviewed, approved, and signed. Team leader timesheets will be reviewed, approved, and signed by the director.

7. <u>Evidence of Review - U-Move Unit</u> - There are three full-time employees in the U-Move office: the program director, the assistant director, and an office manager. The office manager has many duties related to cash handling including collecting payments, processing class registrations, issuing class refunds, preparing deposits, transporting deposits, and is the custodian for imprest cash. In such a small environment, management oversight is critical to ensure effective internal controls. The SOAs are reconciled by the program assistant director. In addition, each bank deposit is prepared by the office manager and reviewed by the program assistant director. However, these reviews are not documented. Finally, the office manager is responsible for department timesheets, payroll entry, and reconciliation of the Gross Pay Register (which would include his own hours). A review by a higher administrative authority is necessary, but not performed.

   Management Plan - SOAs, deposits, and the Gross Pay Register will be initialed and dated by the assistant director as evidence of management review. On a quarterly basis, the School of Kinesiology Dean's Office business administrator associate will perform a high-level review of the statements and document this review.

8. <u>Imprest Cash Fund - U-Move Unit</u> - The U-Move office accepts walk-in registration for participants of the KidSport program and fitness classes. Customers may pay with cash, necessitating a change fund for the unit. A change fund has been in place at U-Move for at least three years with an approximate balance of $200. However, there is no custodian agreement form on file with Accounts Payable. Since the Accounts Payable department does not recognize the change fund, they have refused to provide money to replenish the change fund. To maintain approximately $200 in the change fund, portions of cash deposits are withheld. The change fund is stored in a metal "recipe-style" box, which is unlocked and stored in the office manager's file cabinet. Although the office manager indicated the drawer is usually locked, the auditor noted the cabinet unlocked during three separate visits throughout the audit. *SPG Section 501.02-1, Imprest Cash Funds*, notes that only the authorized fund custodian may have access to the change fund.

   Management Plan - The Imprest Change Fund Agreement form has been completed and submitted, with the office manager listed as the custodian of the funds and the assistant director as the higher administrative authority. The requested balance is $100. The drawer containing the cash box will be locked when the office is closed or when staff are out of the office. Only the office manager and assistant director will have access to the imprest cash fund.

9. <u>Cash Deposits - U-Move Unit</u> - U-Move participants frequently register and pay for classes, then cancel their enrollment. U-Move business practice is to provide immediate refunds, so customer payments made by check are held in the office for one to three weeks.

   All funds should be deposited on the date of collection, or within 24 hours if this is impractical and the total deposit is less than $500 (*SPG Section 519.03, Cash Management Policies*).

Participants registering for classes should acknowledge either verbally or in writing that refunds due to any course change or cancellation will be processed via Accounts Payable, per University policy.

Management Plan - Deposits are now made daily by the office manager, rather than on a weekly or as-needed basis. Signs regarding the refund policy have been posted in the office. This information has been added to the registration form and will be added to the brochure and posted policies starting with the Spring 2009 semester.

10. <u>Sensitive Data Record Retention - U-Move Unit</u> - U-Move's KidSport program is a summer day camp for children aged four to fifteen years. The camp is primarily held in the Central Campus Recreational Building (CCRB), although one session (golf) is held offsite. KidSport registration forms for the last three years are kept on file in the U-Move office. This file cabinet is unlocked and accessible to all U-Move staff. Registration forms include program information, participant medical information, emergency contacts, liability waivers, and customer payment information (e.g., full credit card numbers, expiration dates, and signatures). University Audits noted a scholarship application attached to one registration form that included the parents' 2007 federal tax return, which listed social security numbers for both parents and their two children.

    Management Plan - Management will remove and shred sensitive data contained in all past registration forms and scholarship applications by April 2009. In the future, staff will shred the payment section of any registration or scholarship form containing credit card or other sensitive data once the data has been used for scholarship or payment purposes.

    Auditor's Comment: Kinesiology management acted promptly to address privacy concerns raised in this issue. However, additional guidance from the Treasurer's Office recommends keeping the signature and last four digits of the card used, for payment validation purposes. Kinesiology had already shredded past sensitive data, including the signature. Management has noted the additional guidance obtained from the Treasurer's Office and going forward, will act accordingly.

11. <u>Background Checks for KidSport Instructors - U-Move Unit</u> - KidSport instructors are responsible for all aspects of child safety. Proper screening, including background checks, is imperative to ensure camper safety and reduce potential liability or risk of the University's reputation. Temporary student employees are not subjected to background checks, although their hiring paperwork authorizes such checks to take place. In the 2008 KidSport program, 42% of instructors were student temporary employees.

    Management Plan - The office manager or assistant director will send the completed criminal background check authorization form to the Kinesiology HR officer. The HR officer will forward the forms to HR Recruiting and Employment Services, where the background check will be performed.

12. <u>KidSport Hiring Documentation - U-Move Unit</u> - KidSport instructors are required to attend an orientation prior to the start of the camp. During this orientation, all hiring documentation such as their temporary application, certification records, and hepatitis B vaccination forms is obtained from the instructor. Review of a sample of instructors' files identified many missing components. Management is certain the papers were received at orientation or immediately after, but there is no evidence of this. Certification records are important to document the instructor's ability to provide a safe environment for camp participants, and acknowledgement of the hepatitis B vaccination is necessary to avoid possible liability complications.

Use of a hiring or on-boarding checklist would help management ensure that all necessary documentation was obtained.

> **Management Plan** - A detailed checklist has been created and will be used by the office manager to track the collection of the required documentation. A copy of the checklist has been approved and shared with the School of Kinesiology Dean's Office staff.

Many of management's action plans have already been developed and are in the process of being implemented. University Audits will conduct a follow-up review in the second quarter of fiscal year 2010 to assess the effectiveness and adequacy of implemented internal controls identified in management action plans.

Benefits Administration Office   # 2009-101
Issued April 30, 2009

During fiscal year 2008, the Benefits Administration Office (BAO) staff of thirty-seven:
- Managed $335M of self-insured medical, pharmacy, dental, and long-term disability plan expenditures.
- Facilitated collection of $32M of fully-insured medical, vision, and legal plan premiums and transferred them to third-party insurers.
- Facilitated collection and assignment of funds for $384M in retirement savings, flexible spending accounts, and benefit opt out payments.

BAO collaborates with Payroll, Treasury, Human Resources Information Systems (HRRIS), the Office of the General Counsel, and Michigan Administrative Information Services (MAIS) to provide benefits administration services.

In support of effective stewardship of University resources, BAO initiated a comprehensive controls assessment of their business processes. Their assessment included developing or updating written procedures and process flowcharts and proposing process controls where gaps were identified. BAO asked University Audits to perform a review of their results and provide feedback. During the course of the review, University Audits and BAO management and staff collaborated to identify opportunities for control improvements.

The audit objective was to evaluate BAO controls for achieving benefits business process objectives. Based on an assessment of audit risk, key benefits processes include:
- Setting premiums for and managing self-insured benefit plans
- Ensuring benefits data accuracy and reliability
- Supporting accurate premium rates and appropriate eligibility criteria in the M-Pathways system
- Ensuring accurate premium and prepayment payroll deductions
- Making accurate and timely payment to self-insured plan administrator and third-party, fully-insured plan vendors
- Complying with benefits laws and regulations
- Managing BAO administrative expenses

BAO plays various roles in these complex benefits key processes. They provide lead management and coordination for the premium setting process. Their role in establishing initial eligibility criteria and premium rates and final approval of their accurate inclusion in M-Pathways system tables is supported by MAIS. The system-driven, open enrollment process is led by MAIS. The audit included review of

MAIS, Payroll, and HRRIS controls that support key benefits process objectives. The audit did not include detailed validation of BAO financial reporting.

University Audits:
- Interviewed BAO, BAO Systems, MAIS, Payroll, and HRRIS management and staff
- Reviewed BAO policies, procedures, and process flowcharts; BAO Systems and MAIS M-Pathways system application program descriptions and outputs; internal correspondence between collaborating groups, and external communications with vendors; and relevant committee meeting notes
- Traced examples of benefits payments through the payment process and a sample statement of activity and gross pay register through reconciliation procedures
- Performed a review of BAO logical access to benefits data

SUMMARY
The BAO management-initiated controls assessment effort resulted in an accessible, central resource for detailed controls information that continues to be expanded. The BAO team has a control focus and, through the assessment and their daily activities, work to continuously improve key processes. As a result of the audit, additional opportunities were identified to strengthen controls. BAO management and staff were proactive during the audit and, as issues were identified, many management action plans were developed and are in the process of being implemented. Issues with action plans that were implemented by BAO management and reviewed by University Audits during the audit are noted as closed.

Discussion of audit results and control recommendations follow and are grouped by the key processes identified in the Purpose and Scope section above.

SET PREMIUMS AND MANAGE SELF-INSURED PLANS
Effective Controls
BAO has a comprehensive process to obtain current, accurate information for developing self-insured medical and pharmacy benefits premium rates that will result in appropriate cash flows. They:
- Collaborate with internal workgroups and committees comprised of staff and management, up to the Executive Vice President level, with benefits, medical care, risk, and financial management experience
- Obtain advice from world-class human resources consulting firms with benefits management and actuarial expertise
- Contract with prominent healthcare plan administrators to develop premium rate projections based on past claims experience, consideration of incurred but not reported (lag in) claims payments, and benefit enrollee demographics

The following opportunities for improving process controls related to setting premiums were identified:

1. Plan Administrator Transparency - Blue Care Network (BCN) and Blue Cross Blue Shield (BCBS) negotiations and final collection of payments to U-M providers are more obscure than other plan administrators.
    - BCN and BCBS advance pro rata payments to facilities providers on a weekly basis, and make final settlement with providers later, collectively across plans, including discounts, spread, and other factors. The BAO is not privy to final settlement information and cannot be sure that costs passed to the University include discounts and other cost differences negotiated with providers.
    - The BCN contract does not specify administrative fees payable by the University for administrative services subcontracted by BCN to other vendors. Examples include

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behavioral health and primary care group administration fees. BCN may shift administrative services to third-parties at any time during the four-year contract without prior notice to BAO of the impact on fees.

To obtain adequate, detailed information on hospital settlements and subcontracted administrative fees that impact U-M costs, BAO management should negotiate with BCN and BCBS management to provide more information regarding:
- Hospital settlements, including discount factors related to fees billed by providers, and the allowed charges that are actually paid.
- BCN-subcontracted administration fees, including advance notice of fee descriptions and amounts for BAO review and approval.

University of Michigan Health System (UMHS) contracting management may be able to provide information in support of this effort.

Management Plan - BAO Management will contact the Director of Risk Management and the Treasurer to ask for their assistance in arranging a meeting with the Chief Financial Officer and the Associate Vice President and Director of Contracting, UMHS. BAO management will request information and support in negotiating with BCN and BCBS for more disclosure of settlement information.

Prior to completion of the audit, BAO, in collaboration with Office of the General Counsel and the UMHS Contracting Director, negotiated a change to their administrative services contract with BCN to provide additional group administrative fees information. BCN will disclose the description of services, fee amounts, and a process for advance notice and agreement to fee changes. These contract revisions are in process and will be reviewed during audit follow-up.

2. Formal Dental and LTD Rate Setting Procedures - Procedures for developing Dental and Long Term Disability (LTD) premiums have not been formally defined and documented.
- A new dental plan administrator was contracted for 2009 and the administrator established first-year rates. U-M procedures for setting new premiums for subsequent years, beginning spring 2009, have not been established.
- LTD premium adjustments have been made on an ad hoc basis. The single criterion for making adjustments to premiums or plan design is that current operating revenue and expense result in a positive balance. This does not address the underfunded, established level for reserve funds to cover future liabilities.

We recommend formal documentation of Dental and LTD premium rate-setting policy and procedures, including formal key performance indicators (KPIs) that will trigger changes to maintain plan sustainability.

Management Plan - Dental benefit and LTD premium rate-setting procedures were developed by BAO management and provided for review prior to completion of the audit. University Audits reviewed the procedures and found them to be reasonable. BAO management will develop policies and establish performance targets for all benefit plans resulting in KPIs within the next year. See the BAO Performance Reporting corrective action plan below. **This issue is closed.**

3. BAO Performance Reporting - The BAO has categorized many reports as KPIs, which define and measure progress toward strategic organizational goals by:

- Resulting in metric thresholds of success or failure for specific business objectives.
- Including procedures or plans of action where metrics meet the threshold for failure.

Several of the KPI reports have blanks where thresholds would be indicated. Some of the reports do not appear to be KPIs. They identify possible exception transactions for audit and correction, tracking of business process details, and monitoring for compliance issues. Incomplete or incorrect use of KPI reporting may fail to identify and provide correction to processes that support business objectives.

Management Plan - During the audit, each BAO group including Strategic Planning, Finance, and Medical Plans adopted a common report spreadsheet listing that includes columns for including KPI thresholds stated in metric terms, plans for action when thresholds are met, and report verification procedures. Where metric thresholds were available, they were provided.

In March 2009, the Executive Vice President and Chief Financial Officer approved BAO's outlined process for establishing formal policies, including goals and performance targets for medical plans. Over the course of the next year, BAO management will use the same structure to develop the policies and establish performance targets for all benefit plans. These performance targets will be included in KPI reports. **This issue is closed.**

4. <u>Internal Controls Documentation Policy and Procedures</u> - The BAO has developed a comprehensive internal controls directory containing procedures and flow charts for key benefits management processes. However, there is no written internal controls repository policy and procedure that provides a consistent, central management follow-up and review of the repository information at specific time intervals or when specific changes trigger a need for revisions.

   Management Plan - BAO management will develop policy and procedures for review of internal controls documentation. A review, performed annually by November 1 will be managed by the BAO Associate Director. Policies and procedures will be reviewed during audit follow-up.

ENSURE ACCURATE AND RELIABLE BENEFITS DATA
Effective Controls
BAO Systems provides data integrity testing and reporting, data analysis, benefit information auditing, and development of benefits system applications to support business objectives. BAO Systems information technology staff expertise is supported by their knowledge of benefits plan business processes. The BAO has a comprehensive Privacy Policy and reviews confidentiality statements with employees annually to protect confidential information. BAO Systems management worked with University Audits to identify additional controls that could enhance systems support efficiency, data integrity, and confidentiality.

1. <u>Recurring System Issues</u> - There are recurring M-Pathways systemic issues that result in faulty benefits data or transactions that are currently addressed post-processing by BOA Systems by downloading data to a secondary system for detection reporting and correction. Currently, M-Pathways processes and/or tables are not set up to:
   - Restrict duplicate coverage for the same employee
   - Process deductions for other qualified adults correctly
   - Address the issue of missing social security numbers in enrollee records, resulting in their failure to load into vendor systems, and requiring manual correction and resending

- Correct deductions for individuals who earn more than the IRS 415(c) stipulated maximum amount

BAO Systems continues to perform reporting and auditing to detect and identify instances of these recurring system problems. Developing preventive corrective system routines or early exception reports that address systemic issues during transactions processing, before they impact customers or vendors and require correction, would be more effective and efficient.

An internal Human Resources and Benefits Systems services assessment, which was performed in 2007, compared the services and skill sets of each area for possible overlap. Assessment next steps indicated that both groups should collaborate with the MAIS Human Resources Management Systems (HRMS) Central Processing Unit (CPU) to identify redundant services and processes that could be streamlined or automated. BAO Systems initiated discussion and a subset of the BAO Systems Services Listing (inventory and description of BAO Systems applications and reporting) was reviewed. A common understanding of final outcomes was not reached.

To determine if there is an opportunity to prevent inaccurate data or transactions before they affect internal customers or external business partners, BAO Systems and MAIS HRMS CPU management should:
- Review the complete BAO Systems Services Listing and determine if there are opportunities for improved service and efficiency by moving corrective system routines from post-transaction, secondary system processing to the M-Pathways primary processing system.
- Develop mutual criteria to assist in making decisions regarding best placement of corrective system procedures.
- Retain records of decision logic.
- Ensure review at reasonable intervals, or when system changes require new corrective procedures.

Management Plan - The BAO Director will work with the Assistant Director of HRMS Products and Services to sponsor a committee charged to review Benefits processes and identify those that could be effectively incorporated into MAIS processes. The committee will be established during the first quarter of fiscal year 2010. The committee charge will be reviewed as part of audit follow-up.

2. <u>BAO Data Change Management</u> - There is no formal protocol between MAIS HRMS CPU and BAO Systems for making changes to benefits administration data. During the current fiscal year, MAIS staff made two retroactive changes to benefits data without consulting BAO or BAO Systems management.
- In one case, the original data did not need to be changed. The unnecessary change of data made corrections to BAO vendor remittance procedures necessary for two months.
- In both cases, errors made in changing the data resulted in the need for data to be backed-out of the M-Pathways production system and the data warehouse.

To support prior review and approval of changes to benefits administration data by the data steward, or appointee, MAIS HRMS CPU should establish a written data change procedure. A specific communication protocol and approval plan with retention guidelines could be agreed upon by BAO and MAIS HRMS CPU. The protocol should include a documented statement of the change required and the agreed upon resolution.

Management Plan - The MAIS HRMS CPU Product Manager has documented a process for making changes to BAO data tables. The process will be forwarded to BAO and the Benefits Transaction Team (BTT) for review and approval. It will be shared with the MAIS Benefits team and the MAIS Service Request Status Group and stored in appropriate MAIS and Benefits shared folders. A specific change form was developed for e-mail distribution during the course of the audit. E-mail approval from BAO and BTT will be required for each change. Requests and approvals will be kept in the MAIS Benefits team Requests and Approvals folder. **This issue is closed.**

3. <u>Logical Access to Benefits Data</u> - Procedures are not in place to provide BAO management assurance that the staff has access to only the Human Resources data necessary to perform their duties. Managers do not review staff access at periodic intervals, and there is no central BAO role that ensures access for staff transferring into the department is reviewed and revised as necessary. The Online Access Request System (OARS) is not designed to support review of role appropriateness, but to track requests for access. Access role definitions are incomplete and in some cases not included in OARS. A review of access by managers during the audit resulted in several corrections.

   We recommend that BAO establish procedures to ensure that managers have system role definitions and procedures to perform periodic reviews that ensure employees are restricted to data needed to perform their duties.

   Management Plan - BAO Systems will develop formal procedures for a central BAO Systems process to support management review of employee access to M-Pathways by the first fiscal year quarter of 2010. The review will occur annually by July 1 in conjunction with the employee performance review process. Audit follow-up will include review of employee access procedures.

4. <u>SAS 70 Reports</u> - The Benefits Administration Office has not routinely requested SAS 70 reports from its benefits administration and consulting vendors who obtain and process U-M benefits data. These reports provide an objective security review of external vendor systems where U-M benefits information resides.

   Management Plan - In response to this issue, BAO management:
   - Obtained SAS 70 reports for TIAA-CREF, Fidelity, BCBS, Priority Health, and SXC
   - Will keep reports, requests for the reports, and responses from vendors electronically in a central Benefits directory
   - Will request SAS 70 reports as part of the routine benefits vendor contracting process going forward, with the exception of medical plans, which will be requested annually

   This issue is closed.

ENSURE ACCURATE PREMIUM RATES AND ELIGIBILITY CRITERIA
Effective Controls

Employee benefits enrollment processes include sufficient controls, including BAO, MAIS HRMS CPU, and HRRIS collaboration, to provide reasonable assurance of:
   - Accurate premium rates and appropriate eligibility criteria in the M-Pathways system.
   - A mature, tested, and successful open enrollment process.
   - Routine updates and corrections to plan administrator and health plan vendor enrollment files.

- Procedures and communications channels that ensure feedback to support opportunities for enrollment process improvement and improved customer service.

FACILITATE ACCURATE PREMIUM PAYROLL DEDUCTIONS
Effective Controls
The Discrepancy Report process was jointly developed by BAO Systems, MAIS, and Payroll; is maintained and issued weekly by MAIS; and is researched and corrected by the Payroll Department. This process provides control for assuring that payroll deductions for benefits premiums are accurate. The report compares system enrollment data, including retroactive changes, to payroll deductions at the individual employee and department level. This process could be expanded to facilitate accurate premium collection in an additional benefit plan.

1. LTD Participation in Discrepancy Reporting - There is an opportunity to improve accountability for LTD premium collections by including them in the Discrepancy Report process. A comparison of discrepancies between the LTD and BCN, (BCN is currently included in the discrepancy reporting process), indicates that including the LTD plan in the discrepancy process could improve premium collections accuracy.
    - $72,500 of $13.3M collected for LTD indicates a .5% discrepancy rate in fiscal year 2008.
    - $38,798 of $195.8M collected for BCN, annualized from the first half of its calendar year 2008 plan, indicates a .02% discrepancy rate.

    We recommend that Benefits Administration management, together with MAIS and Payroll, review the cost-benefit of adding the LTD plan to Discrepancy Reporting procedures.

    Management Plan - BAO management will collaborate with Payroll and make a request to include LTD in the Discrepancy Reporting process as part of the MAIS Services Request process. The Benefits MAIS Services Request Team, represented by HRRIS, BAO, and MAIS management, will assume responsibility for outcomes. Outcomes of the BAO and Payroll request to include the LTD plan in the Discrepancy Report process will be reviewed during audit follow-up.

PAY BENEFITS VENDORS
Effective Controls
BAO Systems, BAO Finance, and Payroll controls that support remittance to third-party benefits plan vendors provide reasonable assurance of accurate and timely payments. Self-insured plan administrative vendor payments are also prompt and accurate to vendor invoices. There are control improvement opportunities to ensure that vendor invoices are accurate, and payments are properly recorded and securely transmitted.

1. Invoice Error Reporting - Invoices for provider claims, capitation fees, and administrative fees from U-M self-insured benefit plan administrators are not matched to U-M enrollee files to ensure all charges are only for active employees at the time of billed service. Plan administrators do not provide electronic invoice support records that include both the date of service and a means of matching invoice enrollee identification to U-M enrollment records.

    To provide stronger controls over self-insured plan payments to administrators, BAO could:
    - Determine the cost-benefit of developing a more automated, total invoice records testing report to identify potential invoicing errors.
    - Perform a focused review of the potential errors and make adjustments with the vendor for accurate payment.

Management Plan - During the audit, BCN responded to a BAO request and modified their claims file data to facilitate matches with U-M enrollment files. BAO management performed a test for two months of BCN invoices and found $23,750 of claims that failed to match U-M enrollment records for the period. These claims will be investigated by BAO Systems.

BAO management decided that invoices from self-insured medical, pharmacy, and dental plans will be tested, and potential errors reported and investigated quarterly for several quarters to determine the cost benefit of continued invoice testing. The status of invoice testing will be reviewed during the audit follow-up.

2. Flexible Spending Account Payment Reconciliation - A BAO Finance comparison of the year-end report of flexible spending accounts payments received by the plan administrator (SHPS) for 2007 to the BAO paper record of daily payments made for the same period indicated $374,000 more recorded on the BAO record of payments. The reason for the difference was not identified. Statements of SHPS daily withdrawal details and totals are faxed to BAO and the Treasurer's Office. They are not provided in electronic records format to facilitate reconciling them to U-M eligibility files and plan year services. BAO records of payments have not been obtained and maintained electronically. There are no established, written procedures for SHPS payment reconciliations. Without routine reconciliations, BAO management does not have assurance that payments to SHPS are for active U-M enrollees at the time of service.

   To ensure accurate BAO payments to SHPS:
   - Request electronic, detailed withdrawal statement support from SHPS, including transfers of funds from prior year.
   - Obtain electronic records of U-M payments to SHPS by plan year.
   - Perform a reconciliation of BAO payments made to SHPS withdrawal statement totals at routine intervals and account for differences.
   - Document procedures for performing the reconciliation.

   Management Plan - BAO management will ask SHPS to provide detailed, electronic withdrawal statements. A requirement for electronic statements will be incorporated as part of the BAO request for proposal to select a flexible spending accounts administrator by calendar year 2011. In the interim, BAO Finance will develop a routine reconciliation procedure that will include obtaining records of BAO payments electronically.

3. Consistent Record of Payment to Vendor - The retirement savings premium payment procedure differs from that of other plan vendors. BAO Finance is performing a journal entry to post payments in the general ledger rather than having Payroll process a non-PO voucher for the payments as they do with other premium payments. As a result, the payments are not associated with TIAA-CREF and Fidelity in the M-Pathways procurement system making it difficult to track payments by vendor.

   Management Plan - Beginning with the May 2009 remittances, Payroll will create a non-PO voucher along with the wire request as is the procedure with other payments to benefits vendors. Audit follow-up will include a review of the non-PO vouchers.

4. E-Mail Remittance Password - Password restricted remittance files are transmitted by e-mail each month to two medical insurance plan vendors. The file password is also transmitted via e-mail

following the remittance file. Using the same method to transmit the file and the password leaves them both subject to risks, including electronic capture. .

Remittance file security could be improved by sending the files by secure file transfer protocol (SFTP) or by providing a password for each of the remittance files to a specific individual at the receiving end of the file transfer. SFTP would encrypt and better secure the data as it is transmitted. Providing the password to an individual at the receiving end by an alternate method will reduce the risk of password capture during transmission. The password should be changed at least quarterly.

Management Plan - A new procedure for transmitting remittance file passwords will begin April 2009. A different password will be provided quarterly, by telephone to the individual who receives the remittance file. **This issue is closed.**

COMPLY WITH BENEFITS LAWS AND REGULATIONS
Effective Controls

BAO management has established relationships with internal legal experts, external peers, professional organizations, and government sources to support knowledge of and compliance with benefits laws and regulations. Management has developed a benefits laws and regulations grid that includes the law/regulation title, a summary of each law/regulation, BAO implications, and a BAO contact. The following opportunities to improve controls related to compliance with benefits-related laws and regulations were identified:

1. Compliance Monitoring
   - At the time of testing, the most current BAO Laws and Regulations grid is missing information:
     - Some law and regulation records are incomplete (i.e., only a regulation title provided or contact names missing)
     - It is not clear if the person named as a contact is the person responsible for monitoring compliance
     - There is no grid column that references specific BAO or other department procedures that ensure compliance with each of the laws and regulations. Procedures may include audits, exception reports, and documented reviews
   - Specific responsibility for coordinating and monitoring benefits compliance activities has not been formally defined, delegated, and documented

Management Plan - BAO will expand the Laws and Regulations grid to link procedures, including audits, testing, and monitoring for compliance to each of the laws and regulations. BAO management will document Benefit Compliance Administrator responsibility for reviewing compliance procedures and reporting to the Director on an annual basis by July 1. The expanded grid and documented responsibility for reviewing compliance procedures will be reviewed during audit follow-up.

MANAGE BAO OFFICE ADMINISTRATION EXPENDITURES
Effective Controls

BAO Finance has developed reports for reconciling, monitoring, and analyzing office administration expenditures. Procedures support monthly review and discussion of expenditures with BAO management. The following opportunities for control improvement were identified:

1. BAO SOA and GPR Reconciliations - Benefits Administration Office management and accounting staff relies on department-developed monthly statement of activity and gross pay register reconciling reports. Department-developed and maintained shadow reporting systems

increase the risk of inaccuracies and inefficiencies, and should only be used when the University's primary system reports cannot accomplish the unit's objectives.

BAO management should reconsider the cost-effectiveness of continuing to develop and maintain reconciliation applications that may be redundant to M-Pathways reporting. The following links provide information:

- Real-Time Financials: eReconciliation: http://www.mais.umich.edu./fin/rtf_ereconciliation.html
- Real-Time Financials presentation: Http://www.mais.umich.edu/fin/download/RTF_Toolkit_presentation_v3.ppt

If BAO management determines that maintaining a shadow system is the best method for accomplishing BAO's internal administrative financial reporting and monitoring objectives, formalize the following current controls by including them in SOA and GPR documented reconciliation procedures:

- Management review of BOA reconciliation reports in the BAO Monthly Financial Reporting meetings
- Second-party management review and approval of both the BAO reconciliation support documentation and a reconciliation of the BAO shadow system documentation to M-Pathways SOAs and GPRs
- Exclusion from M-Pathways procurement access of the accountant who prepares the internal reconciliation
- A second person, thoroughly cross-trained to perform the reconciliations

Management Plan - BAO Finance will review the website and consider the possibility of using the M-Pathways reconciliation tools. If they determine that the current, department-developed reconciliation applications better meets their needs, they will document current reconciliation control procedures as recommended and record management approval of reconciliations. Audit follow-up procedures will include review of BAO Finance outcomes.

2. <u>Spreadsheet Application Documentation</u> - There is an opportunity to improve BAO Finance-developed spreadsheet and applications controls.
   - Complex spreadsheets and other applications, which were developed by BAO staff to support business transactions and analysis, are not consistently documented to protect development time investment and support cross-training.
   - Cells where formulas, calculations, and static cell references occur are not routinely locked to reduce the risk of corruption or deletion.

Management Plan - BAO Finance management will document procedures and restrict access to spreadsheets applications. Procedures documentation and spreadsheet access controls will be reviewed during the audit follow-up.

CLOSING
University Audits will work with the Director of Benefits Administration Office to evaluate action plans implementation in the first quarter of fiscal year 2010.

Children's and Women's Hospital Construction Audit   # 2009-601
Issued April 2, 2009

INTRODUCTION

C.S. Mott Children's Hospital and the Women's Hospital are part of the University of Michigan Health System (UMHS). Since their respective openings in 1969 and 1950, these two hospitals have collectively provided specialized care to hundreds of thousands of patients. To keep pace with advances in research, science, and medical technology, and ensure that future generations will continue to have access to the highest quality medical care, the U-M Board of Regents approved a new C.S. Mott Children's and Women's Hospital Replacement Project (C&W Hospital) in 2005. The project funding is primarily from donations and hospital reserves.

Scheduled to open in fall 2012, the $754 million facility will total 1.1 million gross square feet and will consist of conjoined 9-story clinic and 12-story inpatient towers. It is the largest construction project ever undertaken at the University and one of the largest construction projects in Michigan. The new facility will enhance the inpatient and outpatient services within the current Mott Hospital, the world-renowned Michigan Congenital Heart Center, the Birth Center, and the Holden Neonatal Intensive Care Unit. The facility will also be home to numerous pediatric specialty clinics within the U-M Department of Pediatrics and Communicable Diseases as well as Psychology, Autism, and Orthopedics. There will be an area for both adult and pediatric bone marrow transplant patients and pediatric non-cancer infusion.

Architecture, Engineering and Construction (AEC) is a division of Facilities and Operations. AEC is responsible for managing design and construction activities for all University capital projects, including the C&W Hospital. Barton Malow (BM), a local company with headquarters in Southfield, is responsible for construction management for the C&W Hospital. HKS, an international architecture firm headquartered in Texas, is responsible for project design.

PURPOSE AND SCOPE

The primary objective of the audit was to assess whether construction project management controls are sufficient to protect University resources and comply with federal, state, and University requirements. University Audits examined the following processes to evaluate the adequacy and effectiveness of internal controls relating to the project:
- Financial management
- Change management
- Time management
- Contract compliance
- Regulatory compliance
- Trade contractor selection
- Safety
- Infrastructure

University Audits interviewed employees within several departments of the University to obtain information about these processes and performed analysis and testing. University Audits observed that AEC has well documented policies and procedures, robust financial processes, and established management reviews. Management and staff are continuously working to improve the control environment and monitor costs.

SUMMARY OF AUDIT RESULTS

AEC management has developed a strong system of controls. Notable features include:

- Thorough evaluation and review of trade contractor construction progress before payment applications are approved
- Detailed review and monitoring of expenses charged to the project
- Thorough analysis and multi-step approval process of all items charged to contingency budgets
- Periodic trend analysis and review of contingency items categorized by reason for change
- Proper monitoring over the construction manager's trade contractor selection
- Periodic evaluations of the project schedule and critical path analysis with the assistance of an outside consulting firm
- Adequate schedule updates and budget reporting processes to Hospital and University management

Control Issues:

1. Guaranteed Maximum Price - The construction project's Guaranteed Maximum Price (GMP) has not been established despite substantial completion of the bid pack awards to trade contractors. AEC requested that Barton Malow and HKS finalize GMP by August 2008; however, GMP is not final as of March 2009. Delays in setting the GMP risk budget overruns and jeopardizes the University's ability to hold parties responsible for cost containment.

    The GMP for the C&W Hospital should be set as soon as possible. Future contracts should contain additional language and safeguards to ensure GMP is set according to University requirements.

    Management Plan - The GMP is expected to be established by the end of April 2009. AEC management will include additional contract language in future construction projects to ensure GMP is set according to University timelines.

2. Sales and Use Tax - Nonprofit hospital construction, repairs, and improvements are exempt from sales and use tax under State of Michigan law. In some instances, trade contractors in the C&W Hospital project are paying sales and use tax and passing the cost to the University.

    The Tax Director, AEC, and Procurement should work with the construction manager, Barton Malow, to clarify the process for using the tax exemption related to hospital construction, repairs, and improvements. Establish proactive procurement and invoice review processes to avoid payment of unnecessary sales and use tax on hospital construction activity. In collaboration with the Tax Director, develop and implement the use of template contract language related to the sales and use tax exemption for all hospital construction and major repair contracts.

    Management Plan - Clarifying sales and use tax language will be added to construction contracts going forward. Management is developing policies and procedures on how sales and use tax regulations apply to different types of construction projects. AEC Management is endeavoring to recover the tax amounts previously paid and has put in place processes to detect inappropriately claimed tax expense on future hospital-related construction.

3. Retaining Payment Documentation - AEC, BM, and HKS management preliminarily approve a draft version of trade contractor payment applications each month. AEC management returns the written approvals and noted invoice changes to the construction manager for storage; however, the construction manager did not retain the documentation.

Management Plan - AEC is now retaining the preliminary supporting documentation to payment applications.

CURRENT PROJECT STATUS
Project Completion
As of December 2008 the construction percent completion is 29 percent and on schedule.

Contingency Usage
The project budgeted $30 million for contingencies, of which approximately $16 million is spent or pending approval on change orders.

Schedule
AEC management has contracted Deloitte Financial Advisory Services as an outside consulting firm to assist with periodic reviews of the project schedule. Deloitte will perform quarterly assessments of the critical path and make recommendations for improvement to AEC and the construction manager.

CONCLUSION
Based on the audit work conducted, University Audits determined the overall control environment for the C&W Hospital project is sound. Stronger contract language related to guaranteed maximum price, clarification of the use of tax exemption status, and payment document retention will further strengthen project management controls.

The AEC staff was cooperative and accommodating throughout the audit. University Audits will conduct a follow-up review in the second quarter of fiscal year 2010 to assess progress on management action plans.

Continuous Monitoring

Continuous Monitoring – Fund Transfer Reviews # 2008-803
Issued March 30, 2009

CONTINUOUS MONITORING
Management is responsible for establishing monitoring processes to help ensure policies and procedures are effective and assess the adequacy of business controls. Continuous monitoring is a method that automates these processes, allowing management to monitor on a more frequent basis. Continuous auditing is a similar method to help automate control and risk assessments, assisting auditors in meeting their responsibilities. Continuous auditing changes the audit paradigm from the periodic review of a sample of transactions to the ongoing audit testing of 100 percent of transactions. University Audits is using Audit Command Language (ACL) to help improve and increase continuous monitoring and continuous auditing at the University of Michigan.

ACL is analytical software used by organizations worldwide, including the Big Four accounting firms. ACL reads and compares data from multiple systems and formats, maintains the integrity and quality of data with its read-only feature, contains numerous pre-programmed commands and functions for data analysis, processes infinite amounts of data, and includes scripting. A script is a series of commands that can be executed repeatedly and automatically; scripts are particularly useful for continuous monitoring.

PROJECT SUMMARY
Journal Entries – Fund Transfer Description Review
Objective: Use ACL to develop a new, automated report used to regularly review non-routine (manual) fund transfers. Create a second report designed to identify transfers with insufficient description of business purpose in the journal entry description field.

Background Information: The Journal Entry Team tried to develop these kinds of reports previously using Business Objects; however, system resources were not robust enough to accommodate the large data extracts and complex manipulations necessary to produce the desired results. Attempts to work around system constraints were unsuccessful and eventually development efforts were tabled.

Procedures and Results: To accomplish the objective, University Audits:
1. Met with members of the Journal Entry Team to discuss report needs and identify the related data tables and fields
2. Identified non-routine (manual) transfer journal entries using ACL to:
    a. Isolate journal entries based on a complex formula provided by the Journal Entry Team
    b. Automatically export an Excel file of over 4,000 records formatted per client specifications to a secure server
3. Identified transfers with a short or insufficient description of business purpose, using ACL to:
    a. Download and search the description fields of over 700,000 journal entries
    b. Further limit the population by journal type, account, and description length
    c. Export a list of less than 5,000 records to an Excel file formatted per client specifications to a secure server
4. Evaluated and verified the resulting data with the Accounting Supervisor for the Journal Entry Team
5. Built ACL scripts for both reports, which can be run in minutes, that automatically deliver the following reports to a U-M Financial Operations secured drive:
    a. Manual Journal Entry Transfer Review
    b. Short Description Journal Entry Transfer Review

In the future, this script will be run monthly by the Journal Entry Team. By facilitating reviews of non-routine (manual) transfers and identifying transfers with inadequate descriptions, Financial Operations staff will be able to identify possible errors and training opportunities in a timely manner and on a more consistent basis.

Journal Entries – Class Code Transfers
Objective: Determine whether or not ACL could be used to identify journal entries with class codes that do not match each other.

Background Information: Based on the successful use of ACL to isolate manual transfers and identify transfers with insufficient descriptions of business purpose, the Journal Entry Team wanted to know if ACL could be used to identify journal entries with differing class codes for further investigation.

Procedures and Results: To accomplish the objective, University Audits:
1. Met with members of the Journal Entry Team to discuss report needs and identify required data tables and fields
2. Identified transfer journal entries with differing class codes, using ACL to:
    a. Download and summarize all journal entries in a given time period
    b. Extract those journal entries that did not sum to zero based on chartfield combinations (fund, department, class)

    c. Complete a series of data joins and extracts, based on account combinations provided by the client, to separate various groups of transactions into different reports for review and/or correction

3. Evaluated the resulting data with the Accounting Supervisor of the Journal Entry Team
4. Determined that ACL could be used to accomplish the objective and transferred knowledge to the Journal Entry Team

Financial Operations will continue to develop this report and use it to identify and correct inappropriate fund transfers on a routine basis.

The successful development of these and other ACL reports has led Financial Operations to invest in ACL for its own use. Training has already been provided to key staff and work has begun in partnership with University Audits staff to further develop existing reports and identify and prioritize additional opportunities for ACL reporting.

FOLLOW-UP REPORTS

University of Michigan Health System Emergency Department   # 2008-112
Original Report issued May 9, 2008   Follow-up Report Issued February 18, 2009

Management has taken appropriate corrective action or plans are well underway on all audit recommendations, as indicated below. **This audit is closed.**

- Discharge Process Opportunity - Plans are underway to equip the Emergency Department with a formal check-out location in fiscal year 2010. The redesigned area will provide a private and secure location to handle post visit patient counseling, including financial matters such as insurance and cash collection.

- Medical Documentation - Emergency Department management provided additional training and now regularly monitors to ensure completion of transfer documentation.

Transportation Services Audit Follow-up   # 2007-101
Original Report issued January 28, 2009   Follow-up Report Issued April 6, 2009

Management has implemented changes to address three of eight issues discussed in the original audit report. While action plans have been developed or updated for the remaining issues, additional time is necessary to demonstrate implementation. University Audits will review implementation of the remaining action plans in the fourth quarter of fiscal year 2009. The status of each issue is described below.

1. Controls over Physical Access - Transportation Services installed an electronic gate control on the main gate to the parking lot where Transportation Services vehicles are located. The mechanical key lock to the gate which overrides the electronic device is still in use. Many keys have been distributed, but a comprehensive key inventory has not been compiled. The Fleet and Garage Services Manager is considering options to improve security of the main parking lot. Two possible options include M-Card access and mechanical lock change. Written procedures, including lost key procedures, will assist in management of the selected option.

2. "FASTER" User Access Levels - During the audit, University Audits identified an opportunity to improve system access controls in the FASTER system used for inventory, maintenance work

orders, and billing. Transportation Services management reviewed and adjusted system access; however, at the time of the audit planning was underway to replace FASTER with a new fleet management system, MAXIMUS, which has now been implemented. During the follow-up review, University Audits tested user access in MAXIMUS and noted an opportunity to improve access control in the new system. Three employees have access to add or delete parts to work orders and also have authority to purchase, receive, and inventory parts. One of the employees is responsible for developing annual inventory reports. Transportation Services management should reevaluate access authority relative to these employees' responsibilities and document policy and procedures to support appropriate separation of duties.

The Fleet and Garage Services Manager removed access to delete parts from work orders for the three employees. The MAXIMUS Part Issue and Part Return frames will be used to return parts to inventory or the vendor with required support documentation. University Audits will evaluate implementation of this access during the next follow-up.

3. Commercial Driver's License Testing - Transportation Services continues to provide University receipts for Commercial Driver's License (CDL) testing to remain in compliance with State of Michigan requirements. Requirements stipulate that all receipts provided to individuals who pay for CDL testing include the approved testing site name (University of Michigan) and the test examiner's ID number. One of the subcontracted examiners continues to collect and retain test fees for non-University-affiliated individuals after he was asked to submit these payments directly to Transportation Services. Transportation Services will collect these fees from the examiner and issue payment to him through the University procurement system when he submits an invoice.

As a result of changes made to resolve the initial issue, University Audits noted the need for formal procedures and a costing model to manage the examiner payment process. We recommend that Transportation Services document procedures for payment collection by examiners and submission to Transportation Services for CDL testing to ensure that non-affiliated tests are identified. Transportation Services management will develop procedures to manage this process, including a costing model consistent with the University's status as a nonprofit/charitable institution. The process will address costs of managing CDL testing, test fee arrangement, and payment distribution. A meeting has been scheduled with Transportation Services, University Audits, Office of General Counsel, Tax Department, and Office of Financial Analysis to discuss the development of a costing model.

4. Vehicle Inventory Monitoring Procedures - The Fleet Manager maintained support documentation for the most recent vehicle inventory reconciliation and documented the reconciliation procedures. **This issue is closed.**

5. Fuel Inspection upon Delivery - Transportation Services plans to begin fuel quality testing, as recommended in the audit report. As part of developing this process, we recommend that Transportation Services complete and approve written procedures for fuel quality testing. In addition, Transportation Services will install a fuel tank monitoring system in collaboration with the Architecture, Engineering and Construction project to install a spill control mechanism at the Baxter Road site. The installation will begin between March and August 2009.

6. Gross Pay Register Review Process - Transportation Services has developed a new timekeeping, reconciliation, and review process for ensuring that payroll is accurate. The process is supported by M-Pathways reporting and segregation of duties. University Audits will assess implementation of this process during the next follow-up.

7. <u>Use and Reimbursement of Imprest Cash Fund</u> – Transportation Services now submits Non-PO vouchers to the Accounts Payable Office to reimburse their imprest cash fund. They are using PeoplePay to make payments for miscellaneous services provided by individuals. **This issue is closed.**

8. <u>Formal Policies and Procedures</u> – Policies and procedures for vehicle management, fuel management, inventory management, maintenance standards, vehicle disposition, and purchasing have been developed and made available as a department reference manual. **This issue is closed.**

<u>University of Michigan-Flint Chancellor's Office Fiscal Responsibilities</u>   # 2008-205
Original Report issued September 30, 2008   Follow-up Report Issued April 16, 2009

Implementation of numerous controls and new procedures within the Chancellor's Office were observed and are detailed below. Another follow-up review will be conducted during the fourth quarter of fiscal year 2009 to look at the five remaining open issues.

- <u>Roles and Responsibilities</u> – The Chancellor's Office partnered with UM-F University Human Resources and UM-F Financial Services and Budget to reorganize its office and reclassify positions where appropriate. Job duties have been documented and are more evenly distributed. Appropriate segregation of duties and internal control responsibilities were taken into account during the reorganization effort. **This issue is closed.**

- <u>Central Services</u> – The Chancellor's Office is now effectively leveraging central services expertise in areas including, but not limited to, account reconciliation, financial reporting, and event management. Evidence of effective and prompt communication with the central service offices was observed during the follow-up review. **This issue is closed.**

- <u>Policies and Procedures</u> – Development of a comprehensive departmental policy and procedure manual is near completion. University Audits will revisit this issue during the next follow-up review.

- <u>Conflict of Interest or Commitment</u> – Conflict of Interest and/or Commitment disclosures have been obtained for all of the Chancellor's staff. Management plans have been created for disclosed conflicts. An annual review of employee disclosures and management plans is planned. **This issue is closed.**

- <u>Employment Procedures</u> – Internal controls have been implemented to ensure consistent employment procedures and include pre-approval of overtime and timely and complete reconciliation of Gross Pay Registers. P-Card statements and Statements of Activity are also reviewed and reconciled. Performance evaluations were not available at the time of the follow-up review. University Audits will review this documentation for timeliness, completeness, and compliance with University policy during the next follow-up review.

- <u>Financial Services and Budget</u> – Management has continued to strengthen its partnership with Financial Services and Budget by collaborating on financial reporting strategies and best practices for P-Card reconciliation and purchasing trend analysis. The Financial Analyst from Financial Services and Budget has assumed responsibility for reconciliation of all of the Chancellor's Statements of Accounts and provides detailed monthly budget updates with recommendations for handling deficits, encumbrances, and other transactions. At a high level, the Chancellor's Office regularly consults with the Flint Director of Financial Services and Budget on matters related to internal controls and University policy. **This issue is closed.**

- Disaster Recovery/Business Continuity Plan - A formal plan has been drafted and is being reviewed by senior management. University Audits will look for the final plan during our next follow-up review.

- Addresses Database - Numerous shadow systems containing constituent address information are in the process of being consolidated and reconciled against Office of University Development (OUD) data. University Audits will revisit this issue during our next follow-up review.

- Reconciliation Procedures - Complete and timely reconciliation of P-Card statements was observed during the follow-up review. Individuals with reconciliation responsibilities have received training from Financial Services and Budget. Instruction focused on proper documentation of their reconciliation efforts including investigation of any anomalies. Reconcilers were also coached on how to monitor purchasing trends and when to escalate issues for assistance. The importance of reconciliation of the GPR to source documentation was also emphasized. **This issue is closed.**

- Event Planning - Responsibility for event planning and documentation were reassigned during the office reorganization. The Administrative Associate will now be responsible for managing all of the Chancellor's events, including but not limited to, acting as the liaison to the event planners in University Relations, documenting budgets and menus, estimating costs, inventorying event supplies, and substantiating significant variances in budget-to-actual expenditures. Improvements to event documentation, cost estimates, and reporting have been observed. **This issue is closed.**

- Documentation Standards - Testing showed that documentation of travel and hosting, outreach activities, and other regular expenditures is more comprehensive than previously observed. Reconcilers are requiring original receipts, verifying signatures and documenting a clear business purpose for expenditures. Management reviews summary financial analysis on a monthly basis to ensure proper and efficient use of University resources. **This issue is closed.**

- Cash Handling - Reimbursements for purchases that cannot be made via P-Card are handled through the ATM/Miscellaneous Expenses form, reviewed, and reconciled in accordance with University guidelines. Personnel at the Office of the Chancellor now accept only checks for this kind of reimbursement. The office no longer handles any cash. **This issue is closed.**

- Time Reporting - Office staff are managing time reporting in a manner consistent with University guidelines. Supervisors now pre-approve overtime and have direct knowledge of employees' activities. **This issue is closed.**

- Large Position Searches - Management is in the process of drafting a policy to address budgeting and expense monitoring related to large position searches. University Audits will look for the final policy during the next follow-up review.

- Segregation of Duties - Management worked with UM-F financial and human resources staff to ensure proper segregation of duties as part of the office reorganization. Time reporting chain-of-custody issues were also resolved. **This issue is closed.**

- Inventory - Evidence of proper maintenance of the Ross House inventory was observed during the follow-up review. Proper segregation of duties was addresses during the assignment of responsibility for periodic monitoring of the inventory. **This issue is closed.**

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

- System Administrator Documentation - Vendor documentation of a security template for installation of Paciolan software on client machines was deemed necessary to ensure that installations are performed consistently, in a well-controlled manner, and to document that the clients are configured in compliance with PCI/DSS guidelines. Athletics IT needed to acquire or create such documentation. University Audits has examined complete documentation for administering and configuring the Paciolan system created or obtained by Athletics IT.

- System Scan for PCI/DSS Compliance - The Athletic Department Call Center workstations, used for sending credit card data to Paciolan, must be in compliance with PCI/DSS (Payment Card Industry/Data Security Standard). This requires that these machines be scanned for vulnerabilities on a regular and periodic basis. Athletics IT worked with the U-M Treasurer's Office to validate PCI compliance for Athletics' credit card merchant accounts using the TrustKeeper application to scan for PCI compliance. University Audits has examined the most recent results from the TrustKeeper scan which shows that Athletics computers are in compliance with PCI/DSS. No weaknesses were noted by the scan.

Family and Medical Leave Act - Second Follow-up Review   # 2007-403
Original Report issued December 17, 2007   First Follow-up Report Issued August 1, 2008
                                  Second Follow-up Report Issued April 28, 2009

University Human Resources (UHR) has taken appropriate steps to address and/or mitigate risks raised during the audit. Improvements include:
- Additional FMLA training for unit-level and central area staff
- Updates to relevant online Standard Practice Guide sections to include a statement regarding FMLA and links to available resources; some in final stages of approval
- Creation of an ineligibility letter template for use in communicating why the employee was denied and informing the employee where they can go for additional information including how to file a dispute if necessary
- Several updates to the FMLA training tutorial

Additionally, UHR, Michigan Administrative Information Services and Payroll are developing an automatic email reminder that will be generated based on time reporting. This email will highlight information about FMLA and link to the training tutorial to help ensure consistency across the University.

This audit is closed.

ICLE Follow-up Review   # 2008-202
Original Report Issued November 24, 2008   Follow-up Report Issued April 28, 2009

Following are the outstanding audit issues and corresponding corrective actions taken by management:
1. Removal of Access for Terminated Employees - The exit process allowed IDs in the iMIS system for some terminated employees to remain active for several months. Information Service (IS) removed all inappropriate IDs prior to issuance of the audit report. To prevent future occurrences, ICLE updated their exit checklist to remind managers to request removal of accounts

for departing employees. University Audits reviewed the checklist. The iMIS ID for an employee who subsequently terminated on January 8 was removed promptly. In addition, IS has increased the frequency of periodic account reviews from an annual to a quarterly schedule. The ICLE Information Technology (IT) Standards and Best Practices manual reflects this change.

2. Role-based Access - More employees were able to post batches in the iMIS financial system than business processes required. Management reduced the number of users with posting privileges by changing some employees' authorization level from four to three. ICLE also added descriptions of the iMIS authorization levels to the account request form so managers can select the level most appropriate for the job roles of new employees.

3. Web Site Usage Monitoring - ICLE's terms and conditions prohibit customers from excessive use of subscribed materials but, at the time of the audit, the Business Office did not have a means to track individual usage or guidelines on which to base findings of excessive use. In response to this concern, ICLE is issuing individual user accounts in place of group accounts and detailing the specific thresholds for defining excessive use. ICLE is in the process of issuing these new IDs and will provide individual usernames and passwords to all clinic students who have access to ICLE's online resources through ICLE's sponsoring law schools starting with the 2009 fall semester. These user names and passwords provide the mechanism for tracking student use of the resources and plans are in place to use this information to monitor for excessive use.

By June 1, 2009, the Publications Director will have completed the written standards defining excessive use that will be included in the terms and conditions of use. ICLE will use a system for analyzing Web usage rates to monitor usage on a daily basis to ensure it is within the guidelines. The Business Office member responsible for the sponsoring law school online resources project will notify the appropriate contact person at the sponsoring law school within a day of discovering excessive usage, requesting that corrective action be taken, and will work with the contact until the issue is resolved.

4. Backup Power Testing - UPS (uninterruptible power supplies) were not being tested annually and did not have the ability to gracefully shut down servers in a power outage. This could render ICLE servers vulnerable to outages and data corruption due to power fluctuations and interruptions.

IS staff implemented shutdown automation software on all servers, and plans to extend it to certain key desktop computers. IS tested the graceful shutdown process after installing the software, and will initiate annual testing of UPS functionality and the shutdown process in June. IS will report test results to the ICLE Administrative Team.

5. Security Assessment Corrective Action - Some corrective action taken in response to a RECON security assessment completed in 2006 had not been well documented. The IS Team planned to perform a new RECON and improve their method of documenting corrective action.

ICLE completed a new RECON assessment in February 2009. University Audits reviewed the resulting assessment report. Management noted that going forward they will conduct assessments in September to align with the IT Security Services reporting cycle. Changes to systems and processes are documented in the ICLE IT Standards and Best Practices manual. Changes made as a result of an audit or security assessment are noted as such in the manual. This simplifies lookup and retrieval of corrective action information.

The February assessment brought about new password complexity requirements for Windows user accounts. We reviewed the revision of the IT Standards, and confirmed the new requirements had been documented; it was noted that the changes resulted from the February 2009 RECON. This degree of documentation is adequate for simple changes. Management should consider more formal corrective action plans for complex changes requiring several months of planning and implementation, particularly if they may extend into the next RECON cycle.

Management has taken appropriate corrective action on all audit recommendations. **This audit is now closed.**

I-9 Employment Verification Process Review Follow-up   # 2007-823
Original Report Issued January 29, 2009   Follow-up Report Issued April 28, 2009

Management cites a ten percentage point improvement in timeliness of verifications since the January 2008 review. Even though changing Federal regulations have complicated UHR's implementation of planned changes, University Audits has observed key process improvements which are detailed below. UHR has demonstrated an understanding of the need for a robust control environment related to the I-9 process. **This audit is closed.**

- Establishing Unit Compliance Officers - UHR worked with units across the University to form a group of Unit Compliance Officers (UCO) with responsibility for the overall I-9 verification process in their unit. UHR provided training and access to tools and job-aids. UCOs have and will continue to receive periodic communications about regulatory changes and policy updates via the UCO e-mail group.

- Auditing of New Hire I-9s - UHR has begun auditing one hundred percent of new hire I-9 submissions for the Ann Arbor campus. I-9s that are found to be incomplete, illegible, or inaccurate are returned to the hiring unit for correction. The Human Resources Offices for the Dearborn and Flint campuses are auditing new hire I-9s for their campuses.

- Developing Policy and Procedure - The Standard Practice Guide (SPG) sections on employment record retention are being updated based on federal regulations and/or University policy.

- Ongoing File Maintenance - UHR staff, unit UCOs, and staff in the Imaging Office are helping to identify misfiled records as part of their daily work in WebNow. Automated tools to identify misfiled documents and to purge documents appropriately will be evaluated after system implementations and upgrades.

Pulmonary and Critical Care Medicine Operational Review   # 2008-207
Original Report issued September 26, 2008   Follow-up Report issued April 30, 2009

Management has taken appropriate corrective action or plans have been suitably made as indicated below. **This audit is closed.**

- Grant Key Personnel - Certain grant sponsors require prior authorization if effort by key personnel decreases below established guidelines. In addition, *University of Michigan Health System Policy 01-04-007, Effort Certification,* requires that each unit facilitate a review of effort with all research-sponsored employees on a quarterly basis. During the audit, some instances of non-compliance were identified.

The Pulmonary and Critical Care Medicine Division Administrator sent out a reminder e-mail to division research administrators explaining the process and frequency requirements for monitoring effort reporting.

The Director of Grants Review and Analysis, Medical School Administration made presentations clarifying when effort changes require prior sponsor approval. These presentations were made at an Effort Specialists meeting and a Grant Processing Administrators Committee meeting. Individuals who attended were asked to share information with their home unit.

- Travel and Hosting - Internal Medicine has developed a Travel and Hosting policy that is more stringent than University requirements. While this creates a stronger control environment, University Audits identified some examples of non-compliance to the Internal Medicine's Travel and Hosting Guidelines.

  The Department of Internal Medicine reviewed travel and hosting guidelines and began a lean project to address the issues. However, changes to University travel and hosting policies are expected with the imminent implementation of Concur, and the Department of Internal Medicine deferred updating guidelines until new University policies can be reviewed.

  Auditor's Comment: Delaying changes to Internal Medicine's travel and hosting guidelines until new University policies are developed is reasonable and efficient. The Department of Internal Medicine and its divisions continue to follow, at a minimum, existing University travel and hosting policies.

- Timely Submission of Travel and Hosting Expense - During the audit, late filings of P-Card statements, which could result in termination of P-Card privileges, were noted. Meetings were held and a lean project was developed to address P-Card statement submission timeliness. The Department has recently implemented efficiencies to streamline the approval process. As the method of submitting P-Card statements will change when Concur is implemented, the Department of Internal Medicine is not currently pursuing substantial changes to the statement review process. Concur is expected to be implemented in fall 2009. The Department will update their P-Card approval policies and procedures as soon as Concur is implemented.

Physical Security at Harlan Hatcher Graduate Library   # 2007-304
Original Report Issued September 2, 2009   Follow-up Report Issued April 30, 2009

Management has addressed the open issues through implementation of positive changes that will strengthen internal control. Some issues are still being addressed, but measurable progress is being made on all of these issues. Based upon the positive actions taken to address all of the recommendations, **all issues are closed.**

- Emergency Exit Obstructions - Storage in the Hatcher Library is very limited. Because of a lack of space, many items have been stored in ways that obscure access to emergency exits. Hatcher administration has identified and obtained control of space in the Buhr building. This space is used to alleviate crowding in many areas of the Hatcher Library. Re-inspection of the areas identified during the audit showed a complete removal of obstructions.

- Access to Sensitive Areas - The eighth floor of Hatcher South houses the Papyrology vault and room, the Map room, and the Library's Administrative Offices. Audits recommended that security be improved at the entrance to these areas. Hatcher management has worked with

Facilities and Operations to have a card reader system installed. A bid request has been submitted to Facilities and Operations, and a corresponding bid received. Negotiations for this project are in progress.

- Papyrology Area - All of the equipment and material for studying the papyrus collection is housed in the room outside the Papyrology vault on the eighth floor of Hatcher South. Audits recommended that an alarm be installed on the door into the papyrus room to improve security. Hatcher management stated that they are willing to accept the risk to the items stored outside the vault as they are no more valuable than many of the items kept in the general circulation area. Since this area will be further protected by the installation of the card reader system addressed in the "Access to Sensitive Areas" item, acceptance of this risk is appropriate.

- Security Cameras - The configuration and use of the Hatcher Library building creates a significant risk for theft of both University and student property. There are a number of unmonitored exits throughout the Library that provide an easy escape for a potential thief. It was recommended that motion sensitive cameras be installed in these locations. Hatcher management has received cost estimates from Architecture, Engineering and Construction for this project, and awaits funding.

- Fire Inspection Reports - The University Fire Inspection Office reported that they had no response on file from inspections of Hatcher performed in prior years. A new inspection was performed in August 2008. Audits recommended that Hatcher management assign an individual to be responsible for the resolution of items identified in the fire inspection reports. Management identified the Facilities and Operations Manager as the responsible party. The Facilities and Operations Manager has filed responses to the 2006 fire safety inspection positively addressing all items. The Fire Inspection Office has reported that positive progress is being made at Hatcher.

- Secluded Areas - There are four elevator lobbies in Hatcher that are segregated from the rest of the facility. Audits recommended that emergency phones be installed in these lobbies to aid individuals who may need assistance. Hatcher management installed phones in each of these lobbies. These phones automatically dial DPS when the receiver is removed from the cradle.

- Padding in Stacks - There are a number of places in the North Hatcher stacks with very low ceilings and pipes running along these ceilings. This creates a safety risk of staff and patrons hitting their heads. Audits recommended that padding be improved throughout the stacks. Hatcher management has contacted Facilities and Operations who have agreed to work with Hatcher staff to improve the padding. University Audits noted improved padding in the North Hatcher stacks, and areas designated to be improved in the near future.

- Stacks Crowding - Audits noted places throughout the stacks that contained multiple book trucks and step stools obstructing access to aisleways. The Director of Onsite Services and Distributed Libraries sent memos out to Hatcher staff stating the need to regularly check the aisles for obstructions and to remove them.

- Special Collections Crowding - Special Collections occupies the seventh floor of South Hatcher. This collection is so large that space is at a premium in that area. As mentioned in the "Emergency Exit Obstructions" item, space has been obtained in the Buhr building. Special Collections is using some of this space to house items from this collection. University Audits noted a significant reduction in overcrowding. Further space has been identified, and Hatcher management is working to obtain that space to complete the project.

- Loading Dock Storage - The hallways surrounding the loading dock were heavily used for storage during the initial review by University Audits. Hatcher management instructed those using this area for storage to remove their items. Progress has been made removing items from the hallways. This space has been cleared of storage, except for a pallet of paper. The only other items kept in the hallway are rolling carts used for current projects.

- Exit Sign Locations - During its review, University Audits noted places throughout the library that were missing exit signs. This problem was also noted in the 2008 Fire Inspection Report. Hatcher management has taken steps to repair and add new signs as appropriate. University Audits observed that exit signage has been improved. Hatcher Facilities staff continue to work with Plant on this project.

- Fire Panel Communications - The Hatcher Library is protected by three fire panels. These panels do not currently communicate with each other. This creates the need for human intervention in the event of a fire. The Facilities Maintenance Fire Protection Shop and Fire Safety Services unit have investigated this issue. They have determined that the system does not appear to meet current fire protection codes but met the codes in place at the time of installation.

  Due to the complexity of the system, Facilities and Operations recommends either a replacement or significant overhaul. This is currently estimated to cost $5.5 million. Facilities and Operations have indicated that other buildings are currently prioritized higher than Hatcher for fire protection/life safety upgrades in the Facilities Condition Assessment database. They do not anticipate that funding could be committed to Hatcher in the foreseeable future.

  It is the opinion of University Audits that Hatcher management have done all they could to resolve this issue. A significant dialogue has taken place between Hatcher and Facilities management teams. Due to the lack of funding for this project, the risk will be accepted.

- Walkway Doors - There is a walkway connecting the Hatcher Library to the Shapiro Library. The doors on each end of this walkway were designed to close automatically in the event of a fire alarm or other life safety issue. The doors on the Shapiro side currently function as designed, but the doors on the Hatcher side do not. Facilities Maintenance has initiated a study to determine if there are reasonable ways to address this. Facilities will continue to work and communicate with Hatcher facilities staff as this project continues.

- Public Address Systems - The public address system was designed to broadcast announcements to both Hatcher North and South. Due to a malfunction in the system, announcements have to be individually made on both sides of Hatcher. Architecture, Engineering and Construction is in the process of evaluating the cost to repair or replace the communication system. They have indicated that Hatcher will be considered for an upgrade, given resource constraints, other building priorities, and the cost to repair or replace. Facilities will continue to work and communicate with Hatcher facilities staff as this project continues.

- Procedural Documentation - Audits noted that there were areas in Hatcher lacking appropriate procedural documentation. Hatcher management has worked with individuals in these areas to document current procedures. These procedures will be posted on library intranet site currently in development.

Management has taken appropriate corrective action on all of the audit recommendations.

Open Audits Follow-up Table
April 30, 2009

Audit Title	Report Date	Issues	Expected Completion
University Health Service HIPAA IT Security 2008-309	9/2/08	Practice management system; verification of internet access; intranet tools server; data access procedures; security policy	June 2009
College of Engineering Research Computing 2008-302	10/29/08	Vulnerable systems; unnecessary services; unknown ports and services; unknown systems; unsupported devices; users with system administrator privileges; updating firewalls; procedural documentation	May 2009
Michigan Administrative Information Services Grade System: Web-based Grade Changes 2008-114	12/23/08	Role assignments; customization; two-factor authentication	July 2009
Information Technology Central Services Active Directory UMROOT Domain 2008-310	2/16/2009	Telnet service, inactive accounts and operating agreements, privileged accounts, host hardening, caching credentials, and change management	June 2009
University of Michigan Hospitals and Health Centers Cashier's Office 2008-206	10/17/08	Segregation of duties; bank statement reconciliation and check writing practices; follow-up of outstanding vouchers; duplicate facility refunds	June 2009
UMHHC Payroll and Timekeeping 2008-110	1/30/09	Human Resource Management System access; systematic data integrity; payroll expenditure analysis; roles and responsibilities	October 2009
Medical School Administrative Internal Control Review 2008-208	1/30/09	IT strategic planning; reconciliations; gift fund usage; IT security; fire drill regulations	September 2009
Resident Duty Hours 2008-102	1/30/09	Duty hours compliance	September 2009
Children's and Women's Hospital Construction Audit 2009-601	4/02/09	Establishing guaranteed maximum price; sales and use tax; retaining payment documentation	December 2009
Transportation Services 2007-101	1/28/08	Controls over physical access; system user access levels; commercial driver's license testing; fuel inspection upon delivery; gross pay register review	First Follow-up April 2009 Second Follow-up June 2009

University of Michigan – Flint Chancellor's Office 2008-205	9/30/08	Disaster recovery; reconciliations; segregation of duties; policies and procedures	First Follow-up April 2009
			Second Follow-up June 2009
Plant Operations Construction Services 2008-602	11/4/08	Project management reporting	June 2009
Sponsored Programs Subrecipient Monitoring 2008-501	11/21/08	Written guidance for PIs; subcontract template	June 2009
School of Music, Theatre & Dance Fiscal Responsibilities 2008-815	11/26/08	Financial oversight and monitoring; several procurement and payroll observations; documented procedures; written delegation of authority; imprest cash management;	July 2009
Intercollegiate Athletics Business Office Fiscal Responsibility 2008-210	12/23/08	Reconciliations; procurement; cash controls; overtime; check writing; mobile devices; equipment disposition; hiring and termination procedures	May 2009
William L. Clements Library 2008-212	1/26/09	Grant compliance; endowment agreements; collection management; insurance coverage; physical safety and security; reconciliations; recharge rates	September 2009
University Press Inventory and Receivables 2008-203	1/30/09	Accounting checklists; inventory analysis	September 2009
Department of Public Safety Fiscal Responsibilities 2008-201	3/19/09	Fiscal responsibilities; IT control environment; regulatory compliance; asset management; handling of seized evidence and forfeited property	September 2009
School of Kinesiology Fiscal Responsibilities 2009-2033	4/14/09	Effort reporting; SOA and gross pay register reconciliation and review; credit card terminal placement; time reporting review; imprest cash fund; deposits; record retention; background checks; hiring documentation	December 2009
Benefits Administration Office 2009-101	4/30/09	Logical access to benefits data; addition to discrepancy reporting; invoice error reporting; flexible spending account payment reconciliation; compliance monitoring	September 2009