

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

Subject: Report of University Internal Audits
July 2007 – September 2007

Background:

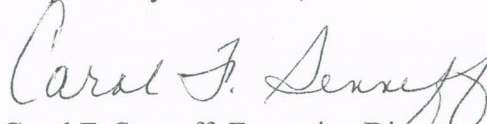
This is the report of the Office of University Audits activities for the period **July 2, 2007 through September 30, 2007**. The summaries of audits contained in this report were previously reported to members of the Regents' Finance, Audit and Investment Committee and included in discussions at Committee 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 **September 30, 2007**.

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

Respectively submitted,



Carol F. Senneff, Executive Director
University Audits

November 2007

ORIGINAL REPORTS

Campus

Office of the Provost and Executive Vice President for Academic Affairs Fiscal Responsibilities #2007-201 Issued July 16, 2007

The primary objectives of the audit were to review the central processes of the Office of the Provost to determine if the policies, procedures and internal control structure established are adequate to support the mission of the Office of the Provost and are in compliance with the policies and procedures of the University.

The review focused on the following:

- Documentation of departmental policies and procedures
- Payroll
- Employment
- Purchasing
- Academic administrative searches
- Financial reporting and monitoring
- Disbursement and authorization of discretionary funds
- Delegated authority

Control Issues:

- Academic Administrative Search Expense – Academic administrative searches are conducted for associate provosts, deans and other academic administrative personnel. Search advisory committees are established consisting of selected members from the University community. The University pays for the expenses incurred by the candidates and consultants for travel, meals and lodging.

University Audits noted in some instances that expenses incurred by the committees, candidates and consultants exceeded University meal limitations. It was also determined that in some instances alcohol purchases by both candidates and consultants were not identified and were subsequently charged to general fund accounts. In one instance, consultants stopped in Cleveland to meet with a search committee from another institution before arriving in Detroit. A determination could not be made if airfares charged by the consultants were properly allocated between the University and the other institution and were at the coach rate. Furthermore, while a financial commitment is established within the budgeting database maintained by the Office of Budget and Planning for each academic administrative search, a detailed budget is not prepared for searches including a periodic variance analysis and total costs of each search.

Controls surrounding the search process can be strengthened by:

- o Establishing a budget for each search. Budget variances should be periodically reviewed and explained.
- o Assuring that search advisory committees and consulting firms comply with University travel and hosting policies.
- o Documenting and approving any exceptions to stated policy.
- o Identifying alcohol purchases; charge to non-general fund accounts.

Management Plan – Management is working to improve controls over academic administrative searches.

- Statement of Activity Reconciliation – Statement of Activity reconciliations are prepared by a person who also makes purchases for the office. The statements, along with the associated reconciliation and supporting documentation, are not reviewed by an independent person.

Management Plan – The newly hired part-time Financial Specialist will begin reconciling the Statements of Activity. Ordering for the office will continue to be the responsibility of the receptionist, thereby ensuring the proper division of responsibilities. The Chief of Staff will begin reviewing the Statements of Activity after they have been reconciled.

- Reconciliation of Gross Pay Register – Time and attendance reports are entered electronically for the employees of the Office of the Provost by a secretary senior. Once the information is entered, an associate administrative specialist reviews the gross pay register for reasonableness. Hours per the gross pay register are not compared to the original source documents.

Management Plan – The person responsible for reconciling the gross payroll registers has begun reconciling hours as reported on the gross pay register to the original time documents.

This issue is closed.

- Lack of Documentation of Policies and Procedures – The Office of the Provost provided University Audits with a copy of the office’s policy and procedures manual. Although this document included many procedures, it did not include details on how to perform certain tasks, who should review the work performed and other key guidance. The Chief of Staff indicated that staff within the office are cross trained for key tasks and many employees have notes regarding the procedures.

Management Plan – Management will begin coordinating efforts to include detailed policies and procedures for:

- o Payroll
- o Purchasing
- o P-Cards
- o Travel and Hosting
- o Discretionary Funds

The overall control environment within the Office of the Provost is sound. Improved controls over academic administrative searches and statement reconciliations as well as improved documentation of policies and procedures will further strengthen the control environment. The Provost and her staff consider internal controls to be very important and are committed to strengthening controls with the central business processes of the office. The Provost has indicated that discussions will ensue with her direct reports as a result of this audit to emphasize the importance of internal controls and the use of sound business practices.

A follow-up to the outstanding issues will be conducted in the second quarter of fiscal year 2008.

Intercollegiate Athletics Academic Support Services

#2007-408

Issued July 18, 2007

The Intercollegiate Athletics (ICA) Office Academic Success Program (ASP) is housed in the Stephen M. Ross Academic Center. The Center, which opened in January 2006, was funded privately from donations, Athletic Department funds, and investment proceeds. The ASP’s mission is to provide academic support to student-athletes and other University students. The ASP offers many services and programs, including academic counseling, individual and group tutoring, life skills and leadership

development. It also provides specialized services for student-athletes with learning disabilities. The ASP has a dual reporting structure to both the U-M Athletic Director and the Provost Office.

The objective of this audit was to review core business and operational processes at the ASP and determine if there were sufficient internal controls to support the ASP's mission and compliance with current and adopted University and National Collegiate Athletic Association (NCAA) guidelines.

Student Counseling Practices - Control Issues:

- 1.1 Sharing of Student Login and Passwords – Some ASP counselors have requested student-athletes to give them their (the student's) login ID's and passwords to Wolverine Access – Student Business in order to make changes on behalf of the student to enrollment and class schedules while the student is out of town. NCAA and Big Ten regulations stipulate that student-athletes must be enrolled in a minimum of 12 credit hours per semester to be eligible for practice, competition and financial aid. Password sharing is against University policy. NCAA rules state that student-athletes must take a proactive role in their education decisions.

Management Plan – ASP staff members have destroyed documentation listing student passwords. In consultation with the Registrar, Management will establish alternate procedures for urgent situations due to team travel.

- 1.2 Student Athlete Privacy - During this audit, University Audits observed the following:
- Some counselors do not lock their office doors when they step out of the office temporarily. Students and other individuals visiting these offices may be able to view sensitive information.
 - The ASP office computers do not use password protected screen locks that automatically time out computers when they are left idle for a predetermined amount of time.
 - The Academic Advising office (designated for visiting unit advisors, but used by other individuals such as graduate assistants and learning coordinators) contains an unsecured laptop computer – the computer does not have a cable lock (to prevent theft), boots up without a password, and contains sensitive information.
 - Some counselors do not lock up documents containing sensitive information overnight. Documents remain on desks or in open and unlocked file cabinets.

Management Plan – Management instructed all ASP counselors to close and lock their doors when they leave their offices. All ASP computers/laptops now have password protected screen locks set at 30 minutes. Management replaced the laptop in the academic advising office with a secure desktop computer. The laptop was cleared of sensitive information. ASP staff members are in the process of reorganizing office files to ensure privacy. Sensitive data will be locked up at night.

- 1.3 Academic Success Program - Student files maintained by ASP counselors do not contain evidence that students are actively participating in setting their academic goals. NCAA regulations state that student-athletics should play an active role in this process.

Management Plan – ASP counselors will ask 2007-08 freshmen student-athletes to complete an academic goal setting form. They will also ask student-athletes who receive advice regarding class scheduling to complete the Academic Counselor Role Clarification form. ASP counselors will retain both forms in student-athlete files.

- 1.4 Monitoring Documentation Standards – ASP counselors are responsible for monitoring student-athlete eligibility, progress toward degree, and course work. However, ASP does not have guidelines describing minimal documentation standards to support these activities.

The NCAA has adopted new rules regarding academic support programs that will become effective in 2008. These rules will require ASP to demonstrate they are providing sufficient support services to enhance student-athletes educational objectives.

Management Plan – Management is in the process of revising its policies and procedures manual. ASP will have four notebooks (day-to-day operations, compliance information, recruiting, and ASP staff meetings) in each academic counselor’s office that counselors will be required to maintain and update daily.

- 1.5 Conflicting Practices with ASP’s Position Paper on Credit Hours – ASP’s Position Statement on Spring/Summer and 5th Year Aid states that counselors will advise and encourage student-athletes to take more than the minimum number of credit hours each semester. In practices, there have been instances where some counselors have recommended that student-athletes take the minimum number of credit hours during certain semesters. University Audits understands that ASP counselors recommend changes to student-athletes’ class schedules based on factors such as athletic schedules, class difficulty, and prior academic performances. However, this practice appears contrary to the Position Statement.

Management Plan – ASP will reevaluate and rewrite the 5th year aid policy.

Employment - Control Issues:

- 2.1 Background Checks – The ASP does not perform background checks, verify the credentials of internal and external job candidates, or formally document reference checks. Student job applicants are not required to provide the ASP written consent to view online transcripts or other academic records.

Management Plan – Management agrees that it has an obligation to protect the welfare of its students and staff. They will contact their Human Resources representative to learn the options available for performing background checks. They will also document information obtained from reference calls and retain this information with employment workpapers.

- 2.2 Timely Submission of Employment Forms – Athletic Business Office personnel stated that ASP does not always submit hiring paperwork to the Business Office in a timely manner. Student employees sometimes work several weeks before they have been entered into the Payroll system. Occasionally, management submits time reports for work dates that are prior to the start date entered into the Payroll system.

Management Plan – Effective January 2007, ASP revised their practices. Managers may not put new employees on the work schedule until all hiring paperwork has been completed and turned in. Management acknowledges, on occasion, someone may still advertently send paperwork in late. ASP will implement a process to monitor and curtail this practice.

- 2.3 Employment Eligibility and Identity Processes – University Audits reviewed I-9 forms to verify the hire dates for a sample of student employees. Federal regulations govern the completion, retention, and re-verification of the I-9 form. The following errors were noted on some of the forms:

- Employees and/or employers did not complete I-9 forms on a timely basis
- Employees and/or employers used whiteout on the form
- Certification dates were missing or inaccurate
- Management makes copies of driver licenses, passports, and other identification and attaches those copies to the form
- Management does not maintain a tickler file to notify them of students who need verification

- 2.4 Student Employee Job Descriptions – Job descriptions assigned to temporary employees are inconsistent. During a review of ASP’s hiring practices, University Audits noted that management classifies class checkers as monitors or tutors and building monitors as tutors, monitors, or clerks.

Management Plan – Management has determined how to classify temporary student employees. ASP will apply this classification to current and future temporary employees.
Completed

- 2.5 Student Employee Status – ASP hires students to fill specific temporary positions. Management does not monitor student status.

Management Plan – Beginning September 2007, management will require student employees to bring in copies of their class schedules each semester to verify they are registered students at the University of Michigan or another institution of higher learning. Management will also inform them that it is their responsibility to report changes in student status.

- 2.6 Student Employee Termination – The Athletic Business Office (ABO) forward dates official termination paperwork to ensure they have sufficient opportunity to enter late time data. The ABO acknowledges that ASP occasionally submits time reports (for work performed prior to the employee’s termination date) after the employee has been purged from the Payroll system. The ABO cannot enter pay data for employees after they have been purged from the system.

Management Plan – Beginning immediately, ASP will submit termination paperwork timely.
Completed

Payroll – Control Issues:

- 3.1 Timekeeping and Payroll Policies and Procedures – ASP does not have written documentation describing its timekeeping and payroll policies and procedures.

Management Plan – Management will document timekeeping and payroll policies and procedures and communicate procedures to personnel as needed.

- 3.2 Temporary employees complete and sign internal time documents – ASP transfers time data from internal time documents to official time report forms obtained from the U-M Payroll Office. During a review of this process, it was noted that:

- ASP’s internal time documents are outdated. They request information that is not required. They also ask employees to provide social security numbers.
- The ASP transfers time data for 40 to 60 employees each bi-weekly pay period. Providing the official time report to the employee for completion may be more time efficient and reduce any errors associated with transferring data to time reports.
- The ASP maintains internal time documents for two pay periods after the pay date. University Standard Practice Guide section 518.1 states that these documents must be retained for seven fiscal years plus the current fiscal year.
- The ASP allows employees to submit hours by e-mail. The best practice to support payroll expenditures is to obtain a time report signed by the employee.

Management Plan – Management has established new procedures for payroll. Official time reports will be maintained in a database software system called Accutrack.

- 3.3 Monitoring Temporary Employee Hours – Management does not always have direct knowledge that hours reported by temporary employees are accurate.

Management Plan – Management has implemented a process for monitoring work hours. By Fall 2007, ASP will install Accutrack, an ID-based check-in system that monitors activity. In the interim, there will be separate sign-ins for building supervisors and learning coordinators. Class checkers will be asked to record their time data on the daily reports they provide to management.

- 3.4 Custody of Approved Time Reports – Management returns signed time reports to staff members for delivery to the Athletic Business Office. This practice gives employees an opportunity to alter his/her time report without the approver's knowledge.

Management Plan – Effective immediately, management will no longer return signed time reports to staff members. The co-directors will be responsible for delivering staff time reports to the Athletic Business Office. **Completed**

- 3.5 Reconciliation of Gross Pay Registers – ASP management does not review the Gross Pay Register. A timekeeper at the Athletic Business Office compares the Gross Pay Register to copies of time reports, but does not have access to original internal time documents.

Management Plan – Athletic Business Office personnel have begun sending copies of the Gross Pay Register to ASP co-directors for their review. **Completed**

Staff Training and Development – Control Issues:

- 4.1 Documentation of Staff Training – ASP regular and temporary staff members occasionally attend training classes to promote performance improvement and professional development. University Audits noted that:

- ASP does not have documented policies and procedures pertaining to staff training and development.
- ASP does not maintain support documenting rules education and other training classes/courses completed by academic counselors.

Management Plan – Management now maintains a database of all staff development and training. **Completed**

- 4.2 Staff Evaluations – The ASP does not consistently perform annual performance evaluations.

Management Plan – Management will provide annual staff evaluations. Management will share information with both the Athletic Director and the Provost Office.

- 4.3 Program Evaluations – University Audits was unable to review evaluations appraising the effectiveness of the Academic Success Program. ASP management stated that program evaluations previously completed by tutors and student-athletes were not retained. ASP is in the process of updating evaluation forms.

Management Plan – Management will survey tutors, student-athletes and coaches each semester on program, building and staff evaluation. Review of all survey information will be conducted annually and survey results will be shared with the Athletic Director and the Provost Office.

The ASP staff is very dedicated to supporting student-athletes. A follow-up to the outstanding issues will be conducted in the second quarter of fiscal year 2008.

Issued July 20, 2007

University Audits completed a review of the central processes at the Stephen M. Ross School of Business Dean's Office after consultation with and at the request of the Dean. The objective of the review was to determine whether or not the Dean's Office has adequate procedures to monitor and control the following central processes:

- Payroll
- Procurement
- Financial reporting and monitoring
- Discretionary funds
- Delegation of authority
- Conflict of interest and commitment
- Ross Marketplace operations (cash handling, merchandise inventory, and credit card processing)

Control Issues:

- P-Card Issues
 - o The Assistant Dean for Finance and Planning is responsible for approving 63 P-Card statements monthly.
 - o P-Card reconcilers do not print P-Card statements when they don't expect to see activity, in order to confirm that there was no activity.
 - o P-Cards are used to purchase supplies and services greater than the \$5,000 limit per transaction. Testing revealed 18 purchases during fiscal year 2007 that were split to avoid going through Procurement Services for a purchase order.

Management Plan – Management agreed to reduce the number of P-Cards approved by one person to less than 25. They will use purchase orders to purchase supplies and services that exceed the \$5,000 limit. They will also require P-Card approvers to take the new P-Card training and to review all statements monthly.

- Form G Payments – The Director of Executive Education led various Executive Education programs and was compensated through the Form G during fiscal year 2007. Standard Practice Guide section 201.85 states the stipend should be used for additional non-recurring services and the dean or director normally should not approve special stipend for more than four days in any calendar month without fully explaining the unusual circumstances. There was no documentation to support an approval of the amount from the Office of Academic Affairs and no explanation of the payments for more than four days in a calendar month. The activities noted on the Form G's appear to be continuing.

Management Plan – We have participated in the planning and design for the new supplemental payment process, and will be a pilot program participant beginning in July. Appropriate staff is currently scheduled for necessary training for the new system.

- Travel and hosting expense documentation was not consistently complete. University Audits noted:
 - o Hosting events without a list of attendees or a completed hosting form
 - o Hosting receipts which were not itemized in order to identify alcohol purchases
 - o Airfare itinerary that did not include the "class"
- Indirect Cost Recovery Excluded Expenses – Indirect cost recovery excluded expenditures are not consistently flagged with the appropriate class ending in "X".

Management Plan – We will circulate the policies and procedures regarding the proper coding of indirect cost recovery expenditures to our managers and staff. The monthly Statement of Activity reconciliations will be used to identify these expenses that have not already been flagged.

- Ross Marketplace Observations – University Audits identified opportunities for improvement over inventory, cash handling and credit card processing controls in the Ross Business School merchandise store:
 - o Unauthorized Change Fund – Revenue from merchandise sales is used as a change fund for Marketplace sales. All funds collected should be deposited into an authorized Ross Business School Account.

Management Plan – The merchandise revenue was deposited. An Imprest Cash (change fund) Agreement Form has been completed, with the designated custodian identified and will be in place prior to the next Marketplace sale in September 2007.

- o Merchandise Inventory Controls – Merchandise inventory is not adequately secured or accounted for on a regular basis.

Management Plan – Storage capacity has been added and all inventory is now secured upon delivery. A policy to do physical inventory count is in place and will be performed twice per year. The reconciliation will compare the on-hand count with the monthly unit sold data. Inventory procedures will be documented.

- o Cash Handling Controls – To adequately protect cash receipts for the Marketplace table sales, the following controls should be implemented:
 - Limit the number of persons who handle the cash during the sales events to create single accountability.
 - Maintain a pre-numbered cash receipts journal and require that a cash receipt be given to all customers.
 - Reconcile the revenue to cash receipts at the end of each table sale.
 - Separate responsibilities for receiving, reconciling, and depositing cash sales.
 - Document cash handling procedures.

Management Plan – At the next sale (September 2007) reconciling and deposits will be done by different individuals. Pre-numbered cash receipts will be provided. Cash will be deposited at the end of the day, or the beginning of the next day if the sale extends past normal hours. Inventory reconciliation will be done immediately following the conclusion of the event. Cash handling procedures will be documented.

- o Credit Card Processing – Credit Card refunds are processed by the same individual responsible for sales, without review or approval. Credit card receipts that detail the entire credit card number and expiration date are not secured.

Management Plan – Each credit card refund will be authorized only by the Marketplace Coordinator (or higher authority) who will verify the original transaction. Credit card receipts will be put in a secured locked box and the terminal is being reprogrammed now to show only the last four digits of the credit card number. Credit card processing procedures will be documented.

- Written Delegation of Authority – Signing authority that has been delegated by the dean to various individuals is not appropriately documented. Delegations of authority should be in writing and include: