

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF THE
UNIVERSITY OF LOUISVILLE BOARD OF TRUSTEES

In Open Session

Members of the University of Louisville Audit Committee met at 11:00 a.m., on November 13, 2008, in the Jefferson Room, Grawemeyer Hall, Belknap Campus, with members present and absent as follows:

Present: Mr. Steve Poe, Chair
Mr. Brent Fryrear
Dr. Salem George
Ms. Rebecca Jackson
Ms. Jessica Loving (departed at 11:25 a.m.)
Ms. Brucie Moore

Absent: Mr. J. Chester Porter

Other Trustees

Present:
Ms. Marie Abrams
Dr. Robert Curtis Hughes
Mr. Frank Minnifield (arrived at 11:25 a.m.)
Prof. Melissa Laning
Dr. William Selvidge
Ms. Sandy Metts Snowden
Mr. Bill Stone

Guests: Ms. Mary McKinley, CPA, BKD, LLP
Ms. Jennifer Williams, CPA, BKD, LLP

From the
University:

Dr. James R. Ramsey, President
Dr. Larry Cook, Executive Vice President for Health Affairs
Ms. Angela D. Koshewa, University Counsel
Mr. Mike Curtin, Vice President for Finance
Mr. David Barker, Director of Audit Services
Ms. Terri Rutledge, Associate Vice President for Business Affairs
Ms. Cheri Jones, Associate Director for Audit Services
Ms. Susan Howarth, Director of Budgets
Mr. Larry Zink, Controller
Ms. Susan Magness, Assistant Controller
Ms. Kathleen Smith, Assistant Secretary
Ms. Debbie Dougherty, Board Liaison

I. Call to Order

Having determined a quorum present, Chair Poe called the meeting to order at

Approval of Minutes, November 13, 2007

Ms. Jackson made a motion, which Mr. Fryrear seconded to approve the minutes of November 13, 2007. The motion passed.

II. Action Item: Approval of Consolidated Audited Financial for Year Ending June 30, 2008 and Independent Auditor's Report

Chair Poe directed the committee's attention to the financial statements for the period ending June 30, 2008. Chair Poe asked Vice President Curtin, and Ms. Mary McKinley, partner from BKD, to explain the audit and respond to questions.

Vice President Curtin reported the external auditors have issued a clean, unqualified report. The financial condition of the University is very positive. Financial highlights included:

- The University's financial position remains strong at June 30, 2008, with assets of \$995.5 million and liabilities of \$284.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, were \$710.9 million as of June 30, 2008.
- Gross tuition and fees were \$186.6 million for the year ended June 30, 2008, an increase of \$22.3 million, or 14% compared to the \$164.3 million reported in the previous year. Approved tuition rate increases for 2007-08 generated approximately \$12.7 million in additional tuition revenues as well as increased enrollments, which contributed an additional \$9.6 million.
- Total general fund appropriations from the Commonwealth were \$169.5 million for the year. Appropriations and certain other revenues and expenses are reported under Government Accounting Standards Board (GASB) Statement No. 35 as nonoperating revenues.
- Operating revenues amounted to \$565.5 million and operating expenses were \$740.3 million resulting in a net operating loss of \$174.8 million. When adjusted for \$169.5 million in state appropriations and \$82.1 million in other net nonoperating revenues, net assets of the University increased by \$76.8 million for the year ended June 30, 2008.

Ms. McKinley distributed an additional report, adding there were no material weaknesses and no significant deficiencies. In the audit of the UofL Research Foundation, Inc., there were no materials weaknesses or significant deficiencies,

but two control deficiencies were noted. These control deficiencies dealt with segregation of duties and adjusting journal entries related to accrued vacation, deferred revenue, grants receivable and operations and maintenance expenses. With respect to ULAA, Inc., one material weakness was noted relating to recording and valuation of pledge receivables and, there were no significant deficiencies. Vice President Curtin explained ULAA, Inc. does not have a standard gift agreement and he has recommended ULAA create one similar to the one used by University Advancement. Because there is no standard gift agreement, any change must be recorded in the controller's office, and currently the changes have not been recorded. Mr. Curtin noted this was a minor item which needs to be discussed and coordinated with Athletics and the Controller's Office. Ms. Jackson made a motion, which Mr. Fryrear seconded, to approve the

President's recommendation that the Board of Trustees approve the attached financial statements for the period ending June 30, 2008 and Independent Auditor's Report as presented under Governmental Accounting Standards Board (GASB) 34.

The motion passed. Vice President Curtin recognized Mr. Larry Zink, Controller, and Ms. Susan Magness, Assistant Controller, for their dedication and work. Chair Poe thanked Vice President Curtin and Ms. McKinley for an excellent review.

II. Report from the Director of Audit Services

Chair Poe asked Mr. Barker, Director of Audit Services to report the status of audits executed and planned for this year. Mr. Barker reviewed the Department of Audit Services' activities for the period of November 2007 through October 2008. He noted each recommendation was developed to improve internal controls or foster process improvements. A summary of key issues and recommendations follow.

Department of Medicine – Cardiology

Audit Services completed a routine audit of the Division of Cardiology in the Department of Medicine. The Department of Medicine is the largest clinical department within the School of Medicine.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** internal controls over financial processes to ensure they are working as intended.
- There are **OPPORTUNITIES TO IMPROVE** compliance with University policies related to financial processes to ensure revenue and expenditure transactions are accurate and properly supported.

- There are **OPPORTUNITIES TO IMPROVE** compliance with sponsor requirements and University research policies and procedures

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- New departmental procedures were implemented to ensure cost share is properly identified and charged for federally sponsored projects.
- Fiscal management over sponsored projects was improved to ensure expense transfers are adequately explained to support timeliness and allowability of charges moved to federally sponsored projects.
- Discussions are being held with University administrators to determine an equitable method for applying faculty salaries to industry sponsored projects.
Target Implementation Date: July 31, 2008
- Controls over financial processes were improved by performing complete reconciliations of accounts with significant activity on a monthly basis and all other accounts at least quarterly. Reconciliations are monitored on a sample basis by the appropriate staff.
- Controls over procurement cards were improved through the education and training of staff on University procurement card policies.
- Controls over cash handling were implemented to ensure cash receipts are adequately tracked and protected, until deposited, in accordance with University policy.
- Controls were implemented to ensure accounts receivables are established in accordance with University's guidelines.
- Controls over vendor refunds were improved to ensure outstanding credit memos are properly accounted for in the University's Accounts Payable system.

Speed School of Engineering

Audit Services performed a routine audit of the Speed School of Engineering. The departments audited were Electrical and Computer Engineering, Computer Engineering and Computer Science, Mechanical Engineering, and Research Administration.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** internal controls to ensure financial processes are compliant with University policies.
- There are **OPPORTUNITIES TO IMPROVE** support of expenditure transactions.
- There are **OPPORTUNITIES TO IMPROVE** management of sponsored projects to be more efficient and effective for compliance with sponsor requirements and University research policies and procedures.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- Departments have improved oversight of grants in reference to cost share. All grants are now reviewed for cost share requirements and cost share is budgeted, funds are transferred, and expenditures are posted to cost share accounts when required.
- Researchers have been trained on how to complete effort reports. Training remains an ongoing process. Speed School business offices have strengthened their oversight of the effort reporting process to ensure effort reports are signed timely.
- Research Administration is processing journal vouchers for charges associated with services they provide to subscribers on a monthly basis. Departments are being notified of each journal voucher at the time of processing. Current contracts with PIs and departments are being maintained.
- Procurement cardholders have familiarized themselves with University policy. Departments are complying with procurement card policies. Supervisors are monitoring activity for compliance policies.
- UBM's will document general ledger reconciliations for all accounts with significant activity. Other accounts will be reviewed for activity on a consistent basis. Someone other than the reconciler will review the reconciliations. Speed types no longer used will be inactivated. **Target Implementation Date: July 31, 2008**
- Departments are ensuring that vendor contracts are authorized by the Purchasing Department.
- Adequate scholarship documentation is being kept for the length of time required by University retention guidelines.

- Computer Engineering and Computer Science and Mechanical Engineering will investigate the use of a shared drive maintained by the IT Department.
Target Implementation Date: July 31, 2008

University Physicians Associates

The clinical departments in the School of Medicine operate residency clinics to train students and provide medical care to the public. University Physicians Associates (UPA) is a third-party 501(c) 3 entity governed by the chairs of the clinical departments. Its function is to manage the residency clinics, in addition to other third-party clinics and some University of Louisville Research Foundation clinics. Functions performed by UPA include clinic management, patient billing, and collections. Beginning in 2009, UPA will provide computer services to the professional private practices housed in the new Physicians Office Building. Because of the importance of the services provided by UPA, Audit Services performed a full-scope patient revenue-cycle audit.

- There are **OPPORTUNITIES TO IMPROVE** the operational processes and procedures that effectively and efficiently support patient revenue-cycle objectives.
- There are **OPPORTUNITIES TO IMPROVE** the internal controls over revenue-cycle activities that are not effective or efficient.
- There are **OPPORTUNITIES TO IMPROVE** disaster recover planning and management reporting capabilities however, the information systems are adequately secure and accurate.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- The new Computer Information System enabled UPA to improve registration effectiveness and efficiency by reducing duplicative registration processes and verify insurance coverage. Clinics are collecting co-payments from commercial insurance patients.
- Staff have been re-trained to reduce errors in demographic data needed to render clean claims and improve collections.
- Staff has been re-trained to properly complete encounter form reconciliations and track encounter forms that are not immediately sent to the business office for processing.
- The business office sends incomplete encounter forms to the clinics weekly and follows up until the forms are returned.

- Business office staff has been enhanced to reduce coding and billing delays. A more streamlined process has been development and implemented to reduce delays in returning forms to the business office.
- Consultation documentation is verified as missing before consultation codes are changed to E&M (evaluation and management) codes. E&M coding from the medical record is documented on the coding forms.
- A process has been developed to ensure claims are being remitted to insurance companies and other payors.
- Staff have been assigned collection responsibilities on a part time basis.
- Separation of duties has been enhanced and monitoring controls implemented where necessary in the clinics and in the business office.
- A comprehensive disaster recovery and business continuity program has been developed.
- A procedure to balance charge entry to services rendered will be developed when the new CIS is implemented. **Target Implementation Date: December 31, 2008**
- The UPA executive committee of the Board of Directors has implemented action to ensure the appropriate entity bills post-operative procedures.
- Credit balances will be researched and refunded within the government deadlines.
- Physicians and staff will be trained on the use of advance beneficiary notices.

Procurement Card Application

Audit Services performed a routine audit of the procurement card (ProCard) application, a component of the PeopleSoft Financials enterprise system.

Based on the work performed, Audit Services concluded that:

- The controls over key application processes, system edits and interfaces are **GOOD**.
- There are **OPPORTUNITIES TO IMPROVE** the management and administration of the ProCard program and **OPPORTUNITIES TO STRENGTHEN** compliance with ProCard policies and procedures.

- The controls for managing and administering application security are **GOOD** and provide reasonable assurance that only authorized personnel have access to perform system functions.
- Technical support controls are **GOOD** and give reasonable assurance that system modifications are properly controlled.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- Discrepancies in card account spending limits between the ProCard vendor's card management system and the PeopleSoft ProCard system will be corrected. Purchasing will evaluate all ProCard accounts with spending limits in excess of the amounts prescribed by University policy and validate the propriety and necessity of the excess limits. **Target Implementation Date: Complete**
- Purchasing will implement procedures and processes to monitor ProCard use and identify instances of non-compliance with purchase restrictions. Violations will be addressed with cardholders and department management as appropriate. Management will evaluate restrictions on the use of the ProCard for faculty, staff, and student travel and determine whether the policy should be rescinded or if travel related merchant codes should be blocked in the ProCard vendor's authorization system. **Target Implementation Date: August 31, 2008**
- Purchasing will evaluate the online transaction review process and determine if a more viable control can be implemented. Online approvals will be monitored to identify departments that should be examined for compliance with the policy. **Target Implementation Date: August 31, 2008**
- Purchasing will enhance and strengthen its ProCard audit procedures to more effectively identify accounts that should be examined and to select a more representative sample of transactions for testing. **Target Implementation Date: Complete**
- Purchasing will evaluate instances in which multiple card accounts are assigned to individual employees, and will validate the necessity of such account assignments with department management. Appropriate documentation will be maintained for all approved multiple card account requests in accordance with University policy. **Target Implementation Date: September 30, 2008**
- Purchasing has implemented procedures to verify that employees have successfully completed training prior to issuance of a card or assignment of access to the ProCard system. All current cardholders, reconcilers, and approvers who are not recorded as having completed ProCard training and

testing will be required to comply with University policy and successfully complete the online training. **Target Implementation Date: September 30, 2008**

Student Residency Requirements

Audit Services performed a routine audit of the student residency process. Upon enrollment at the University, students are classified as either resident or non-resident for tuition purposes. Residency classification can be changed based upon changes in circumstances. Kentucky state law governs the residency classification process.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** compliance with state law and University policy in the initial residency classification.
- There are **OPPORTUNITIES TO IMPROVE** compliance with state law and University policy in the residency appeals process.
- There are **OPPORTUNITIES TO IMPROVE** the consistency of residency classifications and the adequacy and uniformity of controls and procedures.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- The accuracy of residency classifications in PeopleSoft will be improved.
- Management will develop a process to ensure that the Provost approves all exceptions to the standard resident or non-resident classification.
- Management will review PeopleSoft access to student residency data and make adjustments based upon user responsibility.
- The residency review committee will be brought into compliance with University policy.
- Management will develop and implement uniform guidelines for making residency classifications.

Distance Education

Audit Services performed a routine audit of the Delphi Center for Teaching and Learning. The Delphi Center offers professional development seminars and certifications for businesses and offers personal enrichment and adult education classes. The Delphi Center also provides support to faculty by offering face to

face and technology based instructions. Additionally, the Center rents Shelby Campus grounds and facilities to businesses and individuals.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** the efficiency and effectiveness of financial processes and procedures.
- Distance Education billing and revenue allocation is **GOOD**.
- There is **OPPORTUNITIES TO IMPROVE** internal controls in Continuing Education.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- The Delphi Center will coordinate with Treasury Management to ensure compliance with payment card industry data security standards. The Delphi Center will consider automating credit card payments to the third party processor to bypass the need for the GroupWise service account and eliminate the storage of credit card numbers. **Target Implementation Date: January 31, 2009**
- The Delphi Center will investigate contract non-compliance and implement processes to meet University contract requirements. **Target Implementation Date: January 31, 2009**
- The Delphi Center now requires users of the registration system to have unique passwords.
- The Delphi Center will work with the Controller's Office to record accounts receivable during the year as billing occurs and payments are received. Invoices that are significantly past due will be written off to bad debt in PeopleSoft. A new accounts receivable report will be created. The Delphi Center will follow the Controller's Office Accounts Receivable guidelines. **Target Implementation Date: July 31, 2008**
- The Delphi Center will perform a reasonableness check of distance education tuition revenue each semester based on student enrollment. **Target Implementation Date: July 31, 2008**

Physical Plant – Project Management

Audit Services performed a routine audit of Physical Plant project management. Physical Plant is a service department that maintains University facilities in support of the University's mission. The department provides services including

carpentry, electrical, general maintenance, general labor, grounds keeping, HVAC, painters, plumbers, and custodians. Routine maintenance performed by Physical Plant is not charged to departments. Physical Plant does charge departments for other requested non-routine projects.

Based on the work performed, we conclude that:

- The management of chargeable projects is **GOOD**.
- The accuracy of and support for charges are **GOOD**.
- There are **OPPORTUNITIES TO IMPROVE** internal controls over financial processes exist.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- Develop process to ensure that charges on grants are allowable.
- Implement complete reconciliation of speed types used for chargeable projects.
- Establish adequate separation of duties for external billing.

Athletics Coaches Travel

Audit Services performed a routine audit of Athletics coaches' travel.

Based on the work performed, Audit Services concluded that:

- Athletics coaches' travel compliance with University policy and NCAA bylaws is **GOOD**.
- Internal controls over coaches' travel advances and reimbursements are **GOOD**.

No action plans were necessary.

Grants and Sponsored Program Office

Audit Services performed a routine audit of the Grants and Sponsored Programs (GSP) office. This office, a division within the Controller's Office, performs post-award management of sponsored projects, including billing, payment processing, accounts receivables collections, financial reporting, and closeout of grants and contracts as well as provides reasonable assurance of compliance with federal requirements.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** with regard to procedures performed to manage contracts.
- There are **OPPORTUNITIES TO IMPROVE** with regard to system controls and system processes to effectively support the Grants and Sponsored Programs accounting function.
- There are **OPPORTUNITIES TO IMPROVE** with managing and administering application security.
- Technical support of the application is **GOOD**.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- Procedures have been developed to reduce manual adjustments required to correct discrepancies between revenue recognized on sponsored projects and the amount posted as accounts receivable.
- The monitoring tools to ensure sponsored projects are entered correctly in PeopleSoft will be corrected and new tools developed to address upcoming conversion changes. **Target Implementation Date: June 30, 2008**
- Management will pursue development of a tool to ensure budgeted award totals agree with billing system contract limits. **Target Implementation Date: September 30, 2008**
- Internal policy concerning adjustment approvals and documentation will continue to be enforced.
- Procedures to activate projects in the billing system and monitor for missing award documentation will be revised. **Target Implementation Date: June 30, 2008**
- GSP will review the current annual reconciliation of accounts receivable to improve controls. The reconciliation will be performed with either month-end close or quarterly. **Target Implementation Date: June 30, 2008**
- A currently existing PeopleSoft procedures manual will be updated. A procedures manual for daily processing outside the billing system is considered unnecessary. **Target Implementation Date: December 31, 2008**
- Management will improve procedures by potentially using a “comments” section of the billing system, and obtaining access to a shared drive also used by Grants Management and Industry Contracts. **Target Implementation Date: June 30, 2008**
- Access of members of the development and upgrade team and the production support team will be reviewed to verify assigned roles and permission lists are appropriate for individual job duties and responsibilities. **Target Implementation Date: June 30, 2008**

Oracle Database Security

Audit Services performed a routine audit of Oracle database security. Based on the work performed, we conclude that:

- There are **OPPORTUNITIES TO IMPROVE** the administration of Oracle database security to more effectively manage and control access to processes and data.
- There are **OPPORTUNITIES TO IMPROVE** logical controls and strengthen the monitoring of database activities to prevent or detect unauthorized database accesses or changes, however the Physical access controls are **GOOD**.
- Technical support of databases is **GOOD**.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- IT will investigate the feasibility of implementing data encryption in all database instances to prevent the clear text viewing of sensitive data resources. **Target Implementation Date: September 30, 2008**
- The implementation of an enterprise password vaulting system to more effectively secure and manage access to administrative accounts will be considered. In the interim, manual procedures will be strengthened to more strictly control access and monitor use of such accounts. **Target Implementation Date: September 30, 2008**
- The feasibility of implementing an account management system to authenticate Oracle access through directory services will be investigated. **Target Implementation Date: October 31, 2008**
- The password management account profile will be implemented in all database instances to establish requirements for account password complexity and use. **Target Implementation Date: December 31, 2008**
- Procedures will be established for the periodic review of user account access privileges in all database instances. Accesses will be verified for propriety with user's job duties and responsibilities, and privileges will be modified as required. **Target Implementation Date: December 31, 2008**
- Oracle accounts will be tracked in the Computer Account Management System to identify users for whom employment status changes require modification or deactivation of database access. **Target Implementation Date: October 31, 2008**

- Consideration will be given to implementing automated auditing of certain database accesses and processes. Procedures will be developed for reviewing audit logs and investigating suspicious activities. **Target Implementation Date: August 31, 2008**

The Brandeis School of Law

Audit Services performed an audit of the Brandeis School of Law requested by the dean. The school, accredited by the American Bar Association and the Association of American Law Schools, provides a comprehensive professional education leading to a Juris Doctor (J.D.) degree.

Based on work performed, Audit Services concluded that:

- Internal controls implemented over financial processes are **INADEQUATE** and are not working as intended.
- Revenue and expenditure transactions are **INADEQUATE** in that transactions are inaccurate, not properly supported, and not compliant with University policies.
- **OPPORTUNITIES FOR IMPROVEMENT** exist to ensure sources of funding, including endowments, are properly utilized and effectively managed to support ongoing operations.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- The school will improve controls over revenue and cash receipts to protect University assets and ensure accountability for funds received. **Target Implementation Date: January 31, 2009**
- The school will identify expected sources of revenue, develop invoicing processes, and monitor receivables to ensure amounts due are received. **Target Implementation Date: January 31, 2009**
- The copy center will obtain a cash register to track sales and ensure receipts are deposited. **Target Implementation Date: May 31, 2009**
- The school has strengthened controls over cash handling to ensure personal checks are not cashed with money held for deposit and that funds received are deposited intact.
- The school will develop reconciliation procedures to ensure all its speedtypes are consistently and properly reconciled. **Target Implementation Date: January 31, 2009**

- The school will develop an understanding of University accounting practices to ensure revenue and expenses are posted accurately, initially, and expense transfers are adequately supported, when errors occur. **Target Implementation Date: March 31, 2009**
- The school will enter into formal contractual arrangements with external entities and monitor activities to ensure compliance with contractual requirements. **Target Implementation Date: May 31, 2009**
- The school will strengthen controls over payroll processing to ensure payroll payments do not violate University policies. **Target Implementation Date: January 31, 2009**
- The school implemented new procedures to comply with University policy and restrictions when using its procurement cards.
- The school is monitoring travel reimbursement requests to ensure employees are reimbursed for business expenses only.
- The school will ensure confidential data is received through secure methods and confidential records are stored in secure locations. **Target Implementation Date: May 31, 2009**
- The school will implement policies over information security and disaster recovery/business continuity plans to align with University standards. **Target Implementation Date: January 31, 2009**

Dental School

Audit Services performed a routine audit of the School of Dentistry. The areas audited were the Cashier's Office, the Oral Surgery Residency Clinic, and the Faculty Private Practice.

Based on the work performed, Audit Services concluded that:

- There are **OPPORTUNITIES TO IMPROVE** financial processes and procedures in the Oral Surgery Residency Clinic and the Faculty Practices.
- There are **OPPORTUNITIES TO IMPROVE** internal controls in the Oral Surgery Residency Clinic and the Faculty Practices.
- The collectability and recording of patient accounts receivable are **INADEQUATE**. There are missed revenue opportunities because of weak billing and collections issues. We are unable to provide an opinion on the accuracy of patient accounts receivable. The Dental School converted to a new patient billing system in August 2007. Audit Services was unable to verify the accuracy or completeness of the conversion.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- The Oral Surgery Residency Clinic will devote personnel to ensure operating room charges are entered. **Target Implementation Date: November 30, 2008.** The Dental School is working on a resolution related to billing emergency room procedures. Currently, emergency room procedures are not billed. **Target Implementation Date: July 31, 2009**
- Oral Surgery residency and the Faculty Practices will begin the process of moving to chair side entry. Practitioners will be trained on how to use the billing system. In the meantime, Oral Surgery Residency will use a standardized fee ticket form. **Target Implementation Date: November 30, 2008**
- The Dental School is manually working past due accounts. Bad debt write off duties have been segregated.
- Oral Surgery Residency and the Faculty Practices will require all patients to sign in and the forms will be used to reconcile revenue and retained according to the University's medical facilities records retention schedule. Until charges are entered chair side, charge tickets will be retained and used to verify all charges have been entered. **Target Implementation Date: November 30, 2008**
- The Dental School will develop a reporting mechanism to monitor unbilled accounts. **Target Implementation Date: November 30, 2008**
- Additional medical codes will be programmed in the billing system to cover the varying prices charged for procedures. Oral Surgery Faculty Practice physicians will each have their own price lists. All medical codes with a \$0 charge will be reviewed and updated if necessary. **Target Implementation Date: June 30, 2009**
- Employees will work off check copies for payments that come in the mail. The date of receipt for mailed payments will be notated. All checks will be deposited within three business days. Patient payment documentation will be kept. Faculty Practice cash and checks will be kept locked when employees are not in the office and in a drawer during operating hours. The Dental School will work with Treasury Management to implement remote capture for depositing checks. **Target Implementation Date: June 30, 2009**
- Duties have been separated in the Oral Surgery Clinic and the Oral Surgery Faculty Practice. The Cashier's Office has separated duties so that employees who edit patient demographics cannot post payments and employees who make adjustments cannot also post payments.

- The Oral Surgery Faculty Practice is now advising patients of outstanding balances before being seen, requiring co-pays to be paid up front, and verifying Passport eligibility during the registration process.
- The Dental School will investigate whether or not their patient billing system will allow them to apply discounts prior to billing insurance. Their discount policy will be reviewed and amended as necessary if discounts cannot be applied prior to billing insurance. **Target Implementation Date: January 31, 2009**
- Patient charts will be scanned and stored offsite. **Target Implementation Date: December 31, 2008**

Endowment Management

Audit Services performed a routine audit of endowment management. Many offices on campus play roles in ensuring proper endowment management and stewardship of gift funds.

Based on the work performed, Audit Services concluded that:

- The planning used by the schools and colleges for the effective utilization of their endowment funds is **GOOD**.
- The tracking of amounts available for spending by the schools and colleges to ensure endowment funds are utilized in accordance with donor requirements are **GOOD**.
- However, tools to communicate fund balances effectively, including plans for fund utilization and training on endowment policies **NEED IMPROVEMENT**.

As a result of the audit, the following action plans were developed. All of the action plans have been implemented, unless otherwise indicated.

- University Advancement will develop a quarterly report for the deans to monitor spending and fund balances on their schools' endowment accounts. **Target Implementation Date: October 31, 2008**
- The Provost's Office and University Advancement will develop a mechanism for deans or their designees to report plans for utilization of endowment funds annually to the President and Provost. **Target Implementation Date: January 31, 2009**
- The Controller's Office and the University Advancement Office will enhance current training and develop a specialized training session on endowment management for University executives. **Target Implementation Date: Ongoing**

Mr. Barker discussed the following reviews in progress:

College of Education and Human Development

Executive Administration requested a financial audit of the College of Education and Human Development (CEHD) following allegations of fraud against the former dean of the college. Audit Services is completing fieldwork on a full scope audit of all CEHD operating units. The objectives of the audit are to obtain reasonable assurance that:

- Financial transactions originated by the college are accurate, supported, and legitimate.
- Controls over financial transactions are adequate to prevent or identify questionable activity.

This audit will include the fiscal years between 7/1/2002 and 6/30/2008. The scope of the audit will include the support and controls over:

- Procurement transactions including employee travel and expense reimbursements, procurement card activity, personal service contracts, and requisitions through PeopleSoft.
- Payroll activities related to additional compensation (supplemental and x-pay).
- Compliance with the terms of endowment and gift agreements.
- Compliance with OMB circular A-21 and University policy concerning sponsored projects.

Select Agents

Select Agents are bio-toxins classified by the Center for Disease Control and the Federal Food and Drug Administration as potential weapons of terrorist activity. The US PATRIOT Act requires researchers using these agents to comply with specific registration and security requirements. Audit Services is performing a routine audit of the University's efforts to comply with regulations covering select agents. The objectives of the audit are to obtain reasonable assurance that:

- University researchers are compliant with the requirements of regulations related to the possession and use of biological agents and toxins.
- Controls have been implemented to ensure DEHS (Department of Environmental Health and Safety) is informed when faculty use regulated biological agents and toxins.

- Procedures are implemented to monitor laboratories for compliance with security and inventory regulations.

Payroll Application

Audit Services performed a routine audit of the PeopleSoft payroll application. The objectives of the audit were to obtain reasonable assurance that:

- Controls over payroll processing are adequate to protect University assets and ensure the accuracy of payroll information.
- Payroll is processed in compliance with University policies and applicable state and federal laws.
- Application security is adequately administered and controlled so only authorized personnel can access and process functions within the application.
- Technical support of the application is sufficient to verify that only authorized modifications and updates are implemented.

The scope of the audit included:

- Tests of certain transactions processed during the 2007-2008 fiscal year for reasonableness and compliance with established policies and procedures.
- Interviews with selected personnel within the Payroll, Human Resources Systems Administration, Human Resources Project Management and IT Enterprise Security departments.
- Evaluation of system accesses to verify compliance with application security policies and to validate that access capabilities are appropriate to employees' job duties and responsibilities.

A draft report of the findings of this audit has been submitted for management review.

Unix Operating System Environment

Audit Services performed a routine audit of the Unix operating system environment. The objectives of the audit were to:

- Evaluate the management and administration of the Unix environment to verify that the operating systems are properly monitored and maintained.

- Assess physical and logical security to verify that Unix access is reasonably controlled.
- Evaluate technical support of Unix systems to verify that only authorized modifications and updates are implemented.

This examination focused on the operating system environments that support the PeopleSoft enterprise production systems, the data warehousing and reporting system and the Blackboard eEducation platform. The scope of the audit included:

- Interviews with selected personnel with the IT Enterprise Operations Technical Support and IT Information Systems Secure Access Management departments.
- Review of procedural documentation and system configuration information.
- Evaluation of user accesses and permissions to verify compliance with security policies and to validate that access capabilities are appropriate to employees' job duties and responsibilities.

A draft report of the findings of this audit has been submitted for management review.

PeopleSoft Financials 9.0 Upgrade

Audit Services is conducting a review of the implementation of the PeopleSoft Financials 9.0 upgrade. The purpose of this review is to evaluate the upgrade process and obtain reasonable assurance that the system implemented to production is properly secured, processes data completely and accurately, and operates in accordance with acceptable performance standards. The scope of our work will include an examination and assessment of:

- Security set-up and testing
- User testing
- System stress testing and performance
- "Go Live" process

We will coordinate this review with members of the upgrade team, including financial systems functional analysts, database administration, development and upgrade personnel and secure access management personnel. We will participate in selected user and security testing. Upon completion of our review, we will summarize our findings in a memorandum to IT management.

IT Network Security

Audit Services is in the planning stage for an audit of IT Network Security. The anticipate scope of the audit will focus on management and administration of the University's network environment including the policies and procedures in place to secure the network against unauthorized access and intrusion. Tests of certain security access levels and technical support functions will be performed.

Mr. Barker discussed the Compliance Help Line, which has provided an effective way for reporting suspicious activity. The help line was added to augment reporting processes already in place. Callers remain anonymous.

President Ramsey recognized Mr. Barker and his staff for their exceptional work. Chair Poe thanked Mr. Barker for an excellent report.

Mr. Barker reviewed the Audit Plan for 2008-09. Ms. Jackson made a motion, which Dr. George seconded, to approve the

President's recommendation that the Board of Trustees approve the following audit plan:

**Audit Plan
2008-2009**

Clinical Research Billing	Retirement Plan – 403b
State Flow-Through Grants	X-Pays and Supplemental Pays
Construction Contracts	College of Education & Human Development**
Executive Travel and Entertainment	Advancement Operations
Department of Neurology	E-Procurement Implementation
Cardiovascular Innovation Institute**	Financial Upgrades**
Wireless Networks	Request Audits
Data Archiving	

**Denotes audits in progress

The motion passed.

IV. Review of Compliance Report 2007

Dr. Cook summarized the Health Sciences Center Compliance Report for 2007.

V. Other Business

There was no other business

VI. Adjournment

The meeting adjourned at 11:45 a.m.

Board Action:

Passed: X

Did Not Pass:

Other:

Katalin M. Smith

Assistant Secretary

**RECOMMENDATION TO THE BOARD OF TRUSTEES
CONCERNING THE AUDIT PLAN**

Audit Committee: November 13, 2008

Board of Trustees: November 13, 2008

The President recommends the Board of Trustees approve the following Audit Plan:

**AUDIT PLAN
2008/2009**

Clinical Research Billing	Retirement Plan – 403b
State Flow-Through Grants	X-Pays and Supplemental Pays
Construction Contracts	College of Education and Human Development **
Executive Travel and Entertainment	Advancement Operations
Department of Neurology	E-Procurement Implementation
Cardiovascular Innovation Institute **	Financial Upgrades **
Wireless Networks	Request Audits
Data Archiving	

In progress: **

Committee Action

Passed: X

Did Not Pass:

Other:

Katalin M. Smith

Assistant Secretary

Board Action:

Passed: X

Did Not Pass:

Other:

Katalin M. Smith

Assistant Secretary