

Minutes of the Audit Committee of the  
University of Louisville Board of Trustees

July 14, 2005

In Open Session

The Audit Committee of the University of Louisville Board of Trustees met on Thursday, July 14, 2005 in the Jefferson Room of Grawemeyer Hall, Belknap Campus, with members present and absent as follows:

Present: Mr. Kevin Cogan, Chair  
Ms. Sandy Metts Snowden  
Ms. Donna Tinsley Denny  
Mr. Bill Forman  
Mr. Grant Helman  
Mr. Steve Poe

Absent: Mr. Tommie Burns

Other Trustees

Present: Mr. William Brammell, Jr.  
Mr. Ulysses L. Bridgeman, Jr.  
Ms. Margaret Handmaker  
Ms. Jessica Loving  
Prof. Bill Pierce  
Mr. J. Chester Porter  
Mr. Bill Stone  
Ms. Beth Worland

From the

University: Dr. James R. Ramsey, President  
Dr. Shirley Willihnganz, Executive Vice President and Provost  
Ms. Angela D. Koshewa, University Counsel  
Dr. Nancy Martin, Senior Vice President for Research  
Dr. Larry Cook, Executive Vice President for Health Affairs  
Mr. Dan Hall, Vice President for External Affairs  
Mr. Ron Moore, Vice President for Information Technology  
Dr. Denise Gifford, Vice President for Student Affairs  
Mr. Larry Owsley, Vice President for Business Affairs  
Mr. Mike Curtin, Vice President for Finance  
Dr. David Howarth, Associate University Provost  
Mr. David Barker, Director of Audit Services  
Mr. John Drees, Interim Associate VP for University Advancement  
Dr. Ralph Fitzpatrick, Special Assistant to the President  
Ms. Anne Rademaker, Controller's Office  
Ms. Cheri Jones, Associate Director, Audit Services  
Ms. Terri Rutledge, Asst. VP for Business Affairs  
Ms. Carolyn Cochran, Provost's Office

Ms. Kathleen M. Smith, Assistant Secretary  
Ms. Debbie Dougherty, Board Liaison

I. Call to Order

Having determined a quorum present, Chair Cogan called the meeting to order at 2:07 p.m.

Approval of Minutes

Ms. Denny made a motion, which Mr. Poe seconded, to approve the minutes of February 10, 2005. The motion passed unanimously.

II. Review of School of Medicine Compliance Report 2004

Dr. Larry Cook reviewed the School of Medicine's Compliance Report for period September 1, 2003 through August 31, 2004. Dr. Cook reported the audit division expanded the parameters of the routine audits to provide a more comprehensive review according to third-party requirements, completed focused audits on risk areas identified in the OIG Work Plan and increased the number of audits by 643. He noted the education/training division began providing compliance-related training at Human Resources' New Employee orientations, sponsored community and departmental training, and increased the number of employees trained by 111. The Office of Compliance welcomed the School of Dentistry into the compliance program and began providing training/education and audit services to them.

Dr. Cook noted annual training is mandatory for all faculty, resident and staff members involved in billing for physician services at the School of Medicine and its entities. He noted 99% of the providers completed the annual training within the first two months of the year.

III. Statement by the President

President Ramsey noted the importance of the Audit Committee's role to assure the principles of the Sarbanes Oxley Act are taken seriously by organizations such as the University of Louisville. Every unit has an administrative home, and the audit is housed in the Vice President for Finance office, but internal audit works for the board. President Ramsey encouraged the Board members to take the work of Mr. Barker and his team of Audit Services very seriously. President Ramsey thanked Chair Cogan for his leadership of the committee.

IV. Information Items:

Review of Audit Services Charter/Mission Statement

Mr. Barker reported the mission of the Audit Services was

- To provide independent and objective assurance and consulting services designed to add value and improve the University's operations; and

- To help the University accomplish its objectives by bringing a systematic, disciplined approach for evaluating and improving the effectiveness of risk management, control, and governance processes.

Mr. Barker reviewed the organizational chart.

### Risk Assessment

Mr. Barker reviewed the following process in assessing risk:

- Annual Process
- Meet with President, VP's, Deans
- Solicit suggestions for the audit plan
- What do our peers audit?
- Results of prior audits
- "How would it read in the paper"
- Experience

He noted the criteria followed:

- Internal Control Structure
- Complexity of Activity
- Dollar Volume/Materiality
- Public Exposure/External Influences
- Changes in Procedures/Personnel

Mr. Barker summarized the following risk categories:

- Compliance - Regulatory
  - Research Grants & Contracts
  - Human Subjects
  - Medicare/Medicaid Billing
  - NCAA
- Information Technology
  - Peoplesoft Implementations
  - Information Security (Network, Wireless, Desktop, Application)
  - Departmental Information Systems
- Financial/Operational
  - Student Retention/Graduation Rates
  - Budgetary
  - Advancement
  - Health Science Center Clinics/Departments
  - Procurement/Construction Processes

## Audit Plan Development for 2005-06

Mr. Barker reported the following areas to be audited in 2005-06:

- Brown Cancer Center
- Grants Management
- Scholarships
- Executive Expenses
- School of Music
- Chartwells Food Services Contract
- Student Fees
- Industry Contracts
- Athletics P-Card/Travel Expenses
- Supplemental Compensation Calculation
- Athletics Capital Construction Funding
- E-Mail Servers
- Application Change Control
- Peoplesoft Security
- Firewalls
- University Reports
- Sub Recipient Monitoring
- Foreign Visas (Employee)
- Children/Youth Project
- Peoplesoft Consulting
- Emergency Medicine
- Requested Audits
- Audit Services Internal Quality Assessment Review

## Sarbanes Oxley Act

Mr. Barker noted the Sarbanes Oxley Act (“SOX”) was passed in 2002 in response to corporate accounting scandals and addresses issues of confidence in the governance of public traded companies. SOX focused on the integrity and accuracy of financial reporting and does not yet specifically apply to non-profit organizations. The National Association of College & University Business Officers has issued guidance to higher education for application of SOX regulations. He summarized the key elements of SOX:

- Independence of the external auditor
- External auditor should not provide non-audit services
- Audit Committee hires the auditor
- Rotation of the audit partner every 5 to 7 years
- The external auditor should report all critical accounting policies and procedures used by the client
- Independent Audit Committee Members
- Audit Committee Charter
- CEO and CFO certification of Financial Statements
- Required to disclose significant control weaknesses relative to financial reporting
- Management must attest to the adequacy of internal controls over financial reporting
- Management is responsible for establishing and monitoring internal controls for financial reporting
- External auditor must attest annually
- Code of Ethics for senior financial officers
- Audit Committee has at least one financial expert

## Report from the Director of Audit Services for July 2004 through June 2005

Mr. Barker reviewed the summary report of Audit Services' activities for the period of July 2004 through June 2005. The Department of Audit Services has received excellent cooperation and support from all levels of management. Each recommendation has a target completion date. Audit Services performs a semi-annual follow-up on each recommendation to determine if the action plan has been implemented.

### AUDIT SERVICES ACTIVITIES

July 2004 – June 2005

#### REPORTS ISSUED

##### **Grants Billing and Accounting**

The Controller's Office Sponsored Programs centrally manages grant income and receivables. Departments are required to coordinate the recording and invoicing of all sponsored receivables with the Controller's Office. The objectives of this audit were to

- Review procedures over grants billing and accounting for efficiency and effectiveness, and identify possible improvements;
- Test billing and receivables for accuracy and timeliness; and
- Obtain reasonable assurance that University grants are being billed.

Management has implemented the following action plans:

- Procedures requiring all university departments to coordinate billing and collection activities for sponsored programs centrally through the Controller's Office have been communicated and reinforced to reduce the risk of errors and omissions. Management disagreed with the need to evaluate processes to determine if billing and payment process should be re-engineered.
- Daily reconciliations of the PeopleSoft billing system to the general ledger have been implemented.
- Resources have been made available to implement segregation of duties.
- All payments are deposited within three working days of receipt. Payments that cannot be posted to specific accounts are deposited into a clearing account.
- Receivables with credit balances are monitored, researched and corrected as necessary.
- The department concentrates on the billing and collection of government-sponsored accounts rather than on the smaller number of potentially uncollectible non-federal grants. The department goal is to minimize accounts that are outstanding over 90 days.
- Billing and collections procedures and policies unrelated to PeopleSoft have been formalized and documented.

## Student Grade Reporting and the Return of Title IV Funding

University faculty submits student grades to the Registrar's Offices using PeopleSoft. The PeopleSoft system allows students to review their grades over the Internet. In addition, the federal government provides tuition support to many students in the form of Pell Grants, Stafford loans or other financial aid, known as Title IV Funds. To qualify for the federal financial aid, students are required to remain enrolled in the classes for which the aid was paid. The University is required to return any Title IV student financial aid when students drop out of classes.

The objectives of this audit were to obtain reasonable assurance that:

- Controls over grade records were sufficient to prevent or detect errors and/or alterations.
- Processes are in place to identify and return the federal aid received for students who subsequently drop all classes.

The audit determined that the processes and controls over student grades were good. Management implemented a process to better identify students who dropped classes by running available reports twice per semester.

## Graduate School

A routine audit of the Graduate School was performed. The objectives of the audit were to:

- Evaluate the efficiency and effectiveness of the fellowship award and monitoring process;
- Review procedures over revenues and expenditures for sufficient internal control and compliance with University policies; and
- Test revenue and expenditure transactions for supporting documentation and accuracy.

The following action plans have been implemented as a result of this audit:

- Graduate admissions policies and procedures have been created and implemented.
- Cash and checks are deposited daily. A deferred revenue account is being used and cash handling procedures have been redesigned.
- Stipends are being paid through Payroll.

In addition, the following action plans are in the process of being implemented:

- The Graduate School will continually improve its reconciliation procedures and monitor the posting of application fee revenue. **Target Implementation Date: 7/31/2005**
- An independent employee will review tuition remissions for accuracy and timeliness or an alternative plan will be implemented. The Graduate School will

ensure that award letters and terms of award agreements are on file. **Target Implementation Date: 7/31/2005**

### **Telecommunications Billing**

The Information Technology Department manages the telecommunications networks for all University departments and a few unrelated businesses. IT charges departments a fee for this service in addition to passing through the actual telecommunications charges from the telephone service provider (BellSouth Communications at the time of the audit).

Audit Services performed an audit of this process with the objectives of obtaining reasonable assurances that:

- Controls over the telecommunications billing process and transactions are effective, and
- The accounting and support of transactions are adequate and correct.

As a result of the audit, management developed the following action plans:

- IT management has created a report in the billing system that will provide a monthly log of work orders that have not been closed for billing. This will provide a tool to help ensure that the department appropriately billed all work orders to the user department. **Implemented**
- An accounts receivable aging report has been developed and will be used to monitor receivables and initiate collections, if necessary. **Implemented**
- In addition, with the FY05-06 rate calculations, Communication Services will remove the lease payment from direct expenses and utilize a combination of depreciation and equipment reserve to build a reserve account for the replacement of capital equipment. Communication Services will continue to work with the Controller's Office to ensure compliance of proposed rate calculations and to establish procedures for utilizing the reserve account for capital lease payments and/or capital equipment purchases. **Target Implementation Date: 7/31/2005**

### **Athletics Development**

Gifts from donors that are specified for Athletics purposes or are given directly to Athletics are managed by the Cardinal Athletics Fund and are recorded on the Ticketmaster system. University Advancement manages all other gifts to the University using the Advance system. University Advancement is responsible for reporting all gifts including those managed by Athletics. Athletics transmits gift information to University Advancement for philanthropic support reporting purposes. The objectives of this audit were to:

- Evaluate the adequacy and effectiveness of pledge and gift processing procedures between Athletics and University Advancement; and
- Obtain reasonable assurance that gifts are used in compliance with pledge agreements.

Management developed the following action plans:

- Athletics enters pledge agreements and identifies pledge payments in Ticketmaster. Ticketmaster gift data files are sent electronically to the Development Office's Advance System on a routine basis. Athletics ensures that all parties sign all pledge agreements. **Implemented**
- Athletics reviews all outright gifts in Ticketmaster and identifies those that are pledge payments. **Implemented**
- Athletics runs Advance reports and follows up with donors who work for matching corporations to determine if corporate matching claim forms have been received and processed. **Implemented**
- The implementation of electronic data loads from Ticketmaster to Advance is intended to improve the transmission of that data between the two systems. **Target Implementation Date: 8/31/2005**
- Development and Athletics will work together to determine the cause of unmatched Athletic I.D.s. Corrections to donor I.D. errors will be made. **Target Implementation Date: 8/31/2005**
- Athletics will document policies and procedures that explain how to process gift transactions. **Target Implementation Date: 9/30/2005**
- Athletics will document the reconciliation of the Cardinal Athletic Fund. **Target Implementation Date: 9/30/2005**

### **PC Equipment and Media Disposal**

The University has implemented procedures for deploying computer equipment between departments and for transferring systems to surplus property for disposal. The Inventory Control office is responsible for the receipt, storage and disposal of surplus equipment and has developed a Property Policies and Procedures Manual. Departmental inventory coordinators should use the procedures documented in the manual to receive, tag, account for and dispose of property items at the University.

In addition, the IT Data Center Services department has developed Computer Security Policies, Standards, Procedures and Guidelines which address and define a number of information technology related security issues, including policies to be followed for the removal of data and software from computer equipment and other electronic equipment (handheld devices, cell phones, etc.) being discarded or redeployed.

Audit Services performed an audit of the University's disposal of PC equipment and associated electronic media. The objectives of this audit were to:

- Assess the policies and procedures for the disposal of PC equipment including the procedures for removing data from PC hard drives and electronic media prior to disposal.
- Evaluate compliance with University policies and pertinent governmental regulations relative to the disposal of PC equipment and electronic media.

As a result of the audit, management is in the process of implementing the following action plans:

- The University's policy for the disposal of computer equipment and associated electronic storage media will be revised with enhanced procedures for removing data from systems. An awareness program will be implemented to ensure that technical personnel are properly educated on the procedures. Departmental responsibilities for enforcing and monitoring compliance with the policy will also be defined. **Target Implementation Date: 9/30/2005**
- A policy will be developed to require an annual inventory of computer system equipment. **Target Implementation Date for Policy: 9/30/2005;**  
**Target Implementation Date for Inventory: 12/31/2005**

### **Research Resource Facility**

The Research Resource Facility (RRF) is a service center that provides research related services to University researchers and the VA hospital in Louisville. Services provided include purchase, husbandry and housing for animals used in research. RRF also houses the administrative arm of the Institutional Animal Care and Use Committee (IACUC) a federally mandated committee responsible for overseeing the ethical and legal use of animals in research.

The objectives of the audit of the RRF included obtaining reasonable assurance that:

- The system of internal controls over financial activities, including billing and collections and departmental accounting functions are effective and efficient;
- The system of internal controls over compliance with select governmental regulations and university policies are effective; and
- Departmental operations are efficient.

Management implemented the following action plans:

- Rejected billing transactions are recorded in a general ledger suspense account until they can be corrected and charged to the appropriate grant, project or program.
- The quoted prices for animal purchases are billed to grants, projects or programs in the month of the order.
- Cardholders maintain procurement cards securely and the Unit Business Manager reviews reconciliations monthly.
- Billing transaction downloads are reconciled to the billing system and to the general ledger.
- The RRF has revised internal procedures to centralize all purchasing activities, except for animal and food/bedding purchases.
- Shipping and handling fees for non-commercial purchases are charged to an RRF account and billed to the appropriate project/grant/program at the month-end closing.

- Appropriate methods to more accurately determine the costs of providing services have been implemented.
- A new position was created to assist in the import/export of rodents. The new position will also coordinate imports and ensure appropriate import of non-commercial orders, including cost recovery.
- The department has received permission to fill a vacant position in order to perform general ledger account reconciliations monthly. University Reports will be reviewed monthly for unusual activity.
- The facility has developed a monitoring procedure that is being used to ensure that only authorized staff and faculty have access to research facilities.

### **Employee Tuition Remission**

The employee tuition remission program is a benefit offered to all full-time staff and faculty and to certain classifications of part-time staff and faculty (employees). It gives eligible employees up to 6-hours of tuition per semester for any academic program or class offered by the University. The benefit is transferable to an employee's spouse, if not used by the employee. In addition, employee's dependents are eligible for remission of 100% of the tuition for the first undergraduate degree earned. Between academic years 2000-2001 and 2003-2004, \$11,947,293 was paid in remission benefits. The total remission paid in 2000-2001 was \$2,082,031 while the remission paid in 2003-2004 was \$3,747,495, an 80% increase that is the result of tuition increases and an increase in the number of employees, dependents and spouses enrolled. In 2003-2004, 1,248 students received employee remission benefits.

A routine audit was performed on this benefit to obtain reasonable assurance that:

- Employee tuition remission was paid in compliance with University policy.

Management developed action plans as follows:

- Human Resources will develop an employee tuition remission policy that will clarify eligibility requirements. The Human Resources and the Bursar's Office will develop status and eligibility verification procedures to obtain reasonable assurance that only eligible employees, spouses or dependents are receiving the remission benefit. **Target Implementation Date: 9/30/2005**
- The Bursar will revise the electronic application to include the employees' acknowledgment that the Employee Tuition Remission policy has been read and that the application is compliant with policy. **Target Implementation Date: 9/30/2005**
- Electronic applications will be revised to capture submission information, helping to ensure the applicant is an actual employee of the university. **Target Implementation Date: 12/31/2005**
- The Bursar's Office will implement a procedure to verify that the accounting feeds posted to the general ledger correctly and only entries that are authorized posted to the general ledger. **Implemented**
- Mission critical data, including the remission applications will be stored on the university LAN to ensure appropriate back-ups. **Implemented**

## College of Education and Human Development Scholarships

The College of Education and Human Development (CEHD) offers undergraduate and graduate level degrees, in addition to the continuous education opportunities required by teaching credentialing bodies and teaching certification programs. To make the CEHD programs affordable, students are eligible to apply for scholarships that are funded through grants, gifts, endowments and general university funding. CEHD has decentralized the management of the scholarship processes, including budgeting, award decisions and data entry, throughout the college. In academic year 2003-2004, 34 programs, including 11 endowment accounts, paid \$436,474.13 for scholarships. In academic year 2004-2005, 23 programs expended \$315,474 on scholarships as of 9/20/2004.

The objectives of the audit were to obtain reasonable assurance that:

- Scholarship awards are compliant with program criteria;
- The College enters and maintains awards accurately on PeopleSoft; and
- The College has implemented budgetary controls that are working as intended.

CEHD has developed the following action plans:

- Create a central information depository of all scholarship opportunities, scholarship awards and educational partnerships. Centralize data entry and compliance monitoring functions. Develop written policies and procedures governing the scholarship process. **Target Implementation Date: 8/31/2005**
- Develop functional budgets at the college level. Use PeopleSoft Student Financials tools to reduce the risk of deficit budget spending. **Target Implementation Date: 8/31/2005**
- Improve the organization and charter, and document the activities of the Honors and Scholarship Committee. **Target Implementation Date: 8/31/2005**
- Improve financial account reconciliation monitoring to ensure all accounts are reconciled at least monthly. **Implemented**
- Implement records retention practices to ensure compliance with University policy and state regulations. **Implemented**

## Orthopaedic Surgery

A routine audit of the Department of Orthopaedic Surgery was performed. Orthopaedics operates a five-year residency-training program with four residents in each year of training. Its mission is to foster the development of orthopaedic education and research and to promote the highest quality orthopaedic care in the Commonwealth of Kentucky. Orthopaedics also houses the Orthopaedic Bioengineering Laboratory, which provides services for Orthopaedics and other University units. Sources of funding include academic program support, state appropriations, gifts, endowments and research incentive funds.

The objectives of the audit were to:

- Review business processes for sufficient internal control and compliance with University policies; and
- To test financial transactions for supporting documentation and accuracy.

Action plans were developed to address significant issues in the following areas:

- Orthopaedic Bioengineering Laboratory staff will document work performed by project. An independent employee will review Grant bills for accuracy before being submitted. **Implemented**
- The Orthopaedic Bioengineering Laboratory will be set up as a service center. Rates for services provided by the lab will be supported. **Target Implementation Date: 9/30/2005**
- Orthopaedics will develop and implement written procedures for processing grant bills. Orthopaedics will coordinate invoicing through the Controller's Office. Remittance checks will be sent directly to the Controller's Office. **Target Implementation Date: 9/30/2005**
- Staff ensures that all procurement card receipts are sufficiently supported. Transactions are reallocated each month. Staff has reviewed procurement card policies for use restrictions. The primary administrator reviews activity and a log is kept when the card is given to someone else to make a purchase. One non-cardholder reconciles procurement card transactions. **Implemented**
- Orthopaedics staff will attend account reconciliation training. Accounts with significant activity will be reconciled monthly. Activity on all accounts will be verified on a monthly basis. Pay History reports will be reviewed on a regular basis. **Target Implementation Date: 7/31/2005**
- All transmittals, except grant and gift checks, are sent directly to the Bursar's Office. Staff ensures that checks are deposited within three working days. **Implemented**
- The appropriate employee authorizes expenditures and accurate supporting documentation is now kept. **Implemented**
- Orthopaedics will review and evaluate their PeopleSoft programs and projects to determine if they are misidentified. Programs that are erroneously set up as clinical income and grants that are actually gifts will be corrected. **Target Implementation Date: 9/30/2005**

- Orthopaedics will request one grant per year from Fischer Owen for resident travel. Travel reimbursements will be paid through the University. **Target Implementation Date: 9/30/2005**

### **Cardinal Card Audit**

The University issues the Cardinal Card to all students and employees as the primary identification card for campus programs. The Cardinal Card also serves as the campus library card, meal plan card, ATM card (through an agreement with US Bank), a general cash purse for on-campus purchases and a facilities access card. Currently, the University uses smart chip technology for the general cash purse, used in various vending machines and readers on campus. The cards also have a magnetic stripe that holds information for the other transaction types.

A routine audit of the Cardinal Card program was performed to obtain reasonable assurance that:

- Controls over the Cardinal Card processes and transactions are effective; and
- The accounting and support of transactions are adequate and correct.

The Cardinal Card program has implemented the following actions:

- Employee safety and security procedures used with picking up card cash machine funds was evaluated by the Department of Public Safety and recommended improvements implemented.
- The program makes all deposits to the Bursar's Office daily.
- Independent cash audits are periodically conducted by the office of Contracts and Risk Management.

### **Athletics – Centerplate Contract**

Centerplate is the contracted provider of food products, except for pizza and pizza related items, at all athletic events for the University of Louisville Athletic Association (ULAA). During fiscal year 2004, commission revenue received from Centerplate by ULAA was greater than \$666,000. The concessions at Freedom Hall, for men's basketball, are under a contract between Centerplate and KFEC, the owner of Freedom Hall. ULAA has a separate agreement with KFEC, which results in approximately \$138,000 in food product and parking commissions. This contract was not included in this audit. In addition, a separate merchandise agreement has been signed with Centerplate that was also not included in this audit.

Audit Services performed a routine audit of ULAA Food Services, Centerplate Contract. The objectives of the audit were to:

- Determine that commissions have been paid, are supported and are compliant with contract commitments; and
- Review concession and beverage sales to ensure compliance with the existing agreements.

As a result, ULAA has implemented a periodic reconciliation of vendor documentation to the Statement of Gross Receipts Report that is received from Centerplate.

### **James Graham Brown Cancer Center – Cash Deposits**

Audit Services performed a requested review of how the James Graham Brown Cancer Center handled checks and cash. The objective of this review was to obtain reasonable assurance that:

- Sponsored projects are originated and processed through the Office of Grants Management as required by University policy.

This audit identified 4 privately sponsored research programs, with sponsor payments totaling \$137,000 that researchers conducted outside the purview of Grants Management. The researchers deposited the sponsor payments into gift accounts rather than grant accounts. In addition, Center programs deposited approximately \$44,000 directly into program accounts that should have been processed as gifts through the Development Office. The Cancer Center is in process of re-organizing the business processes that will correct the cause of these practices.

### **Athletics Ticket Office**

Audit Services performed a requested investigation of the cash handling processes used by the Athletics' ticket offices. On October 19, 2004, the ticket office located in the Swain Student Activities Center (Belknap) processed two cash and check deposits from October 13 and 19 totaling \$183,616.00 (of which \$176,459.00 were check payments). The Bursar's Office and Republic Bank never received these deposits.

The objectives of this review were to:

- Determine how the two deposits were lost,
- Evaluate the internal controls over cash, checks and credit card payments and,
- Determine why eleven weeks elapsed before the missing deposits were detected

Based on the results of the activities described above we could not determine what happened to the two deposits. Internal controls over collections are weak and insufficient to assign accountability for deposits. Department staff does not recall what happened to the deposits and the failure to reconcile PeopleSoft accounts resulted in the lengthy delay (almost 3 months) in discovering the loss. Breakdowns in internal controls and management oversight, including untimely deposits and the lack of a deposit log increased the amount at risk and ultimately lost. As a result, Athletics management is working to improve the controls and processes over the preparation of deposits and reconciliation of internal deposit records to the general ledger. In addition, physical security over the ticket offices will be improved.

As a result of this audit, management has implemented or is in the process of implementing the following action plans:

- Staff will take the deposit to the Bursar's Office when they are prepared or the next business day. This responsibility will be assigned to primary and back-up staff members. **Implemented**
- The Belknap Ticket Office will establish a threshold over which funds will be immediately deposited. Ticket Office staff duties will be realigned. There will be two levels of review of deposit activity. **Implemented**
- Athletics has determined that customizing the Archtics computer program to capture Peoplesoft accounting data when the transaction is processed is not cost effective. **Implemented**
- Each account will be evaluated and a reconciliation schedule developed and implemented. Management will monitor the completion of timely reconciliations. **Implemented**
- The specific job responsibilities for the individuals in the Belknap ticket office will be re-evaluated and if necessary, reassigned. Separation of duties between reconciliation and deposit preparation will be implemented. **Implemented**
- Athletics will document the daily reconciliation of the Archtics batch summary reports to receipts. **Implemented**
- Physical security over the office will be enhanced by the addition of surveillance cameras and alarm buttons at the ticket windows. All employees will be trained on what steps to take in the event of a robbery. **Target Implementation Date: 8/31/2005**
- Steps to secure the deposit before it is taken to the Bursar's Office will be implemented, including a log that records the name of the employee taking the deposit. **Implemented**
- Deposits will be picked up by armored car. **Implemented**

The following additional action plans related specifically to the Belknap Ticket Office were implemented or are in the process of being implemented:

- The safe key and combination will be used. The safe will not be kept opened during business hours. Safe access policies will be implemented. **Implemented**
- The microwave will be removed from the vault. Non-ticket office employees will not have access to the vault, unless accompanied by a ticket office employee. **Implemented**
- Working cash supplies will be given to staff in the morning if needed. Employees will be required to keep their cash in a till that is locked at all times. **Implemented**
- The ticket office will be kept locked at all times. Equipment used by other departments will be moved to less sensitive locations and non-ticket office staff will not be allowed free access to the area. **Implemented**

The following action plans related specifically to the stadium ticket office were implemented or are in the process of being implemented:

- Athletics will determine the feasibility of installing a new lock that can be used in conjunction with the combination lock. Staff will be instructed to keep the safe locked with the key lock during working hours. **Implemented**

- Collection from ticket sales will be kept in a locked location when staff leaves their workstation. **Implemented**
- Athletics will determine the feasibility of installing bulletproof glass. **Target Implementation Date: 8/31/2005**

### **Cash Management**

Audit Services has performed a routine audit of the University's Cash Management controls. The Treasury Function at the University of Louisville includes performing electronic transactions, (i.e., wire transfers and manual Automatic Clearing House or ACH), monitoring short term investments and initiating routine trading activities, monitoring the University's cash position at local depository institutions and with the state and managing the university's relationship with various banks. In addition, the department administers the investment activities for the University of Louisville Foundation under the management agreement. This audit did not include the activities performed for the Foundation. In addition, due to many changes that are taking place, the audit did not include the procedures for the daily management of the cash position.

The objectives of the audit were to obtain reasonable assurance that:

- Controls over cash management are effective; and
- Accounting for and support of transactions are adequate and correct.

Action plans developed by the University in response to this audit include:

- Establishing two person release procedures for manual ACH transactions. **Target Implementation Date: 7/31/2005**
- Performing a quarterly reconciliation of short-term investment accounts to the general ledger. The Controller will review the reconciliations. **Target Implementation Date: 9/30/2005**
- Developing written procedures for use of wire transfers, ACH and international transactions. **Target Implementation Date: 12/31/2005**
- Completing a written set of policies and guidelines for University investment needs. **Target Implementation Date: 12/31/2005**

## **REVIEWS IN PROGRESS**

### **Effort Reporting and Certification**

Audit Services is in the process of finalizing action plans in a report for the Effort Reporting and Certification Audit. The objectives of the audit are to review policies and procedures surrounding the effort reporting process for efficiency and effectiveness, and to identify possible improvements; to test effort certification reports for completeness, accuracy and timeliness; and obtain reasonable assurance that the University complies with federal regulations concerning effort reporting and certification.

### **Workstation Security**

Audit Services is in the process of completing the audit of Workstation Security at the Health Sciences Center (HSC). The objectives of the audit are to assess the adequacy of the HSC policies and procedures for workstation security and to evaluate compliance with the policies and procedures.

### **Payroll Interfaces**

An audit of Payroll Interfaces is in the fieldwork phase. The objectives for this audit are to assess the efficiency and effectiveness of the payroll budget process and to evaluate the control mechanisms over payroll interfaces.

### **Clinical Trials**

An audit of Clinical Trials is in the fieldwork phase. The objectives of the audit are to obtain reasonable assurance that clinical trial agreements comply with University policies and procedures and to obtain reasonable assurance that the University complies with sponsor requirements.

### **University of Louisville Hospital Affiliation Agreement**

A routine audit of the financial terms in the University of Louisville Hospital Affiliation Agreement has been started. The objective of the audit is to obtain reasonable assurance that the University and the Hospital are compliant with financial obligations as detailed by the agreement.

### **CVIP Laboratory**

An audit of the Computer Vision and Image Processing (CVIP) Laboratory is in process. The objective of this audit is to verify compliance with the laboratory's policy for human subjects data collection, storage and dissemination. This audit was requested by the University Privacy Office relative to issues concerning the storage of MRI images containing patient identifying information on the laboratory's computer systems.

## OTHER ACTIVITIES

### Implementation of PeopleSoft Financials Web Version

Audit Services participated on the steering committee of the PeopleSoft Financials implementation completed in December 2004, served as consultants to the Implementation Team regarding application security (users, roles, accounts, system set-up, etc.), and will monitor the project from a traditional Audit perspective in other areas (documentation, project planning and implementation, interfaces and conversions, data integrity, testing and user acceptance, training, etc.)

### Disaster Recovery Test

In May 2005, Information Technology conducted the University's first disaster recovery test at the computer hot site vendor location in Philadelphia, PA. Audit Services served in an advisory capacity in the planning for this test and participated in monthly meetings and teleconferences with the hot site vendor. Audit Services was also onsite during the disaster recovery test to observe the restoration of systems and applications.

The test was focused on the restoration of the University's local area network, the storage network, the Novell eDirectory, file and print servers, as well as the GroupWise e-mail application and the Blackboard learning system. Forty-eight hours were allocated for the test; however, the test was completed in twenty-six hours with all system components and test applications successfully restored and operational.

Another disaster recovery test is being scheduled for December 2005. Audit Services will participate in the planning for this test and again observe the test at the hot site location.

### V. Adjournment

The meeting adjourned at 2:30 p.m.

### **BOARD ACTION:**

Passed \_\_\_\_\_ X \_\_\_\_\_

Did not pass \_\_\_\_\_

Other \_\_\_\_\_

Asst. Secretary- *Katalin M. Smith*