

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 2
DATE:
November 14, 2006

RECOMMENDATION

REPORT: INTERNAL AUDIT

ACTION REQUESTED

It is recommended that the Internal Auditor's activity report for the period September 2006 through November 2006 be received and placed on file.

STAFF SUMMARY

Attached is the audit report for the Regulatory Compliance audit. The report includes findings and corresponding recommendations to improve controls, which have been discussed with the appropriate personnel. Management agrees with the recommendations and is proceeding with actions to implement the recommendations. Rehmann Robson is satisfied that management's responses will satisfy the intent of the recommendations.

Also attached is Rehmann Robson's internal audit schedule and budget hours for the period October 1, 2006 through September 30, 2007. Also enclosed is the report prepared by University management on the status of audit recommendations made from the following previous audits: Employee Benefits, Equipment Inventory, Dining Services Inventory and Cash Disbursements, Catering Services Billings, Vending Operations, Payroll; and Financial Aid Scholarships, Awards and Grants. As noted in the report, management has agreed with the internal auditor's recommendations and has found that all of the recommendations have been fully implemented.

FISCAL IMPLICATIONS

The final expended resources for Rehmann Robson are within approved budget limitations.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board Approval.

University Executive Officer

Date



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

Date: October 27, 2006

To: Mr. Joseph E. Antonini
Board of Regents

From: Rehmann Robson

Re: **AUDIT REPORT**
REGULATORY COMPLIANCE

Attached is the report for the internal audit of Regulatory Compliance. A response from the Office of the Vice President for Business and Finance has been incorporated in the report.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to the prevention or detection of errors. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time. Any questions, comments, or concerns that you may have relative to this report can be directed to Kirk Balcom at (517) 841-4876.

Attachment

cc: Board of Regents
Dr. Donald Loppnow
Mr. James Vick
Ms. Judy Sturgis Hill
Mr. Derrick Gragg
Mr. Daryl Szczepanski
Ms. Bernice Linke
Mr. Steven Holda
Mr. Daniel Cooper

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Internal Audit Report
Regulatory Compliance
October 27, 2006

Rehmann Robson has completed an audit of regulatory compliance. The purpose of the audit was to determine whether various departments comply with regulatory filing and licensing requirements. Our audit scope included a review of 2005 and 2006 regulatory and licensing requirements.

In our opinion, compliance with regulatory and licensing requirements is generally well controlled. We have described several of the areas that were compliance tested and all areas provided documentation supporting their compliance with regulatory and licensing requirements except one area described in the finding below. Several other areas were only asked to update a listing of their requirements since they are audited for compliance by other auditors. Our finding, risk analysis, recommendation and management's response relating to the audit of regulatory compliance is listed below the descriptions of the areas tested.

We sincerely appreciate the excellent cooperation and assistance extended to us by the various departments throughout the University during the internal audit.

Areas Compliance Tested:

Campus Security

The Department of Public Safety is required to file an annual report for compliance with the Campus Security Act with the Department of Education. In addition, they are required to perform and obtain documentation that they performed a background check on all their employees.

Children's Institute

The Children's Institute is a unit within the University Health Services Department. The Children's Institute must maintain a current active child care license through the State of Michigan Department of Consumer and Industry Services. As a part of the licensing process the Children's Institute must have an environmental health inspection in addition to a licensing inspection every two years. A fire inspection is also required, but only when there are changes in the facility.

Health and Safety

Health and Safety Office is required to file hazardous waste manifests monthly with the State of Michigan. They are also required to meet several filing requirements of the Michigan Occupational Health and Safety Act.

Health Services

Health Services is a unit within the University Health Services Department. The laboratory at Health Services maintains a current active Clinical Laboratory Improvement Amendments Certificate from the State of Michigan Department of Consumer and Industry Services. Health Services also operates a Pharmacy in Snow Health Center. The Pharmacy requirements include a current active State of Michigan Department of Consumer and Industry Services Board of Pharmacy Controlled Substance License and Pharmacy License. In addition, the Pharmacy requires a current active Controlled Substance Registration Certificate from the United States Department of Justice Drug Enforcement Administration. Along with the above pharmacy facility requirements, each pharmacist is required to have a State of Michigan Department of Consumer and Industry Services Board of Pharmacy Controlled Substance License and Registered Pharmacist License. The Pharmacy is also required annually to file a Controlled Substance Inventory with the State of Michigan. Health Services has a variety of medical staff who must maintain current active licensure in their respective agencies.

Diversity

The Diversity Department files Affirmative Action Plan, Vietnam Era Veterans Readjustment Assistance Act of 1974, and Americans with Disability Act 1990 annual or semi annual information.

WEMU

WEMU Radio must also maintain membership with National Public Radio (NPR). In addition, they must maintain a current active authorization from the Federal Communications Commission (FCC) and current active licenses with the FCC to broadcast, and for their satellite and transmitters.

Radiation

To handle radioactive materials, EMU is required to maintain a current active license with the Nuclear Regulatory Commission (NRC) and they are subject to periodic inspections by the NRC and the State of Michigan. The NRC also requires that a Radiation Safety Committee be established to monitor the use of radioactive materials and to ensure all safety requirements are being met. EMU must also maintain a current active radiation machine (microscope) certificate from the State of Michigan.

Institutional Reporting

The Institutional Reporting requirements are performed by the Office of Institutional Research and Information Management. They must file numerous reports for Federal Institutional Reporting annually and bi-annually with the Integrated Postsecondary Education Data System and State Institutional Reporting annually with the Higher Education Institutional Data Inventory.

Animal Care

Animal Care requirements are the responsibility of the Chemistry Department. In order to be able to use animals in experiments they are required to file an annual Animal Welfare Assurance of Compliance report with the Office of Laboratory Animal Welfare (OLAW) and maintain a current active Animal Welfare Assurance of Compliance Certificate. The Animal Welfare Assurance of Compliance also requires that EMU establish an Institutional Animal Care and Use Committee (IACUC) to monitor animal care and perform semi-annual inspections of the animal care facility and its policies and procedures to ensure they are complying.

Human Subjects

Human subject requirements are the responsibility of the Office of Research and Development and include complying with the regulations of the United States Department of Health and Human Services, Office of Human Research Protections.

Immigration

Immigration related requirements are the responsibility of the Office of International Students. Under the United States Department of State Student and Exchange Visitor Information System (SEVIS), EMU must be certified by the United States Department of Justice Immigration and Naturalization Service to admit and enroll foreign students.

Heating Plant

The Heating Plant requirements fall under the responsibility of the Department of Plant Operations. They are required to maintain a current active State of Michigan Department of Environmental Quality Renewable Operating Permit, Semi annual Renewable Operating Permit, National Pollutant Discharge Elimination System Certificate Permit, and Waste Treatment Plant Operator Certificates. Along with the above requirements they must also file a Michigan Air Emissions Reporting System report annually with the State of Michigan Department of Environmental Quality.

Finding

Departments and offices are responsible for complying with their applicable regulatory filing and licensing requirements. There is no overall oversight of the departments and offices to ensure they are complying with their requirements. The filing requirements in 2005 for the Diversity Department could not be located due to staff turnover, but will be completed for 2006.

Risk

Without a periodic certification of regulatory requirements by an independent department, there is some risk, with staff turnover, that a compliance requirement will not be met and a program or program funding may be discontinued.

Recommendation

We recommend that a designated office annually request departments to certify that they have reviewed a regulatory compliance listing of their requirements and are in compliance with the requirements. The departments should add new requirements to the listing and delete those that are no longer in effect.

Management's Response

Management agrees with the recommendation. The Vice President for Business and Finance department will annually request departments to supply them with updates to their regulatory compliance listing. In addition, annual updates may occur more often in departments where there is higher turnover.

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7.

Eastern Michigan University Internal Audit Schedule
The Rehmann Group
For Period Ending September 30, 2007

<u>Audit</u>	<u>Completed or Start Date</u>	<u>Budget Hours</u>	<u>Actual Hours</u>
Tuition and Fees	Postponed to Feb 2007	150	0
Conflict of Interest	Nov 2006	32	0
Housing	Oct 2006	140	98
Information Systems - Access Security	Jan 2007	130	0
Purchasing	Jan 2007	140	0
Cash Disbursements	Apr 2007	150	0
Research Grants and Corporate Contracts	Apr 2007	140	0
Risk Management	Jul 2007	100	0
Human Resources-Academic	Jul 2007	80	0
Human Resources-Non Academic	Jul 2007	80	0
Sarbanes-Oxley	Oct 2006	98	0
Planning, Risk Analysis, and Administration	Oct 2006	60	6
Special Projects	Oct 2006	100	0
Contingencies	Oct 2006	100	0
Total Hours		<u><u>1,500</u></u>	<u><u>104</u></u>
Contracted Rate Per Hour		\$80	\$80
Total Fees		<u><u>\$120,000</u></u>	<u><u>\$8,320</u></u>

8.

STATUS OF AUDIT RECOMMENDATIONS

November 14, 2006

Employee Benefits
Equipment Inventory
Dining Services Inventory and Cash Disbursements
Catering Services Billings
Vending Operations
Payroll
Financial Aid Scholarships, Awards and Grants

Prepared by
Vice President for Business and Finance Office

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INTERNAL AUDIT RECOMMENDATION STATUS

EMPLOYEE BENEFITS

JULY 11, 2006

1. **Recommendation:**

We recommend that the detailed claims listing be received electronically from both providers, summarized electronically, and agreed to the amount billed. Any differences noted should be reconciled and confirmed with the health care and dental providers.

Management's Response:

The Director of Employee Benefits has requested of Blue Cross/Blue Shield and Delta Dental that monthly claims be provided electronically. Both carriers had indicated that this request will be honored beginning in June 2006 for the May 2006 claims listing. Each month, the Benefits Office will check these files for discrepancies between the claims listing and charges listed by the carriers.

Implementation Status:

The Benefits office has not received an electronic file that is accurate enough to help in this reconciliation. In the meantime, the Benefits office is still reviewing these reports manually, and reporting any discrepancies back to the vendors. The Benefits office is still working with the vendors to solve the electronic file request.

Verification Date: October 20, 2006

2. **Recommendation:**

While Employee Benefits has the same termination check list procedures for all terminations, whether or not the employee is probationary, we recommend that the procedures be re-enforced in training meetings.

Management's Response:

The termination procedure currently in place will be revised to include a reminder to check all systems (Banner, Blue Cross Blue Shield and Delta Dental) for future dated benefits, especially in the case of probationary employees. The termination checklist and the Benefits Audit Log are to include all employees – not just those with benefits in place. All future Employee Benefits staff will be trained in these processes and given updated procedures. These procedures will be updated by August 2006.

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

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INTERNAL AUDIT RECOMMENDATION STATUS

EMPLOYEE BENEFITS

JULY 11, 2006

Implementation Status:

The termination checkout list has been revised to include check-offs in many areas including, healthcare, dental, Banner, etc. This finding has been discussed with the Benefits staff and training has taken place.

Verification Date: October 20, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

11.

INTERNAL AUDIT RECOMMENDATION STATUS

EQUIPMENT INVENTORY

AUGUST 14, 2006

1. **Recommendation**

We recommend that the Plant Fund Department re-certify a sample of equipment between \$5,000 and \$15,000 when departments require several adjustments to the inventory reports they certify each year.

Management's Response

We have discussed this recommendation with the Intercollegiate Athletics department and will recertify a sample of their equipment between \$5,000 and \$15,000 in fiscal 2007.

Implementation Status:

The FY07 equipment inventory reports are due back to the Plant Fund Department on February 14th 2007. In the spring of 2007, the Plant Fund Department will review ALL moveable equipment with a value of \$5,000 or more with the Intercollegiate Athletics Department. In addition, if the Plant Fund Department notices a substantial amount of changes to the inventory list in any other departments; they will do a full inventory audit of those departments, as well.

Verification Date: October 18, 2006

2. **Recommendation**

We recommend that all 26 items be taken off FAS. Since our review disclosed that most non-laptop items under \$5,000 are disposed and have a net value of zero, then all non-laptop items under \$5,000 and with a net value of zero should be evaluated for potential removal from FAS and the footnotes to the financial statements.

Management's Response

The 26 items were removed from FAS. We agree the non-laptop items under \$5,000 and with a net value of zero should be evaluated for removal from FAS. We will discuss this with our general purpose financial statement external auditors for their recommendation by August 31, 2006.

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

12.

INTERNAL AUDIT RECOMMENDATION STATUS

EQUIPMENT INVENTORY

AUGUST 14, 2006

Implementation Status:

Since the net value of these items is zero, our external auditors, Plante and Moran, felt that it did not have any negative effect on our financial statements, thus they left it up to EMU on how we wanted to handle it. Based on Rehmann Robson recommendation, Management felt it was in our best interests to remove these items from the FAS system. As of the time of the audit follow-up, 600+ items had been removed. There are approximately 9,800 items that have no value and those will be removed by the end of this fiscal year.

Verification Date: October 18, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

13.

**INTERNAL AUDIT RECOMMENDATION STATUS
DINING SERVICES AND CASH DISBURSEMENTS**

August 21, 2006

1. **Recommendation**

We recommend that FSS automatically use the current approved price during the receiving and invoice verification process.

Management's Response

Management agrees with the recommendation and has changed its system to reflect current approved pricing instead of last price paid. Management is working with its prime vendor, GFS, to have them send us a copy of the file once the prices have been updated weekly so we can look at them to ensure we are getting the correct price. Managers and/or Stock Keepers will be required to bring any issues with pricing to the FSS manager with a copy of the receiving worksheet and a copy of the invoice.

Implementation Status:

We are currently working on a patch with C-bord, our menu management system, to develop a fix so that we will see the current price for a menu item instead of the price we last purchased it for. This issue is more common when we go months between purchases of the same item. **Further update at the January board meeting.**

Verification Date: October 19, 2006

2. **Recommendation**

We recommend that Dining Services spot check each Monday's price update for compliance with the contract terms.

Management's Response

Management agrees with the recommendation and has implemented a program to spot check price updates on a weekly basis.

Implementation Status:

Menu prices are usually valid Monday through Sunday. Our Friday orders get delivered on Monday and in a few instances the prices have changed that next Monday. That is why these spot checks are needed, and are being done, on the items we purchase.

Verification Date: October 19, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

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**INTERNAL AUDIT RECOMMENDATION STATUS
DINING SERVICES AND CASH DISBURSEMENTS**

August 21, 2006

3. **Recommendation**

We recommend that Dining Services implement a bi-weekly variance analysis along with documentation and sign-off of the explanations.

Management's Response

Management agrees with the recommendation and has implemented a variance analysis by the assistant directors according to the bi-weekly schedule with sign-off of the explanation.

Implementation Status:

A variance analysis spreadsheet has been developed and is being used by the assistant directors to find possible discrepancies

Verification Date: October 19, 2006

4. **Recommendation**

We recommend that Dining Services develop a standard worksheet for calculating cost of goods sold and with protected formulas that can not be altered. Training should be provided to the students who prepare the bi-weekly reports.

Management's Response

Management agrees with the recommendations. Dining Services will work with University Budget to develop by September 1, 2006 a standard worksheet with protected formulas for calculations of COGS. Dining Management will work with University Budget to develop a bi-annual training for persons responsible to complete bi-weekly reports.

Implementation Status:

A standard worksheet has been developed and is in use. Procedures have been written to help those responsible to complete the bi-weekly reports.

Verification Date: October 19, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

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**INTERNAL AUDIT RECOMMENDATION STATUS
CATERING SERVICES BILLINGS**

August 21, 2006

1. **Recommendation**

We recommend that Dining Services Catering attach a letter or email that lists the special pricing as agreed to by the authorized Dining Services Catering employee.

Management's Response

Dining Services agrees with the recommendation. All special/custom menu requests are now reviewed and confirmed by the Executive chef or designated AP Dining Services Staff Member. A confirming letter or email is being placed on file in the reservations office.

Implementation Status:

In the follow-up review, two catering events were found to have special pricing and in both cases an email, from the proper authorized person, was attached to the invoice documenting the special agreed upon price.

Verification Date: October 19, 2006

Audit recommendations verified by: _____

Todd Ohmer
Assistant to the VP for Business and Finance

16.

INTERNAL AUDIT RECOMMENDATION STATUS

VENDING OPERATIONS

August 21, 2006

1. **Recommendation**

At the completion of the 12-month contract period in September 2006, the University should determine if paid commissions exceed \$173,300 and if so, the appropriate portion of this underpayment should be recovered from the vending operations vendor. Recalculations of commission payments should be implemented in the Dining Services Department.

Management's Response

Management agrees with the recommendation and will follow up at the end of the fiscal year to see if paid commissions exceed \$173,300 and recover the underpayment if needed. Dining Services management agrees with the recalculation recommendation and has made recalculation a standard once monthly reports are received.

Implementation Status:

Commissions for the year totaled just under \$100,000, so no recovery of a potential underpayment was needed. For the 3 monthly reports following the internal audit (June, July, and August), all were recalculated and signed off by proper personnel.

Verification Date: October 19, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

17.
INTERNAL AUDIT RECOMMENDATION STATUS

PAYROLL

August 25, 2006

1. **Recommendation**

We recommend that the payroll general ledger reconciliations be completed monthly and reviewed and signed by a supervisor.

Management's Response

In the past, these reconciliations were split between Payroll and Human Resources/Benefit staff. We are in the process of bringing them all back to the Payroll Department to be completed on a monthly basis by the payroll accountant under the supervision of the Manager of Payroll and Accounts Payable.

Implementation Status:

Some of the reconciliations found on the audit have been brought up to date; however some are still not current. **Another follow-up will be made in December, with those results updated for the January board meeting.**

Verification Date: October 20, 2006

2. **Recommendation**

We recommend that the Payroll Department be assigned responsibility to reconcile the two flexible spending accounts. A supervisor should review and sign the reconcilements. The reconcilements would be more efficient and accurate if new general ledger accounts were set up each year as the new flexible spending account plan year begins.

Management's Response

The Payroll Department will be responsible for reconciling these accounts. Further, this account will be moved to orgs that close out at the end of the fiscal year to facilitate accounting and the reconciliations.

Implementation Status:

Because of the newness of these accounts to the Payroll department, it has taken longer than anticipated to get them reconciled. Thus, they are not current on these reconciliations. **Another follow-up will be made in December, with those results updated for the January board meeting.**

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance

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INTERNAL AUDIT RECOMMENDATION STATUS

PAYROLL

August 25, 2006

Verification Date: October 20, 2006

Audit recommendations verified by:

Todd Ohmer

Assistant to the VP for Business and Finance

19.

INTERNAL AUDIT RECOMMENDATION STATUS
FINANCIAL AID SCHOLARSHIPS, AWARDS AND GRANTS

August 28, 2006

1. **Recommendation**

We recommend that the scholarship manual be rewritten, approved, and updated annually to include all current processing procedures and all sources of scholarships, awards, and grants, and the signatures required before the transactions are entered into the Banner system.

Management's Response

Management concurs with the recommendation. The scholarship manual has been rewritten to incorporate processing within the Banner System, to reflect changes due to enhanced technology and to note sign offs required prior to entering transactions on the Banner System.

Implementation Status:

The scholarship manual is now updated to include process changes brought upon since the switch to the Banner system.

Verification Date: October 20, 2006

2. **Recommendation**

We recommend that the Access database be password protected with passwords changed as required by University standards. The Associate Vice President, Division of Enrollment Services, should approve the issuance of the password to Financial Aid staff.

Management's Response

Management concurs with the recommendation. The database has been updated for password protection.

Implementation Status:

The database is now password protected

Verification Date: October 20, 2006

Audit recommendations verified by:

Todd Ohmer

Assistant to the VP for Business and Finance

20.

INTERNAL AUDIT RECOMMENDATION STATUS
FINANCIAL AID SCHOLARSHIPS, AWARDS AND GRANTS

August 28, 2006

3. **Recommendation**

We recommend that a procedure be written for authorizing and messaging University Grants in the Banner System and included in the manual described in Finding 1. A report listing all University Grants and the messaging that describes the need for the University Grants, should be printed and reviewed for completeness of the messaging.

Management's Response

Management concurs with this recommendation. For each University grant award, a message will be entered on the Banner System.

Implementation Status:

In the follow-up review no occurrences of missing messages were found. It has been reiterated to the staff of the importance of these messages when granting these funds.

Verification Date: October 20, 2006

4. **Recommendation**

A second reconciliation should be performed before final close. Departments charging in error should be notified.

Management's response

Management concurs with this recommendation and will ensure that a reconciliation be performed prior to final close.

Implementation Status:

Management does agree and has it in the fiscal year-end procedures. This has also been talked about with the staff that will be responsible for these procedures. This will be followed through starting with the next fiscal year end process.

Verification Date: October 20, 2006

5. **Recommendation**

A mitigating control, such as sign off of the reconciliation by the Associate Director of Financial Aid, should be implemented and documented in the manual described in Finding 1.

Audit recommendations verified by:

Todd Ohmer

Assistant to the VP for Business and Finance

21.

INTERNAL AUDIT RECOMMENDATION STATUS
FINANCIAL AID SCHOLARSHIPS, AWARDS AND GRANTS
August 28, 2006

Management's Response

Management concurs with the recommendation and will implement a sign off control by the Associate Director of the Office of Financial Aid.

Implementation Status:

This signoff has been implemented.

Verification Date: October 20, 2006

Audit recommendations verified by: _____

Todd Ohmer

Assistant to the VP for Business and Finance