MINUTES

FINANCE/AUDIT COMMITTEE

UNIVERSITY OF SOUTHERN INDIANA
BOARD OF TRUSTEES

March 3, 2011

The Finance/Audit Committee of the University of Southern Indiana Board of Trustees met on Thursday, March 3, 2011, in Carter Hall in the University Center. In attendance were Chair Ted C. Ziemer Jr. and Trustees Ira G. Boots and Steven J. Schenck '72**.** Trustee Jeffrey L. Knight was absent. Others in attendance were Vice President for Finance and Administration and Treasurer Mark Rozewski and Vice President for Government and University Relations Cynthia S. Brinker.

Committee Chair Ted Ziemer called the meeting to order at 11:20 a.m.

1.   REVIEW OF COMPLETED AUDITS AND APPROVAL OF THE ANNUAL AUDIT PLAN

Mr. Ziemer called on Vice President Rozewski for a review of completed audits and approval of the annual Audit Plan. Mr. Rozewski introduced and welcomed USI's new director of Internal Audit, Brad Will, CPA. Mr. Rozewski thanked Mr. Ziemer for representing the Board of Trustees in the interview and selection process to fill the position.

Mr. Will reviewed the report of completed audits and other activities conducted by the Internal Audit Department for fiscal year 2009-2010 (Attachment A). He referred the Trustees to page six in Attachment A and reported on two outstanding action items, Federal Grant Compliance and NCAA Student Athlete Eligibility Compliance. He reviewed reports of the 2010 Audits of Computer Assisted Auditing of Employee Records, Cell Phone Compliance, Student Financial Assistance Federal Compliance, and Housing and Residence Life.

In answer to Mr. Boots' questions about encumbrances to Mr. Will's efforts to audit and if there is anything beyond the information in his report about which the committee should be aware, Mr. Will replied that he was unaware of either. Mr. Schenk asked Mr. Will about the makeup of his department. He replied that his staff also consists of Internal Audit Manager J. Robert Howell and an administrative assistant. When asked if the department has the full cooperation of the administration when audits are performed, Mr. Will replied that he has full cooperation.

Mr. Will reviewed the scheduled audits for calendar year 2011 (Attachment B). Mr. Ziemer asked how the Audit Plan was organized and prioritized. Mr. Will replied he and Mr. Howell, with risk management input from Vice President Rozewski and Assistant Vice President Steve Bridges, develop the plan. Mr. Ziemer invited the committee members to recommend other items to the Audit Plan.

Mr. Boots recommended an inquiry to determine the handling and disposal of chemicals and hazardous materials in classrooms and other areas. A motion by Mr. Boots to expand the Audit Plan for 2011 to include an audit of hazardous materials, seconded by Mr. Schenck, was approved.

On a motion by Mr. Schenck, seconded by Mr. Boots, the Annual Audit Plan for Calendar Year 2011 (Attachment B) was approved as amended.

2.   REPORT OF FOUNDATION MERGER

Mr. Ziemer called on Vice President Rozewski, who introduced Assistant Vice President for Business Affairs Mary Hupfer for a report. Ms. Hupfer reported the USI/New Harmony Foundation Board and the USI Foundation Board, in meetings held in February 2011, voted to merge the two Foundations.

She reported that as of December 31, 2010, the net assets of the USI/New Harmony Foundation totaled $583,947, of which $411,019 is currently invested in the USI Foundation investment pool in accordance with a written agreement between the Foundations. Two vacant properties held by the USI/New Harmony Foundation and valued at $45,000 were gifted to the University in February. The properties were gifted to the University

rather than the USI Foundation because the University owns other properties in New Harmony and has liability protection that the USI Foundation would not have.

The USI/New Harmony Foundation raises approximately $55,000 annually in support of New Harmony operations. In light of increasing costs of administration of a separate Foundation, including a separate annual audit, it was determined a merger is prudent. Funding previously used to pay administrative costs will now be available to provide additional financial support to Historic New Harmony.

Ms. Hupfer reported the assets transferred in the merger will remain designated for Historic New Harmony. The current USI/New Harmony Foundation Board of Directors structure will be replaced by a New Harmony Advisory Board structure within the USI Foundation. A permanent board position will be added to the USI Foundation Board of Directors to be filled by the chairperson of the New Harmony Advisory Board or his/her designee.

3. **REPORT OF CHANGE ORDERS ISSUED BY THE VICE PRESIDENT FOR FINANCE AND ADMINISTRATION**

Mr. Ziemer asked Vice President Rozewski to review the change orders listed in Attachment C.   Mr. Rozewski referred the Trustees to the summary of construction change orders in Attachment C. All reported change orders are under $25,000 and were previously approved by the vice president.

(Note: Change Order GC-065 was included in the report in error and will be removed from the Summary of Construction Change Orders.)

There being no further business, the meeting adjourned at 11:55 a.m.

UNIVERSITY OF SOUTHERN INDIANA

Internal Audit Annual Report

Prepared by

Bradley V. Will, CPA
Director of Internal Audit

J. Robert Howell, CPA, CIA, CICA
Internal Audit Manager

University of Southern Indiana
Internal Audit Report Summaries
Calendar Year 2010

AUDIT NAME OBJECTIVE	OBSERVATIONS	RECOMMENDATIONS	MANAGEMENT RESPONSE	STATUS
Employee Data Analysis 1. Evaluate the completeness and accuracy of electronic employee data files, including name, address, and phone fields.	No missing or incomplete data was noted in the testing performed.	None	NA	NA
2. Identify and resolve anomalies in data such as missing information and duplicates.	Duplicate direct deposit information, address, and home phone data were resolved by identifying familial and/or roommate relationships.	None	NA	NA
3. Screen electronic data for, and investigate, possible fraud indicators.	No evidence of fraud was discovered in our testing. Internal Audit identified numerous instances of students who were listed in "active employee status" but have not worked recently due to graduation, withdrawal, or other reasons.	Reinstate the semi-annual process for terminating student employees in the HR module who are not expected to return to work due to graduation, non-enrollment, or lapsed employment activity.	HR will set a reminder to perform the semi-annual process each fall and spring.	Ongoing
4. Compare the BANNER Finance module vendor data to the employee data file for identification of possible unauthorized vendor payments.	No evidence of unauthorized vendor payments was discovered in our testing.	None	NA	NA
Cell Phone Compliance 1. Evaluate compliance with IRS regulations.	The USI cell phone program, as administered during the period reviewed, did not comply with IRS regulations. Internal Audit noted that documentation required to substantiate business use was inconsistent and incomplete.	Compute taxable benefit of personal cell phone usage for employees with University-owned cell phones for the period from November 2009 through November 2010 and provide amounts to Human Resources for processing.	Agreed	Completed
2. Evaluate compliance with USI cell phone policies and procedures.	The policy in place during the period reviewed was never published in any University publication. In general, many users of University-owned cell phones were unfamiliar with the cell phone policies. As a result, compliance with the policy was inconsistent.	Discontinue all University-owned cell phones that are assigned to individual employees and provide a monthly taxable allowance through payroll for the purpose of purchasing their own cell phones and plans.	Effective December 1, 2010, all University-owned cell phones assigned to individual employees were discontinued. Employees impacted began receiving a monthly taxable allowance through payroll for the purpose of purchasing their own cell phones and plans.	Completed

**University of Southern Indiana
Internal Audit Report Summaries
Calendar Year 2010**

AUDIT NAME / OBJECTIVE	OBSERVATIONS	RECOMMENDATIONS	MANAGEMENT RESPONSE	STATUS
3. Evaluate the adequacy and effectiveness of USI cell phone policies and procedures.	The USI cell phone policies and procedures did not meet the requirements of IRS regulations. The policies were ineffective due to a lack of training, knowledge, and lack of clear definition of enforcement responsibility.	See recommendation under Objective 2 above.	NA	NA
4. Analyze cell phone usage and charges for possible fraudulent activity.	Although the University experienced no financial losses associated with such activity, the operating procedures in place were ineffective in the prevention and/or timely detection of the fraudulent takeover of five USI cell phone numbers.	See recommendation under Objective 2 above.	NA	NA
Student Financial Assistance (SFA) Federal Compliance To evaluate compliance with the following Federal guidelines: 1. Federal Student Financial Aid Common Requirements	USI is in compliance with the common requirements. We are certified by Department of Education to participate in Title IV programs. All students in sample were eligible to receive aid. Withdrawals and returns of funds conform to federal requirements.	None	NA	NA
2. Federal PELL Grant Requirements	USI is in compliance. Funds were expended for allowable expenditures to eligible students. The amounts and timing of payment of awards conformed with federal regulations.	None	NA	NA
3. Federal Campus-Based Program Requirements	USI is in compliance. The campus-based programs include Federal Work Study (FWS) and the Federal Supplemental Educational Opportunity Grant. Funds were expended for allowable expenditures, the required institutional match was met, and the types of student employment provided were allowable.	None	NA	NA
4. Federal Direct Loan and PLUS Loan Requirements	USI is in compliance. Loans were provided to eligible students (parents if PLUS), awards were within allowable limits, returns were correctly calculated and returned in a timely manner. Entrance and exit counseling was completed as required.	None	NA	NA

University of Southern Indiana
Internal Audit Report Summaries
Calendar Year 2010

AUDIT NAME OBJECTIVE	OBSERVATIONS	RECOMMENDATIONS	MANAGEMENT RESPONSE	STATUS
5. Determine whether the Fiscal Operations Report and Application to Participate has been accurately completed and submitted on time.	The report was in material conformity to the USI BANNER records and other supporting documentation and was submitted prior to the deadline.	None	NA	NA
6. Evaluate policies, procedures, and other non-compliance issues.	Policies and procedures for the USI SFA office have been detailed in an electronic manual. The manual applies federal aid regulations to local processes and the BANNER software system.	None	NA	NA
Residence Life 1. Determine whether Housing and Residence Life (HRL) policies, procedures, and administrative practices are current, comprehensive, adequate, and accessible to residents and employees.	HRL has not documented departmental processes and procedures in an operations manual.	Document HRL office processes and procedures including rent transaction and adjustment authorization criteria.	Process responsibilities will be outlined by the end of March. Employee process documentation will be complete by May 1, 2011, and the operations manual compiled by July 1, 2011. Authorization criteria will be established based on type of transaction (e.g. 100% waivers and daily charges require Director/Associate Director approval). Reports will be developed after Residential Management System (RMS) training to review transactions by type through RMS by the end of June.	Target dates: Outline - March 31, 2011 Documentation - May 1, 2011 Manual compiled - July 1, 2011 Criteria - March 31, 2011 Reports - June 30, 2011
	The same employee processes charges and adjustments and reviews transactions for accuracy, completeness, and authorization.	Establish separation of duties for billing, crediting, and reviewing transactions for accuracy, completeness, and authorization.	Effective February 1, 2011, charges will be processed by the Assistant Director of Business Operations, and adjustments will be processed by the Assignments Administrative Assistant. Audits will be reviewed by the Manager of Accounting Operations and presented to the Director/Associate Director.	Target date: February 1, 2011
	The employee who controls access privileges, including extent of access, user ID, and password assignment to RMS is also responsible for the majority of transactional activity.	Separate administration of RMS, including granting access to and setting the limit of access for users, from transactional responsibilities.	Software administration will be handled by a staff member to be named, and transactions processed by the Assistant Director of Business Operations. Training for the RMS administrator is presently being scheduled. The new RMS administrator will be in place by the end of June.	Target date: June 30, 2011
	Minimum password configuration is not required and user passwords are not required to be changed within the residence life system.	Establish password configuration standards (i.e. length and complexity) and password change standards of 60 days or less, for residence life software system users.	HRL will work to establish a password expiration protocol.	Target date: June 30, 2011

University of Southern Indiana
Internal Audit Report Summaries
Calendar Year 2010

AUDIT NAME OBJECTIVE	OBSERVATIONS	RECOMMENDATIONS	MANAGEMENT RESPONSE	STATUS
2. Determine whether room and board rates are correctly approved, billed, and reconciled to occupancy records.	A significant number of transactions (31% of our summer 2010 sample; 8.3% of fall 2010) were processed by email/memo to the Bursar's Office rather than being uploaded from RMS. Subsequently, these transactions do not appear in RMS.	Process all possible transactions by upload from RMS to the student records system.	All charges and adjustments will be processed through RMS and sent to Banner. All charges and documentation of the reason for exceptions (e.g. rejections from upload) will be processed and noted in RMS. This process has been implemented as of February 1, 2011.	Completed and ongoing
	Data are uploaded from RMS to the Business Office financial records system software. A reconciliation between the systems (i.e. occupancy and revenue) is not performed.	Develop, in conjunction with the Business Office, a reconciliation process between RMS and the Business Office financial records system data.	A reconciliation process will be implemented with the Business Office to match occupancy to revenue. Target date for completion of the process: May 31, 2011, with the first reconciliation run in September 2011.	Target dates: Development of reconciliation process: May 31, 2011 First reconciliation completed September 2011
	Rent for some residents who normally receive waivers (i.e. Resident Assistants) was not charged and no waiver was processed. Others who did receive waivers had their rent charged and waived at the least expensive space's rate regardless of the space occupied.	Record all rent charges and approved waivers at Board of Trustees-approved rate.	HRL staff and Business Office personnel will meet to establish the space usage for specific HRL staff members and assign a rate type to the positions.	Target date: February 17, 2011
3. Determine whether key/card and lock controls are adequate and effective.	The user who checks a key out of the limited access key box does not always return the key personally, but has another user return it. In this case the returned key is not securely fastened.	Implement an escalating scale of disciplinary measures for those who fail to fully adhere to key box procedures.	HRL, in consultation with Human Resources, will establish an escalating disciplinary guide addressing key misuse.	Target date: May 31, 2011
	PIN numbers allowing key box access are not changed periodically.	Establish key box access PIN number change standards of once a semester or more frequently, if practical.	HRL will establish a password change calendar with the key box administrator. The process must be completed once a semester or twice a year.	Target date: Fall semester and ongoing

University of Southern Indiana
Outstanding Action Items

AUDIT NAME				
OBJECTIVE	**OBSERVATIONS**	**RECOMMENDATIONS**	**MANAGEMENT RESPONSE**	**STATUS**
Federal Grant Compliance (non-financial aid) 1. Compliance with Office of Management and Budget (OMB) Circular and agency guideline requirements.	The current process to document employee effort is not functioning in an efficient or satisfactory manner. A well-functioning system requires inter-departmental coordination.	Involve relevant departments in devising a process that resolves the major problems of the current process and results in an accurate certification of effort while minimizing payroll reallocations.	We will revise effort certification policy with input from payroll, sponsored research, internal auditing, and all departments with active federal grants.	Department representatives continue to meet to define problem issues and pursue a "best process" solution. Target date: July 1, 2010 Update: A custom computer program has been developed by the Computer Center. Reports for effort certification for the period of July through December 2010 will be distributed to departments. Revised target date: January 31, 2011
NCAA Student Athlete Eligibility Compliance 1. Policies and procedures to determine and monitor student-athlete eligibility based on NCAA legislation.	USI does not have an internal written manual or set of procedures for determining or monitoring student-athlete eligibility.	The development of a procedures manual specific to USI processes, e.g. internal and external forms, software uses and steps, etc., would provide continuity in the case of staff illness or turnover.	We will develop a written manual of compliance procedures.	Target date: August 31, 2010 Update: Manual is in process and should be completed by revised target date of May 30, 2011

Report No. USI-A-10-1
March 22, 2010

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Finance/Audit Committee
03-03-11
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Audit Report
Employee Data Analysis
Computer Assisted Auditing of Employee Records

Introduction

The USI Internal Audit Department has concluded an audit of employee electronic data files maintained in the Banner Human Resource (HR) module. We would like to take this opportunity to thank Donna Evinger and Ingrid Lindy who contributed positively to our results.

Background Information

This was the first time these audit procedures have been applied to the Banner HR module. The **objectives** of the audit were as follows:

- Evaluate the completeness and accuracy of electronic employee data files, including name, address, and phone fields

- Identify and resolve anomalies in data such as missing or duplicate information

- Screen electronic data for, and investigate, possible fraud indicators

- Compare the Banner Finance module vendor data to the employee data file for identification of possible unauthorized vendor payments

This report is based on computer analysis of electronic data fields for all employees as of 10/16/09 and 1/28/10 and USI vendor data as of 11/13/09. The audit approach consisted of testing the data fields for missing data, duplicate data, non-residential addresses, non tri-state area addresses, and a comparison of the employee and vendor data files.

Conclusion

In general, the results of our audit procedures indicate employee data maintained in the Banner HR module was complete and accurate. However, certain conditions exist which result in some level of risk to the University, and consequently require management's consideration for modification.

Management will take or has taken the following actions:

- Reinstating the semi-annual process for terminating student employees in the HR module who are not expected to return to work due to graduation, non-enrollment, or lapsed employment activity

No other additional action or response is required.

Bradley V. Will   J. Robert Howell
Director of Internal Audit   Internal Audit Manager

Distributed to: Donna Evinger
                    Ingrid Lindy
                    Mark Rozewski

Report No. USI-A-10-1
March 22, 2010

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Audit Report
Employee Data Analysis
Computer Assisted Auditing of Employee Records
(Continued)

<u>**Control Issues and Responses**</u>

<u>**Reinstating the semi-annual process for terminating student employees in the HR module**</u>

Issue: The HR module contained numerous instances of students who have graduated, are not enrolled, or have not worked recently, but who continue to be in active employee status.

Risk: Failure to change the status of student employees no longer employed by the University to "inactive" or "terminated" in the HR module increases the risk of unauthorized payments.

Response: Human Resources set a reminder for each fall and spring to carry out the semi-annual process for terminating inactive student employees in the HR module.

Report No. USI-A-10-2
May 14, 2010

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Audit Report
Cell Phone Compliance

Results at a Glance

AREAS	RISK MITIGATION			
	Adequate Controls and Practices	**Opportunity for Minor Improvement**	**Opportunity for Moderate Improvement**	**Opportunity for Significant Improvement**
Audit Objectives:				
Compliance with IRS regulations				🟥
Compliance with USI cell phone policies and procedures				🟥
Adequacy and effectiveness of USI cell phone policies and procedures				🟥
Plan utilization and fraudulent activity				🟥

Introduction

Our report of the internal audit of cell phone compliance is presented below. We would like to thank Wayne Bohm, Kim Schuetz, and other Telephone Services staff who contributed positively to our efforts.

Background Information

This was the first audit of USI cell phone compliance. The objectives of the audit were to:

- Evaluate compliance with IRS regulations

- Evaluate compliance with USI cell phone policies and procedures

- Evaluate the adequacy and effectiveness of cell phone policies and procedures

- Analyze cell phone usage and charges for possible fraudulent activity

The report presented here is based on the review of activity and reporting for USI-owned cell phones provided to employees for the period of July 2007 to February 2010. The audit approach consisted of reviewing the IRS tax code and regulations regarding cell phones, as well as third-party tax guides; examination of USI and other higher education institutions' policies and procedures; interviews with USI personnel responsible for the development, approval, and administration of cell phone policies and procedures; and analysis of cell phone billings, reporting, and chargebacks for the audit period.

Report No. USI-A-10-2
May 14, 2010

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Conclusion

In general, the results of our audit procedures indicate the USI cell phone program, as administered during the period reviewed, **did not comply** with the IRS code or regulations and USI policy and procedures were ineffective in ensuring compliance and in preventing or detecting errors. Furthermore, **actual operating procedures** in effect during the audit period **did not comply** with the IRS code nor the documented USI policy and procedures. The operating procedures in place were ineffective in the prevention and/or timely detection of the fraudulent takeover of five USI cell phone numbers, although the University experienced no financial losses associated with such activity. As a result, all audit objectives tested with respect to USI cell phone compliance presented **Opportunity for Significant Improvement**.

Management will take or has taken the following actions:

- Internal Audit worked with all users of University-owned cell phones to determine taxable benefits for the November 2009 – November 2010 reporting period and provided the amounts to Human Resources for processing

- Effective December 1, 2010, all University-owned cell phones assigned to individual employees were discontinued and those employees impacted began receiving a monthly taxable allowance through payroll for the purpose of purchasing their own cell phones and plans

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

J. Robert Howell
Internal Audit Manager

Distributed to: Wayne Bohm
Kim Schuetz
Mark Rozewski
Michael Whipple
Steve Bridges

Report No. USI-A-10-3
October 19, 2010

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Audit Report
Student Financial Assistance Federal Compliance

Results at a Glance

AREAS	RISK MITIGATION			
	Adequate Controls and Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Audit Objectives:				
Compliance with Federal SFA Common Requirements	🟩			
Compliance with Federal PELL Grant Requirements	🟩			
Compliance with Federal Campus-Based Program Requirements	🟩			
Compliance with Federal Direct Loan and PLUS Loan Requirements	🟩			
Fiscal Operations Report and Application to Participate (FISAP) accurately completed and submitted timely	🟩			
Policies, Procedures and other Issues	🟩			

Introduction

Our report of the internal audit of USI Student Financial Assistance (SFA) is presented below. We would like to thank Mary Harper and other Student Financial Assistance staff who contributed positively to our results.

Background Information

This was the second audit of USI SFA. The objectives of the audit were to:

- Evaluate compliance with the Federal Student Financial Aid Common Requirements

- Evaluate compliance with Federal PELL Grant Requirements

- Evaluate compliance with Federal Campus-Based Program Requirements

- Evaluate compliance with Federal Direct Loan & PLUS Loan Requirements

- Determine whether the Fiscal Operations Report and Application to Participate (FISAP) has been accurately completed and submitted on time

- Evaluate policies, procedures, and other issues not impacting compliance

Report No. USI-A-10-3
October 19, 2010

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This report is based on the review of USI SFA activity for the fall 2009 and spring 2010 semesters. The audit approach consisted of reviewing USI SFA procedures and controls, reviewing federal student aid regulations, interviews with USI SFA management, and analysis of student records for the fall 2009 and spring 2010 semesters. State grants and other non-federal aid were reviewed when those funds were awarded to students in the audit sample.

Conclusion

In general, the results of our audit procedures indicate the USI SFA Office is in compliance with federal requirements governing the Title IV student aid programs. **Adequate Controls and Practices** exist for each of the audit objectives evaluated.

No additional action or response is required.

Bradley V. Will
Director of Internal Audit

J. Robert Howell
Internal Audit Manager

Distributed to: Mary J. Harper
                   Mark Rozewski

Report No. USI-A-10-4
February 10, 2011

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Audit Report
Housing and Residence Life

Results at a Glance

AREAS	RISK MITIGATION			
	Adequate Controls and Practices	Opportunity for Minor Improvement	Opportunity for Moderate Improvement	Opportunity for Significant Improvement
Audit Objectives:				
Evaluate policies and proce-dures				🟥
Accuracy of rent authorization, billing, and reconciliation				🟥
Key and lock security		🟦		

Introduction

Our report of the internal audit of USI Housing and Residence Life (HRL) is presented below. We would like to thank Laura Berry, Amy Price, Melissa Burch, and other HRL staff who contributed positively to our results.

Background Information

This was the first audit of USI HRL. The **objectives** of the audit were to:

- Determine whether HRL policies, procedures and administrative practices are current, comprehensive, adequate, and accessible to residents and employees

- Determine whether room and board rates are correctly approved, billed, and reconciled to occupancy records

- Determine whether key/card and lock controls are adequate and effective

This report is based on employee interviews, review of published documentation, and review of financial transactions for the 2010 summer session. The audit approach consisted of reviewing and verifying 2010 summer housing charges and credits.

Report No. USI-A-10-4
February 10, 2011

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<u>Conclusion</u>

We noted opportunities for **significant improvement** in the areas of **policies and procedures** and **billing, rent adjustments, and reconciliation of occupancy records to billing records**. Opportunities for **minor improvement** exist in the area of **key and lock security**.

Management will take or has taken the following actions:

- Documenting HRL office processes and procedures including rent transaction and adjustment authorization criteria
- Establishing separation of duties for billing, crediting, and reviewing transactions for accuracy, completeness, and authorization
- Separating administration of the Residential Management System (RMS), including granting access to and setting the limit of access for users, from transactional responsibilities
- Processing all possible transactions by upload from RMS to the student records system
- Developing, in conjunction with the Business Office, a reconciliation process between RMS and the Business Office financial records system data
- Recording all rent charges and approved waivers at Board of Trustees-approved rates
- Establishing password configuration standards (i.e. length and complexity) and password change standards of 60 days or less, for residence life software system users
- Implementing an escalating scale of disciplinary measures for those who fail to fully adhere to key box procedures
- Establishing key box access Personal Identification Number (PIN) change standards of once a semester or more frequently, if practical

No additional action or response is required.

Bradley V. Will   J. Robert Howell
Director of Internal Audit   Internal Audit Manager

Distributed to: Laura Berry
                           Mark Rozewski
                           Steve Bridges
                           Jeff Sickman
                           Jeff Sponn

Report No. USI-A-10-4
February 10, 2011

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**Housing and Residence Life
Audit Report
January 21, 2011**

Control Issues and Responses

Documenting Housing and Residence Life (HRL) office processes and procedures including rent transaction and adjustment authorization criteria

Issue: HRL has not documented departmental processes and procedures in an operations manual.

Risks: Employee actions may not be consistent with departmental policies and procedures. Employee turn-over may lead to a loss of institutional knowledge. Risk of unauthorized employee actions and adjustments is increased.

Response: Process oriented responsibilities for each employee will be developed and compiled into a HRL Operations Manual. Process responsibilities will be outlined by the end of March 2011. The initial employee process documentation will be complete by May 1, 2011, and the HRL Operations Manual compiled by July 1, 2011. Adjustment authorization criteria will be established based on type of transaction (e.g. 100% waivers and daily charges require Director/Associate Director approval). Reports will be developed after RMS training to review transactions by type through RMS by the end of June 2011.

Establishing separation of duties for billing, crediting, and reviewing transactions for accuracy, completeness, and authorization

Issue: The same employee processes charges and adjustments and reviews transactions for accuracy, completeness, and authorization.

Risk: When a single employee performs or controls an entire process, the risk of undetected error or fraudulent activity is increased.

Response: Effective February 1, 2011, charges will be processed by the Assistant Director of Business Operations and adjustments will be processed by the Assignments Administrative Assistant. Audits will be reviewed by the Manager of Accounting Operations and presented to the Director/Associate Director. All charges and documentation of the reason for exceptions to policy will be processed and noted in RMS. The Manager of Accounting Operations, in conjunction with the Business Office, is developing a two-part reconciliation – housing charges to Student Accounts Receivable and Accounts Receivable to Banner Finance.

Separating administration of the Residential Management System (RMS), including granting access to and setting the limit of access for users, from transactional responsibilities

Issue: The employee who controls access privileges, including extent of access, user ID, and password assignment, to the RMS is also responsible for the majority of transactional activity.

Risk: When a single employee has software system and data processing responsibilities, the risk of unauthorized or fraudulent activity is increased.

Response: Software administration will be handled by a staff member yet to be named, and transactions processed by the Assistant Director of Business Operations. Training for the RMS administrator is presently being scheduled. The new RMS administrator will be in place by the end of June.

In addition as part of a longer-term initiative, HRL will explore the option of having Computer Center personnel perform RMS administration. Discussions regarding this type of transition will be deferred until the new Executive Director of Information Technology is hired.

Report No. USI-A-10-4
February 10, 2011

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Processing all possible transactions by upload from RMS to the student records system

Issue: A significant number of transactions (31% of our summer 2010 sample; 8.3% of fall 2010) were processed by email/memo to the Bursar's Office rather than being uploaded from RMS. Subsequently, these transactions do not appear in RMS.

Risks: Inconsistent processing methods increase the risk that transactions are not processed or are processed without proper authorization, and makes reconciliation of occupancy records to billing records more difficult.

Response: All charges and adjustments will be processed through RMS and sent to Banner. All charges and documentation of the reason for exceptions (e.g. rejections from upload) will be processed and noted in RMS. This process has been implemented as of February 1, 2011.

Developing, in conjunction with the Business Office, a reconciliation process between RMS and the Business Office Financial Records System data

Issue: Data are uploaded (see above control issue) from RMS to the Business Office Financial Records System software. A reconciliation between the systems (i.e. occupancy and revenue) is not performed.

Risks: All transactions in one system may not be reflected in the other system. Occupancy or revenue data may be incomplete or incorrect.

Response: HRL will establish a consistent process of applying charges and adjustments utilizing RMS. All credits will have a note in RMS. A reconciliation process will be implemented with the Business Office to match occupancy to revenue. Additional audits are being developed to tie to new processes, specifically the application fee and pre-payment for rent that comes with the acceptance of the housing contract. Findings from the Business Process Analysis scheduled on February 28, 2011, will be used to develop reconciliations. Target date for completion of the process: May 31, 2011, with the first reconciliation run in September 2011.

Recording all rent charges and approved waivers at Board of Trustees-approved rates

Issue: Rent for some residents who normally receive waivers (i.e. Resident Assistants) was not charged and no waiver was processed. Others who did receive waivers had their rent charged and waived at the least expensive space's rate regardless of the space occupied.

Risks: Revenue and expense may be misstated, although net income may be correct. Tax reporting may be misstated in regard to those whose aid is subject to taxation above a threshold (e.g. Graduate Assistants).

Response: HRL will work with the Business Office to find an acceptable audit process and complete it on a regular schedule. The Director/Associate Director will review all audit reports. The Manager of Accounting Operations will assist in the reconciliation of RMS and Banner. HRL staff and Business Office personnel will meet to establish the space usage for specific HRL staff members and assign a rate type to the positions. The space usage meeting is scheduled for February 17, 2011.

Establishing password configuration standards (i.e. length and complexity) and password change standards of 60 days or less, for RMS users

Issue: Minimum password configuration is not required and user passwords are not required to be changed.

Risk: The risk of password compromise and subsequent unauthorized or fraudulent activity is increased.

Response: HRL will work to establish a password expiration protocol. This will be handled by the RMS

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administrator. During system administrator training (to be completed by June 30, 2011), we will explore with RMS the configuration and expiration of password protocols within the system. If there are limitations in RMS, the system administrator will send a reminder to change passwords every 60 days as well as establish departmentally the complexity of the password configuration.

Implementing an escalating scale of disciplinary measures for those who fail to fully adhere to key box procedures

Issue: The user who checks a key out of the limited access key box does not always return the key personally, but has another user return it. In this case the returned key is not securely fastened. This has happened with a master key.

Risk: Keys improperly returned are vulnerable to untracked removal by a subsequent user; the risk of unauthorized access to keyed areas is increased.

Response: HRL, in consultation with Human Resources, will establish an escalating disciplinary guide addressing key misuse. The Associate Director has had one meeting with Human Resources on February 3, 2011. Part of this process is also reviewing all current job related agreements for all student employees. This will be completed by the end of May 2011.

Establishing key box access PIN number change standards of once a semester or more frequently, if practical

Issue: PIN numbers allowing key box access are not changed periodically.

Risk: The risk of PIN number compromise and subsequent unauthorized or fraudulent activity is increased.

Response: HRL will establish a password change calendar with the key box administrator. The process must be completed once a semester or twice a year. This will be implemented beginning with the fall semester 2011. Passwords have been assigned and are being maintained according to current policy.

University of Southern Indiana
Annual Audit Plan
Calendar Year 2011

QUARTER BEGINNING	AUDIT AREA	DESCRIPTION	HOURS
January 2011	Residence Life	Finalize audit workpapers and report	90
	Auxiliary Enterprises	Physical inventory test count (New Harmony and Bookstore)	38
	Purchase Card Follow-up	Card issuance and user training	80
	Security	Clery Act reporting	180
	Health Professions	Certificate programs	120
April 2011	Non-Financial Aid Grant Fund(s)	Compliance with grantor regulations	200
	Physical Plant Inventory Controls	Review controls over parts inventory	160
	Athletics Recruiting	NCAA Division II Compliance Review	200
July 2011	Payroll	Review controls over payroll, employee withholdings, and remittance of tax withholdings	235
	Student Financial Aid	Grants and scholarships	160
	Athletics Grant-in-Aid	Compliance with NCAA and federal grant and scholarship limits	200
	Payment Card Industry Compliance	Compliance with debit and credit card data security requirements	80
	Computer Center	Review third-party network security audit report	8
October 2011	Computer Center Fixed Asset Management	Review controls over computer equipment and disposal	180
	Procurement Services (Fixed Asset Management)	Review controls over fixed assets and disposal	180
	Registrar	Review controls over grades/transcripts, and academic grievance procedures	200

Total Hours	**2,311**
Hours Available	2,392
Hours available for unscheduled audits	81

REVISED Summary of Construction Change Orders
Authorized by the Vice President for Finance and Administration

1. BUSINESS AND ENGINEERING CENTER PROJECT

Alva Electric Co. - Electrical Contractor

EC-022   Provide and install new wall outlets in Reception Room 1015, raise video displays in Stock Simulation Room 1004 and Corridor 1503, add motion sensors in rooms 3022 and 1005, rework site lights along University Blvd. and Bent Twig Lane, add lights in Atrium Stairs, install conduit for data under office desks, and relocate receptacle in Room 2008 to accommodate column wrap. $13,286

Mel-Kay Electric Co. - Communications Contractor

CC-007   Install new wall outlets in Reception 1015 $502

2. UNIVERSITY CENTER EXPANSION PROJECT

Weddle Brothers Building Group, LLC - General Contractor

GC-040   Install and finish drywall around W12 beams in tower $11,157

GC-041   Perform general construction work associated with electrical changes in several rooms $180

GC-042   Install additional drywall over existing brick near Stair 3 $786

GC-043   Make change to contractor's mark-up on Change Order GC-035 $352

GC-044   Paint the underside of the metal decking at the top of the tower $3,045

GC-045   Install sub-grade drainage pipe under walk on north side $3,377

GC-046   Delete textured overlayment and aluminum floor tiles and add polished and stained concrete floor system $19,497

GC-047   Add wood blocking in wall for future descriptive display $1,505

GC-048   Add wood blocking for the installation of lights in the tower $1,751

GC-049   Revise linoleum floor covering layout and delete aluminum floor tiles on Level 2   ($2,033)

GC-050   Enlarge Door 1213.1 for kitchen equipment access $2,296

GC-051   Perform additional concrete floor preparation for linoleum installation due to unforeseen condition of floor $4,314

GC-052   Paint the steel columns behind the Orr Iron Arch $645

GC-053   Install a sump pit in the concrete floor of the utility tunnel $1,040

GC-054	Install abrasive safety strips to terrazzo stair treads	$3,535
GC-055	Add half of an A-Block at wall opening to provide a finished edge	$2,550
GC-056	Change door size at loading dock due to conflict with sprinkler standpipe	$1,092
GC-057	Install drywall and metal trim at column covers	$6,716
GC-058	Make changes to ceiling bulkhead in Room 0262 entry vestibule	$801
GC-059	Install wood trim around stair openings	$3,832
GC-060	Delete stained concrete and add 180 sf of linoleum on Level 2	$2,260
GC-061	Lower bulkhead to accommodate ductwork, delete chase wall, and and add sidewall diffusers at Level 2 conference area	$3,139
GC-062	Change ceiling height at overhead coiling fire door 0261 on Level 1	$2,072
GC-063	Add pull handles to doors	$671
GC-064	Install polished and stained concrete floor system in entry to existing building	$7,791

Deig Brothers Lumber and Construction Co. - Mechanical Contractor

MC-019	Make revisions to mechanical work at Level 2 conference area	$264
MC-020	Make revisions to ductwork at Level 1 entry vestibule	$2,592
MC-021	Make connections to plumbing fixtures in kitchen area	$4,672
MC-022	Add fire dampers at floor grilles in tower	$1,585