

**BOARD OF REGENTS**  
EASTERN MICHIGAN UNIVERSITY

SECTION: 2

DATE:

September 19, 2006

**RECOMMENDATION**

**REPORT: INTERNAL AUDIT**

**ACTION REQUESTED**

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

**STAFF SUMMARY**

An executive summary of completed audits is enclosed. Included are audit reports for the following audits: Employee Benefits; Equipment Inventory; Dining Services Inventory and Cash Disbursements; Catering Services Billing; Vending Operations; Payroll; and Financial Aid Scholarships, Awards and Grants. The reports include 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.

Enclosed are an Analysis of Internal Audits performed in the past year, and Rehmann Robson's proposed 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 ICT and University Relations audits. 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

# Internal Audit Executive Summary

## Audits Completed March - August 2006

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Prepared by Kirk Balcom, Rehmann Robson  
August 30, 2006

Audit	Description	Rating	Findings	Response
Employee Benefits	Employee Benefits Department processed employee benefits totaling \$24 million fiscal year to date April 30, 2006.	Well controlled	Two lower risk findings	Two procedures immediately implemented.
Equipment Inventory	Plant Fund Department of Financial Services - Accounting managed \$39 million of moveable equipment as of June 30, 2006.	Generally well controlled	One medium risk finding and one lower risk finding	One procedure immediately implemented and one procedure will be developed by August 31.
Dining Services	Dining Services Department managed \$4.8 million in food and non food supplies fiscal year to date June 30, 2006.	Generally well controlled	Four medium risk findings	Three procedures immediately implemented. One procedure will be developed by September 15.
Catering Services	Dining Services Catering Department managed 1,011 events totaling \$1.6 million fiscal year to date June 30, 2006.	Generally well controlled	One medium risk finding	Procedure immediately implemented.
Vending Operations	Dining Services Department manages vending revenue that is guaranteed annually at \$175,000.	Generally well controlled	One medium risk finding	Procedure immediately implemented.
Payroll	Payroll Department processed pay totaling \$106 million fiscal year to date April 30, 2006.	Well controlled	Two lower risk findings	Two procedures immediately implemented.
Financial Aid	Financial Aid Department processed institutional financial aid totaling \$11.1 million for fiscal year ending June 30, 2005.	Generally well controlled	Three medium risk findings and two lower risk findings	Five procedures immediately implemented.

Ratings	Description
Well controlled	No findings or a few findings of lower risk to financial statements or operations
Generally well controlled	Findings of medium and lower risk to financial statements or operations
Needs improvement	Findings of significant risk to financial statements or operations
Unacceptable	Findings that have a material effect on financial statements or operations



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**Date:** July 11, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
EMPLOYEE BENEFITS**

Attached is the report for the internal audit of employee benefits. Responses from the Director Benefits Programs have 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  
Ms. Karen Simpkins  
Ms. Jeanette Hassan  
Mr. Steven Holda  
Mr. Daniel Cooper

**Internal Audit Report**  
**Employee Benefits**  
**July 11, 2006**

Rehmann Robson has completed an audit of employee benefits administered by the Employee Benefits Department. The purpose of the audit was to determine whether internal controls over employee benefits are designed and operating effectively.

Our audit scope included a review of internal controls over health care insurance, life, long and short-term disability insurance, retirement, and flexible spending benefits. We tested for proper updating of eligibility and proper administration of the payments by the Employee Benefits Department. The schedule below reflects the University's contributions made fiscal year-to-date April 30, 2006 for those benefits administered by Employee Benefits:

Self Insured Health Care	\$13.1 million
TIAA-CREF retirement	\$ 8.1 million
Dental	\$ 1.4 million
Life Insurance	\$ 601,000
Long Term Disability	\$ 384,000
HMO Health Insurance	\$ 204,000
Retiree Medicare Reimbursement Program	\$ 85,000
Short Term Disability	\$ 53,000
Flexible Spending Account	\$ 9,000

Certain employee groups contribute to the costs of benefits and the fiscal year-to-date amounts through April 2006 include self-insured health care (\$318,000), short-term disability (\$38,000), and flexible spending accounts (\$4,000).

In our opinion, employee benefits are well controlled. Overall new hire employee benefits, terminations of employee benefits, and maintenance of existing employees' benefits are effectively processed. The costs of the employee benefit plans are also effectively administered. Our findings, risk analyses, recommendations and management's responses relating to the audit of employee benefits are listed below in order of significance.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Employee Benefits Department during the internal audit.



## **Finding 1**

Each month the self-insured health care carrier provides a paper copy of a detailed listing of health care claims paid. The totals on the report are verified by Employee Benefits to the quarterly settlement payments with the provider. Each month the dental carrier also provides a paper copy of the dental claims paid. The totals on the report are verified by Employee Benefits to the amount paid to the dental carrier. Since both reports are not received electronically it is impractical to sum the health and dental claims and compare the calculated total to the total billed by the providers.

## ***Risk***

The providers could bill for an amount different from the amount supported by the detailed claims. We added a sample of smaller employee group claims for the self-insured health care provider, and over a four-month period, and found \$1,000 more billed than what was supported by detailed claims. The health care provider explained that these are costs above reasonable and customary charges that must be reimbursed to a hospital provider per agreement with the hospital.

## ***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 both Blue Cross Blue Shield and Delta Dental that the monthly claims be provided electronically. Both carriers have indicated that this request will be honored beginning in June 2006 for the May 2006 claims listing. The Benefits Office will take these files and check them for their accuracy against the charges listed by the carriers. This process will be done each month. Any discrepancies will be investigated with the carriers for an appropriate and immediate explanation.

The issues involving charges being paid above the approved amount will be verified with the carrier when and if they occur. The reason these charges are paid at a higher level is these charges are based upon the application of DRG (Diagnostic Related Group) and individual hospital reimbursement agreements. These hospital agreements do require a specific amount to be paid for a service regardless of the approved amounts. These can be verified by the vendor should they occur in the future.

## **Finding 2**

Employee Benefits processed 261 terminations of employee benefits over the past 17 months. We tested 25 terminations using a random selection. One of 25 terminations was taken off the University employee benefits records but not off the health and dental providers' records. The employee was missed because the employee was a probationary employee, terminated before the probationary period was up, and mistakenly believed to not be on the providers' records as an eligible employee to receive benefits.

### ***Risk***

While Employee Benefits confirmed that there were no benefits paid for the terminated employee, there was risk that the employee received health and dental benefits, without being eligible, for the period between the employee termination date of July 2005 and audit date May 2006.

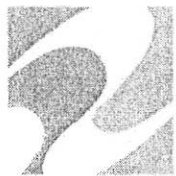
### ***Recommendation***

While Employee Benefits has the same termination checklist 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 employees will be trained in these processes and given updated procedures. These procedures will be updated by August 2006.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**Date:** August 14, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
EQUIPMENT INVENTORY**

Attached is the report for the internal audit of equipment inventory. Responses from the Plant Fund Department of Financial Services - Accounting have 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  
Ms. Sally Sachdev  
Mr. Tim Griffith  
Ms. Doris Celian  
Mr. Steven Holda  
Mr. Daniel Cooper

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**Internal Audit Report**  
**Equipment Inventory**  
**August 14, 2006**

Rehmann Robson has completed an audit of moveable equipment inventory administered by the Plant Fund Department of Financial Services - Accounting. The purpose of the audit was to determine whether internal controls over moveable equipment inventory are designed and operating effectively.

Our audit scope included a review of internal controls over moveable equipment included in the June 30, 2006 Fixed Asset System (FAS). The University had approximately 12,577 equipment items totaling \$38.8 million at June 30, 2006 recorded in FAS. There were approximately 1,011 items for \$5,000 or greater (the capitalization limit was increased to \$5,000 in 1999) totaling \$16.2 million and approximately 11,566 items for less than \$5,000 totaling \$22.6 million. Laptop computers are capitalized regardless of purchase price and all but six of the 1,000 laptops totaling \$2.1 million were for less than \$5,000. Total accumulated depreciation at June 30, 2006 for all equipment was \$32.9 million at June 30, 2006. We completed a physical inventory of 100 items of which 66 were items purchased for \$5,000 or more and 34 items were less than \$5,000 (items purchased before 1999 or laptops).

In our opinion, equipment inventory is generally well controlled. A thorough inventory is completed and signed by department heads annually to certify the existence of the equipment. Overall appropriate adjustments are being made to FAS where required. Our findings, risk analyses, recommendations and management's responses relating to the audit of equipment inventory are listed below in order of significance.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Plant Fund Department of Financial Services - Accounting and department heads throughout the University during the internal audit.

### **Finding 1**

One of 66 items inventoried over \$5,000 required an adjustment to the FAS records. The item had a purchase price of \$6,695 but was previously disposed without a transfer to surplus form sent to the Plant Fund Department for retiring in FAS. In addition, the department failed to include the retirement on their annual inventory report. This item had a net value of approximately \$500 on FAS that required a charge to depreciation expense to clear the item from FAS.

### ***Risk***

When the Plant Fund Department is not notified of disposals requiring retirement from FAS there is risk of overstating moveable equipment net assets.

### ***Recommendation***

The Plant Fund Department annually communicates to department heads that they must confirm all equipment over \$5,000 and report items that are missing from the inventory records or in the inventory records but have been disposed. The Plant Fund Department then re-certifies all equipment over \$15,000 with the department heads. 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 re-certify a sample of their equipment between \$5,000 and \$15,000 in fiscal 2007.

### **Finding 2**

Of the 34 equipment items under \$5,000 that were in our sample, 26 had been disposed. Two had net values of \$726 and \$506 on FAS while the other 24 had been fully depreciated.

### ***Risk***

FAS net assets are overstated by the disposed equipment items that had a remaining net value. In addition, while the footnote to the financial statements for capital assets properly states net assets, those fully depreciated and disposed assets in our sample cause total in use depreciable equipment and its associated accumulated depreciation, reported in the footnotes, to be overstated.

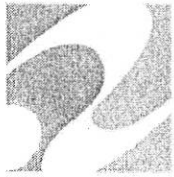
***Recommendation***

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.

\* \* \* \* \*



# REHMANN ROBSON

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**Date:** August 21, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
DINING SERVICES INVENTORY AND CASH DISBURSEMENTS**

Attached is the report for the internal audit of dining services inventory and cash disbursement procedures. Responses from the Dining Services Department have 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  
Mr. Jim Vick  
Mr. Larry Gates  
Mr. Dave Carroll  
Ms. Ann Klaes  
Mr. Steven Holda  
Mr. Daniel Cooper

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**Internal Audit Report**  
**Dining Services Inventory and Cash Disbursements**  
**August 21, 2006**

Rehmann Robson has completed an audit of dining services inventory and cash disbursements. The purpose of the audit was to determine whether internal controls over inventory and cash disbursements are designed and operating effectively.

Our audit scope included a review of internal controls over physical inventories of food and nonfood products, physical security of storage areas, cost of goods sold analysis and payments to vendors supplying food and nonfood products. For the period ending June 30, 2006 cost of goods sold was \$4.8 million against a budget of \$5.3 million. Purchases were made from 60 vendors totaling \$4.6 million.

In our opinion, dining services inventory and cash disbursements are generally well controlled. Physical inventories are being completed timely and a bi-weekly cost of goods sold report is being prepared and analyzed. Storage areas are adequately safeguarded by locks and camera surveillance. Cash disbursements are controlled through a Food Service Software (FSS) that provides purchasing and receiving automated controls. Our findings, risk analyses, recommendations and management's responses relating to the audit of dining services inventory and cash disbursements are listed below in order of significance.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Dining Services Department during the internal audit.



### **Finding 1**

FSS produces a blank worksheet to independently enter the quantities of food and nonfood products received against the purchase order. After the quantity is entered a price is produced and the extended value is compared against the vendor invoice. The data entered and extended by FSS in total must match the vendor invoice total before the invoice can be sent for check processing. On numerous occasions the price produced by FSS does not agree with the invoice and must be overridden to match to the invoice. This override is due to FSS using the last paid price versus the current approved price.

### ***Risk***

Unnecessary labor is used to receive goods and process invoices for payment since numerous entries are made to match receiving totals to vendor invoice totals. In addition a vendor invoice pricing error would not be detected because the vendor price is routinely accepted versus an independent price from a pre-priced purchase order.

### ***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.

### **Finding 2**

The largest vendor contract (had \$2.5 million purchases year-ended June 30, 2006) specifically identifies products that will be subject to weekly price updates. The contract also specifically identifies those items that will be subject to monthly price updates. The contract states that a few of the monthly products could incur volatile price changes from manufacturers, so the University and vendor would jointly evaluate the situation and may place those products on the weekly price update list until prices stabilize.

Dining Services uploads new pricing each Monday but does not spot check pricing updates to ensure weekly updates are applied for only those products described in the contract and monthly updates occur no more frequent than monthly as described in the contract.

### ***Risk***

Pricing updates may occur more frequently than the contract describes causing invoice overpayments.

### ***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.

### **Finding 3**

Dining Services performs physical inventories bi-weekly. A bi-weekly report is generated that reflects beginning inventory, purchases, ending inventory and a calculated cost of goods sold. The ratio of year-to-date-calculated cost of goods sold to actual revenue generated is compared to the ratio of year-to-date budgeted cost of goods sold to actual revenue generated and variances are investigated. Rehmann Robson noted that the variance explanations for the individual two week period is not documented on the bi-weekly report and signed by the unit manager.

### ***Risk***

Variances caused by theft, spoilage, damage or other causes may go undetected and uncorrected.

### ***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.

#### **Finding 4**

Rehmann Robson recalculated the ending inventory from detailed physical inventory observation records for one of each of the 13 serving locations that were completed for the fiscal year ended June 30, 2006. We noted clerical errors in four of the 13 ending inventory calculations that caused an incorrect cost of goods sold in the bi-weekly reports ranging from \$500 to \$3,000. The errors were caused by the lack of a standard form with protected formulas to calculate the cost of goods sold and a lack of training for the students who prepare the reports.

#### ***Risk***

Errors in cost of goods sold calculations minimize the value of the ending inventory observation process and cause cost of goods sold variances to go unexplained.

#### ***Recommendation***

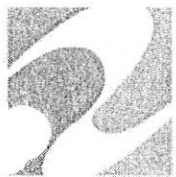
We recommend that Dining Services develop a standard worksheet for calculating cost of goods sold and with protected formulas that can not be altered. Training should be provided to the students who prepare the bi-weekly reports.

#### ***Management's Response***

Management agrees with the recommendation. 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, by September 15, 2006, a bi-annual training for persons responsible to complete bi-weekly reports.

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# REHMANN ROBSON

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**Date:** August 21, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
CATERING SERVICES BILLINGS**

Attached is the report for the internal audit of catering services billings. The response from the Dining Services Catering Department 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  
Mr. Jim Vick  
Mr. Larry Gates  
Mr. Dave Carroll  
Ms. Ann Klaes  
Mr. Steven Holda  
Mr. Daniel Cooper

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**Internal Audit Report**  
**Catering Services Billings**  
**August 21, 2006**

Rehmann Robson has completed an audit of catering services billings as administered by the Dining Services Catering Department. The purpose of the audit was to determine whether internal controls over billings are designed and operating effectively. An audit of internal controls over inventory and cash disbursements for catering food and nonfood products is covered in the dining services inventory and cash disbursements audit.

Our audit scope included a review of internal controls over billings for catering services. For the period ending June 30, 2006 Dining Services Catering billed \$1.1 million for 947 catering events and \$533,000 for 64 summer camps.

In our opinion, catering services billings are generally well controlled. Overall billings are accurately computed and accounts receivables are properly managed. Our finding, risk analyses, recommendation and management's response relating to the audit of catering services billings is listed below.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Dining Services Catering Department during the internal audit.

### **Finding**

Rehmann Robson recomputed billings for a sample of 10 catering events and five summer camps totaling \$286,000. We verified to University authorized price lists however seven of the 15 sample items totaling \$166,000 (58 percent) had special pricing that was negotiated with the customer. When special pricing was assigned the contract did not include an authorized letter or e-mail from a Dining Services Catering authorized employee supporting the special price.

### ***Risk***

There is some risk the special pricing was not billed correctly to the customer. (We found no billings that appeared unreasonable when compared to the authorized price list for regular catering services billings).

### ***Recommendation***

We recommend that Dining Services Catering attach a letter or e-mail 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 email or letter is being placed on file in the reservations office.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

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*An Independent Member of Baker Tilly International*

**Date:** August 21, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
VENDING OPERATIONS**

Attached is the report for the internal audit of vending operations. The response from the Dining Services Department 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  
Mr. Jim Vick  
Mr. Larry Gates  
Mr. Dave Carroll  
Mr. Steven Holda  
Mr. Daniel Cooper

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**Internal Audit Report**  
**Vending Operations**  
**August 21, 2006**

Rehmann Robson has completed an audit of vending operations. The purpose of the audit was to determine whether internal controls over vending operations revenues and cash receipts, which are administered by the Dining Services Department, are designed and operating effectively.

Our audit scope included a review of internal controls over the vending operations contract revenues and cash receipts. The vending operations contract guarantees \$175,000 in vending revenues for the University. The University receives a commission based on sales and for each of the past six years the vending operations vendor made additional payments to meet the \$175,000 guarantee.

In our opinion, vending operations administered by Dining Services are generally well controlled. Overall revenues and related cash receipts are being recorded timely and in accordance with the vending operations contract. Our finding, risk analysis, recommendation and management's response relating to the audit of vending operations is listed below.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Dining Services Department during the internal audit.



**Finding**

Rehmann Robson recomputed 12 monthly sales commissions using the detailed support provided by the vending operations vendor. One of the 12 had total sales understated by \$6,500 and the related commission by \$1,700.

***Risk***

There is only risk of underpayment if the University had contract year vending sales that exceeded the \$175,000 guarantee.

***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 Service Management agrees with the recalculation recommendation and has made recalculation a standard once monthly reports are received.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

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**Date:** August 25, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
PAYROLL**

Attached is the report for the internal audit of payroll. Responses from the Payroll and Accounts Payable Manager have 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  
Ms. Susan Shipley  
Ms. Doris Celian  
Mr. Steven Holda  
Mr. Daniel Cooper

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**Internal Audit Report**  
**Payroll**  
**August 25, 2006**

Rehmann Robson has completed an audit of payroll administered by the Payroll Department. The purpose of the audit was to determine whether internal controls over payroll are designed and operating effectively.

Our audit scope included a review of internal controls over payroll processing including payroll time reporting, payroll check calculation, payroll labor distribution, and payroll accounting reconciliation. The University processes payroll using three separate payroll cycles. A semi-monthly staff and faculty payroll cycle processes administrative professionals, confidential clericals, athletic coaches, faculty and lecturers and pays on the 15<sup>th</sup> and last day of the month. A biweekly staff payroll cycle processes union employees, employee consultants and temporary employees and pays the staff two weeks following the last day of the pay period. A biweekly student and graduate assistant payroll cycle processes payroll on alternating weeks with the biweekly staff.

Total payroll for fiscal year to date April 30, 2006 was \$64.9 million for semi-monthly staff and faculty, \$28.8 million for biweekly staff, and \$10.0 million for biweekly students and graduate assistants. In addition honorariums and other payments were made for all three payrolls totaling \$2.7 million. Total payroll expense was \$106.4 million. On April 30, 2006 the University had 1,579 semi-monthly staff and faculty, 951 biweekly staff, and 2,417 biweekly student and graduate assistants.

In our opinion, payroll is well controlled. Payroll is being calculated based on approved time and pay rates and distributed to the proper general ledger accounts. Our findings, risk analyses, recommendations, and management's responses relating to the audit of payroll benefits are listed below in order of significance.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Payroll Department during the internal audit.

### **Finding 1**

The Payroll Department is responsible for reconciling 32 general ledger accounts relating to payroll, payroll deductions, payroll taxes, and employee benefits. Payroll is in the process of defining when reconciliations will be scheduled and completed and what procedures will be followed to complete the reconciliations. Several of the general ledger account reconciliations are behind more than one month.

#### ***Risk***

Reconcilements substantiate the amounts being reported in the University financial statements. Without a monthly reconciliation, any reconciling differences become more difficult to identify, determine their cause, and determine a proper resolution. If not completed by fiscal year end the financial statements balance sheet accounts may be misstated.

#### ***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 Resource Benefits 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.

### **Finding 2**

Two flexible spending account general ledger accounts are not reconciled by any University department. One account is for medical reimbursements and the other is for dependent care reimbursements to employees. For both accounts pre-tax deductions are taken from employees pay and accounted for in the payroll general ledger funds. A third-party administrator is then reimbursed from the accounts for payments they make to employees to cover employee medical and dependent care expenses.

#### ***Risk***

Flexible Spending Accounts become difficult to reconcile because a plan year is given three months to clear out after year-end and due to forfeitures that occur if employees cannot provide medical or dependent care receipts to support reimbursements. Also, employees who leave the University can have more reimbursements than deductions from their pay for the medical flexible spending account. Due to these complexities, an untimely reconciliation causes reconciling differences to become more difficult to identify, determine their cause, and determine a proper resolution.

### ***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.

\* \* \* \* \*



REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**Date:** August 28, 2006

**To:** Mr. Joseph E. Antonini  
Board of Regents

**From:** Rehmann Robson

**Re: AUDIT REPORT  
FINANCIAL AID SCHOLARSHIPS, AWARDS, AND GRANTS**

Attached is the report for the internal audit of financial aid scholarships, awards, and grants. Responses from the Associate Vice President Division of Enrollment Services have 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  
Ms. Bernice Lindke  
Mr. Steven Holda  
Mr. Daniel Cooper

**Internal Audit Report**  
**Financial Aid Scholarships, Awards, and Grants**  
**August 28, 2006**

Rehmann Robson has completed an audit of financial aid scholarships, awards, and grants. The purpose of the audit was to determine whether internal controls over financial aid scholarships, awards, and grants are designed and operating effectively.

Our audit scope included a review of internal controls over those scholarships, awards, and grants that fall under the responsibility of the Financial Aid Department and are funded by University generated revenues. The budget for the fiscal year-ending June 30, 2005 totaled \$11.6 million, excluding \$729,000 of budgeted Federal and State required matches. The Financial Aid Department disbursed \$11.1 million in scholarships, awards, and grants, excluding the Federal and State required matches, during the fiscal year-ended June 30, 2005. Of the \$500,000 unspent funds, \$473,000 could not be awarded as these funds were restricted to out-of-state students. These budget and dispersed totals also include a Michigan Indian Tuition Waivers general fund budget of \$155,000 and disbursements of \$226,000 that were processed for year-ended June 30, 2005. Since the tuition waivers are mandatory, no Board of Regents approval is required for these disbursements.

For the fiscal year-ending June 30, 2006, we selected a random sample of 50 processed scholarships, grants, and awards totaling \$142,900. We did not audit Federal and State required matches since these matches are covered in other audits. We tested for proper authorizations, evidence that eligibility requirements were met, and accurate application to the students' billing account.

In our opinion, financial aid scholarships, awards, and grants are generally well controlled. All 50 transactions sampled were authorized, in accordance with University eligibility guidelines, priced according to University guidelines, and accurately applied to the students' account.

Our findings, risk analyses, recommendations and management's responses relating to the audit of financial aid scholarships, awards, and grants are listed below in order of significance.

We sincerely appreciate the excellent cooperation and assistance extended to us by the Financial Aid Department during the internal audit.

### **Finding 1**

Scholarships, awards, and grants are recorded by the Financial Aid Department in a financial aid module of the Banner System. The manual describing scholarships, awards, and grants processing procedures performed by the Financial Aid Department is five years old and does not reflect current processing as a result of the Banner System implementation. Scholarships, awards, and grants authorizations originate from numerous outside sources and also originate within the Financial Aid Department. A description of the origin of the scholarships and the required authorizations for the scholarships, awards and grants, which must be obtained before the Financial Aid Department enters the transaction into the Banner System, has not been written.

#### ***Risk***

Accidental errors could occur in processing a scholarship, award or grant or they may be entered and disbursed in the Banner System without the required authorization.

#### ***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.

### **Finding 2**

Freshman, college transfers, and existing student first time applicant information for scholarships, awards, and grants are entered into a Microsoft Access database and held in the database until the new financial aid program tables are received by the University and loaded into the Banner System. The information residing in the Access database becomes the source for scholarships, awards, and grants loaded into the Banner System. While only a few Financial Aid staff update the Access database, all staff within Financial Aid has access and update capability to the Access database.

#### ***Risk***

A scholarship, award or grant may be changed improperly on the Access database and the change may go undetected.



### ***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 those Financial Aid staff given the password.

### ***Management's Response***

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

### ***Finding 3***

University Grants are entered directly into the Banner System by Financial Aid staff and totaled \$479,000 for fiscal year-ended June 30, 2005. A message is required to describe why the student was in need of the University Grant. Our sample of 50 scholarships, awards and grants, included four University Grants. Two University Grants totaling \$4,185 did not have a message describing why the University Grant was made. We did confirm with the Associate Director of Financial Aid that the two University Grants were authorized and met the eligibility criteria.

### ***Risk***

A University Grant may be awarded to a student who has no financial need or to a student who did not request the grant.

### ***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.

#### **Finding 4**

Financial Aid completes the final quarter reconciliations of disbursements to the general ledger after the preliminary close. Transactions entered after the preliminary close and charged in error to scholarships, awards, and grants accounts before the final close go uncorrected because there is no opportunity to reopen the general ledger.

#### ***Risk***

While we found only minor mischarges at fiscal year-end June 30, 2005, the financial statement caption entitled scholarships and fellowships could be charged for significant items that belong in other general funds, and go uncorrected at fiscal year-end.

#### ***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.

#### **Finding 5**

Effective segregation of duties includes separating duties of data entry into a system from duties for reconciling system data processed. When it is not cost-effective to segregate duties, a compensating control is identified and documented in a manual. The same individual who enters scholarship data into Banner also completes the quarterly reconciliation of scholarships, awards, and grants disbursed per the Financial Aid module, to the amount disbursed per the general ledger. A compensating control procedure has not been identified and documented in a manual.

#### ***Risk***

An unauthorized scholarship could be disbursed and go undetected by the reconciliation control.

#### ***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.

#### ***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.

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**Eastern Michigan University Internal Audit Schedule**  
**Rehmann Robson**

For Period Ending September 30, 2006

Internal Audit	Completed or Start Date	Budget Hours	Actual Hours
Physical Plant - Construction	Completed Oct 2005	100	98
Conflict of Interest	Completed Feb 2006	32	23.5
Information Systems - General Controls and Application Controls Review	Completed Feb 2006	120	113.5
Dining Services	Completed Aug 2006	120	110.5
Financial Aid	Completed Aug 2006	60	74.5
Payroll	Completed Aug 2006	120	107
Benefit Administration	Completed July 2006	120	118.5
Equipment Inventory	Completed Aug 2006	40	71
Catering and Conferences	Completed Aug 2006	60	30
Tuition and Fees	Postponed to Oct 2006	120	0
Regulatory/Compliance	Jul 2006	100	66.5
Vending Operations	Completed Aug 2006	24	9.5
Sarbanes-Oxley	Ongoing	184	26.5
Planning, Risk Analysis, and Administration	Ongoing	100	53.1
Special Projects			
- Audit Design Build Contractor Related to Construction Audit	Completed Dec 2005	40	32
- University Relations Audit	Completed Feb 2006	60	136.5
Contingencies	Oct 2005	100	0
<b>Total Hours</b>		<b>1,500</b>	<b>1070.6</b>
<b>Contracted Rate Per Hour</b>		<b>\$80</b>	<b>\$80</b>
<b>Total Fees</b>		<b>\$120,000</b>	<b>\$85,648</b>

# Eastern Michigan University Internal Audit Schedule The Rehmann Group

For Period Ending September 30, 2007

Audit	Description	Start Date	Report to Board of Regents	Budget Hours	Last Audit
Tuition and Fees	The purpose of this audit is to determine whether internal controls over tuition and fees are effectively designed and operating effectively. For fiscal year-ended June 30, 2005, \$138 million of tuition and fees were included in revenue.	Oct 2006	Jan 2007	150	Aug 2001
Conflict of Interest	The purpose of this audit is to determine whether Eastern Michigan University (EMU) Administrative Professionals, Construction Project Managers and Purchasing Buyers, comply with EMU conflict of interest policies. We will distribute a copy of the conflict of interest policy and a disclosure statement to each of the professionals noted above and consult with EMU general legal counsel on any disclosures returned.	Nov 2006	Jan 2007	32	Jan 2006
Housing	The purpose of this audit is to determine whether internal controls over housing apartments, residence halls, and rental property revenues and expenses are effectively designed and operating effectively. Housing revenues were \$12.9 million and operating expenses were \$10.5 million for fiscal year-ended June 30, 2006.	Nov 2006	Jan 2007	140	May 2002
Information Systems - Access Security	The purpose of this audit is to determine whether access security controls adequately protect information assets of EMU.	Jan 2007	Mar 2007	130	Feb 2002

**Eastern Michigan University Internal Audit Schedule**  
**The Rehmann Group**

For Period Ending September 30, 2007

<u>Audit</u>	<u>Description</u>	<u>Start Date</u>	<u>Report to Board of Regents</u>	<u>Budget Hours</u>	<u>Last Audit</u>
Cash Disbursements	The purpose of this audit is to determine whether internal controls over cash disbursements are effectively designed and operating effectively. For fiscal year-ended June 30, 2006, EMU paid \$23 million for goods and services, excluding credit cards.	Apr 2007	Jun 2007	150	Mar 2005
Research Grants and Corporate Contracts	The purpose of this audit is to determine whether internal controls over research grants and corporate contracts revenues and expenses are effectively designed and operating effectively. For the fiscal year-ended June 30, 2005, EMU received \$11.9 million in federal, state, and nongovernmental grants and contracts and expended \$10.7 million for grants and contracts.	Apr 2007	Jun 2007	140	Apr 2004
Risk Management	The purpose of this audit is to determine whether policies and procedures of the Risk Management Department adequately protect EMU, through its participation in the Michigan Universities Self-Insurance Corporation, against comprehensive general liability, errors and omissions, and property losses.	Jul 2007	Sep 2007	100	Oct 2003
Human Resources-Academic	The purpose of this audit is to determine whether internal controls, administered by Human Resources - Academic, over hiring and terminating employees and pay administration processes are effectively designed and operating effectively. Salaries charged to the general fund for fiscal year-ended June 30, 2006 totaled \$63 million.	Jul 2007	Sep 2007	80	NEW

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

Audit	Description	Start Date	Report to Board of Regents	Budget Hours	Last Audit
Human Resources-Non Academic	The purpose of this audit is to determine whether internal controls, administered by Human Resources - Non-academic, over hiring and terminating employees and pay administration processes are effectively designed and operating effectively. Salaries charged to the general fund for fiscal year-ended June 30, 2006 totaled \$44 million.	Jul 2007	Sep 2007	80	NEW
Sarbanes-Oxley	At the completion of each of the above audits key internal controls over financial reporting will be documented in a risk and control matrix as support for EMUs Sarbanes-Oxley compliance.	Oct 2006	Sep 2007	98	N/A
Planning, Risk Analysis, and Administration	We have budgeted 100 hours for planning, risk analysis, and administrative duties.	Oct 2006	N/A	60	N/A
Special Projects	We have reserved 100 hours for any special projects requested by the Board of Regents.	Oct 2006	Various	100	N/A
Contingencies	We have reserved 100 hours for any of the above described audits that require extra work due to exceptions noted. These hours will only be expended with the approval of the Assistant Vice President and Controller.	Oct 2006	Various	100	N/A
Total Hours				1500	

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# STATUS OF AUDIT RECOMMENDATIONS

June 20, 2006

**University Relations Department  
Information and Communications Technology**

Prepared by  
Vice President for Business and Finance Office

## INTERNAL AUDIT RECOMMENDATION STATUS

**AUDIT PERFORMED: UNIVERSITY RELATIONS DEPARTMENT**

Date Completed: **FEBRUARY 16, 2006**

1. **Recommendation:**

A Vice President or above, Budget Director, and Controller should each approve deficit funding journal entries.

**Management's Response:**

Management agrees. We will recommend that future deficit funding journal entries require approval by both the divisional Vice President and the Vice President of Business and Finance. In case the division of Business and Finance desires to make a deficit funding journal entry, the Vice President of Business and Finance and the President my approve the entry.

**Implementation Status:**

Proper approvals are obtained before deficit funding journal entries are being entered.

**Verification Date:** August 22, 2006

Audit recommendations verified by:

Todd Ohmer

Assistant to the VP for Business and Finance



## INTERNAL AUDIT RECOMMENDATION STATUS

### AUDIT PERFORMED: INFORMATION AND COMMUNICATIONS TECHNOLOGY

Date Completed: **MARCH 2, 2006**

1. **Recommendation:**

Perform an initial IT risk assessment and establish an ongoing process to update the risk assessment on an annual basis. This risk assessment should also be reviewed and approved annually by the Board.

**Management's Response:**

Management agrees. A risk assessment will be prepared as part of the University's Business Continuity Plan. A Request for Proposal (RFP) has been prepared for the Business Continuity Plan (BCP) and includes an ICT Risk Assessment. The RFP has been reviewed with Purchasing and the Controller's Office. Purchasing is in the process of soliciting bids for the BCP.

**Implementation Status:**

The RFP was rebid to include Security Risk Assessment and Penetration testing. The bids have come in and are being reviewed.

**Verification Date:** June 21, 2006 and August 22, 2006

2. **Recommendation:**

Formal end-user access templates should be created by system owners, and with ICT oversight, that detail the specific access required for each job function. The templates should be the basis for authorizing access. The templates should also specifically identify conflicting Banner functions that must be separated in order to ensure appropriate segregation of duties. Then, using these templates as the baseline, at least an annual review of end-user access should be coordinated by ICT.

**Management's Response:**

Three projects have been initiated to address Finding number two. The projects are: Implement Security Audit System, Implement Workflow for Security Processes, and Implement a Security Tracking System. A functional security team is already established. This team will review security access yearly. Additionally, this team will document Banner forms that should never be assigned to the same person.

**Implementation Status:**

\*Security Audit System-testing has resulted in continued problems. Estimated completion date is August 31, 2006.

\*Workflow for Security Processes-Implementation to resume in September. Estimated completion date is December 31, 2006.

\*Security Tracking System-Estimated completion date is August 31, 2006.

\*The Functional Security Team is currently reviewing access controls.

\*Documentation of Banner forms for segregation of duties is scheduled to begin in October 2006.

Verification Date: June 21, 2006 and August 22, 2006

3. **Recommendation:**

Formal written policies and procedures related to the areas identified should be created and communicated to appropriate personnel.

Management's Response:

ICT has an active team continuously addressing policy and procedure needs that affect the institution's operations. The auditors' identified policies and procedures are a current focus of the team.

Implementation Status:

\*Security plan and program policy and procedure-Estimated completion date in December 2006.

\*User access administration policy and procedure-ERP system access for ICT staff, Qual and remote access policies and procedures are currently in place.

\*Security event logging policy and procedure-Estimated completion date is September 2006.

\*Program change management policy and procedure-Policies have been written. Need to create the official forms and obtain approvals. Estimated completion date is September 2006.

\*End user computing policy and procedure-The policy has been submitted to the Policy committee for additional comments. Estimated completion date is October 2006.

\*Job scheduling and process monitoring policy and procedure-APPWORX chain form and chain module have been written in a previous format. Need to draft a new policy tying everything together. Estimated completion date is September 2006.

Verification Date: June 21, 2006 and August 22, 2006

4. **Recommendation:**

Expand the card key access system to all computer room doors and have card key access the main access method. Use metal keys only for emergency situations, such as power outages, and eliminate combination locks for accessing the computer room.

Management's Response:

Agree. The auditor's recommendation will be implemented as part of the campus-wide security project.

Implementation Status:

The plan is to add readers to all computer room doors and reduce access to only keys and card swipe. Estimated completion date is October 2006.

Verification Date: June 21, 2006 and August 22, 2006

5. **Recommendation:**

Establish a formal policy and procedure to perform tests of data restores on a periodic basis.

Management's Response:

A part of the Business Continuity Plan is the identification of required testing for the recovery process. This includes periodic testing of the data restoration process. ICT will create a formal policy and necessary procedures defining this testing of data restores.

Implementation Status:

The bids for the Business Continuity Plan are currently being reviewed.

Verification Date: June 21, 2006 and August 22, 2006

6. **Recommendation:**

Obtain a SAS 70 or other independent evaluation of the internal control environment for all third-party service providers used by the University.

Management's Response:

Agree. A SAS 70 will be obtained from the University's provider.

Implementation Status:

Legal Counsel has approved specifications for all new contracts with service providers that will provide EMU with an independent yearly audit review.

Verification Date: June 21, 2006 and August 22, 2006

Audit recommendations verified by: \_\_\_\_\_  
Todd Ohmer  
Assistant to the VP for Business and Finance