

*University of Michigan
University Audits*



Center for AfroAmerican and African Studies

Issue Date: June 25, 2010

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#2010-820

INTRODUCTION

The Center for AfroAmerican and African Studies (CAAS or the Center) was established in 1970 in the College of Literature, Science, and the Arts (LS&A). CAAS's curriculum incorporates African history and culture as well as more diverse studies of those of African descent. This has enabled CAAS to engage faculty and students in key projects in the United States and South Africa, and attract a wide variety of visiting scholars and dignitaries. Currently, CAAS offers both undergraduate and graduate courses along with a graduate certificate program.

The director role at CAAS is assigned on a rotational basis to a faculty member as a five-year appointment. Faculty appointments in CAAS are typically in conjunction with appointments in another department in LS&A. Although LS&A maintains some involvement in certain business and academic processes, the Center is largely self-sufficient.

PURPOSE AND SCOPE

The objective of this review was to evaluate the Center's business practices and management control in the following areas:

- Purchasing
- Payroll
- Cash management
- Financial reporting
- Grant management
- Employment
- Information technology
- Academic processes
- Hosting activities
- Event planning
- Travel administration

University Audits conducted interviews with key department staff and conducted analysis of recent transactions. This assessment determined controls within CAAS are ineffective at preventing or detecting inappropriate or fraudulent activity. Observations include:

- Poor oversight of department activities, including financial and operational processes
- Ineffective financial monitoring
 - Statement of Activity reports had not been reconciled for at least one year
 - Unusual trends in P-Card activity were not identified or investigated
- Lack of segregation of duties, particularly in purchasing and payroll
- Excessive expenditures with no business purpose
- Key financial transactions were not appropriately approved
- The internal control gap analysis and subcertification of the 2009 Certification of Financial Results and Internal Controls did not accurately describe business processes
- Poor stewardship of University resources

CAAS leadership, with support from LS&A, is currently restructuring many of its processes and procedures. The purpose of this report is to share these observations with management, along with recommended control improvements, so they may be incorporated into improved business processes and procedures.

RISK AND CONTROL DISCUSSION

General Control Environment

- Changes in leadership represent an optimal time to reinforce fiscal responsibilities and set an appropriate tone at the top. Management within both LS&A and CAAS should actively identify opportunities to reiterate the importance of controls and financial stewardship.
- New appointments to the CAAS director role must have a clear understanding of their fiscal responsibilities and administrative duties. Additional training and periodic meetings with LS&A management could be used to enforce this accountability.

- CAAS leadership should evaluate and document overall roles and responsibilities for all employees, verifying no person is responsible for a transaction from start to finish.

Financial Monitoring and Oversight

- Ensure staff members are trained on proper account reconciliation procedures, including reconciling to original documentation and reconciliation deadlines.
- Appoint a financial contact within LS&A to conduct a high-level review of CAAS financial activities on a monthly or quarterly basis.

Purchasing

- All purchases should support CAAS business needs. Purchases in certain categories such as computer equipment, travel, and hosting should be pre-approved by the director.
- Verify all employees who are P-Card purchasers or approvers have completed the mandatory P-Card training for their respective responsibilities. Require annual refresher trainings for P-Card purchasers (approvers are already required to take an annual training).
- Management should enforce rules prohibiting sharing of P-Card numbers (either by providing numbers to another employee or allowing another employee physical use of the card).
- Whenever possible, use a U-M strategic supplier to leverage negotiated discounts.
- Original receipts should be obtained whenever possible. Handwritten “tear-tab” style receipts should not be accepted for hosted meals.
- The use of gift cards as incentives or rewards should be carefully monitored; actual signatures of card recipients should be obtained for documentation purposes.

Travel Administration and Expenses

- Travel should be approved in advance and only allowed with a legitimate business purpose. As a best practice, documentation of approval should be retained.
- CAAS management should review travel advance procedures to validate faculty members’ rationale that international locations would not accept P-Cards.
- Travel expenses for staff and faculty should be analyzed and monitored regularly, so unexpected increases/decreases in travel can be reviewed in further detail.

Hosting Activities/ Event Planning

- All hosting activities must have a detailed business purpose included on the hosting form. When CAAS transitions to Concur for reporting expenses, the hosting information should be included in the expense report.
- Meeting attendees should individually sign the department’s hosting form, as appropriate, to increase accountability. Sign-in sheets or other signed documents can be attached as supporting documentation in Concur.
- Employee-hosting events, such as staff luncheons, should be carefully considered to ensure appropriate stewardship of department funds. These activities are not meant to regularly substitute for food employees are normally expected to provide for themselves.

Program Management

- Multiple programs or initiatives are grouped under unique project/grant numbers. This greatly increases the difficulty in monitoring budget activity for individual department projects. Additional project/grant numbers should be requested so programs may be uniquely identified.
- The faculty member responsible for each program or initiative should receive training on reviewing the program’s financial activity in M-Reports. Alternatively, they could be provided timely reports from the key administrator. Regular communication between the key administrator and faculty regarding program financial activity would also be beneficial.

Payroll

- Gross Pay Register reports should be reviewed or reconciled by a higher authority than the department timekeeper for adequate segregation of duties.
- Time logs for staff are currently logged in a spiral notebook, then re-entered into M-Pathways. Consider using the Self Service feature for employee electronic time entry or another more efficient method.
- If paper time sheets are maintained, obtain both the employee's and the supervisor's signature on all time sheets.

Employment

- UM and LS&A Conflict of Interest/Conflict of Commitment (COI/COC) policies should be reviewed with all employees as soon as possible and annually thereafter. They should also be included in new hire training and the staff/faculty handbook. Preliminary reviews by University Audits identified several situations not reported as a COI/COC, such as CAAS employees who are also CAAS vendors in areas of catering, construction, or interior design.
- CAAS management should review Standard Practice Guide Section 201.23, *Appointment of Relatives*. Both CAAS and LS&A management should evaluate situations where related parties report to one another or to the same supervisor.
- Employees with supervisory responsibilities should be coached on establishing effective work performance reviews. Work plans should both further the employee's development and align with the employee's job duties.

Academic Programs

- Units that specialize in administering international programs, such as LS&A's Center for Global and Intercultural Studies, are more knowledgeable and better equipped to administer CAAS' study abroad courses.
- Study abroad programs should have fully documented fee structures and course syllabi.
- CAAS leadership should re-evaluate the current process of paying for all students' study abroad trips, and subsequently collecting reimbursements directly from the student. This inserts CAAS unnecessarily into a student billing matter. This may also circumvent certain controls in Student Financial Services (where student account billing and collection is centralized) that prevent release of a diploma or transcript if there is an outstanding balance.

Inventory

- Some CAAS employees have received UM equipment to be used off-campus (e.g., home office equipment). The Property Control Office provides a form to be used by all employees to document off-campus equipment usage. This form must be used consistently to achieve desired property controls.
- The CAAS suite features many pieces of artwork (i.e., posters, prints, photographs, artifacts) but ownership of many of these items is unclear. A catalog process would allow CAAS to distinguish its collection from an employee's, and establish an inventory value.
- Computers and peripherals (i.e., iPods, digital cameras, Blackberries) should be tracked to protect assets and increase accountability. Collection of these items should be added to an offboarding checklist to be used when employees leave the department.

Cash Management

- Department procedures should be reviewed to ensure an appropriate segregation of duties related to acceptance of payments. The same individual should not be responsible for any two of the

following without an additional level of review: 1) accepting payments; 2) depositing payments; and 3) reconciling payments to the Statement of Activities.

- All employees handling funds should complete the Treasurer's Office web-based cash-handling course (*TME 103, Treasury Management – Cash Handling*, available in My LINC). This training covers topics such as security of funds, UM's deposit policies, and other cash/check-handling internal controls.
- Since cash collections are limited, CAAS leadership should reconsider acceptance of currency as a payment method.

Information Technology

- Review IT best practices for security controls with all employees, such as password security. During preliminary meetings with CAAS employees, it was noted many store Kerberos or Windows passwords on post-it notes next to their computer monitor or keyboard.

In addition to the areas described above, there are additional business processes that were not reviewed but may have opportunities for strengthening internal controls. Recommended control enhancements include:

- The grade change process should be fully documented, detailing which administrative staff members are involved in the process, their responsibilities, and any secondary level of authorization required.
- The process for paying honorariums should be evaluated to identify opportunities for efficiency. Adjustments to these procedures would decrease the likelihood of honorariums paid late.

REFERENCE MATERIALS

As department procedures are evaluated, assessed, and rewritten, the following items should prove helpful in providing guidance as to University policies or best practices:

- The University of Michigan Standard Practice Guide (SPG) (<http://spg.umich.edu/>); in particular, but not limited to:
 - SPG Section 500.01, *Fiscal Responsibilities*
 - SPG Section 507.01, *General Purchasing Policies and Procedures*
 - SPG Section 507.10-2, *Travel and Business Hosting Expense Policies and Procedures for non-Concur users*
- LS&A policies and procedures (<http://www.lsa.umich.edu/facstaff/policies>)
- Office of Internal Controls (<http://www.umich.edu/~avpf/InternalControls.htm>)
 - Internal control matrices
 - Gap analysis tools
 - Written procedures templates
 - Management oversight reports
- My LINC training and document repositories for:
 - Human Resource Development
 - ITS (M-Reports, M-Pathways)
 - Procurement Services
 - Treasurer's Office

In addition, University Audits is available to discuss possible control solutions or evaluate draft procedures at any time prior to the scheduled follow-up review.

MANAGEMENT RESPONSE

The LS&A Dean's Office is very appreciative of the considerable time and effort that the University Audits staff has devoted to this review. There are several high-level process improvements that we have

begun implementing recently, or that we are prepared to initiate, which should address many of the issues raised in this report.

- In addition to the standard designation of an LS&A Dean's Office Financial Analyst for the unit, we have recently assigned the Dean's Office Senior Business Manager to financial review and oversight for CAAS. This person is an experienced CPA and former auditor. The Senior Business Manager will be working through the financial restructuring and will consult closely with the new unit leaders. The current CAAS Director's term is ending as of June 30, 2010 and a new CAAS Director will be starting July 1, 2010. A new CAAS Key Administrator will be hired after a full standard search process, which is going on currently. The search committee will include business operations content area experts from the Dean's Office, Key Administrators from similar sized units, and incoming CAAS leadership.
- CAAS has transitioned over the past two months into the use of LS&A Shared Services for their financial and HR transactional work. The support staff position in CAAS responsible for processing financial transactions has been eliminated and the use of shared services will allow us to strengthen internal controls through separation of duties and adherence to College best-practice in these areas.
- College-wide, we have strengthened our end-of-year unit level financial and internal controls certification process for the end of FY 2010. For the last three years, we have required units to certify their review of management reports, internal control gap analyses, and COI/COC in a process that mirrors that annually required of the Dean. However, although our process in 2007 included a mandatory meeting between the LS&A Financial Analyst and the Key Administrator, we have since allowed the meetings to be optional. This year and annually going forward, the meetings will be mandatory for all LS&A units and will include the Chair/Director, Key Administrator, LS&A Financial Analyst, and the LS&A Director for Budget and Finance. The agenda will include review of the certification questions, supporting reports, as well as a review of relevant UM Standard Practice Guidelines and LS&A Policies and Procedures.
- LS&A New Chair/Director Training in September has historically included a section on budgetary and financial responsibilities. In addition, these topics are regularly on the agenda of our monthly Chair/Director Information Sessions and bi-monthly Chair/Director/Key Administrator meetings. We will be expanding that orientation and training in the coming year to include a more detailed and lengthy individual financial/internal controls/budget discussion with the incoming Chair/Director and Key Administrator. We will also be working with University Audits to provide a training session on financial oversight and internal controls for all of our Chairs and Directors this coming fall.
- We are also in the process of initiating a required quarterly financial review between the Chair/Director, Key Administrator, and the assigned LS&A Financial Analyst to review management reports, variances, and trends in each unit. As part of this process the Key Administrator and/or Chair/Director will be required to explain and document variances and issues identified by the LS&A Financial Analyst.
- We have had in place for the last few years, a requirement that the LS&A Financial Analyst in the Dean's Office co-sign approval, along with the unit Key Administrator, on all Chairs/Directors P-Cards. This last semester we initiated a new requirement that all Key Administrator P-Cards must be co-signed by the Dean's Office Financial Analyst (previously only the Chair/Director's approval was required).
- Finally LS&A is in the midst of a significant change to our budgeting process (started in FY09), that reduces the fungibility and size of discretionary budget categories within each unit and will require a greater use of separate project grants for individual budget categories. This will improve our ability to proactively budget and to identify spending variances at a finer level of detail.

We are very committed to improvements in the administrative operations in CAAS and in assuring that, going forward, this unit is working to College and University best-practice standards. The LS&A Dean's Office will be collaborating with the new CAAS leadership team on staff training, work planning and performance management, and review of business practices on a regular basis to ensure success.


SUMMARY

Significant oversight and other control activities need to be implemented into many of CAAS's business processes. The administrative staff at LS&A has pledged to provide full support to CAAS during this transition period.

A detailed follow-up review will be performed in the second quarter of fiscal year 2011. This should allow management sufficient time to design and implement new operating routines. During the follow-up, testing will be performed to determine if a strong control environment has been established and validate controls are operating as intended.

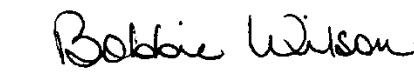

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