Strothman+Co

Audit Committee
University of Louisville

Dear Audit Committee Members:

You engaged us to provide certain consulting services for the University of Louisville (the "University"). We have performed our services in accordance with Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants. These services were outlined in your request for proposal dated September 23, 2013.

In connection with our work, we reviewed all the reports issued by the University's Audit Services Department from 2007 through 2013. We conducted nearly 100 interviews with a wide variety of University personnel and visited every college and many individual departments. As a result of our work, we present the following recommendations.

In addition, our report incorporates recommendations developed by Dean Dorton Allen Ford, PLLC, who was separately engaged to consult on certain financial and operational matters concerning the Health Science Campus.

We did not audit, review, or otherwise verify the accuracy or completeness of your financial statements or accounting records in accordance with generally accepted accounting principles. The audit of your financial statements is performed on an annual basis by the accounting firm of BKD LLP. We relied on the accuracy and completeness of the documents and information you and University employees provided or made available to us. Our engagement cannot be relied upon to disclose errors, fraud, or other illegal acts that may exist. We have no responsibility to identify and communicate significant deficiencies or material weaknesses in your internal controls as part of this engagement, and our engagement cannot, therefore be relied upon to make disclosure of such matters.

We appreciate being selected to perform this engagement, and are available to answer any questions or to assist in the implementation of recommendations included in this report.

STROTHMAN AND COMPANY

Louisville, Kentucky
July 1, 2014

Consulting Report

University of Louisville

This consulting report contains recommendations to improve the internal control structure and financial oversight at the University. Management's responses are also included below.

1. **Improve the Financial Oversight of the University**

    We recommend the following to improve the organizational structure of the University with respect to financial oversight and control.

    Chief Financial Officer Position

    First, we recommend that a Chief Financial Officer ("CFO"), who has training and experience in the design and implementation of internal controls, be given overall responsibility for:

    - Ensuring that appropriate internal controls are developed for all colleges and departments within the University, and that they are applied consistently University-wide.

    - Developing systems to monitor University-wide compliance with internal controls and policies.

    - Compelling corrective action to occur when deficiencies in internal control are identified.

    Unit Business Manager Positions

    Secondly, we recommend that Unit Business Managers ("UBMs") report primarily to the University's Finance Office and to the CFO position mentioned above. For the Health Science Campus ("HSC"), we recommend that the UBMs report through the HSC CFO to the University CFO. We recognize that UBMs also need to be responsive to deans, department chairs, and others within their department.

    With respect to the UBM position, we further recommend that:

    - The CFO be involved in the hiring process for all future UBMs, including evaluation of their skills and qualifications.

    - Position qualifications be standardized for the UBM role throughout the University in regards to education, experience, and aptitude in financial matters.

    - The University revise the UBM training to encompass suggestions made by past participants. Also, the University should consider expanding the UBM training throughout the year by hosting quarterly UBM workshops to communicate issues with policies and processes and in order to come to productive solutions that could be applied throughout the University.

    We believe the above would provide better accountability and consistency with respect to the University's financial activities.

Management concurs with all components of this recommendation. In September 2013, two long-serving incumbents in the positions of Vice President for Financial Affairs and Vice President for Business Affairs elected to retire from the University. These retirements facilitated the reorganization of Financial Affairs with Business Affairs.   Management then appointed interim officers to administer these important areas while reorganization planning accelerated in September.   Concurrently, in 21st Century University discussions, significant support existed for subordinating unit business managers ("UBM") under line authority of a new COO/CFO position. In February 2014, management recommended to the Board of Trustees the reorganization of financial affairs and business affairs into a single position. A new position description for a Senior VP for Finance & Administration, functioning as a chief operating officer and chief financial officer ("SVP/COO/CFO"), was approved. In March 2014, Strothman and Company preliminarily supported a new consolidated CFO position. In April 2014 the SVP/COO/CFO position was advertised nationally and more than 40 applications are under consideration by a screening committee. Only candidates with strong backgrounds of compliance with internal controls and administration of large complex financial organizations using effective systems to monitor policy implementation will be invited for interview.

In fall of 2013, management implemented in Speed Engineering (as well as in the administrative offices of the Provost, Business Affairs, and Information Technology), as a pilot, new organizational reporting for UBMs to create a unit-wide administrative service center reporting directly to the University's chief financial officer and programmatically to the engineering dean. Credentialing, training, and evaluating performance will be administered by the CFO with client feedback from the Engineering Dean. Early reports have encouraged the broader use of this model to address effectively the governance issues raised in 21st Century University planning and recommendations of this consulting report. The table of organization at the Health Sciences Center ("HSC") has been adapted to require departmental UBMs and administrative service centers to report to the new HSC CFO, who reports to the SVP/COO/CFO as well as the EVP for Health Affairs.

In September 2013, the interim CFO began meeting monthly with Senior UBMs (those coordinating the work of subordinate UBMs) to discuss policy development and policy implementation. This consulting recommendation reinforces the requirement to assure UBMs attend these informational meetings and are evaluated accordingly by the Office of the SVP/COO/CFO.

2. Make Improvements to the Disbursement Process

We recommend the following to make improvements to the disbursement process. This includes vendor approval and maintenance, approval of disbursements, and other aspects of the accounts payable process.

Controls Over Vendors Should Be Expanded

New Vendors - Additional procedures should be added to the new vendor verification process. These could include verifying that the vendor has a physical street address, that they have a legitimate website, and that they are properly registered with the Secretary of State in the place they are domiciled. In addition, new vendors should have a reasonable maximum dollar amount entered into the system as a limit on how much they can be paid in any given year.

Existing Vendors - Existing vendors should be closely monitored on an ongoing basis. Such monitoring should include the following situations:

- Vendors that had address changes
- Inactive vendors that were activated
- Different vendors with the same mailing address

- Vendors with similar names
- Vendors that have a P.O. Box listed for an address
- Comparison of vendor address against University employee addresses
- Comparison of vendor bank accounts against employee bank accounts

Add an Additional Layer of Review for Selected Accounts Payable Transactions

We recognize that the sheer volume of transactions processed through accounts payable prohibits a review of each transaction handled by the Finance Office. However, we recommend that a new position be created in the Finance Office that is dedicated to reviewing accounts payable requests. The accounts payable requests could be separated into one of three categories:

1. Disbursements processed as submitted without any further review.
2. Disbursements processed as submitted with a flag for further follow-up review.
3. Disbursements held until a pre-issuance review can be performed.

The determination of which category the disbursement falls into would depend on a variety of factors including the nature of the transaction, the size of the transaction, and the risk profile of the college/department requesting it. For example, departments determined to have a higher risk profile would have a lower dollar threshold related to the above categories. We believe that the University's computer systems could be programmed to automatically categorize the transactions and select the ones needing further review.

Transactions selected in categories 2 and 3 above should then be subjected to additional procedures such as a detailed inspection of the underlying documentation, comparison to contracts/agreements and verification of the receipt of goods and/or work product.

Other Recommendations

Other recommendations related to the accounts payable process include the following:

- The accounts payable process should be further automated by implementing document imaging and electronic workflow for documents.

- All vendor invoices be sent (via U.S. mail or electronically) directly to the Accounts Payable Department. Timely receipt and entry of invoices into the Accounts Payable database improves segregation of duties and provides management with information necessary for analyzing current obligations in order to effectively manage cash. It allows the University to have a more complete record of its accounts payable obligations at any given time, resulting in improved internal controls and ensuring proper month-end and year-end cutoffs for financial reporting purposes. Additionally, having vendor invoices sent directly to the Accounts Payable Department reduces the risk of invoice manipulation by employees.

- Implementation of polices regarding the approval level required based on the amount of a disbursement. We recommend that the University require the UBM and the dean/chair approve and manually sign-off on any disbursement greater than a certain amount.

- A Request for Disbursement ("RFD") should be approved by someone other than the person making the request. In cases where the department head/dean makes the request, another appropriate University official should approve it. Furthermore, all RFDs should be approved prior to the expenditure actually being made.

- Employees with authority to expend endowment funds or to approve expenditures from endowment funds should go through appropriate training to safeguard against unallowable expenditures. Expenditures should follow general University procurement policies and procedures. The University should consider requiring that all disbursements from an endowment fund be authorized by the Development Office.

Management's Response

Management concurs. The University currently utilizes the IRS's TIN matching system, and requires tax documents (W-9 or W-8 forms) as well as a completed vendor survey from all new vendors.

Individuals receiving only a refund or reimbursement are currently exempt from this requirement. Because an approved vendor is available for University-wide use, the policy will be updated as of July 1, 2014 to require completed vendor tax forms and surveys for all individuals, even if the payment is only a refund or reimbursement.

The University only permits two specific employees (vendor database specialists) to change existing vendor information. All vendor change requests must come directly from the vendor – no request from a department or other entity may effect change. Any vendor who has "inactive status" must submit an updated tax document and vendor survey before returning to "active status". The University periodically runs audit reports to compare vendor addresses with employee addresses as well as comparable bank account identification data. Regarding additional reviews for new vendors, we do not concur a cursory review of the Secretary of State registry or respective company website would contribute to evaluating the vendor's legitimacy. The completed vendor survey identifies any conflict of interest or non-compliance issue, and the validated tax form confirms the identity of the payee.

As part of the PeopleSoft Financials upgrade underway, we will explore the increased functionality in vendor "onboarding". We expect this system improvement to provide additional vendor control.

As part of a Procurement Life Cycle review underway, the University is developing policies and procedures to standardize and require the method by which units procure goods. The University will strengthen standards for when units should use the following for procurement:

- Goods and Dollar amounts for using Procurement Cards
- Goods and Dollar amounts for using Request for Disbursements ("RFD")
- Goods and Dollar amounts for using Requisitions

We agree the standardization of the procurement process adds significant efficiencies and control. The University currently has a vendor policy that stipulates all vendor invoices must be mailed directly to the Controller's Office. There are times when a vendor may not follow this policy, but we make every effort to educate vendors – since mailing directly to the Controller's Office expedites timely payment.

To reduce the number of invoices misdirected, the University will implement an automated invoicing system following the completion of the PeopleSoft upgrade in October 2014. Once the overall functionality related to PeopleSoft electronic invoicing is determined, we will decide if this will be handled through our operating system or if we need to contract with a third party vendor to capture and remit all electronic vendor invoicing. This would include workflow capabilities. We estimate an implementation by July 1, 2015.

Currently, when a payment request is submitted to the Controller's Office for processing, the vendor database specialist, assigned to review and approve the request, ensures the following:

- Detailed and complete backup documentation
- Verified dollar totals
- Verified form has appropriate and required signatures
- Completed Request for Disbursement form fields
- Remitted information on backup document(s) match remitted information on RFD form
- Evaluated taxability of transaction

Also, during the payment process, up to four Controller's Office staff reviews purchases depending on the dollar amount of the transaction, as follows:

- All Payments (two reviews): One Vendor Database Specialist + One Accounting Specialist Senior
- Payments from $10,000 - $99,999.99 (three reviews): Will add one additional review by an Accounting Clerk Senior.
- Payments from $100,000 and above (four reviews): Will include one additional review by University Controller.

Further, the Controller's Office will take the following steps:

- Work with Procurement/Contract Administration and University Legal Counsel to develop a standard contracting form and a policy that specifies when contracts are required and the signatory requirements for the respective purchases.
- Will evaluate opportunities in the new version of PeopleSoft Financials for automated workflow.

The Controller's Office has already taken steps to assist with the review of expenses related to endowment and gift program types. It has created a database that records all gift agreements and summarizes the types of expenses permitted by gift criteria. This worksheet is used by Accounting Operations, Financial Reporting and Foundation accounting staff to review and approve gift and endowment payment requests and corresponding journal entries.

3. **Standardize University Policies and Financial Processes**

We recommend that the University standardize its policies and financial processes. Because the University has a wide variety of policies, we suggest the following:

- Someone should be given primary responsibility for gathering and summarizing all of the University's policies (including accounting standards).

- The policies/standards should be organized into one volume and codified using a numbering system.

- A procedure should be developed for adding, deleting and updating policies/standards.

- A procedure should be developed for communicating changes.

- Training programs regarding the new policy manual should be conducted.

We also recommend that the Finance Office develop standardized formats and example workpapers to be used University-wide. This would improve the consistency of the accounting documentation. In addition, we recommend that a standardized closing checklist be developed to help ensure that all of the activities needed to properly close the books monthly in each department are performed on a timely basis.

Management concurs. Links to standardized forms and instructions will be included as part of the codification of business policies and procedures. The Office of Budget and Financial Planning and the Controller's Office will consult with a select group of senior unit business managers and others responsible for financial information to determine the appropriate content for a monthly closing checklist. Currently, the University is considering a shared business services model that would facilitate the standardization of financial processes within business units.

4. Improve the Cash Receipt Handling Function

We recommend centralizing the cash receipt function through the use of a lockbox. The use of a lockbox significantly reduces the risk of mishandling or misappropriation since employees would not have direct contact with receipts from donors or others. Another benefit would be the time saved by the University's accounting personnel from not having to prepare a deposit and physically transport a deposit to the Bursar's Office.

For receipts that still inadvertently come to the various departments, we recommend the University implement a policy that a receipts log be maintained at the point of receipt. All receipts should be logged and immediately stamped with a restrictive endorsement prior to being routed to the Bursar's Office. Each month, the log should be reconciled to the revenue posted in PeopleSoft by an employee other than the person responsible for creating the log.

Management's Response

Management concurs. Current University policy requires the establishment of any new bank account be approved by the University's Controller's Office. We are evaluating options of how to prohibit the establishment of bank accounts without management approval. Punitive sanctions are under evaluation for non-compliant units.

We work with PNC (contract for university-wide banking services) to provide a periodic inventory of all University of Louisville bank accounts. Going forward, we will aggressively improve bank account monitoring. The Controller's Office will also employ a College of Business intern to assist with bank account monitoring and maintenance. Except where there is a specific business purpose for maintaining an independent account and where the University Board of Trustees has approved such account, all unauthorized accounts identified will be closed.

The University employs eight (8) lockboxes and ten (10) remote deposit locations. The University Treasurer controls the permission of all lockbox operations and establishes remote depositing. Administration of a centralized lockbox would improve efficiency when using a consolidated billing module (i.e. shared service model) but otherwise could make the identification and reconciliation of receipts more complex. The average monthly cost of a lockbox is $300+ depending on volume and features. Alternatively, remote deposit is assigned to larger departments and easily adapted to shared services thus eliminating the more manual deposit process.

We will also aggressively pursue converting as many remaining paper checks to electronic fund transfer ("EFT"). This action will further streamline collection process and cash availability.

Bursar's Deposit and Transmittal policy states checks are to be restrictively endorsed immediately upon receipt by the depositor. We agree each department should maintain a daily log of check and cash received for that day's activity. For departments who access a bank branch by having an assigned location code, the deposit receipt must be recorded as well. Currency and coin would follow the same deposit protocols in being hand delivered to Bursar or branch. A separate staff member would verify dollars transmitted to bank entries posted by University Accounting.

5. Improve the Reconciliation Process

We recommend that all speed types (e.g. accounts) be reconciled on a monthly basis and within 30 days of the availability of PeopleSoft reports. The University should require the use of standardized reconciliation templates to perform the reconciliations. A responsible financial official should be in charge of ensuring that all speed types throughout the University are reconciled on a timely basis. Except in circumstances when timing is an issue, we recommend that speed types not be permitted to have a negative balance without an appropriate mitigation plan.

Also, the use of unapproved accounting systems maintained to duplicate financial activity already being recorded in PeopleSoft (for example, QuickBooks) in accounting for departmental expenses and billings should be minimized.

Management's Response

Management concurs. Upon the departure of the two vice presidents, noted in management's response to recommendation #1, management asked the interim CFOs to evaluate internal controls throughout financial affairs. Reconciliation of accounts surfaced as a repeated issue and elicited a draft policy to tighten control in this area. The draft was ready for approval in late October 2013 but was delayed to coordinate with this consulting review. Based upon this recommendation, the University has approved a new account reconciliation policy, effective on July 1, 2014. This new policy requires any account with current activity to be reconciled within 30 days of monthly close and the status of the reconciliation submitted to the Controller's Office by respective Vice-Presidents and Deans. The Controller will share with senior management a summary report of the institutional reconciliations. The Controller's Office will monitor and enhance the process (creating a more efficient reconciliation process for the 8,000+ university accounts) as determined by staff through periodic reviews of unit reconciliations. In addition, the University is currently developing defined consequences for not complying with this policy.

A month-end cash deficit report was developed in early fall of 2013. This management report provides a five year history of the account's cash balance. This history provides leadership with a contextual framework as to whether the account is trending in a favorable direction. The report also provides a status as to whether the deficit is a "timing" issue or a more complex problem. In addition, departmental reports are available at all levels of management to monitor potential cash deficits. Regular meetings are held with the CFO for the Executive Vice-President of Health Affairs and ULP to review and discuss deficit issues with the Health Sciences Campus.

6. Non-University Bank Accounts Should Be Closely Monitored

Policies prohibiting bank accounts using the University's name should be widely communicated and closely monitored. All known bank accounts related to University activities, but outside the University's control, should be monitored on an ongoing basis and closed as soon as possible. Entities related to the University of Louisville or its employees should not be allowed to use "University" in its name or bank account without authorization from the Board of Trustees. A database should be maintained of all authorized entity names and bank accounts.

Management's Response

Management concurs. Current internal policy will be revised to reference Kentucky state statute KRS41.070 whereby State agencies must receive prior approval to open a bank account from the state's Office of the Comptroller, Finance & Administration Cabinet. We will explore the requirement to report the existence of an external bank account immediately to the Controller's Office by including this directive in the annual Conflict of Interest questionnaire.

Any unauthorized bank account discovered through periodic audit will be closed by Treasury Management. On a random annual basis, we will submit a letter from President Ramsey to local area banks to request assistance in verifying active accounts and adherence to university policies.   The Controller will employ a College of Business intern to assist with the periodic monitoring.

7. Ensure That All the University's Computer Systems are Subject to the Same Controls

The University's Chief Information Officer should maintain an inventory of all computer systems used throughout the University. All computer systems throughout the University should be subject to the same basic policies and security controls. Information technology access level controls should be routinely reviewed to validate that employees only have access to the specific areas of the systems required to perform their duties.

Management's Response

Management concurs. Information Technology ("IT") currently maintains all enterprise computer systems. The procurement department of Inventory Control tracks all purchased computer equipment over $1K. All computer systems are required to use Active Directory which ensures enforcement of standard security policies such as password strength/expiration, security updates/patches and virus/malware protection and updates. Access is controlled with Access Control List or security roles which are granted and monitored by the appropriate business unit that has responsibility for the data. All controls for financial systems are audited by external auditors annually to validate appropriate access, policies and procedures. The Vice President for Information Technology will review possible changes and updates to assure implementation of this recommendation.

8. Improve Controls Over Payroll

We recommend that an electronic control be put in place to prevent a Position Control Number ("PCN") from being issued to multiple employees (unless the PCN is meant to be used for an entire employee group, such as student employees).

In order to reduce the risk that fictitious employees could be paid, we recommend the process for adding temporary/student employees be reviewed with the goal of improving segregation of duties in this area. For example, someone other than the UBM should review amounts paid to employees of each college/department.

Management's Response

Management concurs. Work began on this recommendation in early fall by employing an external consultant with expertise in payroll systems. We are making good progress on revamping the entire payroll and position management processes. We have completed an entire employee life cycle review – from employee hire to employee pay in order to redesign business processes and to create better internal control and more efficient processes at both the departmental and central level. Our outside consultant recently completed a comprehensive review of the payroll and position management offices at the University. Changes are planned for early fall.

Once business process redesign and other changes (as noted in the consultant's report) are complete, system changes will be implemented with information technology to ensure more electronic hard edits are included in the system to provide more vigorous internal control.

9. **Obtain Annual Acknowledgment of Compliance with Conflict of Interest Policies From All Employees**

    We recommend that the University obtain annual acknowledgment from all employees regarding compliance with conflict of interest policies. Such acknowledgment will require employees to actually read the policies. If a violation occurs, the employee in question could not claim ignorance. A sample of conflict of interest statements should be selected for audit procedures each year.

    The University should review the current conflict of interest report to improve the wording of questions that are ambiguous and to expand the report to require employees to disclose bank accounts or entities using "University" in its name or in the name of a bank account. The University should also provide additional guidance to users on how to complete the report.

    Management's Response

    Management concurs. University Conflict of Interest ("COI") Policies and Procedures are published at http://louisville.edu/conflictofinterest/policies. The Board of Trustees approved university-wide Conflict of Interest Policies and Procedures in November 2009. The Compliance Oversight Council approved administrative policies and procedures for implementation in January 2011 to address individual and institutional level COI.

    Individual conflict of interest policies apply to covered individuals at the University of Louisville (the "Institution"). This policy covers academic, business, clinical and research transactions and activities conducted under the auspices of and/or for the benefit of the University of Louisville. "Covered Individuals" include all University employees. The term also includes other individuals with responsibility for the design, performance, or reporting of institutional research, regardless of pay or enrollment status. It also includes individuals conducting research at the University of Louisville, or using University of Louisville researchers, or using University of Louisville facilities or resources. This policy requires Covered Individuals (who are Faculty, Institutional Officials, or individuals conducting research under the auspices of the University of Louisville) to complete an Attestation and Disclosure Form ("ADF") annually, throughout their Term of Appointment. This policy outlines the external interests and activities that are required to be reported on the ADF for institutional review.

    COI disclosures have been required from individuals engaged in research activities since August 2000 for compliance with NIH regulatory requirements. The scope of individuals required to submit an annual ADF was expanded by the Compliance Oversight Council in September 2013 to include additional individuals and to ensure compliance with regulatory requirements with the inclusion of all "Faculty" and "Institutional Officials." This approach was deemed consistent with peer institutions.

    Two specific populations, Department Chairs and Unit Business Managers were discussed with University Management during the development of the above noted recommendation. All Department Chairs are members of the University Faculty; thus, are currently included within this population.

    The following individuals are currently included with the definition of an "Institutional Official:" Persons holding administrator positions, including those holding these positions in a temporary capacity. This term includes, but is not limited to individuals serving as: Deans, Associate Deans, and Assistant Deans; Institute and Center Directors; General Counsel; University Compliance Officers; Director of Audit Services; Provost, Vice Provosts, Associate Vice Provosts, and Assistant Vice Provosts; President, Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Associate Vice Presidents, and Assistant Vice Presidents; and chairs of the Institutional Review Board, Institutional Biosafety Committee, Institutional Animal Care and Use Committee, and the Conflict Review Board.

    The AVP Audit Services and Institutional Compliance will work with the Compliance Oversight Council to require ADFs from "Unit Business Managers".

10. Improve Financial Management Duties Within Departments

Department chairs and deans perform a wide variety of functions related to managing their department. The University should define parameters under which all department chairs and deans would be required to operate within to ensure each department is being properly managed. In addition, the University should develop a standardized monthly departmental/school financial and non-financial reporting package that includes tracking of key performance indicators for use by department chairs and deans.

The University should evaluate its current administrative functions and employees within each department on the Health Science Campus in order to implement a central business/administrative office to integrate some or all of the administrative functions. Where administrative functions are not centralized, the University should evaluate if the personnel currently performing the functions have the appropriate training and experience to execute their duties efficiently and effectively.

We also noted that the segregation of duties could be improved in certain departments. We recommend that all departments be reviewed, and that certain responsibilities be reallocated as needed in order to improve segregation of duties.

Management's Response

Management concurs with this recommendation. The COO/CFO will work with the Provost's Office to identify managerial/financial functions for academic administrators (deans, chairs, division heads) and incorporate these performance criteria into their annual reviews, to which the COO/CFO will contribute. We further agree monthly management reports need to be standardized and used by academic administrators to carry out their administrative functions. The credentialing and evaluating processes noted in "management's response to recommendation #1" address the competencies of personnel performing administrative and financial functions throughout the University (not just the health sciences campus). The COO/CFO will systematically evaluate appropriate internal controls and segregation of duties as noted in management's response to recommendation #1 and implement to improve compliance.

11. Evaluate the University's Audit Services Department Function

In order to help ensure that the most important and highest risk areas within the University are being audited, improvements to the audit planning process should be considered. This may include implementation of an enterprise risk management ("ERM") approach. ERM goes beyond a traditional internal audit risk assessment and includes financial, operational, strategic and other risks. It includes involvement of key executives throughout the organization.

All audits should be followed up on in a reasonable amount of time through an in-person visit (unless there were clearly no significant audit findings). This has generally been the policy of Audit Services since mid-2012.

Audit Services staffing levels should be constantly monitored and compared to the audit needs developed during the audit planning process. If additional audit resources are needed, one alternative is to have Audit Services expand its resources by contracting with outside auditors on a temporary basis when special needs arise.

__Management's Response__

Management concurs. We agree an ERM process could be helpful to the University. Audit Services considered ERM in 2010 along with an implementation framework. Financial resources prohibited its implementation at that time.

Prior to 2012 Audit Services performed formal follow-up procedures via e-mail and phone. Follow-up reports were generated for the leadership team on a semi-annual basis. Based on recurring audit issues, we began on site follow-up in 2012. Audit Services has continued this practice and document follow-up results in the audit management system. A formal report, or the pending issues report, is provided to the leadership team semi-annually.

The university has grown rapidly in stature and complexity and additional audit resources would be useful to evaluate risks and perform audits. An additional staff position would be helpful and allow shared responsibilities between ERM and Audit. The HSC CFO plans to employ two new positions to carryout pre-audit functions and interface with Audit Services.

We have selectively used outside resources for specialized audit projects. Audit Services will expand resources by utilizing outside resources as needs dictate.

12. Improve Controls Over Contracts

Additional controls over contracts between departments on the Health Science Campus and outside entities should be improved in the following areas:

- A contract database should be monitored and updated to include all active written and verbal contracts.

- The billing process should be formalized and streamlined to ensure billing is performed timely and accurately.

- A formalized process to account for contract accounts receivable should be implemented. Outstanding contract receivables should be regularly followed up on for collection.

- Additional segregation of duties should be implemented over the contract billing and collection process.

- Consideration should be given to contract billing and collection be performed by a central billing office for all departments.

__Management's Response__

Management concurs. Because of the complexity and volume of contracts at the HSC, the Executive Vice President for Health Affairs has assigned personnel to monitor and update the contract database. The centralized business office being implemented at the HSC will provide the oversight needed to centralize the billing and collection process for contracts. This complexity is concentrated in the HSC and its professional practice units.

13. Improve Controls Over Procurement Cards

Procurement card policies and controls should be evaluated and improved in the following areas:

- Controls over procurement cards should be implemented to ensure that card privileges are revoked or suspended when a cardholder does not follow University policies.

- Employees without a procurement card should not have physical custody of another employee's card.

- All department chair procurement card use should be reviewed and approved by the dean over the department.

- The use of department procurement cards that can be "checked out" by employees should be minimized and employees requiring the use of a procurement card should be properly trained and issued a card directly.

Management's Response

Management does not concur. The ProCard staff already has a process in place for the revocation and suspension of ProCards when situations arise or an individual does not comply with the University policies and procedures. Cards are not revoked or suspended for minor policy infractions. Such violations are noted in the compliance reviews and repeated violations would then lead to such action being taken. Since we already have these controls in place and they appear to be adequate, we are not recommending any changes to the current process.

Since the inception of the ProCard program, departmental cards have been checked out/authorized for use by others in the department. The cardholder is responsible for authorizing the use and for securing the card at all other times. Controls are currently in place to safeguard against misuse, such as employee usage agreements and sign in/out logs. Limiting the number of cards within a department, i.e. a single departmental card, reduces the number of cards issued by the University, and in turn reduces our overall liability/exposure. The ProCard process is more streamlined in this sense as well; there is less paperwork in that there is only one monthly transaction log to complete, reconcile, and approve. The practice of utilizing departmental cards is a very common occurrence in higher education and is routinely seen as a best practice control to regulate and monitor a department's ProCard usage. We do not recommend changing this current process.

In the case of Chairs, who are also cardholders, we do not treat them differently than any other cardholder. Their cards cannot be approved by a subordinate, and in most cases, these cards are approved by a high-level UBM in the dean's office. The UBM's are the most knowledgeable about the ProCard policies and are the most appropriate approver of the chair's cards. In most cases, the dean would not have enough specific knowledge to be able to adequately review and approve the charges.

The use of department procurement cards that can be "checked out" by employees should be minimized and employees requiring the use of a procurement card should be properly trained and issued a card directly.

With the forthcoming creation of centralized business units, an additional level of separation will be created between the purchaser and approver eliminating the need for dean review.

We recommend withholding any further action on this recommendation until the centralized business units have been established and we have had internal audit test the controls relative to the purchaser and approver.

14. The Existence of the University's Compliance Hotline Should Be Better Communicated

The University's ethics/whistleblower hotline should be better communicated to University personnel, vendors, donors and other stakeholders.

Management's Response

Management concurs. The University's Compliance Hotline is a reporting mechanism, allowing anonymity and confidentiality, operated by an independent third party that was implemented August 1, 2007. The hotline system provides individuals the ability to report suspected wrongdoing without fear of reprisal. Individuals may utilize the hotline by calling the toll-free number 1-877-852-1167 or submitting a written report online through an external link "Compliance Hotline Reporting." We will rebrand this third party provider to instill greater independence from the University.

The University's Institutional Compliance Office administers the Hotline. The Compliance Hotline is communicated to University personnel, vendors/donors and other stakeholders through various avenues:

- University of Louisville Institutional Compliance website at http://louisville.edu/compliance

- Distribution of Compliance Hotline posters and brochures to all university facilities of the Belknap, Health Sciences Center, and Shelby Campuses

- New Employee Orientation held at Human Resources weekly

- Unit Business Training Compliance Module

- Quarterly UofL Today Announcement to all employees

A search for the word "Hotline" on the home page of the University's website at http://louisville.edu/ results in a direct link to the "Compliance Hotline" primary information page. In addition, a search for the word "Whistleblower" on the University's home page results in a direct link to a "Whistleblower Protection" statement that provides links to the "Compliance Hotline" and "Non-Retaliation/Non-Retribution Policy". This whistleblower statement has been posted since July 2009 for compliance with American Recovery and Reinvestment Act of 2009 requirements.

The Associate Vice President Audit Services and Institutional Compliance will work with the Compliance Oversight Council to further enhance Compliance Hotline communication strategies.

15. Tracking of Certain Receivables Could Be Improved

The University should implement a more robust process of tracking dean's tax and academic program support payments and the applicable receivables for unpaid amounts.

Management's Response

Management concurs with this recommendation. The new HSC CFO has direct access to the financial statements of ULP and the professional practice groups, along with the responsibility for attesting to the accuracy of payments.

16. Improve the Monitoring of Advisory Reports

The University should task a management team that includes the University's CFO, the Health Science Campus CFO, and other appropriate University officers with monitoring all reports issued by advisory firms, external auditors and internal auditors. This team would be responsible for overseeing the scope of the work performed by the advisory firms or auditors, and responses to recommendations to ensure that responses are consistent with the University's policies, procedures and strategies. The management team should formally approve reasons for not implementing a recommendation. The management team should also monitor corrective action plans to ensure that they have been appropriately and timely implemented.

Management's Response

Management concurs with this recommendation. When the SVP/COO/CFO is hired, management will appoint a standing committee to review periodically reports from management consultants, CPA firms, and other external agencies to assure the recommendations of the firms have appropriate consideration, follow up, and implementation.

17. Continuous Monitoring Techniques Should Be Implemented

The University should implement continuous monitoring techniques to act as an early warning signal to fraud or error. Continuous monitoring techniques typically include information technology based data analytics, key performance (or nonperformance) indicators, and exception reports.

Management's Response

Management concurs. The University will evaluate the implementation of continuous monitoring, e.g., as implemented in ACC school-Georgia Tech, for installation at the University of Louisville. The system approach to auditing transactions should have cost savings as it has had at other organizations. Audit Services will be assigned the lead to investigate this new process as an early warning of irregular procedures.