



Office of Internal Audit and Compliance

Briefing

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Introduction

Welcome to the Office of Internal Audit and Compliance *Briefing*, a summary report of highlights from our recent work within the University System of Georgia. We plan to publish multiple times a year, with the hopes of providing our stakeholders a clear depiction of our recent engagements, findings, and recommendations. Each issue will contain several articles describing a recent audit topic, our related work, and the results of the audit program along with our recommendations to management.

Our goal is to provide this information to external audit partners at USG institutions and other stakeholders, illustrating several examples of common findings, as well as practical solutions designed to resolve these issues. While we will not focus on the institutions themselves, we will provide the relevant details of our audit findings and their related recommendations, especially for those issues that appear to affect USG as an enterprise operation. In this issue, we will discuss some of our recent efforts related to Major Repair and Renovation funds, financial aid purge protections, and identity access and management.

We hope that you find the *Briefing* to be both informative and illustrative of the work of OIAC. As always, we enjoy hearing from you, and welcome any thoughts or feedback about this publication, including future article ideas or coverage of specific topics. Thank you for reading.

Sincerely,

John M. Fuchko, III

Chief Audit Officer and Associate Vice Chancellor

Use of Major Repair and Renovation Funds

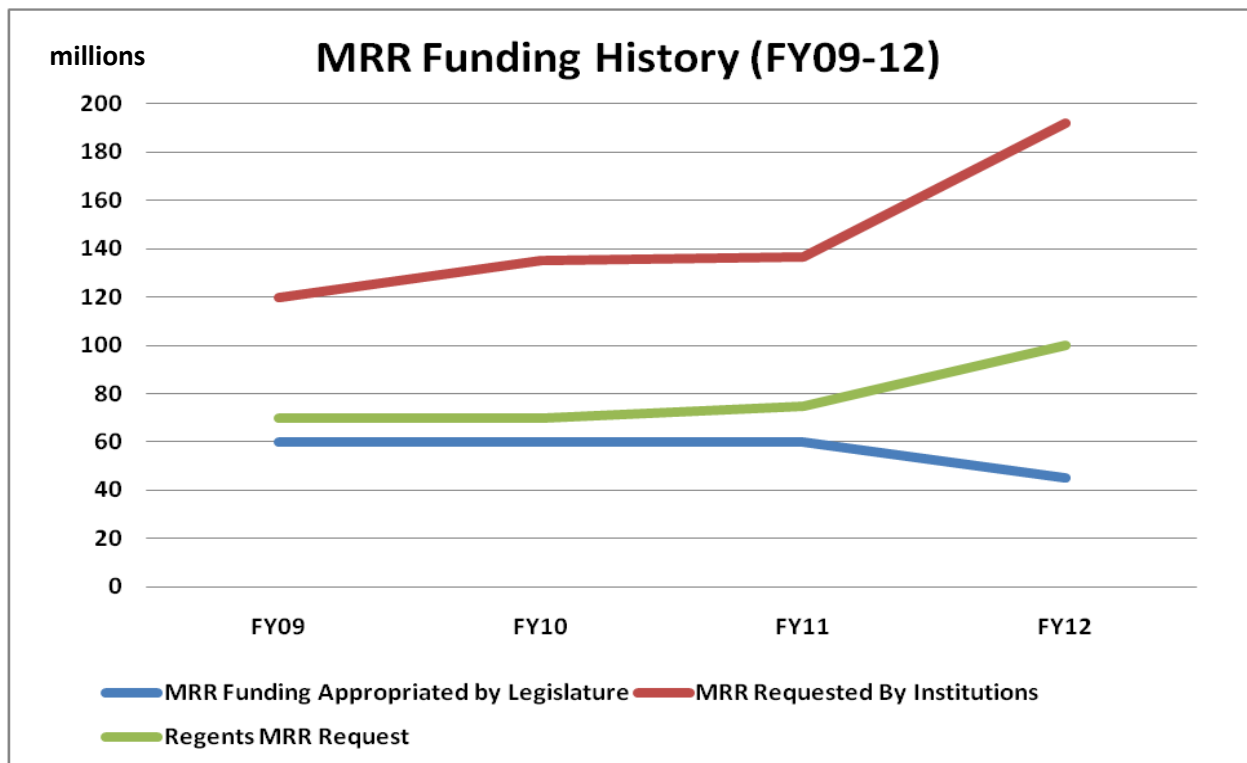
“... MRR funds are generally not made available for use for auxiliary or other facilities housing fee-generating services...”

In a recent audit engagement, we discovered Major Repair and Renovation (MRR) funds allocated for specific projects and purposes were reassigned to other capital projects not previously approved by the Board of Regents, including facilities for auxiliary services.

To mitigate the potential misallocation of MRR funds, we provided several recommendations, including the following:

- Ensure management appropriately identifies current capital needs, plans for future needs, budgets funds appropriately, and monitors the use of funds;
- Develop and maintain a strong relationship with the Office of Real Estate and Facilities (OREF), and incorporate their expertise and guidance into regular business operations;
- Implement strong internal controls related to MRR funds, including the segregation of capital asset management and financial services, adherence to the BOR-approved MRR project list, and the application of funds only to eligible facilities; and,
- Manage auxiliary services and cost schedules in a manner that allows a portion of funds to be reinvested towards the maintenance and capital renewal of those buildings and facilities.

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Source: Office of Real Estate and Facilities, <http://www.usg.edu/ref/compliance/mrr>

Use of MRR Funds *(continued from page 2)*

Misuse or poor management of these funds creates a variety of risks:

- Potential loss of future MRR allocations due to non-compliance with BOR guidelines;
- Disallowance of reimbursement requests by Georgia State Financing and Investment Commission;
- Inability to meet bond arbitrage requirements, resulting in delay of future bond sales; and,
- Deterioration of buildings and infrastructure, and inability to support resident instruction needs.

Our audit consisted largely of a reconciliation of historical MRR expenses, with a focus on the physical asset upon which funds were spent. We also examined these transactions for compliance with several useful policy documents that clearly articulate the appropriate allocation and expense of MRR funds: OREF's *"Major Repair and Renovation (MRR) Guidelines,"* the State Accounting Office's *"GSFIC Reimbursements for Bond Funded Construction Projects,"* and USG's *Business Procedures Manual* section 18.1. While MRR funds are generally not made available for use for auxiliary or fee-generating facilities, exceptions can be made for instances of health and life safety issues. The institution indicated the decision to expend these funds for what were otherwise ineligible facilities was based upon the identification of such critical needs, and a lack of alternative fund sources.

According to the OREF, USG owns and manages over 43.6 million square feet of instructional space, much of which was constructed prior to 1970. In combination with regularly appropriated maintenance and operation funds, MRR funding is allocated in an effort to provide for major repair, replacement, or renovation of critical building systems and other infrastructure. Its primary uses are for smaller scale projects (generally under \$1 million) that are beyond the scope of regular annual maintenance costs, and should be spent only on instructional and administrative space. Facilities housing auxiliary functions such as food service and student residences are expected to provide for capital renewal needs through those respective funding streams.

Identity and Access Management

"... [U]ser accounts must be properly managed, and old and inactive accounts de-provisioned in accordance with policy."

In multiple audits of identity and access management for USG's three primary enterprise information technology systems (PeopleSoft, BANNER, and ADP), we found active user accounts associated with employees who had separated from service, and many other old user accounts that were not fully deactivated. All institutions should work to diligently manage access to these systems, and have many options and tools to achieve this goal, including the following recommendations:

- Conduct basic comparisons of active user accounts to the institution's roll of current employees and identify variances;
- Use existing reports and business processes defined by ITS to regularly analyze user accounts and related permissions; and,

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Identity and Access Management *(continued from page 3)*

- Ensure a user’s level of access appropriately matches their assigned duties and responsibilities (no more, no less).

This issue is easily remedied for the PeopleSoft system, and several existing business practices designed to assist database and security administrators with provisioning and de-provisioning access currently exist. In our analysis, we produced and examined a comprehensive list of all existing PeopleSoft user accounts, including those that were “locked.” PeopleSoft user data is cumulative, and old user accounts should not be deleted in order to avoid the risk of corrupting the integrity of historical data, according to current ITS practices. However, old user accounts for employees no longer requiring access to the system should be deactivated in accordance with GeorgiaFIRST Business Process Document SC.080.106 – “*Managing Terminated User Access*,” available online at the GeorgiaFIRST production Web site.

The risks of poor identity and access management are numerous:

- Increases the number of opportunities for inappropriate access to sensitive information contained within USG enterprise systems;
- Impacting institution security by failing to de-provision, deactivate and/or terminate unused accounts in a timely manner; and,
- Operational inefficiencies or introducing of information security risks due to misalignment or lack of communications between business areas.

As described by this document, all accounts for users no longer requiring access to the PeopleSoft system should first be “locked” from the User Profile screen, preventing the account from active use. However, an often overlooked second step is necessary to fully deactivate the account. Administrators should take the additional precaution of removing the “BOR PeopleSoft User” role from the account permissions on the User Roles page. Removing this role disallows the account from possessing sign-in credentials, thus preventing any future reactivation of the account. In our analysis, we found a substantial number of user accounts with no recorded activity for several years, which is to be expected – however, while most of these accounts were “locked,” many still possessed the “BOR PeopleSoft User” role permission.

Financial Aid Purge Protections

“... [S]tudents must be dropped from class rolls if the student has not paid or financial aid has not been affirmed by the drop/add date.”

In our audits and reviews of accounts receivable we have noted inconsistencies in the practice of “purge protection.” These inconsistencies include a) timing of when students are dropped from class roles, and b) allowing students to remain in class with a balance due. Deferral of student payments past published deadlines while waiting for approved financial aid awards is defined as a “purge protection.” Purge protect directly impacts revenue, admissions, use of personnel resources, and compliance with BOR policies and procedures.

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Financial Aid Purge Protections *(continued from page 4)*

The practice can lead to the following:

- Uncollectable receivables;
- Increased amount of receivables due to non-payment; and,
- Inaccurate reporting of enrollment numbers.

The granting of credit is not a primary function of USG. Credit is granted only as indicated below:

- Credit is granted to students as required for the administration of fines and the assessment of additional fees that may be determined to be applicable after the student registers.
- Credit is also granted to students in accordance with Board of Regents Policy 7.3.3, *Tuition and Fee Payment and Deferral*. Short-term credit may be granted to students while waiting for financial aid funds or scholarship funds from third parties. This credit is granted only when a notice of award or a written agreement from a third party has been received.

All tuition and fees (mandatory and elective) are due and payable upon registration. Exceptions to the time of payment are as follows:

- An institution may defer tuition and fees up to the amount authorized for a specific academic term for students whose fees are guaranteed and will be paid by an outside agency under a documented agreement with the institution.
- An institution may defer tuition and fees up to the amount of the aid granted for a specified academic term for students who have an institution-administered loan or scholarship in process.
- An institution may defer tuition and fees up to the limit stated in the certificate or other document for a specified academic term for foreign students who have a certificate or other acceptable documented evidence that payment will be made after a statement of charges from the student has been presented for payment.

All students must be dropped from class rolls if the student has not paid or financial aid has not been affirmed by the drop/add date. If the student filed for financial aid past the deadline, the student should be required to pay out-of-pocket when they register and be reimbursed when the financial aid is awarded. It is therefore important that students complete financial aid paperwork by published deadlines and are aware that they will be dropped for nonpayment.



The banner features a green background with white and blue text. At the top left, it reads "Georgia 2011 Conference for College and University Auditors". To the right, a blue box contains the dates "July 25-26, 2011" and a dark grey box below it says "A 2-day summit Atlanta, Georgia". The bottom left includes the ACUA logo (Association of College & University Auditors) and the Board of Regents of the University System of Georgia logo (Internal Audit and Compliance). At the bottom center, it says "Visit www.usg.edu/audit/conference for more information".

Citations, References, and Further Information

Use of Major Repair and Renovation Funds

- USG Office of Real Estate and Facilities, *Major Repair and Renovation (MRR) Guidelines*
 - <http://www.usg.edu/ref/compliance/mrr/guidelines/>
- USG *Business Procedures Manual*, section 18.1: “MRR Formula and Allocations” –
 - http://www.usg.edu/business_procedures_manual/section18/manual/18.1_mrr_formula_and_allocations
- Georgia State Accounting Office, *Accounting Policy Manual: “GSFIC Reimbursements for Bond Funded Construction Projects”* –
 - http://sao.georgia.gov/vgn/images/portal/cit_1210/44/28/156958065AM_GSFIC.pdf

Identity and Access Management

- USG GeorgiaFIRST, *Business Process Document SC.080.106: “Managing Terminated User Access”*
 - <http://www.usg.edu/gafirst-fin/documentation/category/security/> (password required)

Financial Aid Purge Protections

- USG *Business Procedures Manual*, section 10.2: “Granting of Credit” –
 - http://www.usg.edu/business_procedures_manual/section10/manual/10.2_granting_credit
- Board of Regents *Policy Manual*, section 7.3.3: “Tuition and Fee Payment and Deferral” –
 - http://www.usg.edu/policymanual/section7/policy/7.3_tuition_and_fees/#p7.3.3_tuition_and_fee_payment_and_deferral

The Office of Internal Audit and Compliance (OIAC) mission is to support the University System of Georgia management in meeting its governance, risk management and compliance and internal control (GRCC) responsibilities while helping to improve organizational and operational effectiveness and efficiency. OIAC is a core activity that provides management with timely information, advice and guidance that is objective, accurate, balanced and useful. OIAC promotes an organizational culture that encourages ethical conduct.

We have three strategic priorities:

1. *Anticipate and help to prevent and to mitigate significant USG GRCC issues.*
2. *Foster enduring cultural change that results in consistent and quality management of USG operations and GRCC practices.*
3. *Build and develop the OIAC team.*

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