Executive Summary

Internal auditors must communicate the results of engagements. The University of Toledo’s approach to reporting must include the following key components:

- Providing a scope section separate from observations to focus content.
- Including a risk-ranking framework to structure and prioritize observations.
- Explicitly stating key, high-risk observations within executive summaries.
- Leveraging the use of tables, graphics, and other visuals to illustrate key content.

Communication Criteria

Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

Although the format and content of the final engagement communications varies by type of engagement, they are to contain, at a minimum, the purpose, scope, and results of the engagement.

Final engagement communications may include background information and summaries.

Background information may identify the organizational units and activities reviewed and provide explanatory information. It may also include the status of observations, conclusions, and recommendations from prior reports and an indication of whether the report covers a scheduled engagement or is responding to a request. Summaries are balanced representations of the communication’s content.

Purpose statements describe the engagement objectives and will inform the reader why the engagement was conducted and what it was expected to achieve.

Scope statements identify the audited activities and may include supportive information such as period reviewed, and related activities not reviewed to delineate the boundaries of the engagement. They will describe the nature and extent of engagement work performed.

Results include observations, conclusions, opinions, recommendations, and action plans.

Observations are pertinent statements of fact. The internal auditor communicates those observations necessary to support or prevent misunderstanding of the internal auditor’s conclusions and recommendations. The internal auditor may communicate less significant observations or recommendations informally.
Engagement observations and recommendations emerge by a process of comparing criteria (the correct state) with condition (the current state). Whether or not there is a difference, the internal auditor has a foundation on which to build the report. When conditions meet the criteria, communication of satisfactory performance may be appropriate. Observations and recommendations are based on the following attributes:

- **Criteria:** The standards, measures, or expectations used in making an evaluation and/or verification (the correct state).
- **Condition:** The factual evidence that the internal auditor found during the examination (the current state).
- **Cause:** The reason for the difference between expected and actual conditions.
- **Effect:** The risk or exposure the University and/or others encounter because the condition is not consistent with the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors consider the effect their engagement observations and recommendations may have on the University’s operations and financial statements.

Observations and recommendations can include engagement client accomplishments, related issues, and supportive information.

Conclusions and opinions are the internal auditor’s evaluations of the effects of the observations and recommendations on the activities reviewed. They usually put the observations and recommendations in perspective based upon their overall implications.

Clearly identify any engagement conclusions in the engagement report. Conclusions will encompass the entire scope of an engagement or specific aspects. They may cover, but are not limited to, whether operating or program objectives and goals conform to those of the University, whether the University’s objectives and goals are being met, and whether the activity under review is functioning as intended. An opinion may include an overall assessment of controls or may be limited to specific controls or aspects of the engagement.

The internal auditor will communicate recommendations for improvements, acknowledgments of satisfactory performance, and corrective actions.

Recommendations are based on the internal auditor’s observations and conclusions.

They call for action to correct existing conditions or improve operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results.
Recommendations can be general or specific. For example, under some circumstances, the internal auditor may recommend a general course of action and specific suggestions for implementation. In other circumstances, the internal auditor may suggest further investigation or study.

The internal auditor may communicate engagement client accomplishments, in terms of improvements since the last engagement or the establishment of a well-controlled operation.

The internal auditor will communicate the engagement client’s views about the internal auditor’s conclusions, opinions, or recommendations.

As part of the internal auditor’s discussions with the engagement client, the internal auditor obtains agreement on the results of the engagement and on any necessary plan of action to improve operations. If the internal auditor and engagement client disagree about the engagement results, the engagement communications state both positions and the reasons for the disagreement. The engagement client’s written comments may be included as an appendix to the engagement report, in the body of the report, or in a cover letter.

Certain information is not appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Disclose such information in a separate report. Distribute the report to the Finance and Audit Committee if the conditions being reported involve senior management.

Interim reports are written or oral and may be transmitted formally or informally. Use interim reports to communicate information that requires immediate attention, to communicate a change in engagement scope for the activity under review, or to keep management informed of engagement progress when engagements extend over a long period. The use of interim reports does not diminish or eliminate the need for a final report.

A signed report is issued after the engagement’s completion. Summary reports highlighting engagement results are appropriate for levels of management above the engagement client and can be issued separately from or in conjunction with the final report. The term “signed” means the authorized internal auditor’s name is manually or electronically signed in the report or on a cover letter. The Director of Internal Audit will determine which internal auditor is authorized to sign the report. When engagement reports are distributed by electronic means, a signed version of the report is kept on file by the Internal Audit Department.
Quality of Communications

Communications will be accurate, objective, clear, concise, constructive, complete, and timely.

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the University and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

Gather, evaluate, and summarize data and evidence with care and precision.

Derive and express observations, conclusions, and recommendations without prejudice, partisanship, personal interests, and the undue influence of others.

Improve clarity by avoiding unnecessary technical language and providing all significant and relevant information in context.

Develop communications with the objective of making each element meaningful but succinct.

Adopt a useful, positive, and well-meaning content and tone that focuses on the University’s objectives.

Ensure communication is consistent with the University’s style and culture.

Plan the timing of the presentation of engagement results to avoid undue delay.
Disseminating Results

The Executive Director of Internal Audit will communicate results to the appropriate parties.

The Executive Director of Internal Audit or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.

The internal auditors will discuss conclusions and recommendations with appropriate levels of management before the Executive Director of Internal Audit issues the final engagement communications. This is usually accomplished during the engagement and/or at post-engagement meetings (i.e., exit meetings).

Another technique is for the management of the audited activity to review draft engagement issues, observations, and recommendations. These discussions and reviews help avoid misunderstandings or misinterpretations of fact by providing the opportunity for the engagement client to clarify specific items and express views about the observations, conclusions, and recommendations.

The level of participants in the discussions and reviews vary by nature of the report; they generally include those individuals who are knowledgeable of detailed operations and those who can authorize the implementation of corrective action.

The Executive Director of Internal Audit distributes the final engagement communication to the management of the audited activity and to those members of the University who can ensure engagement results are given due consideration and take corrective action or ensure that corrective action is taken.

Where appropriate, the Executive Director of Internal Audit may send a summary communication to higher-level members in the University. Where required by the Internal Audit Charter or University policy, the Executive Director of Internal Audit also communicates to other interested or affected parties such as external auditors and the Finance and Audit Committee.

Internal Audit Report Template

See attached.
JENNIFER B. MORRISON, ASSOCIATE CONTROLLER

AUDIT OF HEALTH SERVICES ACCOUNTING

ISSUED BY INTERNAL AUDIT AND COMPLIANCE
AUGUST 1, 2020
To: Jennifer B. Morrison, Associate Controller

From: David L. Cutri, Executive Director of Internal Audit and Chief Compliance Officer

Subject: Internal Audit Report - Audit of Health Services Accounting

Date: June 12, 2020

Internal Audit and Compliance performed a financial audit of accounting procedures related to the University of Toledo’s agreement with TriHealth. The audit conforms with the International Standards for the Professional Practice of Internal Auditing. In 2016, a management services agreement was executed between UToledo and TriHealth for an on-site health and wellness clinic. The clinic has oversight by Student Health Service (SHS) and is within the Division of Student Affairs. The audit period focused on fiscal year 2019, with an added review of fiscal year 2020 activity through May 30, 2020. The objective of the audit was to evaluate the adequacy and effectiveness of associated internal controls, including reliability of financial information and compliance with related policies and procedures.

SUMMARY OF FINDINGS

Internal Audit and Compliance verified the process of receipts flowing in from TriHealth for net insurance proceeds. Internal Audit and Compliance also verified that UToledo payments to TriHealth agree with amounts invoiced and the contract agreement; Human Resources staff review and approve TriHealth invoices for payment of expenses. In addition, Internal Audit and Compliance verified that amounts recorded by SHS staff in monthly journal entries agree with data submitted by TriHealth. Although no exceptions were noted with these procedures, internal controls need improvement as summarized in two recommendations:

1. Perform monthly accounts receivable reconciliations
2. Implement procedures requiring approval of large billing adjustments

Below are the detailed recommendations for improvement followed by management responses from Linda Manley, Assistant Controller.
RECOMMENDATIONS FOR IMPROVEMENT

1. **Perform monthly accounts receivable reconciliations**

Monthly reconciliations should be performed to verify that University of Toledo's accounts receivable balance due from TriHealth is accurately recorded in Banner. General Accounting has written procedures for booking the SHS monthly journal vouchers and performing a monthly reconciliation of accounts receivable; however, there was approximately a $60K unreconciled amount at fiscal year-end 6/30/2017 that remains unreconciled. UToledo shows a higher amount due from TriHealth than as stated by TriHealth. Although attempts were made by the Controller's Office during FY20 to reconcile activity for June and July 2019, they were unsuccessful, and no reconciliation was performed for August 2019 or beyond as of 5/30/2020. In a 6/12/2020 update, Student Affairs management reported that staff from SHS, TriHealth, Budget Office, and General Accounting are reviewing the daily and monthly reconciliation process currently in place. The reconciliation problems are partially attributable to General Accounting staff turnover, as well as unawareness that detailed information exists to help with reconciliations. Without monthly reconciliations, errors made by either University of Toledo or TriHealth are at high risk of going unnoticed and the reliability of the related financial information is lacking. There is a potential loss of revenue from either students or TriHealth.

**Recommendation**

The Controller's Office should assign responsibility for reconciling the TriHealth accounts receivable balance monthly. Doing so will improve the reliability of financial information and compliance with university procedures.

**Management's response**

The Controller's Office agrees with this recommendation. Linda Manley, Assistant Controller, performed the June 30th reconciliation of A/R as part of the FY20 year-end close. Monthly A/R reconciliations will be completed by Linda Manley and will be added to the month end close procedures throughout the fiscal year. Karen Kamer, Administrative Associate in Student Health Services, will begin the daily reconciliation of Bursar feeds to Banner effective 7/1/20. Linda Manley will finalize the daily reconciliations through 6/30/20. In addition, Tim Kresge is in the process of setting up a meeting with Kris Cusano to develop/implement better practices for the daily reconciliation of Bursar feeds to Banner.

2. **Implement procedures requiring approval of large billing adjustments**

Given that Student Affairs is responsible for managing SHS, large write-offs of accounts receivable should be reviewed and approved by Student Affairs senior management. At the end of every month, UToledo receives billing reports from TriHealth. Accounts receivable transaction details are shown on the reports, including miscellaneous billing adjustments. Internal Audit and Compliance reviewed TriHealth billing adjustments and noted one that appeared unusual; in July 2019, TriHealth listed billing adjustments reducing UToledo accounts receivable by $96K. This July 2019 journal voucher was not approved by senior management in Student Affairs and did not get booked by General
Accounting until March 2020. Financial projections are distorted by the late booking of large adjustments. In addition, it is much more difficult to question or dispute adjustments when not reviewed timely.

**Recommendation**

The Controller’s Office should work with Student Affairs to implement procedures requiring approval of large billing adjustments prior to booking such journal vouchers. Amounts considered large and who should approve within Student Affairs senior management (Assistant VP for Student Wellness or Director of Budget and Technology) should be predetermined.

**Management’s response**

*The Controller’s Office agrees with this recommendation. Effective 7/1/2020, Tim Kresge, Director of Budget & Technology-Division of Student Affairs, will review all billing adjustments that are $10,000 or over prior to the booking of the journal vouchers to Banner. Once Tim has reviewed the adjustment, the billing adjustment will be approved by Stephen Large, Assistant Vice President Health & Wellness.*

Internal Audit and Compliance appreciates the cooperation received during this audit.

Cc: Jayne E. Brownell  
Kristine L. Cusano  
Gary A. Cornett  
David K. Creamer  
Karen H. Kamer  
Tim Kresge  
Stephen J. Large  
Linda K. Manley