

Audit and Compliance Committee Memorandum
Board of Regents, State of Iowa

Subject: State Audit Reports

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Date Submitted: October 20, 2004

Recommended Action:

1. Receive the following State Auditor's reports for the fiscal year ended June 30, 2003:
 - a. University of Iowa
 - b. Iowa State University
 - c. University of Northern Iowa
 - d. Iowa School for the Deaf
 - e. Iowa Braille and Sight Saving School
 - f. Board Office
2. Receive the State Auditor's report on a review of selected general and application controls over ISU's accounts receivables system. (AUD 4g)

Executive Summary:

Statewide Audits As noted in AUD 3, statewide audits are conducted by the State Auditor and incorporate the financial information of the Regent institutions and Board Office.

As part of this annual audit process, the State Auditor provides written reports on certain aspects concerning the Regent institutions and the Board Office for which they believe corrective actions are necessary.

The FY 2003 State Auditor's reports for the Regent institutions contained comments on findings in the State's Single Audit Report and findings related to internal control and statutory requirements and other matters. None were considered significant.

Detailed recommendations, responses, and follow-up are presented in the analysis section on pages 3 - 5. Corrective actions are being taken on all findings.

ISU Audit The State Auditor's Office performed a review at ISU to determine departmental compliance with certain established University guidelines. The report provides follow-up procedures performed on activity for the period of April 6 through May 14, 2004. Further follow-up is dependent on the State Auditor's Office. See page 6 for detailed recommendations, responses, and follow-up.

Audit Comments Regent Procedural Guide §7.08 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. Some of the Regent institutions submitted comments to the Board Office for the FY 2003 audit reports.

Background:

The Regent institutions and the Board Office are annually audited by the State Auditor as required by Iowa Code Chapter 11.

The State Auditor releases:

- Statewide audit reports, (Comprehensive Annual Financial Report and Single Audit Report presented in AUD 3.)
- Audited financial statements for each university which the universities include in their comprehensive annual financial reports.

The financial statements of the special schools and the Board Office are audited as part of the two statewide audits and are not reported upon separately by the State Auditor.

While conducting the various audits, the Office of the State Auditor identifies conditions for which it believes corrective actions are necessary. The State Auditor cumulates these comments in their annual individual reports, which are included with the committee materials.

Summaries of detailed auditor's recommendations, management's responses, auditor's responses, and auditor's follow-up are presented in the analysis section of this memorandum.

Analysis:

University of Iowa

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
Findings Reported in the State's Single Audit Report	
No matters were reported.	
Findings Related to Internal Control	
<p>1. <u>Capital Assets</u>. Complete and forward required forms to the Property Management Office when equipment is removed from inventory.</p>	<p>Management reports that: (1) the University Operations Manual communicates the need for submission of the appropriate forms; (2) they will review additional communication methods and remind departments to submit forms in a timely manner; and (3) documentation for seven items has been received and asset records have been updated.</p>
<p>2. <u>Timely Reimbursement from Federal Programs</u>. Ensure specific federal program needs are determined prior to each drawdown and monitor cash on hand.</p>	<p>Management will: (1) continue to analyze past expenditures and averages to determine adequate monthly draw amounts; and (2) monitor cash balances.</p>
<p>3. <u>Questionable Payments to Computer Programmer</u>. Consult legal counsel to determine propriety of contracting methods and resulting contracts; develop procedures to require identification of family relationships; and require Office of Finance and Operations involvement when family relationships exist.</p>	<p>Management will: (1) establish a formal policy requiring a senior official outside the departments of Purchasing, Accounts Payable and Travel to sign contracts; and (2) require requisition work flow approvers to review and acknowledge a conflict of interest statement prior to approving requisitions.</p>
Findings Related to Statutory Requirements and Other Matters	
No matters were reported.	

Auditor's Response
and Follow-up

Responses accepted. The State Auditor is expected to review the status of these findings as part of next year's audit.

Iowa State University

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
Findings Reported in the State's Single Audit Report	
1. <u>Grant Management</u> . Work with the U.S. Department of State in the ongoing investigation related to grants awarded.	Management will work with the Department of State to resolve any questioned costs and concerns identified.
2. <u>Grant Management</u> . Work with the University of Virginia in the ongoing investigation related to an awarded grant.	Management will work with the University of Virginia to resolve any questioned costs and concerns identified.
Findings Related to Statutory Requirements and Other Matters	
<u>Purchases from Conflict of Interest Vendors/Employees</u> . Enforce procedures to monitor compliance.	Management has disseminated more conflict of interest information and has delegated less procurement authority to University departments.

Auditor's Response
and Follow-up

Responses accepted. The State Auditor is expected to review the status of these findings as part of next year's audit.

University of Northern Iowa

Auditor
Recommendations /
Mgmt. Responses

Auditor's Recommendation	Management's Response
Findings Reported in the State's Single Audit Report	
<u>Allowability of Expenditures</u> . Review questioned costs and work with the U.S. Department of Education to resolve the matter.	Management will: (1) review its grant related policies and procedures for managing sponsored projects and allocating allowable costs to federal grant and contract accounts; and (2) work with the U.S. Department of Education to resolve the matter of questioned costs.
Findings Related to Internal Control	
1. <u>Segregation of Duties for Journal Entries</u> . Segregate duties and prepare and maintain supporting documentation for journal entries.	Management will segregate duties and perform monthly journal entry reviews.
2. <u>Accruals</u> . Develop and implement procedures to ensure posted transactions are reviewed and recorded in the proper period.	Management reminded staff to record the date goods or services were received. Ongoing training will include proper recording procedures.
Findings Related to Statutory Requirements and Other Matters	
No matters were reported.	

Auditor's Response
and Follow-up

Responses accepted. The State Auditor is expected to review the status of these findings as part of next year's audit.

ISD, IBSSS, and
the Board Office

Board of Regents policies identify University of Iowa and Iowa State University internal auditors as being responsible for conducting a comprehensive internal audit program in accordance with applicable standards of the Iowa School for the Deaf (ISD) and the Iowa Braille and Sight Saving School (IBSSS), respectively.

The internal auditors perform reviews such as quarterly cash and investment reports as well as focused internal audits of the special schools on a rotating, periodic basis, but no less frequent than every three years. The amount of internal audit coverage is based on the internal auditors' professional judgment and analysis of risk at the schools.

At its October 2003 meeting, the Board approved the cessation of complete financial audits for the two special schools. For FY 2003, no findings were reported by the auditors.

A separate financial statement audit report is not issued for the Board Office. The financial statements are audited as part of the two statewide audits. A letter was received from the State Auditor's Office indicating there were no findings to report.

Iowa State University
Review of Selected General and Application Controls

Report Issued: September 21, 2004

Auditor's Recommendation	Department's Response	Auditor's Response	Auditor's Follow-Up
GENERAL CONTROLS			
1. <u>Risk Assessments.</u> Establish procedures to conduct periodic formal risk assessments.	A University-wide assessment of IT risks is outside the scope of Administrative Technology Services (ATS) but it has conducted risk assessments of IT activities within its scope of responsibility and developed a disaster recovery plan.	Establish procedures to periodically conduct risk assessments that follow the National Institute of Standards and Technology.	Follow-up dependent on State Auditor.
2. <u>Password Change Frequency.</u> Implement security features to require that passwords are changed every 60 to 90 days.	An initiative to change password length was initiated in February 2004. ATS will continue to study issues related to passwords.	Require passwords to be changed every 60 to 90 days.	Follow-up dependent on State Auditor.
3. <u>System Access Removal.</u> Develop and implement procedures to ensure IT Security is notified when employees terminate or are transferred. Review system access periodically.	ATS will develop (1) an automated notification process to identify terminated or transferred employees; and (2) a process for reviewing individual employee system access.	Response accepted.	Item closed.
4. <u>Security Profile Changes.</u> Implement security features to ensure that all security profile changes are logged and the log is periodically reviewed by management.	ATS will (1) study the feasibility of logging changes; and (2) seek guidance for periodic reviews.	Response accepted.	Item closed.
5. <u>Change Control Process.</u> Implement procedures to ensure proper segregation of duties.	ATS has implemented an automated and auditable log of all program changes; automated electronic notices; archived daily notices; required electronic email notices from analysts documenting every program change; performed monthly verifications; and assigned source codes to every program.	Procedures to detect unauthorized changes after the fact are not as effective as preventative measures.	Follow-up dependent on State Auditor.
6. <u>System Software.</u> Develop written policies and procedures for using and monitoring system software.	ATS will: (1) develop a written policy for system software; and (2) implement a process of annual review and employee acceptance.	Response accepted.	Item closed.
APPLICATION CONTROLS			
No recommendations were noted.			