MEMORANDUM

To: Banking Committee
From: Board Office
Subject: State of Iowa Audit Reports
Date: July 6, 2001

Recommended Action:

Receive State of Iowa audit reports for the fiscal year ended June 30, 2000, which include the Comprehensive Annual Financial Report and the Single Audit Report.

Executive Summary:

Two audit reports for the State of Iowa are released on an annual basis: the Comprehensive Annual Financial Report and the Single Audit Report. These reports contain information regarding the five Regent institutions and the Board Office as well as the rest of state government.

The Comprehensive Annual Financial Report (CAFR) for the State of Iowa presents the aggregated financial data for the state. In the FY 2000 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund’s legislatively established purpose.

The Single Audit Report for the State of Iowa, required by federal law, covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. The FY 2000 report contained comments for the University of Iowa and the University of Northern Iowa; both were considered immaterial. The universities are taking corrective action.

Copies of the CAFR were distributed to the members of the Board of Regents by the Iowa Department of Revenue and Finance. Copies of the Single Audit were distributed to the members of the Board of Regents by the State Auditor's Office.

Background/Analysis:

Comprehensive Annual Financial Report (CAFR)

The Comprehensive Annual Financial Report (CAFR) provides a broad perspective of the State of Iowa’s financial activity with a general overview of the condition of the state, audited financial statements of the state, and a statistical section containing financial and demographic information. Information pertaining to the Regent universities, special schools, and Board Office are incorporated within this report.

The introductory section provides a synopsis of the economic condition and outlook for the state, major state initiatives, and summary financial data. The financial section contains the State Auditor’s Report on the state’s financial statements. This audit was conducted to obtain reasonable assurance about whether the general purpose financial statements for the State of Iowa are free of material misstatement.
The audit report noted that state appropriations of $48.7 million were made from the Rebuild Iowa Infrastructure Fund (RIIF) for items that are inconsistent with the fund’s legislatively established purpose. The fund was established for public vertical infrastructure-related expenditures and completion of Part III of the Iowa Communications Network (ICN). The items considered by the auditor as inconsistent included assistance payments as well as development and improvement of technology systems used by various state agencies and community colleges. The auditor reclassified these items as General Fund expenditures rather than RIIF fund expenditures.

**Single Audit Report**

The Single Audit Report, required by federal law, covers the disbursement of federal funds by all state agencies, institutions, and universities, as well as a review of internal controls, compliance with federal laws and regulations, and follow-up on prior year federal comments.

The purposes of the Single Audit are to: obtain reasonable assurance that financial statements of the State of Iowa are free of misstatement; assess the state’s compliance with various laws, regulations, contracts, and grants applicable to federal programs; and consider internal controls over the financial reporting and compliance related to federal programs.

The report details findings and questions costs regarding federal programs administered by all state agencies, including the Regent institutions. The auditor concluded that the State of Iowa complied, in all material respects, with the applicable requirements of its major federal programs for the fiscal year ended June 30, 2000.

The report contained comments for two Regent institutions. The University of Iowa received a comment in “Research and Technology Development” and the University of Northern Iowa received a comment on “Surveys, Studies, Investigations, and Special Purpose Grants.” In both instances, the comments were considered immaterial and the institutions are taking corrective actions. The details related to these comments are outlined in B.C. 7.

At its April 2001 meeting, the Banking Committee requested clarification regarding the Combined Statement of Current Funds on page 22 of the CAFR as it relates to the University of Iowa Health Care Units. The report shows the University of Iowa Health Care Units with $423.6 million in direct revenues and $434.0 million in expenditures. The state-wide audit report categorizes state tax collections as revenues.

The distributions of these state revenues (appropriations) are recorded as transfers below the line. Of the $619.5 million of State General Fund transfers in reported on that page, $52.7 million are state appropriations to the Health Care Units. Other hospital revenues, such as gifts, contracts, and investments are reported in other revenue categories on the statement.