

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: State Audit Reports
Date: July 8, 2002

Recommended Actions:

1. Receive the following State Auditor's reports for the fiscal year ended June 30, 2001:
 - 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. Again request institutions to consult with the Board Office on preliminary auditor comments and responses, as required by Board policy.
3. Request ISU to formulate legislative proposals for Board consideration to eliminate obsolete statutory provisions for two programs and one laboratory that no longer exist at the University.

Executive Summary:

Statewide Audits

As part of the 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 action is necessary.

Both statewide audits are conducted by the State Auditor and incorporate the financial information of the Regent institutions and Board Office as noted in B.C. 6. The Single Audit Report for the State of Iowa, required by federal law, covers financial, compliance, and internal control aspects of federal programs administered by state agencies, institutions, and universities.

The State Auditor's reports listed above for FY 2001 contained comments on findings related to internal control as well as statutory requirements and other matters. None were considered significant.

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

Audit Comments

Regent Procedural Guide §7.05 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. At the July 2000 and July 2001 Banking Committee meetings, the institutions were requested to ensure that all comments and responses are transmitted in accordance with this procedure. None of the FY 2000 or FY 2001 preliminary comments or responses have been shared with the Board Office.

Background:

The Regent institutions and the Board Office are annually audited by the State Auditor as required by Iowa Code Chapter 11. In addition to the statewide audit reports, each Regent institution receives a separate annual independent auditor's report.

Each university releases a comprehensive annual financial report, which incorporates the auditor's report on the university's financial statements. For the special schools, the State Auditor releases individual audit reports covering each school's financial statements.

The financial statements of the Board Office are only included as part of the two statewide audits (Comprehensive Annual Financial Report and Single Audit Report) 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 action is necessary. The State Auditor cumulates these comments in their reports, which can be found in the Banking Exhibit Book.

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

Revenues and Expenditures

For the year ended June 30, 2001, the State Auditor reported that the University of Iowa had:

- Total revenues and other additions of \$1.8 billion, a 10% increase over the prior year; and
- Total expenditures and other deductions of \$1.6 billion, a 7% increase over the prior year.

Revenues included:

- Tuition and fees (\$146.0 million);
- State appropriations (\$337.4 million);
- Federal grants and contracts (\$238.3 million);
- Auxiliary enterprises (\$110.2 million); and
- Health care units (\$479.2 million).

Expenditures included:

- Educational and general purposes (\$754.7 million);
- Auxiliary enterprises (\$109.0 million);
- Health care units (\$467.9 million); and
- Principal and interest on long-term debt (\$33.8 million).

Auditor Recommendations / Mgmt. Responses

Findings Related to Internal Control

Auditor's Recommendation	Management's Response
1. <u>Cash Management</u> . Ensure that specific federal program needs are determined prior to draw down of funds.	Management has developed cash management procedures that are now actively followed by grant accounting staff.
2. <u>Equipment Inventory</u> . Ensure that equipment records are accurate and updated in a timely manner and that tag numbers are affixed according to University policy.	Management will ensure that equipment records are accurate and updated in a timely manner at that University tag numbers are affixed to equipment according to policy.
3. <u>Millennium System User Manual</u> . Keep the Millennium general ledger system user manual updated. Distribute to new employees.	Management is in the process of updating the manual and will distribute it to all internal staff.

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

Revenues and Expenditures

For the year ended June 30, 2001, the State Auditor reported that Iowa State University had:

- Total revenues and other additions of \$849.5 million, a 5% increase over the prior year; and
- Total expenditures and other deductions of \$760.5 million, a 2% increase over the prior year.

Revenues included:

- Tuition and fees (\$118.3 million);
- State appropriations (\$303.4 million);
- Federal appropriations / grants and contracts (\$102.1 million); and
- Sales and services of auxiliary enterprises (\$103.6 million).

Expenditures included:

- Educational and general purposes (\$549.2 million);
- Auxiliary enterprises (\$94.7 million); and
- Principal and interest on long-term debt (\$25.1 million).

Auditor Recommendations / Mgmt. Responses

Findings Related to Internal Control

Auditor's Recommendation	Management's Response
<p><u>Inventory for Resale Controls.</u></p> <p>a. Develop formal written inventory procedures for year-end counts.</p> <p>b. Assure proper segregation of duties.</p> <p>c. Monitor inventory movement properly.</p> <p>d. Monitor inventory for resale properly.</p>	<p>The report noted that all named units did have formal procedures for conducting inventory but were not in written form at the time of the audit.</p> <p>Management has taken steps to assure proper segregation of duties and control over inventory.</p>

Findings Related to Statutory Requirements and Other Matters

Auditor's Recommendation	Management's Response
<p><u>Iowa Code Compliance:</u></p> <p>a. <u>Deposit of Public Funds.</u> Ensure compliance with the <u>Iowa Code</u> relating to deposit of public funds.</p> <p>b. <u>Certification of Self-Insurance Plans.</u> File a certificate of compliance, actuarial opinion, and an annual financial report to the insurance commissioner within ninety days following the end of the fiscal year.</p> <p>c. <u>Hazardous Waste Research Program.</u> Comply with the <u>Iowa Code</u> or work with the legislature to revise applicable sections.</p> <p>d. <u>Hog-Cholera Serum Laboratory.</u> Comply with the <u>Iowa Code</u> or work with the legislature to revise applicable sections.</p> <p>e. <u>Livestock Producers Assistance Program.</u> Comply with the <u>Iowa Code</u> or work with the legislature to revise applicable sections.</p>	<p>The maximum deposit amount was increased in November 2001, which should remove the risk of non-compliance.</p> <p>The actuarial opinion and annual financial report should be filed with the commissioner in a timely manner in the future.</p> <p>The program no longer exists.</p> <p>The lab no longer exists.</p> <p>The program no longer exists.</p>

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.

Board Office Note

The Board Office recommends that ISU formulate legislative proposals for the Board's consideration to eliminate obsolete statutory provisions for two programs and one lab that no longer exist at the University:

- Hazardous Waste Research Program;
- Hog-Cholera Serum Laboratory; and
- Livestock Producers Assistance Program.

University of Northern Iowa

Revenues and Expenditures

For the year ended June 30, 2001, the State Auditor reported that the University of Northern Iowa had:

- Total revenues and other additions of \$239.2 million, a 1.2% increase over the prior year; and
- Total expenditures and other deductions of \$223.3 million, a 3.6% increase over the prior year.

Revenues included:

- Tuition and fees (\$43.0 million);
- State appropriations (\$98.0 million);
- Federal appropriations / grants and contracts (\$18.7 million); and
- Auxiliary enterprises (\$35.8 million).

Expenditures included:

- Educational and general purposes (\$160.0 million);
- Auxiliary enterprises (\$35.0 million); and
- Principal and interest on long-term debt (\$9.2 million).

Auditor Recommendations / Mgmt. Responses

Findings Related to Internal Control

Auditor's Recommendation	Management's Response
<u>Accruals</u> . Develop and implement procedures to ensure proper review and recording of posted transactions.	Management has established appropriate procedures, controls, and training to ensure transactions will be recorded correctly.

Findings Related to Statutory Requirements and Other Matters

Auditor's Recommendation	Management's Response
<u>Cost Allocation</u> . Develop a written plan for the allocation of direct costs to multiple programs.	Management has developed a written plan.

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 School for the Deaf (ISD)

Audit Report

The audit report for the Iowa School for the Deaf reflects a financial statement audit that was primarily conducted to obtain reasonable assurance about whether the School's financial statements are free of material misstatement.

The auditor concluded that the financial statements presented fairly, in all material respects, the financial position and the results of operations for FY 2001 in conformity with generally accepted accounting principles as applied to government units.

The auditor's report on compliance and internal control indicated that the Iowa School for the Deaf complied in all material respects.

Revenues and Expenditures

For the year ended June 30, 2001, the State Auditor reported the following for ISD:

- General Fund revenues of \$12.0 million, a 16% increase over the prior year. The General Fund, as reported by the auditor, combines state operating and capital appropriations. The other restricted revenues and expenditures from Nebraska tuition and federal programs are also included in the reported General Fund.
- Expenditures of \$12.5 million, a 32% increase over the prior year.

The general fund balance at the end of the fiscal year was \$1.3 million.

Iowa Braille and Sight Saving School (IBSSS)

Audit Report

The audit report for the Iowa Braille and Sight Saving School reflects a financial statement audit that was primarily conducted to obtain reasonable assurance about whether the School's financial statements are free of material misstatement.

The auditor concluded that the financial statements presented fairly, in all material respects, the financial position and the results of its operations and the cash flows of its non-expendable trust funds for FY 2001 in conformity with generally accepted accounting principles as applied to government units.

The auditor's report on compliance and internal control indicated that IBSSS complied in all material respects.

Revenues and Expenditures

For the year ended June 30, 2001, the State Auditor reported the following for IBSSS:

- General fund revenues of \$5.9 million, a less than 1% increase over the prior year and included \$4.7 million in state appropriations. The General Fund, as reported by the auditor, combines state operating and capital appropriations.
- Expenditures of \$5.8 million, a 4% decrease from the prior year.

The general fund balance at the end of the fiscal year was \$321,987.

Board Office

The financial statements of the Board Office are part of the State of Iowa's financial statements. A separate financial statement audit for the Board Office is not conducted. A letter was received from the State Auditor's Office indicating that there were no findings to report.