

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** State Audit Reports  
**Date:** October 6, 2003

**Recommended Actions:**

1. Receive the following State Auditor's reports for the fiscal year ended June 30, 2002:
  - 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. Request ISU to formulate legislative proposals for Board consideration to eliminate obsolete statutory provisions for two programs that no longer exist at the University.
3. Recommend the Board approve the cessation of complete financial audits for the two special schools.

**Executive Summary:****Statewide Audits**

As noted in B.C. 2, 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 2002 State Auditor's reports for the Regent institutions contained comments on findings related to internal control, information systems control, and statutory requirements and other matters. None were considered significant.

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

**Audit Comments**

Regent Procedural Guide §7.08 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. All five Regent institutions submitted comments to the Board Office for the FY 2002 audit reports.

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**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 B.C. 2)
- Audited financial statements for each university which the universities include in their comprehensive annual financial reports.
- Audited financial statements for each special school.

The financial statements of 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 in the Banking Exhibit Book.

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.

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**Analysis:**

**Audits at the Special Schools**

The State Auditor's Office has conducted financial audits of each of the special schools although they are not required under state law. At the June 2003 meeting, State Auditor David Vaudt suggested that the Board could decide to have the State Auditor continue separate complete financial statement of each special school or perform more limited audit procedures.

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. ISD and IBSSS reimburse the universities for the costs associated with this coverage.

The Banking Committee is requested to recommend that the Board approve the cessation of complete financial statement audits by the State Auditor's Office at the Iowa School for the Deaf and at the Iowa Braille and Sight Saving School.

University of Iowa

Auditor  
Recommendations /  
Mgmt. Responses

Auditor's Recommendation	Management's Response
<b>Findings Reported in the State's Single Audit Report</b>	
No matters were reported.	
<b>Findings Related to Internal Control</b>	
<p><u>Cash Management.</u> Ensure that specific federal program needs are determined prior to draw down of funds.</p>	<p>Management reports that they: (1) follow a fundamental principle established in OMB Circular A-110 which requires federal fund recipients to minimize the time between the transfer of funds and issuance of checks; (2) find it difficult to anticipate funds to be expended during the month; (3) have limited flexibility to minimize positive cash balances in some instances; and (4) follow all applicable regulations and remits interest to the federal government from the net positive daily cash balances annually.</p>
<b>Findings Related to Information Systems Controls</b>	
<p>1. <u>System Software Access.</u> Develop written policies and procedures to restrict access to system software; keep policies and procedures up to date.</p> <p>2. <u>Computer Room Access.</u> Establish procedures to periodically review the list of individuals with access to the computer room and remove those who do not need access to perform their duties.</p>	<p>Management: (1) reviewed and corrected access rights; (2) indicated that this will be an ongoing project to limit risk and exposure; and (3) will inform the security office that access to generic high level qualifiers for system datasets will be under tighter control.</p> <p>Management: (1) has eliminated access authorization for fourteen people; (2) has online access to monitor the system in real time; (3) will review the access file for needed changes and maintain supporting documentation; and (4) will review access lists with other supervisors as needed.</p>
<b>Findings Related to Statutory Requirements and Other Matters</b>	
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
<b>Findings Reported in the State's Single Audit Report</b>	
<u>Fiscal Operations Report.</u> Develop procedures to ensure annual reports information is accurate. (Referenced in B.C. 2)	Management has corrected the error and has procedures in place to review and verify report documentation.
<b>Findings Related to Internal Control</b>	
<u>Authorized Check Signatures.</u> Include authorized check signatures on bank signature cards.	Management will send annual letters to each department requesting the review and update of all bank signature cards.
<b>Findings Related to Information Systems Controls</b>	
No matters were reported.	
<b>Findings Related to Statutory Requirements and Other Matters</b>	
1. <u>Capital Assets.</u> Implement procedures to ensure compliance with University Office Procedures Guide (OPG) for equipment purchases.  2. <u>Purchases from Conflict of Interest Vendors/Employees.</u> Enforce procedures that monitor compliance.	Management will remind departments of the importance of compliance with the OPG.  Management is diligent in monitoring compliance.
3. <u>Iowa Code Compliance.</u> Take necessary steps to comply with the Code of Iowa or seek repeal of outdated Code sections.  a. <u>Livestock Producers Assistance Program.</u> The University was not in compliance with the program.  b. <u>Meat Export Research Center.</u> The University was not in compliance with the Center.	The University will work on having the outdated Code sections removed. The University was successful in getting two outdated Code sections deleted.  The program no longer exists at the University.  The center no longer exists at the University.

Auditor's Response  
and Follow-up

Additional Action  
Necessary

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

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

- Livestock Producers Assistance Program; and
- Meat Export Research Center.

**University of Northern Iowa**

Auditor  
Recommendations /  
Mgmt. Responses

Auditor's Recommendation	Management's Response
<b>Findings Reported in the State's Single Audit Report</b>	
No matters were reported.	
<b>Findings Related to Internal Control</b>	
1. <u>Bank Reconciliation</u> . Complete monthly book and bank reconciliations. Investigate and resolve variances timely.	Management has completed all bank reconciliations for FY 2003. No variances were identified.
2. <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.
3. <u>Accruals</u> . Develop and implement procedures to ensure posted transactions are reviewed and recorded in the proper period.	Management indicated that unanticipated problems occurred during year end closing with the new system. Corrective procedures will be implemented.
<b>Findings Related to Information Systems Controls</b>	
No matters were reported.	
<b>Findings Related to Statutory Requirements and Other Matters</b>	
1. <u>Tuition Rate</u> . Review and determine tuition and credit hours for the Camp Adventure program.	Management will seek solutions prior to the summer 2004 Camp Adventure program.
2. <u>Indirect Costs</u> . Determine actual costs associated with the Camp Adventure program and whether indirect costs recovered are adequate.	Management will analyze the cost of supporting Camp Adventure and will determine a rate that is equitable to the University and to Camp Adventure.
3. <u>Requests for Payment</u> . Request expense reimbursement as soon as allowable.	Management will negotiate payments.
4. <u>Expenditures</u> . Review and document the purpose or benefit received for non-routine expenditures.	Management will routinely document the purpose or benefit.
5. <u>Travel Expenditures</u> . Ensure that all claims are necessary and reasonable expenses incurred while on University business and are reimbursed up the authorized amount.	Management will prepare contracts for supervisors to document expense types and reimbursement maximums; code unreturned funds as taxable income; and apply the reimbursement policy consistently.
6. <u>Personal Service Contracts</u> . Require the use of personal service contracts for all staff not on the University's payroll.	Management will contract with partner universities whenever possible or prepare individual personal service contracts.

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.

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### **Iowa School for the Deaf**

Audit Report	<p>The FY 2002 report for the Iowa School for the Deaf is a financial statement audit conducted to obtain reasonable assurance about whether the School's financial statements are free of material misstatement.</p> <p>The auditor concluded that the financial statements presented fairly, in all material respects, the financial position as of June 30, 2002, and the changes in financial position for the year then ended in conformity with generally accepted accounting principles as applied to government units.</p> <p>The auditor's report on compliance and internal control indicated that the Iowa School for the Deaf complied in all material respects.</p>
Revenues and Expenditures	<p>For the year ended June 30, 2002, the State Auditor combined state operating and capital appropriations as well as Nebraska tuition and federal programs as part of the General Fund for ISD.</p> <ul style="list-style-type: none"><li>• General Fund revenues were \$11.1 million, a 7.6% decrease from the prior year.</li><li>• Expenditures were \$10.7 million, a 14.5% decrease from the prior year.</li><li>• The year end fund balance was \$1.7 million.</li></ul>

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### **Iowa Braille and Sight Saving School**

Audit Report	<p>The FY 2002 report for the Iowa Braille and Sight Saving School is a financial statement audit conducted to obtain reasonable assurance about whether the School's financial statements are free of material misstatement.</p> <p>The auditor concluded that the financial statements presented fairly, in all material respects, the financial position as of June 30, 2002, and the changes in financial position for the year then ended in conformity with generally accepted accounting principles as applied to government units.</p> <p>The auditor's report on compliance and internal control indicated that IBSSS complied in all material respects.</p>
Revenues and Expenditures	<p>For the year ended June 30, 2002, the State Auditor combined state operating and capital appropriations as well as federal programs as part of the General Fund for IBSSS.</p> <ul style="list-style-type: none"><li>• General fund revenues were \$6.5 million, 10.7% over the prior year.</li><li>• Expenditures were \$6.7 million, a 15.6% increase over the prior year.</li><li>• The year end fund balance was \$198,744.</li></ul>

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<b>Board Office</b>	<p>A separate financial statement audit is not conducted. A letter was received from the State Auditor's Office indicating that there were no findings to report.</p>
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