

MEMORANDUM

To: Banking Committee
From: Board Office
Subject: State Auditor Follow-Up Report of Selected Departments (ISU)
Date: October 8, 2001

Recommended Action:

Receive the State Auditor's report of eight departments within eight colleges/offices at Iowa State University.

Executive Summary:

During FY 1995, the State Auditor's Office began reviewing transactions at Iowa State University to determine departmental compliance with certain established University guidelines. This report provides follow-up procedures performed on activity during the six months ended March 31, 2001.

The report is not intended to constitute an audit of the financial statements. Instead, the review is conducted to study and evaluate departmental controls and/or compliance with University guidelines. This report is performed in addition to the comprehensive annual audits conducted by the State Auditor.

This report identifies follow-up action on a standard set of compliance areas previously reviewed by the auditors. It details auditors' comments and recommendations for the specific departments. Further follow-up is dependent on the State Auditor's Office.

Background/Analysis:

Reviews of Iowa State University departments were initiated by the State Auditor during FY 1995 to determine compliance with certain guidelines established in the University's Office Procedures Guide and to identify areas where controls could be improved. Similar reports are expected to continue as part of their annual review process.

The State Auditor's Office rotates its compliance reviews among the different departments at Iowa State University. The previous reports were all presented to the Banking Committee.

The current report identifies the eight departments within the eight colleges/offices for which the follow-up procedures were performed:

<u>College/Office</u>	<u>Department</u>
Agriculture	Ag 450 Farm
Education	Center for Technology in Learning and Teaching
Engineering	Mechanical Engineering
Liberal Arts and Sciences	Mathematics
Veterinary Medicine	Biomedical Sciences
Institute for Physical Research and Technology	Virtual Reality Applications Center
Vice President for Business and Finance	Veenker Memorial Golf Course
Vice President for Student Affairs	Student Counseling Service

Iowa State University
Review of Selected Departments

Report Issued: September 19, 2001

Auditor's Recommendation	Department's Response	Auditor's Response	Auditor's Follow-Up
NONCOMPLIANCE WITH UNIVERSITY OFFICE PROCEDURES GUIDE			
<p>1. <u>Payment Authorization Vouchers (PAVs)</u> MECHANICAL ENGINEERING. STUDENT COUNSELING SERVICE.</p> <p>Follow policies and procedures detailed in the Procedures Guide.</p>	<p>MECHANICAL ENGINEERING: Persons utilizing PAVs are instructed and advised on the importance of the signature for goods received.</p> <p>STUDENT COUNSELING SERVICE: Will consult with the Procedures Guide and Controller's Department regarding legitimacy of PAVs prior to usage.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>One exception noted.</p> <p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>2. <u>Fixed Asset Records</u> AG 450 FARM. MECHANICAL ENGINEERING. BIOMEDICAL SCIENCES.</p> <p>Implement procedures to ensure compliance with Procedures Guide regarding identification tags.</p>	<p>AG 450 FARM: Has notified Inventory Control Office of obsolete equipment.</p> <p>MECHANICAL ENGINEERING: Has located ten of thirteen missing inventory items. Identification tags affixed on four items previously not tagged.</p> <p>BIOMEDICAL SCIENCES: Has conducted an exhaustive search for missing inventory and is working with Inventory Control Office to remove items according to University policies and procedures.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Corrective actions taken.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>3. <u>Time Sheet Approval</u> MECHANICAL ENGINEERING.</p> <p>Implement procedures to ensure compliance with University procedures concerning hourly time sheets.</p>	<p>MECHANICAL ENGINEERING: Has implemented procedures to ensure that all hourly time sheets are signed by both supervisor and employee.</p> <p>UNIVERSITY: Concurs with departmental response.</p>	<p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>

(ISU Review of Selected Departments continued)

Auditor's Recommendation	Department's Response	Auditor's Response	Auditor's Follow-Up
<p>4. <u>Timely Deposits</u> CENTER FOR TECHNOLOGY IN LEARNING AND TEACHING. BIOMEDICAL SCIENCES. VEENKER MEMORIAL GOLF COURSE.</p> <p>Implement procedures to ensure that receipts are deposited with the Treasurer's Office in compliance with the Procedures Guide.</p>	<p>CTR. FOR TECH. IN LEARNING & TEACHING: Has implemented procedures to ensure that receipts are deposited in accordance with the Procedures Guide.</p> <p>BIOMEDICAL SCIENCES: Implemented procedures to ensure that receipts greater than \$100 are deposited within 24 hours and deposits less than \$100 are deposited within one week of receipt.</p> <p>VEENKER MEMORIAL GOLF COURSE: Will do their best to ensure timely deposits. Will investigate utilizing others for delivery.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>One exception noted.</p> <p>No exceptions noted.</p> <p>One exception noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>5. <u>Reimbursement for Personal Use of University Property</u> CENTER FOR TECHNOLOGY IN LEARNING AND TEACHING. MECHANICAL ENGINEERING. MATHEMATICS. STUDENT COUNSELING SERVICE.</p> <p>Deposit reimbursements at least weekly and record as negative expenses. Implement procedures to ensure that phone charges are reviewed and properly documented.</p>	<p>CTR. FOR TECH. IN LEARNING & TEACHING: Reimbursements will be recorded as negative expenses. Phone charge reimbursements less than \$100 will be deposited weekly; reimbursements more than \$100 will be deposited daily.</p> <p>MECHANICAL ENGINEERING: Procedures will be implemented to assure that all phone charges are reviewed and deposited in the appropriate offset account.</p> <p>MATHEMATICS: Deposits will be made every day if over \$100 and every Friday if under \$100.</p> <p>STUDENT COUNSELING SERVICE: Reimbursements for personal toll charges and copies will be deposited as negative expenditures in the appropriate account.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Exceptions noted.</p> <p>Exceptions noted.</p> <p>Exceptions noted.</p> <p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>

(ISU Review of Selected Departments continued)

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<p>6. <u>Intramural Sales</u> CENTER FOR TECHNOLOGY IN LEARNING AND TEACHING.</p> <p>Implement procedures to ensure compliance with the Procedures Guide. Cash collected from sales should be reconciled to the cash register tape on a consistent basis.</p>	<p>CTR. FOR TECH. IN LEARNING & TEACHING: Has implemented pre-numbered intramural sales tickets that are being sent to the Accounting Office weekly. Intramural sales are no longer being entered into the cash register, therefore not hindering the ability to reconcile cash collected.</p> <p>UNIVERSITY: Concurs with the departmental response.</p>	<p>Exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>7. <u>Timely Recording of Financial Activity</u> BIOMEDICAL SCIENCES. VIRTUAL REALITY APPLICATIONS CENTER.</p> <p>Implement procedures to ensure that external vouchers are submitted to the Accounting Office with supporting documentation and approvals. Submit intramural billings to the Accounting Office in compliance with the Procedures Guide. Remind employees of the importance of submitting timely travel expense vouchers.</p>	<p>BIOMEDICAL SCIENCES: Staff will process documentation relating to travel expenses promptly within 10 days of receipt and also remind staff to promptly submit travel expenses.</p> <p>VIRTUAL REALITY APPLICATIONS CENTER: Procedures established to ensure that external vouchers are processed with supporting documentation and approvals; intramural billings are submitted in a consistent time-line and in the proper fiscal year; and staff are reminded to submit timely travel expense vouchers.</p> <p>UNIVERSITY: Concurs with the departmental response.</p>	<p>No exceptions noted.</p> <p>Exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>8. <u>Purchasing Card Transactions</u> BIOMEDICAL SCIENCES.</p> <p>Implement procedures to ensure compliance with University policies.</p>	<p>BIOMEDICAL SCIENCES: Has implemented procedures that ensure that vendor's sales checks are signed by the individual to whom the card was issued.</p> <p>UNIVERSITY: Concurs with departmental response.</p>	<p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>9. <u>Employment of Relatives</u> BIOMEDICAL SCIENCES.</p> <p>Implement procedures to ensure compliance with University policies.</p>	<p>BIOMEDICAL SCIENCES: Employment and evaluations will be carried out according to procedures.</p> <p>UNIVERSITY: Concurs with departmental response.</p>	<p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>

(ISU Review of Selected Departments continued)

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INTERNAL CONTROL WEAKNESSES			
<p>1. <u>Segregation of Duties</u> BIOMEDICAL SCIENCES.</p> <p>Review operating procedures to obtain the maximum internal control possible.</p>	<p>BIOMEDICAL SCIENCES: Operating procedures will be reviewed to obtain the maximum control possible with three staff members.</p> <p>UNIVERSITY: Concurs with departmental response.</p>	<p>Corrective action taken.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>2. <u>Initial Recording of Receipts</u> VIRTUAL REALITY APPLICATIONS CENTER. STUDENT COUNSELING SERVICE.</p> <p>Implement procedures to ensure that an initial listing is made for cash receipts.</p>	<p>VIRTUAL REALITY APPLICATIONS CENTER: An initial listing of cash receipts was established to be reconciled with cash reports.</p> <p>STUDENT COUNSELING SERVICE: Pre-numbered sales tickets are now being used.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Corrective action taken.</p> <p>One exception noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>3. <u>Computer Security</u> MATHEMATICS. BIOMEDICAL SCIENCES.</p> <p>Implement policies requiring periodic password changes and anti-virus updates.</p>	<p>MATHEMATICS: An on-line program to update computer virus protection has been implemented. Employees are encouraged and reminded to perform monthly updates. Automation software is being investigated.</p> <p>BIOMEDICAL SCIENCES: Passwords will be changed twice yearly and modern anti-virus software will be installed.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Corrective action taken.</p> <p>Corrective action taken.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>4. <u>Petty Cash/Change Funds</u> CENTER FOR TECHNOLOGY IN LEARNING AND TEACHING. VEENKER MEMORIAL GOLF COURSE.</p> <p>Implement procedures to ensure that surprise cash counts or periodic close-out procedures are performed periodically by an independent person.</p>	<p>CTR. FOR TECH. IN LEARNING & TEACHING: The secretary has been asked to perform periodic surprise cash counts.</p> <p>VEENKER MEMORIAL GOLF COURSE: Facilities Planning & Management Accounting staff have performed surprise cash counts every week throughout the summer. This will continue throughout the season.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Recommendation not performed.</p> <p>Corrective action taken.</p>	<p>Follow-up dependent on State Auditor.</p>

(ISU Review of Selected Departments continued)

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<p>5. <u>Restrictive Endorsements</u> VEENKER MEMORIAL GOLF COURSE.</p> <p>Implement procedures to ensure that checks are restrictively endorsed immediately.</p>	<p>VEENKER MEMORIAL GOLF COURSE: Each register has been provided a stamp for immediate endorsement of all checks. Policy changed to endorse all checks immediately upon receipt.</p> <p>UNIVERSITY: Concurs with departmental response.</p>	<p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>6. <u>Equipment Check-Out Procedures</u> MATHEMATICS STUDENT COUNSELING SERVICE.</p> <p>Implement procedures to properly monitor equipment used by off-campus employees.</p>	<p>MATHEMATICS: Implemented new equipment check-out procedure which requires listing equipment and peripherals being checked out as well as a signature.</p> <p>STUDENT COUNSELING SERVICE: Implemented policy for staff to obtain Director (or designee) approval. Policy requires recording of checkout time and return by individuals.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Exceptions noted.</p> <p>Corrective action taken.</p>	<p>Follow-up dependent on State Auditor.</p>
<p>7. <u>Documentation of Receipt for Intramural Purchases</u> MECHANICAL ENGINEERING. STUDENT COUNSELING SERVICE.</p> <p>Implement procedures to ensure that intramural sales tickets for incidental purchases are endorsed by the employee receiving the goods or services.</p>	<p>MECHANICAL ENGINEERING: Personnel will be reminded to sign for materials. Tickets will be reconciled against monthly statements. Unsigned tickets will be returned to purchaser for verification and proper signature.</p> <p>STUDENT COUNSELING SERVICE: System implemented requiring signature of the person receiving the goods or services.</p> <p>UNIVERSITY: Concurs with departmental responses.</p>	<p>Exceptions noted.</p> <p>No exceptions noted.</p>	<p>Follow-up dependent on State Auditor.</p>