

Contact: Patrice Sayre

**UNIVERSITY OF IOWA HEALTH SYSTEM AND SUBSIDIARIES AUDIT REPORT**

**Action Requested:** Receive and discuss the external audit report for the University of Iowa Health System and subsidiaries (UIHSS) for the years ended December 31, 2008, and December 31, 2007.

**Executive Summary:** Board policy requires that the Regent institutions report on activities with affiliated organizations such as UIHSS to the Board Office annually and that any irregularities or significant issues be brought to the Board's attention immediately.

KPMG LLP, and independent auditing firm, conducted the UIHSS audit. The internal control letter identified two significant deficiencies on income taxes and manual journal entries.

**Background and Analysis:** UIHSS was formed to support the clinical, academic, and research programs of the University of Iowa College of Medicine and the University of Iowa Hospitals and Clinics.

The external audit was conducted by KPMG LLP to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit indicated that the consolidated financial statements present fairly, in all material respects, the financial position of UIHSS as of December 31, 2008, and December 31, 2007, and the results of their operations and their cash flows for the years then ended.

KPMG LLP defines a significant deficiency as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. KPMG's internal control letter considered the following deficiencies to be significant:

- ◆ Income Taxes – Management does not currently have an internal resource available to prepare income tax support work papers and relies on its auditor and others to assist with preparation.
- ◆ Manual Journal Entries – UIHSS does not have a formal process in place to document the individual who initiates, approves, and records each manual journal entry.

Management's Response – UIHC finance and accounting staff oversee the accounting entries for UIHSS and coordinate the external audit. They will now: (1) perform reviews of external audit work papers; and (2) approve manual journal entries and develop controls to assure that entries are recorded accurately. Corrective actions will be implemented for the current fiscal year audit.

Representatives from the University of Iowa will be available to answer questions at the Board meeting.