



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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**NEWS RELEASE**

FOR RELEASE

July 13, 2011

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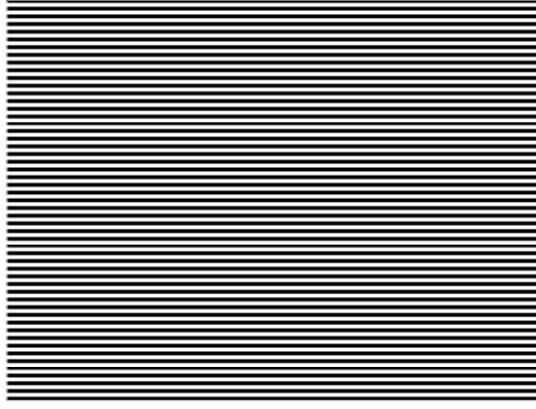
Auditor of State David A. Vaudt today released a report on the State University of Iowa, Iowa City, Iowa for the year ended June 30, 2010. The State University of Iowa (University of Iowa) previously released its annual financial report for the year ended June 30, 2010.

The University of Iowa is governed by the Board of Regents. For the year ended June 30, 2010, the full-time equivalent student enrollment was 28,169 with an average cost per student of \$18,035, compared to 28,015 students and an average cost of \$18,051 for the year ended June 30, 2009. The University Hospitals and Clinics provided a total of 182,820 patient days at an average daily cost per patient of \$4,609 for the year ended June 30, 2010, compared to 193,196 patient days at an average daily cost per patient of \$4,472 for the year ended June 30, 2009.

A copy of the report is available for review at the University of Iowa, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/1161-8010-BR00.pdf>.

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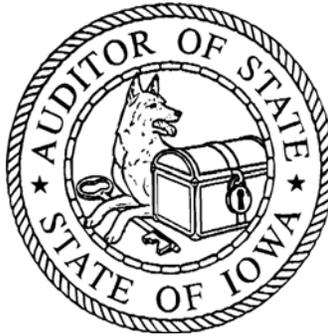
**REPORT OF RECOMMENDATIONS TO THE  
STATE UNIVERSITY OF IOWA**

**JUNE 30, 2010**

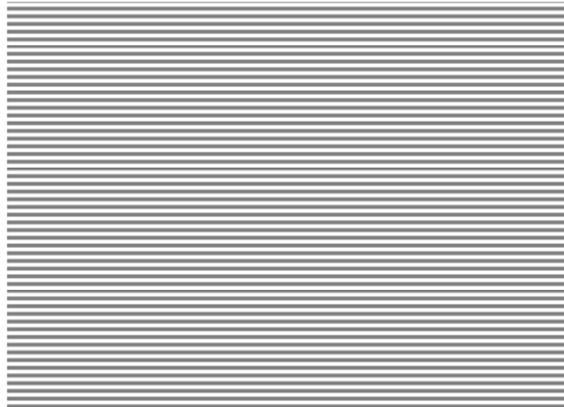
Office of

**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
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July 11, 2011

To the Members of the Board of Regents, State of Iowa:

The State University of Iowa (University of Iowa) is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2010. We have also audited the financial statements of the University as of and for the year ended June 30, 2010 and have issued our report thereon dated December 15, 2010.

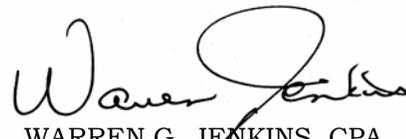
In conducting our audits, we became aware of certain aspects concerning the University's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations related to internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with University personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the University's responses, we did not audit the University's responses and, accordingly we express no opinion on them.

We have also included certain unaudited financial and other information on pages 8 and 9 to report an average cost per student for the University and an average cost per patient for the University Hospitals and Clinics for the five years ended June 30, 2010 as required by Section 11.28 of the Code of Iowa.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the University of Iowa, citizens of the State of Iowa and other parties to whom the University of Iowa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the University during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the University are listed on page 7 and they are available to discuss these matters with you.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor  
David Roederer, Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2010

**Finding Reported in the State's Single Audit Report:**

No matters were noted.

**Findings Reported in the University's Report on Internal Control:**

No matters were noted.

**Other Findings Related To Internal Control:**

- (A) Payroll Overpayments – The University incorrectly made 304 payroll overpayments totaling \$572,300 during the year ended June 30, 2010. Total payroll overpayments outstanding at June 30, 2010 totaled \$883,300. Overpayments generally occur when electronic forms reflecting changes in employment status are not submitted by the employing department to Human Resources on a timely basis.

Recommendation – The University should work with the employing departments to ensure the proper electronic forms are submitted timely to help monitor the correct payment of salaries and wages and reduce overpayments. When overpayments occur, the University should pursue refunds timely.

Response – The University concurs with the auditors comment and provides the following background. The University pursues reimbursement of all salary overpayments immediately once it is known an overpayment actually occurred. Recovery of overpayments are accomplished in several ways: 1) full or partial recovery from final salary payments made to terminated employees for earned vacation and sick leave balances or other salary termination payments, 2) the Payroll Department collects overpayments from future earnings of current employees, and, 3) the Payroll Department makes calls or sends letters to collect overpayments from current and terminated employees. This past year the Payroll Department and Accounting Services reviewed overpayment record keeping and collection practices and determined responsibility for the collection activity should be transferred to the University Billing Office which was done effective March 1, 2011. This change in responsibility improves accountability through improved segregation of duties and leverages the collection expertise of the University Billing Office including the ability to engage outside collection agencies to improve net collections to the University.

It is important to note as of this date \$758,024 of the \$833,300 in salary overpayments outstanding at June 30, 2010 has been collected. The outstanding overpayment balance of \$125,276 has been transferred to the University Billing Office for collection.

The University Human Resources Office regularly emphasizes the importance of submitting paperwork on-time in order to minimize the number of salary overpayments. This is accomplished in a number of ways, for example, each quarter the Sr. Human Resource representatives (Sr. HR Rep) across campus receive a report from the Payroll Department documenting the number of late termination notices filed for the period. Each year, the VP for Human Resources meets with each departmental Sr. HR Rep and reviews a host of issues including the performance of the unit in transmitting payroll information timely. Timely submission of payroll information is emphasized in all payroll related staff development classes. In addition, the annual financial sub-certification process administered by the University Controller's Office has a series of questions regarding payroll administration. An on-line ICON (Iowa Courses Online) web

## Report of Recommendations to the University of Iowa

June 30, 2010

tutorial has been developed for the payroll sub-certification section and this tutorial emphasizes the importance of departmental staff acting on a timely basis.

Conclusion – Response accepted.

- (B) Procurement Procedures – The University Operations Manual, chapter 11.5, requires formal requests for quotation to be made by purchasing agents when purchases are expected to exceed \$10,000 but allows for written competitive bidding to be replaced by competitive negotiation, noncompetitive negotiation or sole source purchasing procedures when justified. The Purchasing Policy and Procedure Guide allows the use of informal quotations, which are requests for prices or quotations mailed, faxed, communicated by phone or emailed by the Purchasing Department (Purchasing) with the due date and time noted, at the discretion of Purchasing.

A purchase of approximately 24,485 square feet of carpet for \$40,822 appears to have been made using the informal quotation process. However, it does not appear Purchasing documented the justification for the use of informal quotations. In addition, it appears the procurement was not handled by Purchasing since the two written quotes are addressed to the user department. Although documentation for verbal quotes received included vendor name and price, they did not include the same specifications included in the written quotes which would enable comparison between all bids by all parties involved in the purchase.

Installation of this carpet was provided by a different vendor for \$17,366. There is no documentation to support competitive procurement procedures in compliance with University policy were followed and there was no justification for using noncompetitive procurement procedures.

Recommendation – The University should take steps to ensure competitive procurement procedures are followed by Purchasing in accordance with University policy and written documentation exists to support noncompetitive procurements. Documentation for informal quotations should include the names of the individual requesting the quote and the individuals providing the quote, what was requested, the date and time of the request and receipt of the quote.

Response – The procurement process at the University of Iowa is overseen by the Purchasing Department (Purchasing). Purchases are competitively bid to obtain the best overall price and service level. Sole source and single source purchases are approved based on Purchasing's knowledge of the product or service industry. Individual departments often investigate purchases by contacting vendors for quotes in order to determine if they can move forward with a purchase. Once Purchasing receives these requests, the departmental quotes are evaluated for completeness. Purchasing may accept the quotes or may require the purchase to be formally bid. Informal departmental bids are rarely accepted and only when timing is of the essence or the department has a history of handling quotations properly. Purchasing reviews the quote to determine if it is authentic, the date of the quote is within a reasonable time frame to ensure the pricing is accurate and validates all vendors have quoted the same exact equipment or services.

Purchase order 1000708804 was issued by Purchasing upon approval of the single source justification for the carpet purchase. Purchasing approved this single source justification since recent University purchases with this vendor had confirmed this was the only vendor manufacturing this type of recycled material carpet. While the Department did provide other quotes, Purchasing determined the single source

## Report of Recommendations to the University of Iowa

June 30, 2010

justification was valid and, therefore, competitive bids did not need to be issued. This vendor is a leading manufacturer of recycled carpet. They allowed us to purchase this carpet directly from the mill, saving 53% on the price per square foot. University procurement policies and procedures were followed in this case.

Confirming orders occur when departments engage a vendor for goods and services without a formal purchase order. Vendors often agree to provide the work without a purchase order. The purchase order for the installation of carpet was a confirming order. The vendor was instructed by the department to lay the carpet because the work needed to be completed in a very limited time frame and prior to the installation of pipe/drape for the trade show. Purchasing became aware of the purchase after the installation and removal was completed when the Facilities Management Department requested payment. Payment was approved for the work performed and the Facilities Management Department was instructed to contact Purchasing in the future prior to authorizing work. When a confirming order is received, Purchasing contacts the University vendor reminding them a purchase order or procurement card is required prior to their beginning work or delivering goods. This requirement is clearly stated to all new vendors in order to conduct business with the University of Iowa. In addition, The University informs vendors if they perform or deliver goods without a purchase order or procurement card, Accounts Payable can withhold payment for such goods and/or services.

Purchasing provides monthly training sessions as well as one-on-one training for individuals involved in the procurement process. Purchasing will continue to provide training and education to campus administrators related to procurement policies and procedures. This includes periodic messages on the accounts payable listserv and updates at various meetings such as the Collegiate Budget Officers.

Conclusion – Response accepted.

### **Findings Related To Statutory Requirements and Other Matters:**

Theft of Carpet – The University purchased approximately 24,485 square feet of carpet squares to be used during a conference held at the Coralville Marriott. The University paid \$40,822 for the carpet and \$17,366 for installation. After the conference, a University employee was directed to have the carpet removed from the Coralville Marriott and delivered to University Surplus. The Administrative Assistant in Facilities Management directed removal of the carpet and arranged for the carpet to be stored at an outside location and held until it was to be installed elsewhere. A University employee reported the possibility of the theft of the carpet to the University's Office of Internal Audit. The University later received notification of the possible theft on the fraud hotline.

Further investigation by the University's Office of Internal Audit, in conjunction with the University's Department of Public Safety, discovered the Administrative Assistant had sold 1,000 square feet of carpet and retained the sale proceeds of \$500. Of the 24,485 square feet of carpet purchased, the University recovered approximately 18,400 square feet, or 75%. The University did not recover the 1,000 square feet sold by the now former employee and was unable to determine the disposition of approximately 5,000 square feet of carpet. The employee was charged with the theft of the 1,000 square feet of carpet and subsequently terminated by the University. No further investigation was considered necessary.

Report of Recommendations to the University of Iowa

June 30, 2010

**Staff:**

Questions or requests for further assistance should be directed to:

Michelle B. Meyer, CPA, Manager  
Gwen D. Fangman, CPA, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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Daniel L. Grady, Senior Auditor  
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Samantha J. Brincks, CPA, Staff Auditor  
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Jennifer M. Kopp, Staff Auditor  
Kristin M. Ockenfels, Staff Auditor  
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James H. Pitcher, Assistant Auditor  
Brandon J. Vogel, Assistant Auditor  
Staci Bauerly, Auditor Intern

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University of Iowa

Cost per Student  
(unaudited)

Year ended June 30, 2010  
with comparative figures for prior years

Total General Educational Fund expenditures		\$ 592,444,823
Deduct:		
Expenditures not related to teaching programs:		
Research separately budgeted	\$ 17,370,296	
Extension and public service	4,240,107	
Student aid	<u>62,810,227</u>	<u>84,420,630</u>
Net expenditures for teaching programs		<u>\$ 508,024,193</u>
Full-time equivalent enrollment 2009-2010		<u>28,169</u>
Cost per student 2009-2010		<u>\$ 18,035</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2009 and four previous years:

<u>Year</u>	<u>Enrollment</u>	<u>Cost per Student</u>
2009-2010	28,169	\$ 18,035
*2008-2009	28,015	18,051
*2007-2008	27,814	17,039
*2006-2007	26,550	16,766
*2005-2006	27,191	15,703

\* 2005-2006 through 2008-2009 full-time equivalent enrollment and cost per student information has been restated due to a change in the calculation of full-time equivalent enrollment.

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University of Iowa  
University Hospitals and Clinics

Daily Cost per Patient  
(unaudited)

Year ended June 30, 2010  
with comparative figures for prior years

Total University Hospitals' expense:	<u>\$ 842,556,210</u>
Total patient days 2009-2010	<u>182,820</u>
Daily cost per patient 2009-2010	<u>\$ 4,609</u>

Comparative patient statistics and cost per patient for the year ended June 30, 2010 and four previous years:

<u>Year</u>	<u>Patient Days</u>	<u>Daily Cost per Patient</u>
2009-2010	182,820	\$ 4,609
2008-2009	193,196	4,472
2007-2008	194,480	4,032
*2006-2007	194,893	3,637
*2005-2006	185,429	3,685

\* 2005-2006 and 2006-2007 patient day and daily cost per patient information has been restated to include Psychiatric Hospital, Center for Disabilities and Development and other costs included by the University Hospitals and Clinics to determine the daily cost per patient.