



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the financial statements of the State University of Iowa (University) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011 under separate cover. Our report was modified to include a reference to another auditor. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the State University of Iowa Foundation and Affiliates were audited by another auditor, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is 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. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies.

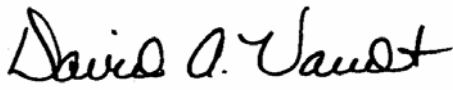
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts.

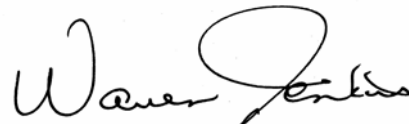
However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in a separate departmental report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the State University of Iowa, citizens of the State of Iowa and other parties to whom the State 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 State University of Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 10, 2012

State University of Iowa

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Donated Land – The University received land valued at \$3,745,289, but did not record the donated land on the capital asset record and did not recognize gift revenue on the Statement of Revenues, Expenses and Changes in Net Assets.

Recommendation – The University should implement policies and procedures to ensure the value of donated land is properly recorded in the financial statements.

Response – We will develop a policy and document procedures to properly record the value of donated land in the Asset Management system and the annual financial statements.

Conclusion – Response accepted.

- (B) Early Retirement Liability – The Board of Regents approved early retirement incentive programs which allowed eligible employees to retire after meeting established criteria related to age and years of service. The liability for the early retirement programs was not reviewed by an independent person during the financial statement preparation process, resulting in a \$1,612,428 understatement of the early retirement liability. This was corrected for financial reporting purposes.

Recommendation – An independent person should review the early retirement liability for accuracy.

Response – Accounting & Financial Reporting will work with the Benefits Office to revise and document their process for calculating the early retirement liability. The new procedures will also include an extra step for the Benefits Office to conduct audit sampling of employees to further ensure accuracy of the calculation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.