



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

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NEWS RELEASE

FOR RELEASE August 18, 2005

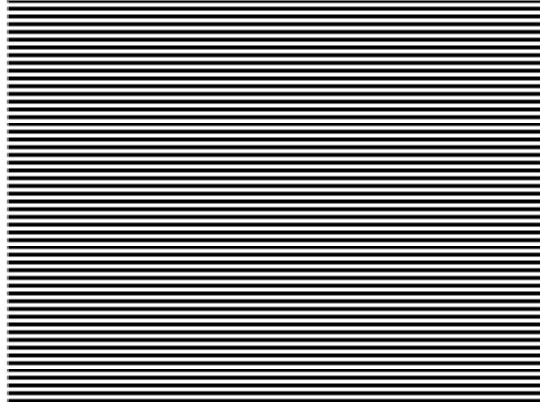
Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the University of Northern Iowa for the year ended June 30, 2004. The University of Northern Iowa previously released its annual financial report for the year ended June 30, 2004.

The University of Northern Iowa is governed by the Board of Regents. For the fiscal year ended June 30, 2004, the full-time equivalent student enrollment was 11,477 with an average cost per student of \$9,947, compared to 11,959 students and an average cost per student of \$9,431 for the fiscal year ended June 30, 2003.

A copy of the report is available for review from the University of Northern Iowa or in the Office of Auditor of State.

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

JUNE 30, 2004

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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August 11, 2005

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

The University of Northern 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, 2004. We have also audited the financial statements of the University as of and for the years ended June 30, 2004 and 2003 and have issued our report thereon dated December 1, 2004.

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 which include those reported within the State's Single Audit Report and other recommendations pertaining to the University's internal control. These recommendations have been discussed with University personnel and their responses to these recommendations are included in this report.

We have also included in this report on page 10 certain unaudited financial and other information to report an average cost per student for the University for the five years ended June 30, 2004 as required by Chapter 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 Northern Iowa, citizens of the State of Iowa and other parties to whom the University of Northern 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 9 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 Thomas J. Vilsack, Governor
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

University of Northern Iowa

June 30, 2004

Findings Reported in the State's Single Audit Report:

CFDA Number: 84.334 – Gaining Early Awareness and Readiness for Undergraduate Programs

Agency Number: A334A000219

Federal Award Year: 2003

State of Iowa Single Audit Report Comment: 04-III-USDE-621-4

Allowability of Expenditures – The Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) is structured as a partnership between the University of Northern Iowa, Logan Middle School, three Waterloo high schools, Allen Health Systems and the Communities in Schools, Inc. of Waterloo. The mission of this partnership is to prepare all Logan Middle School students to successfully pursue post-secondary education. The partnership's main goals are to inform all students and their parents about college options and financial aid, develop a solid academic foundation, promote improvement in teaching and learning methods, and provide ongoing staff training and professional development. The students in the program are to be involved in assemblies, orientations, college visits and career awareness, implementation of decision-making curriculum, and homeroom mentors. The University is reimbursed for the total costs incurred plus 8% for indirect costs.

The following were identified during testing:

1. Three cordless phones and two extended warranties totaling \$220 were purchased using a University procurement card. The University's procurement card guidelines specifically disallow the purchase of telephones and technical service with a procurement card. The extended warranties also are not in compliance with the University's general purchasing guidelines.
2. Expenditures of \$1,043 for out-of-state travel to a conference by the personal assistant of the director of Educational Opportunities Program and Special Community Services (EOP/SCS) were charged to the GEAR-UP program. This person is not assigned to work on the GEAR-Up program, so the program should not be charged.

Recommendation – The University should review expenditures to ensure they comply with various University policies and reimbursements are for employees assigned to the program.

Response and Corrective Action Planned –

1. The Regent's Institutions contracted with U.S. Bank and Elan Financial Services to issue new procurement cards to University of Northern Iowa employees during the fall of 2004. Employees authorized to receive the cards are now required to sign the new "University of Northern Iowa Procurement Card Application and Agreement" form. Department approval and dean/director approval signatures are also required. The documents lists prohibited transactions, which specifically includes telephone and related equipment.

On a monthly basis, accounts payable staff audits each procurement card journal entry submitted by the cardholder. Post audit, accounts payable staff now notifies cardholders if any prohibited transactions was recorded and requires corrective action. The University believes it has established appropriate procedures, controls and training to ensure purchases made on procurement cards will be appropriate.

2. A journal entry was processed to move the travel expenditures out of the GEAR-UP program fund. The Grants and Contract Administrator will issue a memorandum to all deans, directors and department heads describing departmental oversight duties and obligations relative to grant expenditures.

Conclusion – Response accepted.

June 30, 2004

Findings Related to Internal Control:

(A) Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the University's financial statements. Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Two individuals within the Financial Accounting and Reporting Services office can prepare, approve, enter and post journal entries.
- (2) Numerous journal entries posted to the system did not contain adequate descriptions or supporting documentation.
- (3) Individuals within the Business Operation's office with "UNI Payables Manager" and "Cashier" responsibilities can create and/or prepare payment documents, approve payment and print checks.

Recommendation – Duties should be segregated so one individual can not prepare, approve, enter and post journal entries. The purpose of the journal entry should be clearly described and support should be maintained. Duties should be segregated so one individual can not prepare payment documents, approve payment and print checks.

Response – The University acknowledges the situation whereby two accountants could prepare, approve, enter, and post their own journal entries. Internal controls have been modified. Beginning in Fiscal Year 2005, the Controller approved all "adjustment" journal entries. Accountants have been instructed not to post their own journal entries. An additional accountant has been trained to post journal entries making it possible to have an adequate segregation of duties.

When the University implemented Oracle Financials in Fiscal Year 2002, departmental employees were required to prepare their own journal entries. User training was required prior to the assignment of system passwords. University accountants modified a great number of journal entries to provide adequate descriptions. On June 17, 2004, a document entitled "Journal Entry Procedures and Guidelines" was distributed at a MEMFIS Users Group meeting. This document outlined journal entry standards that were effective on July 1, 2004.

The University acknowledges the ability to create and approve payment documents exists with limited individuals who also have the ability to print checks. Procedures and compensating controls will be evaluated to minimize the risk of inappropriately prepared checks without diminishing service levels to our students, staff and vendors.

Conclusion – Response accepted.

(B) Bank Reconciliation and Reviews – During the year, the University prepared bank reconciliations using the Oracle system. However, these reconciliations were not printed and there was no evidence they were reviewed by an independent person.

Recommendation – To improve financial accountability control, reconciliations of the book and bank balances should be completed monthly and retained. Review of the bank reconciliation by an independent person should be documented.

Report of Recommendations to the University of Northern Iowa

June 30, 2004

Response – Bank reconciliations have been prepared on a monthly basis using Oracle software. Staff preparing have been instructed to print the bank reconciliation, sign the reconciliation as preparer or reviewer, and file the documents for post audit.

Conclusion – Response accepted.

- (C) Accruals – The University's accounting system allows staff to input the date goods and services are received. Based on this date, the system records a payable or prepaid expense. Documents received from the purchasing department were stamped with the date the invoice was received. This date did not correspond to the date the product was received. The date entered into the system was also the date the invoice was received and not the date the goods or services were received. Based on this, the system may record a payable or a prepaid expense incorrectly.

Recommendation – The University should develop and implement procedures to ensure transactions posted in the accrual period are reviewed and recorded in the proper period and reflect the date the goods and services were received and not the date of the invoice.

Response – The University has implemented controls and procedures to eliminate the opportunity for invoices to be charged to a fiscal year inconsistent with the year the items were actually received. The procedures were implemented at the end of Fiscal Year 2004, evidenced by isolated occurrences compared to prior years.

The Oracle purchasing module requires Departmental employees to verify the actual receipt of goods and services by inputting into the system the date goods were received and the quantity of goods received. Extensive training has been presented to the MEMFIS Users Group regarding inputting into the system the actual date goods were received and how to change the default date to the actual date. In addition, there are detailed instructions online that explain how to record the receipt of goods.

Purchasing Staff receive vendor invoices, which are stamped with the receiving date. The purpose of the date is to serve as a tracking mechanism for timely processing, not the date goods or services were received.

Conclusion – Response accepted.

- (D) Salary and Wage Overpayments – The University has incorrectly overpaid several employees and students. The University has asked these individuals for a refund of the overpayment. However, a number of these overpayments are over one year old. The refunds were not always pursued timely.

Recommendation – The University should develop and implement procedures to monitor the payment of salary and wages to reduce overpayments. If overpayments occur, the University should develop and implement procedures to pursue refunds timely and monitor the deposition of the refund.

Response – The University acknowledges that salary and wage overpayments need to be collected on a timely basis and has recently implemented procedures to facilitate such. We will promptly clear out the mentioned receivables in the Payroll Clearing account.

Conclusion – Response accepted.

Report of Recommendations to the University of Northern Iowa

June 30, 2004

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the University of Northern Iowa

June 30, 2004

Staff:

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager
Darryl J. Brumm, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

James S. Cunningham, CPA, Senior Auditor
Billie Jo Heth, Senior Auditor
Heather B. Allen, Staff Auditor
Gary D. Van Lengen, CPA, Staff Auditor
Cynthia R. Ellingson, Assistant Auditor
Daniel L. Grady, Assistant Auditor
Carmon K. Kutcher, Assistant Auditor
Brandon J. Yuska, Assistant Auditor

Report of Recommendations to the University of Northern Iowa

Cost per Student
(unaudited)

Year ended June 30, 2004
with comparative figures for prior years

Total General Educational Fund expenditures (expressed in thousands)		\$ 125,409
Deduct:		
Expenditures not related to teaching programs: (expressed in thousands)		
Research separately budgeted	\$ 480	
Extension and public service	1,834	
Student aid	<u>8,937</u>	<u>11,251</u>
Net expenditures for teaching programs (expressed in thousands)		<u>\$ 114,158</u>
Full-time equivalent enrollment 2003-2004		<u>11,477</u>
Cost per student 2003-2004		<u>\$ 9,947</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2004 and four previous years:

<u>Year</u>	<u>Enrollment</u>	<u>Cost per Student</u>
2003-2004	11,477	\$ 9,947
2002-2003	11,959	9,431
2001-2002	12,186	8,861
2000-2001	11,947	9,496
1999-2000	11,804	9,264