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STATE OF IOWA

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NEWS RELEASE

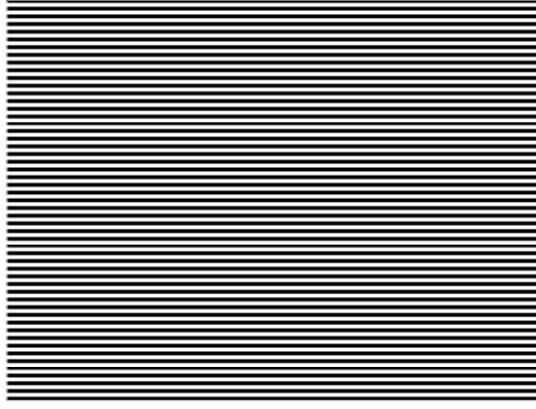
FOR RELEASE _____ June 18, 2007 _____ Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the University of Northern Iowa for the year ended June 30, 2006. The University of Northern Iowa previously released its annual financial report for the year ended June 30, 2006.

The University of Northern Iowa is governed by the Board of Regents. For the fiscal year ended June 30, 2006, the full-time equivalent student enrollment was 10,969 with an average cost per student of \$11,006 compared to 11,351 students and an average cost per student of \$10,242 for the fiscal year ended June 30, 2005.

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

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

JUNE 30, 2006

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



David A. Vaudt, CPA
Auditor of State





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June 14, 2007

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, 2006. We have also audited the financial statements of the University as of and for the year ended June 30, 2006 and have issued our report thereon dated November 17, 2006.

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. The recommendations pertain to the University's internal control, compliance with statutory requirements and other matters which we believe you should be aware of. 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 11 certain unaudited financial and other information to report an average cost per student for the University for the five years ended June 30, 2006 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 any 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 10 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

Charles J. Krogmeier, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

University of Northern Iowa

June 30, 2006

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

- (1) 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:
 - (a) Individuals within the Business Operation's office with "UNI Payables Manager" and "Cashier" responsibilities can create and prepare payment documents, approve payment and print checks.
 - (b) Individuals within the Business Operation's office with "UNI US Payroll Manager" responsibilities are allowed user access to process a "Quick Pay" or special batch without approval. Additionally, the payroll manager runs all the steps of the monthly payroll, except timecard processing. This individual also processes many of the corrections or adjustments, including "Quick Pays".
 - (c) The Payroll Department is currently responsible for setting up new student employees on the payroll system, including all personal data And the rate of pay.

Recommendation – Duties should be segregated so one individual can not prepare payment documents, approve payment and print checks. The University should also separate the processing of payroll from the correction or adjustment process to ensure one individual does not handle both. The University should consider segregating the task of setting up student employees from the Payroll Department.

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

The University has reviewed the access assigned to individuals responsible for payroll processing. Employees are not able to make changes to their own records, including adjusting rates of pay, preparing checks or updating bank account information. Additionally, payroll staff is not able to create new employees in the system, only student employees.

The University acknowledges the task of setting up student employees is not segregated from the payroll function. As a compensating control the employee who is responsible for setting up student employees does not have the ability to process student payroll. The University will continually evaluate process changes that would improve the segregation of duties.

Conclusion – Response accepted

Report of Recommendations to the University of Northern Iowa

June 30, 2006

- (2) Cash in Offices – We observed checks issued to the University left overnight on a desk in an office on two separate occasions. Although the office was locked, the checks were observed through a window. Since the cashiers in the Office of Business Operations are no longer located in the same building as many other departments as they were prior to the fire in Gilchrist Hall, procedures have changed so money is not consistently being taken to the cashier immediately upon receipt. Additionally, checks are not being restrictively endorsed “for deposit only”.

Recommendation – All cash and checks received should be properly safeguarded by the receiving department, restrictively endorsed “for deposit only” prior to being remitted to the cashier in the Office of Business Operations and deposited daily.

Response – The University concurs with the auditor’s finding and recommendation. Employees in the noted office have been trained to restrictively endorse checks immediately upon receipt and to place them in a secure location until the next daily deposit.

Conclusion – Response accepted.

- (3) Timely Recording of Wire Transfers – The University receives a large amount of funds through wire transfer and direct deposit (ACH) which are recorded by the cashiers in the Office of Business Operations. Several wire transfers tested were not recorded until twenty days after the date of deposit. Failure to record wire transfers and ACH items on the day received creates additional reconciling items for the book to bank reconciliation at month end.

Recommendation – The University should develop procedures to ensure timely recording of wire transfers and direct deposits (ACH).

Response – The University has implemented procedures to minimize delays in the recording of wires and ACH transactions. Extenuating circumstances including a fire, which displaced the cashiers, also contributed to the delays identified on audit.

Conclusion – Response accepted.

- (4) Untimely Deposits - Activities are held throughout the University in which tickets are sold, including athletic and performing arts events. We noted events where the proceeds from ticket sales had not been remitted or recorded by the cashiers in the Office of Business Operations until ten days after the event.

Recommendation – University policies and procedures require daily deposits if funds on hand equal or exceed \$250, and departments are required to make deposits at least weekly. University policies and procedures should be followed to ensure event proceeds are deposited and recorded timely.

Response – The University acknowledges that proceeds from ticket sales had not been remitted and deposited in accordance with University policy. Upon follow-up by internal audit, the situation for performing arts events has been resolved. For the other referenced deposits, management will work with the departments to see that University policies and procedures are followed.

Conclusion – Response accepted.

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June 30, 2006

- (5) Backdating of Quick Pays – A payroll check which is expedited and not processed through the normal procedures is referred to as a quick pay. This may occur when an employee or student earned extra pay, been paid an incorrect amount or a personnel action form was not filed timely for changes in wages. Due to a programming issue regarding calculation of withholdings, when a quick pay is done for someone who should have been paid for a prior pay period, the date the individual should have been paid is entered rather than the actual date the check is prepared. This practice causes reconciliation problems with the general ledger.

Recommendation – The Payroll Department should work with ITS staff and Oracle system programmers to resolve this issue so quick pays are dated the actual date they are prepared.

Response – The University acknowledges that quick pays are backdated on occasion to eliminate inappropriate taxing of individuals resulting when the actual pay date is used. The University has implemented procedures which have significantly reduced the number of quick pays requiring back dating. Further evaluation continues to eliminate the process altogether.

Conclusion – Response accepted.

- (6) Bank Reconciliations – During the year, the University performed bank reconciliations using the Oracle system. However, the University has not been able to completely reconcile the payroll bank account with the general ledger each month. The general ledger is closed at each month end. However, the payroll system is not closed. The Payroll Department is permitted to back date quick pays and canceled payroll items which are then posted to a closed accounting period. This may change the outstanding payroll check listing at month end, thus making it more difficult to reconcile the bank account to the general ledger at month end. At June 30, 2006, there was a reconciliation variance of \$37,664 between the payroll bank account and the general ledger.

Recommendation – Monthly reconciliations of the book to bank balances should include supporting documentation for reconciling items. All payroll reconciling items need to be communicated to the individual performing the bank reconciliation. As noted previously, quick pays should not be back dated and the payroll system should be closed at month end.

Response – The University has implemented the recommendation of attaching supporting documentation to bank reconciliations. It also implemented the recommendation of advising the person preparing the bank reconciliation of payroll adjustments such as voided checks, reissued checks, quick pays, and checks written to replace direct deposit items. The University's response to the recommendation about back dating quick pays follows the previous finding and recommendation.

Conclusion – Response accepted.

- (7) Payroll Deduction Reconciliation – The University migrated from the Legacy Payroll System to the Oracle Payroll System on January 1, 2005. Payroll deduction reconciliations are done monthly. However, since January 2005, the deductions and withholdings have not reconciled to the general ledger. The reconciliations include a line item "Unidentified reconciling item due to conversion from Legacy to Oracle reconciliation process." Although this reconciling item is not a significant amount, deductions and withholdings do not reconcile to zero at month end.

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Recommendation – The University should investigate, identify and resolve differences between the deductions and withholding account balances and the general ledger monthly.

Response – The University acknowledges that account reconciliations were not reconciled to zero as of June 30, 2006. Outstanding unidentified reconciling items continue to be resolved and account reconciliations are prepared timely with reconciling items identified accordingly.

Conclusion – Response accepted.

- (8) Wage and Salary Overpayments – When the University has incorrectly overpaid employees or students, the University has asked these individuals for a refund of the overpayment. However, a number of these overpayments have been due for over one year as the refunds were not always pursued timely. Additionally, overpayments can occur if a Personnel Action Form (PAF) is not filed timely when an individual leaves employment.

Recommendation – The University should continue to monitor the payment of wages and salaries to reduce overpayments. If overpayments occur, the University should pursue refunds timely and monitor the disposition of the refund.

Response – The University acknowledges that salary and wage overpayments need to be collected on a timely basis and has implemented procedures to facilitate such. Additional efforts by accounts receivable staff have been implemented to facilitate more timely repayment using collection resources.

Conclusion – Response accepted.

- (9) Payroll Entry Error – An employee's pay for summer appointment was incorrectly entered into the payroll system by Human Resource Services as \$101,225 rather than \$10,125. Although this error was not detected through the payroll process, it was corrected when the department from which the salary was to be paid caught the error prior to the distribution of the payroll.

Recommendation – The University should consider adding a control feature to the payroll system to flag for review large or unusual payroll amounts.

Response – The University has developed an audit report for review by Human Resource Services of all pay elements entered for employees. This report is reviewed regularly for reasonableness and accuracy of entries. Additional reporting tools are being developed for audit from the payroll application.

Conclusion – Response accepted.

- (10) Work Study Awards – Students can be awarded either University or Federal work study funds, or both, depending on their expected family contribution (EFC). Of the students selected for testing, University records indicated one student was awarded University work study funds when the student could have qualified for Federal work study funds. However, the student was later paid from Federal work study funds. Verification of the approval form in the Student Financial Aid Office failed to identify the Federal work study form was used rather than the University work study form. Additionally, a report is run every two weeks to check for errors. The report is generated using information from payroll which compares the amount of earnings to work study awards. However, this

Report of Recommendations to the University of Northern Iowa

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report is not currently setup to detect errors relating to a student being paid Federal versus University work study funds when the student was awarded University work study funds.

Recommendation – The University should take steps to ensure students are assigned to the correct work study program. The error report system should be modified to ensure all areas are checked and the error reports should be maintained.

Response – The University concurs with the auditor’s finding and recommendation. A computer program was written that compares the source of funds used in a financial aid awarding database with the source of funds used in the Oracle payroll system. The program is run against every payroll and an error report is produced.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the University of Northern Iowa

June 30, 2006

Staff:

Questions or requests for further assistance should be directed to:

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

Other individuals who participated on this audit include:

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Billie Jo Heth, Senior Auditor
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Shawn R. Elsbury, Staff Auditor
Daniel L. Grady, Staff Auditor
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Adam D. Steffensmeier, Assistant Auditor
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Brett M. Zeller, Assistant Auditor

University of Northern Iowa

Cost per Student
(Unaudited)

Year ended June 30, 2006
with comparative figures for prior years

Total General Educational Fund expenditures (expressed in thousands)		\$ 132,257
Deduct:		
Expenditures not related to teaching programs: (expressed in thousands)		
Research separately budgeted	\$ 487	
Extension and public service	1,611	
Student aid	<u>9,438</u>	<u>11,536</u>
Net expenditures for teaching programs (expressed in thousands)		<u>\$ 120,721</u>
Full-time equivalent enrollment 2005-2006		<u>10,969</u>
Cost per student 2005-2006		<u>\$ 11,006</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2006 and four previous years.

Year	Enrollment	Cost per Student
2005-2006	10,969	\$ 11,006
2004-2005	11,351	10,242
2003-2004	11,477	9,947
2002-2003	11,959	9,431
2001-2002	12,186	8,861