



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

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**NEWS RELEASE**

FOR RELEASE July 26, 2004

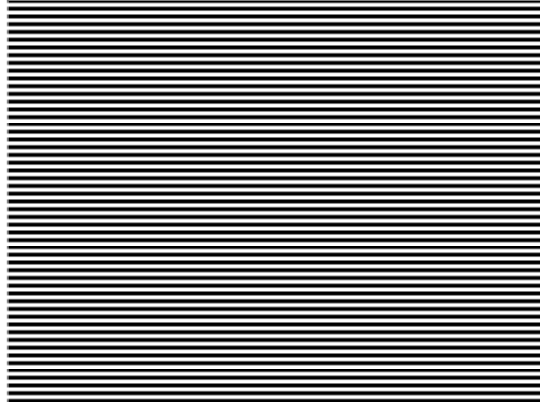
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Auditor of State David A. Vaudt today released a report on the University of Northern Iowa for the year ended June 30, 2003. The University of Northern Iowa previously released its annual financial report for the year ended June 30, 2003.

The University of Northern Iowa is governed by the Board of Regents. For the year ended June 30, 2003, the full-time equivalent student enrollment was 11,959 with an average cost per student of \$9,431, compared to 12,186 students and an average cost per student of \$8,861 for the year ended June 30, 2002.

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

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

**JUNE 30, 2003**

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



**David A. Vaudt, CPA  
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March 4, 2004

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, 2003. We have also audited the financial statements of the University as of and for the year ended June 30, 2003 and have issued our report thereon dated November 26, 2003.

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 as well as other recommendations pertaining to the University's internal control, 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.

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, 2003 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 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  
Cynthia P. Eisenhauer, Director, Department of Management  
Dennis C. Prouty, Director, Legislative Services Agency

**University of Northern Iowa**

June 30, 2003

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

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

**Agency Number: P334A000219**

**Federal Award Year: 2002**

**State of Iowa Single Audit Report Comment: 03-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.

OMB Circular A-21, Cost Principles for Educational Institutions, states “Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”

The following unallowable expenditures were identified during testing:

1. The students were taken on a five day field trip to Chicago, Illinois that included a visit to the University of Illinois and Field Museum, purchases of tickets to Six Flags Amusement Park, the Navy Pier and Magic Waters Park. The visits to the University of Illinois and Field Museum were allowable activities for the program. However, the total costs were not allocated between unallowable and allowable portions since that would require making certain assumptions. The total cost associated with the field trip of \$6,391 was questioned.
2. Admission tickets to the Lost Island Water Park for the end of summer program celebration were purchased for \$499.
3. Admission tickets to a movie were purchased for \$425. The purpose listed was congratulatory gifts for 7<sup>th</sup> and 8<sup>th</sup> grade students on the honor-roll for that quarter.
4. T-shirts were purchased for the GEAR-UP summer program for \$460. The public purpose and allowability of this purchase was not documented.
5. Indirect costs related to the above expenditures of \$622 were also reimbursed to the University.
6. Several expenditures were initially charged to the GEAR-UP program when they did not relate to the program or the students participating in the program. The University requested drawdowns of federal funds for these costs when they were charged. The GEAR-UP program was subsequently reimbursed for the charges and subsequent drawdowns were reduced by the reimbursement. These charges are described below:
  - a. The University purchased six air conditioners for Price Lab Schools for a total of \$2,574. This equipment purchase does not meet the description of approved purchases in the grant agreement. The air conditioners were returned in August 2003.
  - b. The GEAR-UP program was charged \$2,237 for the cost of airline tickets and travel agent fees for a leadership conference for student participants in the McNair Scholars Program. The GEAR-UP account was reimbursed for the charges two months later.

Report of Recommendations to the University of Northern Iowa

June 30, 2003

- c. The total salaries and wages for a summer program were initially charged to the GEAR-UP account. This summer program was in conjunction with Waterloo Community School District (CSD) and included services for students who were not part of the GEAR-UP program. The total cost related to the other programs was \$51,815 and was reimbursed by the CSD in May 2003.
- d. Indirect costs related to the above expenditures of \$4,530 were also reimbursed to the University.

Due to the items noted above, costs of \$8,397 for the year ended June 30, 2003 are questioned. Costs of \$61,156 are not questioned because the federal program was subsequently reimbursed. However, federal funds were borrowed to initially pay the costs.

Recommendation – The University should review the questioned costs and work with the U.S. Department of Education to resolve this matter.

Response and Corrective Action Planned –

1. The field trip to Chicago was an educational enrichment activity conducted to permit Logan Middle School students to visit the University of Chicago and to interact with its staff. A number of educational and cultural activities were packaged in the field trip to enhance student participation. Program staff believe inclusion of the Six Flags Amusement Park and the water park in the itinerary was an incentive which motivated a number of students to participate in the summer field trip who otherwise might not have participated.
2. An end-of-summer social activity at Lost Island Water Park was provided for GEAR-UP students who successfully completed the program. Program staff included this activity in their summer schedule as a means of motivating young people to participate in and complete the summer program. The University will require program staff to include an explanation and/or documentation of the programmatic purpose and allocability of entertainment type expenditures in the future authorizing payment from federal funds.
3. Students who made the 7<sup>th</sup> and 8<sup>th</sup> grade honor rolls at Logan Middle School were taken to a movie in lieu of holding an assembly. Program staff believe the reward of attendance of a movie is a more effective motivator than recognition in a school assembly. The University will require program staff to include an explanation and/or documentation of the programmatic purpose and allocability of entertainment type expenditures prior to authorizing payment from federal funds.
4. Program administrators require students and staff to wear GEAR-UP T-shirts when they are on the University of Northern Iowa campus and when they are on field trips. This makes it easier for the group to stay intact and for staff to track students. The University will require program staff to include an explanation and/or documentation of the programmatic purpose and allocability of this type of audit sensitive expenditure in the future prior to authorizing payment from federal funds.
5. The GEAR-UP grant included indirect costs. In the event any direct cost is determined to be unallowable, the University will refund associated indirect costs to the granting agency.
6. a. Room air conditioners were ordered for the comfort of students being instructed in non-air conditioned classrooms at Price Laboratory School on the University campus during the summer. Soon after delivery, the GEAR-UP Project Director returned the air conditioners to the vendor and exchanged them for fans. The vendor refunded the price difference to the University which was credited to the GEAR-UP grant account. Provided the reasonableness test was met, the University believes no prior approvals of the federal agency was required as per OMB A-21, J.16.

Report of Recommendations to the University of Northern Iowa

June 30, 2003

- b. Air travel for the McNair grant was incorrectly posted to the GEAR-UP grant in November 2002. This error was discovered by program staff during the monthly review of GEAR-UP account ledger sheets. Program staff initiated a correcting journal entry in January 2003 to move the charges to the correct account. The University Grants and Contracts Office will counsel program staff on proper cost allocation procedures.
- c. An oral proposal was made to officials of the Waterloo Community School District (CSD) to provide services to Waterloo CSD students who were not eligible to be served by the Federal GEAR-UP program. The proposal was accepted, but a written contract was not received by the program's effective date. In late July 2002, a contract was executed and an account established to enable summer Waterloo CSD teachers to be compensated through the University payroll. The contract should have been amended to pay other Waterloo CSD program costs as well. Instead other Waterloo CSD program costs were charged to the GEAR-UP grant and reimbursed at a later date.
- d. Indirect costs on the program costs identified in the preceding comment were promptly reversed at the time the unallowable expenditures were moved to the correct account.

The University will review its grant related policies and procedures for properly managing sponsored projects and allocating allowable costs to federal grant and contract accounts. The Grants and Contracts Administrator will coordinate resolution of the above findings with the U.S. Department of Education by June 30, 2004.

Conclusion – Response acknowledged. The University did provide additional documentation after the completion of audit fieldwork. The University should include supporting documentation with the claim to support the public purpose served and how the expenditures relate to the grant objectives. The University should work with the U.S Department of Education to resolve this matter, including the return of questioned costs, as necessary.



June 30, 2003

**Findings Related to Internal Control:**

(A) Segregation of Duties for Journal Entries – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The following items were noted:

- (1) Two individuals within the Controller's 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.

Recommendation – Duties should be segregated so one individual can not prepare, approve, enter and post transactions/documents. The purpose of the journal entry should be clearly described. In addition, documentation should be prepared and maintained to support the journal entry.

Response – The University believes internal controls are important in all its business practices. We will modify our procedures so that one accountant prepares journal entries while another approves and posts the entry. Due to limited staffing, there are occasions at year-end when only one accountant is working. In that circumstance the University accepts the internal control risk of allowing that accountant to post the journal entries he or she has prepared.

Journal entry training was conducted at the June 17, 2004 MEMFIS Users Group meeting. Documents entitled "Journal Entry Procedures and Guidelines" and "(A) Quick Reference Guide (for) Journal Entries in the Oracle Application" were distributed.

Conclusion – Response accepted.

(B) 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 – Staff were reminded to record the date goods or services were received in Oracle software at the MEMFIS Users Group meeting on June 17, 2004. Ongoing training will include proper procedures for recording the date goods or services were received.

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, 2003

**Staff:**

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager  
James S. Cunningham, CPA, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Darryl J. Brumm, CPA, Senior Auditor II  
Heather B. Allen, Staff Auditor  
Billie Jo Heth, Staff Auditor  
Gary D. Van Lengen, CPA, Staff Auditor  
Donald N. Miksch, Assistant Auditor

University of Northern Iowa

Cost per Student  
(Unaudited)

Year ended June 30, 2003  
with comparative figures for prior years

Total General Educational Fund expenditures (expressed in thousands)		\$	122,788
Deduct:			
Expenditures not related to teaching programs: (expressed in thousands)			
Research separately budgeted	\$	471	
Extension and public service		1,449	
Student aid		<u>8,078</u>	<u>9,998</u>
Net disbursements for teaching programs			<u>\$ 112,790</u>
Full-time equivalent enrollment 2002-2003			<u>11,959</u>
Cost per student 2002-2003			<u>\$ 9,431</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2003 and four previous years.

Year	Enrollment	Cost per Student
2002-2003	11,959	\$ 9,431
2001-2002	12,186	8,861
2000-2001	11,947	9,496
1999-2000	11,804	9,264
1998-1999	11,589	8,987