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NEWS RELEASE

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FOR RELEASE

July 18, 2022

Auditor of State Rob Sand today released an Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters on Iowa State University of Science and Technology, Ames, Iowa for the year ended June 30, 2021.

AUDIT FINDINGS:

Sand reported three findings related to financial reporting. They are found on pages 4 through 6 of this report. The findings addressed a lack of segregation of duties over certain journal entries, errors in financial reporting, and the lack of procedures over equipment accruals.

A copy of the report is available for review on the Auditor of State's web site at [Audit Reports - Auditor of State](#).

**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
GOVERNMENTAL AUDITING STANDARDS**

JUNE 30, 2021



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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 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 business type activities and the fiduciary activities of Iowa State University of Science and Technology (University) and its discretely presented component unit as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated May 6, 2022. Our report includes a reference to other auditors who audited the financial statements of the Iowa State University Foundation, the Iowa State University Achievement Fund and the Original University Foundation (the "Foundation"), the Iowa State University Research Foundation, Incorporated and the Iowa State University Veterinary Services Corporation 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 which are reported on separately by those auditors. The financial statements of the Foundation and the Iowa State University Research Foundation, Incorporated were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiencies described in the accompanying Schedule of Findings as item (A) through (C) to be material weaknesses.

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, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

Iowa State University of Science and Technology’s Responses to the Findings

The University’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The University’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the University’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Iowa State University of Science and Technology 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

May 6, 2022

Iowa State University
Schedule of Findings
Year ended June 30, 2021

Finding Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – Journal Entries

Criteria – Management is responsible for establishing and maintaining internal control. An effective internal control system provides for internal controls related to preparing, supporting, and reviewing manual journal entries. Supporting documentation for all manual journal entries helps ensure the accuracy of entries prepared by employees and an independent review helps prevent losses from employee error or dishonesty and maximizes the accuracy of the University's financial statements.

Condition – Not all journal entries require approval by an independent person, as users with certain security roles have the ability to manually create and record accounting journal entries that do not require supporting documentation, additional review, or business process approvals.

While accounting system activity is logged, and there is a review process during preparation and review of financial statement audit workpapers which includes journal entry activity, there is not a clearly documented process ensuring all manually created journal entries have been independently reviewed and approved.

Cause – For efficiency purposes, the accounting system allows certain individuals to initiate and approve journal entries that do not require supporting documentation, independent review and approval. Procedures are not in place to ensure all journal entries are independently reviewed, approved and properly supported.

Effect – Lack of supporting documentation and independent approval of manually created journal entries could adversely affect the University's ability to prevent or detect and correct misstatements, errors, or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The University should implement procedures to ensure all journal entries are supported and independently reviewed and approved.

Response – As noted in the 2020 audit exit memo received June 2, 2022, Management acknowledges that there are certain individuals with the ability to post manual journal entries within the system without a recorded approval within Workday. This capability is limited to the financial reporting accountants involved in the monthly/year end close process and certain other individuals with a need to process balancing entries and allocations. There are mitigating controls for these entries:

- Worktag correction entries are prepared by finance specialists and reviewed by Improved Service Delivery (ISD) management. They are then provided to the financial systems manager and subject to a secondary review. The entries are then released into Workday. Due to system limitations Workday records this as entered by the financial systems manager and does not record the review. The audit trail can be evidenced through the attachments included with the entry.
- When an entry is created, an alert is sent to the cost center manager informing them of a change to their cost center. Cost center managers can then verify that they requested the change, and it appears as they expected. If there is an issue it can be raised to the finance specialist within ISD for correction.

Iowa State University

Schedule of Findings

Year ended June 30, 2021

- Certain accounts are being reconciled on a monthly/quarterly basis outside of the Workday system. These reconciliations ensure the balances are correct and support correcting entries if necessary.

Iowa State will work to implement the following changes to enhance the controls around manual journal entries:

- Initiate the certification process within Workday. This will record and document reconciliation of accounts on a monthly/quarterly basis to ensure account balances are accurate and all journal entries have been properly recorded.
- Investigate the ability to create a manager role within Workday that will allow for the routing of manual journal entries within the Controller's office. This will allow for an approval to be recorded within the Workday flow.
- Perform an annual review of employees with the Account Closer role each June to ensure only those with a business need possess the role prior to year-end close.

Conclusion – Response accepted.

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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, misstatement of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the University's financial statements.

Iowa State University's financial statements are prepared in accordance with General Accepted Accounting Principles (GAAP) and are due to the State of Iowa by October 1 of each year. Because Iowa State University is operated by the State of Iowa and is not legally separate, the University's financial information is included in the State of Iowa's Annual Comprehensive Financial Report (ACFR).

Condition – Material amounts of fiduciary investments, bond segment financial statements, and cash flows and net position classifications were not properly reflected in the University's financial statements. Adjustments were subsequently made by the University to properly report these amounts in the University's audited financial statements.

Cause – Policies have not been established and procedures have not been implemented to require a detailed independent review of financial statements and year-end cut off transactions to ensure the University's financial statements are accurate and reliable.

Effect – A lack of policies and procedures and detailed independent reviews resulted in the University employees not detecting errors in the normal course of performing their assigned functions.

Recommendation – Procedures should be implemented to ensure the University is able to prepare accurate financial statements. The University should establish policies and procedures to ensure all investments, bond segment financial statements, and cash flows and net position classifications are identified and properly reported in the University financial statements.

Iowa State University
Schedule of Findings
Year ended June 30, 2021

Response – Management acknowledges the deficiencies in processes and lack of appropriate procedures for certain financial statement segments. 2021 was unique in having a condensed time frame for completion of the financial statements, contributing to the situation. An in-depth project plan for management of future engagements has been developed to include assignments, reviewer responsibilities, and deadlines to support timely completion of financial reports and supporting documentation. Further, journal entries, supporting documentation and financial statements are being reviewed by financial leadership to ensure material accuracy and presentation. The timeline established for go-forward statement preparation will also allow for sufficient time for review of documentation.

Conclusion – Response accepted.

(C) Equipment Accruals

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the University's financial statements.

Capital assets are recorded at cost at the date of acquisition. The University capitalizes all equipment items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year.

Condition – The University does not identify equipment payables. The University capitalizes equipment when paid rather than when acquired.

Cause – The University did not develop a process to reliably identify payables related to equipment purchases for capitalization after it implemented a new financial system on July 1, 2019. Previously, equipment purchases were recorded under one object code, which was analyzed at year-end to ensure equipment additions included all accrual activity. In the new accounting system, equipment purchases are recorded under multiple trackable spend categories which are also used for non-equipment purchases. There is no process to analyze equipment purchases made during the accrual period to ensure equipment is capitalized in the year in which it was acquired.

Effect – Certain capital asset equipment additions were not properly reported.

Recommendation – The University should develop policies and procedures to identify equipment payables and capitalize equipment at the date of acquisition, regardless of the date paid.

Response – Management acknowledges the lack of a process related to equipment accruals. A process for identifying and recording equipment accruals has been developed and will be implemented for the FY2022 and forward. This will ensure the recording of equipment at acquisition and in the proper fiscal year.

Conclusion – Response accepted.