



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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David A. Vaudt, CPA  
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  
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, 2007 and have issued our report thereon dated December 14, 2007 under separate cover. 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.

### 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item (A) is a material weakness.

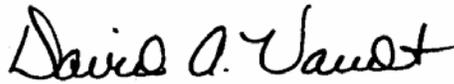
## Compliance and Other Matters

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 that are 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.

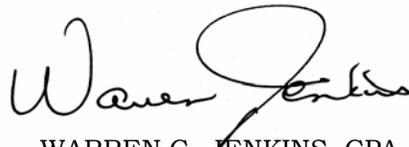
The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the University's responses, we did not audit the University's responses and, accordingly, we express no opinion on them.

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

March 21, 2008

State University of Iowa

Schedule of Findings

June 30, 2007

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Journal Entry Approval – The University does not have a policy requiring review and approval of journal entries by supervisory personnel, nor do the various journal entry systems have a mechanism in place to document supervisory approval. Journal entries are not reviewed and approved by supervisory personnel to ensure only authorized transactions are entered into the system.

Recommendation – The University should implement policies and procedures to ensure supervisory approval of journal entries is obtained and documented.

Response – The University will implement a process to ensure and document approval of journal entries by utilizing the existing Workflow electronic approval system. This process will focus on journals prepared and submitted by individuals throughout campus. The major subsidiary systems (Payroll, Accounts Payable, Asset Management, etc.) currently require approval of transactions prior to journal generation; therefore, they will not be included in this new approval process. Other subsidiary systems will be investigated to determine the feasibility and need for inclusion in the approval process.

Conclusion – Response accepted.

- (B) Equipment Accounts Payable – The University's accounting system records accounts payable on the basis of invoice date rather than date received. We identified five vouchers totaling \$2 million included in accounts payable for which the related assets were capitalized without adequate documentation evidencing receipt of the equipment by June 30, 2007.

Recommendation – The University should establish procedures to ensure accounts payable and capital assets are reported based on the date the asset is received by the University.

Response – We will expand our existing process to incorporate additional steps in the payables review process. Currently, capital equipment vouchers are automatically placed on hold until departments send a form to Accounts Payable and Purchasing Office (APPO) confirming assets have been received; this form contains a receipt date. The receipt date is not entered into PeopleSoft Accounts Payable but can be viewed as a scanned document. Accounts Payable will send Accounting Services a list of vouchers on hold (no receipt has occurred). This list will be compared to the invoices accrued to help ensure payables are accurate. Furthermore, the Property Management staff will check against the scanned document on the APPO website to confirm receipt date prior to capitalizing assets.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.