



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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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 the financial statements of Iowa State University of Science and Technology (University) as of and for the year ended June 30, 2008 and have issued our report thereon dated December 9, 2008 under separate cover. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (collectively referred to as the "Foundation") and the Iowa State University Research Foundation, Incorporated, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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, we do not believe the significant deficiencies described above are 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, 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.

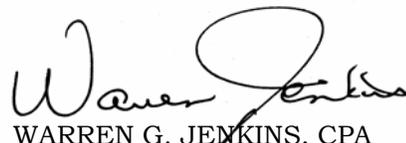
The University's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the University's responses, we did not audit the University's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees of Iowa State University of Science and Technology, citizens of the State of Iowa and other parties to whom the Iowa State University of Science and Technology 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 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 12, 2009

Iowa State University of Science and Technology

Schedule of Findings

Year ended June 30, 2008

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

- (A) Bookstore Inventory – The University Bookstore (Bookstore) maintains retail inventory on a perpetual basis and annually counts 100% of the inventory. The Bookstore made numerous adjustments totaling \$196,289 to reported retail inventory as a result of this count. Year end inventories for electronics, computers, software and gift items were written down by 25.6%, 17.6%, 16.8%, and 4.5%, respectively. Additionally, five of twenty-five items tested had variances after the system was updated.

Recommendation – The University should implement procedures to properly safeguard Bookstore inventory and ensure Bookstore inventory is accurate.

Response – The University concurs with the Auditor's recommendation and has implemented the following corrective action:

Cycle counts. The University Bookstore (UBS) has focused more on conducting cycle counts of inventory on a regular basis. For instance, a group of merchandise classes will be counted and compared to quantities and values in the accounting system during a given month and a different series of classes will be reviewed the next month.

Security cameras. UBS is currently engaged in the bidding process for security cameras for the retail floor, as well as the stock room and office areas. The current plans call for a total of 49 cameras, which will record 24 hours per day. These cameras will help to reduce external (as well as internal) theft, which adds to the UBS' annual shrinkage.

Write-off procedures. The process for write-offs has been better delineated and shared with staff involved with merchandise management.

Conclusion – Response accepted.

- (B) Employee Travel Reimbursement – The University utilizes a travel reimbursement system which permits departments to on-line employee requests for reimbursement and to retain required supporting documentation in the department. The Accounting Office selects a random number of employee reimbursements and requests the supporting documentation from the departments to audit for compliance with University travel policies.

For one of fifteen reimbursements tested, the Accounting Office had audited the reimbursement, but non-compliance with University policies was not identified. The amount in question was eventually reimbursed by the employee.

Additionally, two claims selected by the Accounting Office were not audited timely because the supporting documentation requested from the departments was not received.

Iowa State University of Science and Technology

Schedule of Findings

Year ended June 30, 2008

Recommendation – The Accounting Office should ensure travel claims are audited timely and accurately. Additionally, the University should ensure non-compliant expenses are reimbursed by employees.

Response – The reimbursement on which non-compliance was not detected was caused by an incorrect assumption being made in the department processing the reimbursement. When the Auditors requested additional information, the department realized the error and the employee refunded that portion of the reimbursement. A step has been added to the audit process so adequate information on vehicle ownership will be collected in the future.

Months ago, the University recognized the need for more timely auditing of reimbursements and has been working on a system enhancement that will enable electronic copies of supporting documentation to be attached and routed with the electronic reimbursement request. This will greatly reduce the amount of follow-up required which, in turn, improves the timeliness of auditing. The enhancement should be operational by June 2009.

In November 2008, the University began adding over-reimbursements to the employee's accounts receivable, the standard method by which the University collects payments owed. The Accounts Receivable system sends monthly notices of payments due to the employee and will add a finance charge to overdue accounts.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.