



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

August 31, 2010

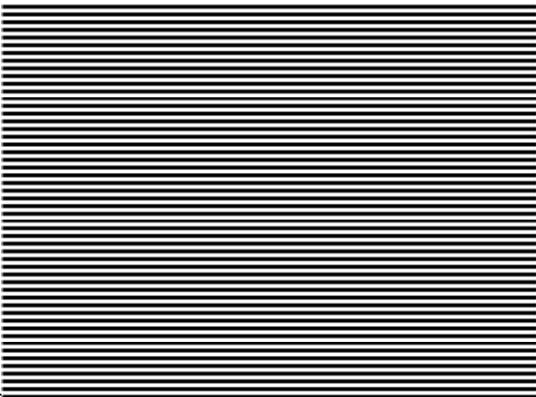
Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on Iowa State University of Science and Technology, Ames, Iowa, for the year ended June 30, 2009. Iowa State University of Science and Technology previously released its annual financial report for the year ended June 30, 2009.

Iowa State University of Science and Technology is governed by the Board of Regents. For the year ended June 30, 2009, the full-time equivalent student enrollment was 26,768 with an average cost per student of \$13,207, compared to 25,937 students and an average cost per student of \$12,582 for the year ended June 30, 2008.

A copy of the report is available for review at Iowa State University of Science and Technology, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/reports/1061-8020-BR00.pdf>

###



**REPORT OF RECOMMENDATIONS TO
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

JUNE 30, 2009

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
Auditor of State**





OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

August 27, 2010

To the Members of the Board of Regents, State of Iowa:

Iowa State University of Science and Technology (Iowa State University) 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 and the State's Single Audit Report for the year ended June 30, 2009. We have also audited the financial statements of Iowa State University as of and for the year ended June 30, 2009 and have issued our report thereon dated December 15, 2009.

In conducting our audits, we became aware of certain aspects concerning Iowa State 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 in the State's Single Audit Report, as well as other recommendations pertaining to the University's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with University personnel and their responses to the recommendations are included in this report. While we have expressed our conclusions on the University's responses, we did not audit Iowa State University's responses and, accordingly, we express no opinion on them.

We have also included on page 8 of this report certain unaudited financial and other information to report an average cost per student for Iowa State University for the five years ended June 30, 2009 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 Iowa State University, citizens of the State of Iowa and other parties to whom Iowa State University 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 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 7 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 Chester J. Culver, Governor
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2009

Finding Reported in the State's Single Audit Report:

CFDA Number: 47.070 – Computer and Information Science and Engineering

Agency Number: 304804720007451

Federal Award Year: 2009

High Performance Computer (HPC) – OMB Circular A-110 states, in part, recipients will make available, on request, a pre-award review if the procurement is expected to exceed \$25,000 and is to be awarded without competition. The University's proposal to the National Science Foundation (NSF) for a HPC stated a competitive bidding process would be utilized to obtain maximum value from the award and, therefore, a pre-award review was not made available.

The HPC, at a cost of \$1,145,982, was not competitively bid, but rather was purchased through a process referred to as "best source" justification. The University does not have a written policy to document this procedure.

In addition, annual HPC utility costs estimated at approximately \$200,000 were not identified when the purchase was approved by the Executive Director of the Iowa Board of Regents.

Recommendation – The University should contact the National Science Foundation for resolution of this matter.

Also, the University should develop a written policy describing appropriate uses of the "best source" justification if its use is continued. Additionally, incidental costs, if significant, should be estimated and made available to approving authorities.

Response and Corrective Action Planned – As noted above, OMB Circular A-110, Section 44(e), does not require specific approval from the funding agency for sole source procurements exceeding the small purchase threshold. For this procurement, ISU followed its institutional policy related to procurement analysis and records, in compliance with A-110, Section 46. This procurement analysis is retained as part of the procurement record and includes the required basis for the contractor selection, justification for lack of competition and basis for the award cost.

While notification to NSF is not required, ISU will follow the audit recommendation and provide the NSF contracting officer with the procurement analysis documentation. In the case of the vendor order, our analysis determined only this vendor could offer researchers access to computing time on one of the most powerful research supercomputers in the world. In addition, this vendor included its Center of Excellence, which provides the ability to collaborate with other researchers in a manner that would not otherwise be available. Both of these are unique opportunities that greatly enhanced and strengthened the NSF project and could not be provided by any other source, making it a sole source. Analysis and due diligence included a review of the marketplace to determine whether there would be value in competitively bidding the purchase and considered the cost of high performance computing hardware that had previously been bid. Because other manufacturers make high performance computing equipment but cannot also offer the enhancements and access noted above, we termed it a best source justification rather than a sole source justification. This process is consistent with the sole source process, which is already documented in existing policy. In the future we will refer to these justifications as sole source justifications.

Report of Recommendations to Iowa State University

June 30, 2009

The operating cost issues were discussed and there was an understanding the units involved would need to build those costs into their operating budgets. Additionally, a new process has been put into place by Purchasing and Facilities, Planning and Management to ensure the appropriate fund approving authorities are advised when equipment may have a significant impact on operational costs.

Conclusion – Response accepted.

Findings Reported in the University's Report on Internal Control:

No matters were noted.

Other Finding Related to Internal Control:

Bank Account Monitoring – Departments utilize petty cash and change accounts for various University functions. When accounts are established, it is the responsibility of the department or the Treasurer's office to inform the Controller's department of the new account. According to the Treasurer's office policies for establishing bank accounts, bank statements for all accounts are to be reconciled by departments and forwarded to the Controller's department for review.

For two of three new bank accounts tested, reconciliations were not received by the Controller's department in a timely manner.

Also, the Controller's department was not made aware of a new bank account opened in September 2008 by the Athletics department for Hilton operations. As a result, no monitoring or reviewing of the bank reconciliations was completed for a number of months.

Recommendation – The University should implement procedures to ensure the Controller's department is immediately made aware of all bank accounts held in the University's name and bank reconciliations are performed timely.

Response – The Controller's department and Treasurer's office have established an application form for departments to use when requesting external checking accounts to ensure both offices review and approve all new accounts prior to establishment. The application requires information as to the business purpose of the account, the time frame for which the account will be needed, and also asks departments to identify personnel responsible for signing checks and reconciling the bank statement. The primary check signer, reconciler, PI and departmental chair must sign the application which outlines University policy for external University checking accounts, as well as individual roles and responsibilities.

Conclusion – Response accepted.

Report of Recommendations to Iowa State University

June 30, 2009

Findings Related to Statutory Requirements and Other Matters:

- (1) Davis-Bacon Certified Payrolls – Office of Management and Budget, Circular A-133, requires entities expending federal funds in excess of \$2,000 for construction projects to obtain and review weekly contractor certified payrolls to ensure compliance with the Davis-Bacon Act. ISU has not received weekly contractor certified payrolls from each contractor for the New Century Farm project.

Recommendation – ISU should develop procedures to ensure weekly contractor certified payrolls are obtained and reviewed from all contractors in order to be in compliance with the Davis-Bacon Act.

Response – ISU will establish procedures to ensure weekly certified payrolls are received from contractors and reviewed for compliance with the Davis-Bacon Act.

Conclusion – Response accepted.

- (2) Business Mileage Documentation – ISU policy requires all expenditures to be adequately supported to evidence proper business purpose. None of the three departments reviewed maintained detailed University vehicle mileage logs to document proper business purpose.

We estimated miles for destinations noted on certain travel claims and compared our estimates to miles recorded for department assigned motor pool vehicles used for those business trips. We noted significant differences in mileage between the motor pool vehicle record and the estimated actual mileage. Because the University did not maintain mileage logs for the vehicles, we were unable to determine if all miles recorded for the vehicle were for proper business purposes.

Recommendation – The University should implement procedures to ensure departments maintain adequate support to document proper business purposes. If commuting is allowed, the procedures should include a process to ensure taxable benefits are identified and appropriate tax withholdings are made.

Response – Under University policy <http://policy.iastate.edu/policy/vehicle#approved> and <http://www.transportation.iastate.edu/policies/uses.html> vehicles are to be used only for University business, with limited exceptions. Many of the vehicles leased from Transportation Services on a long-term lease basis are assigned to a department for pooled use and are driven daily by any of a number of individuals for their collective business needs. These vehicles are generally parked in University lots, buildings or farm locations during the evening. The department is expected to keep sufficient records and as part of their budgeting process to review and approve the related expenses. Departmental circumstances vary and the level of detail and logs should be determined based upon a cost benefit analysis. Some vehicles are assigned to individuals with a daily need to cover a large or multi-county area. Additional steps have been taken within the past year to help ensure any mileage that could be considered personal use is logged and reported as taxable mileage for payroll purposes. The University will continue to educate drivers with assigned vehicles and encourage their use of travel logs to help document destinations, mileage and business purpose.

Conclusion – Response accepted.

Report of Recommendations to Iowa State University

June 30, 2009

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Manager
Patricia J. King, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Jenny R. Lawrence, Staff Auditor
Janet K. Mortvedt, CPA, Staff Auditor
Adam D. Steffensmeier, Staff Auditor
Dorothy O. Stover, Staff Auditor
Brett M. Zeller, Staff Auditor
Samantha J. Brincks, CPA, Assistant Auditor
Jessica P.V. Green, Assistant Auditor
Daryl L. Hart, Assistant Auditor
Daniel W. Henaman, Assistant Auditor
Clinton J. Krapfl, Assistant Auditor
Rosemary E. Nielsen, Assistant Auditor
Leanna J. Showman, Assistant Auditor
Gabriel M. Stafford, CPA, Assistant Auditor
Nicole R. Williams, Assistant Auditor
Justin Scherrman, Auditor Intern
Daniel Schneider, Auditor Intern

Report of Recommendations to Iowa State University

Cost per Student
(unaudited)

Year ended June 30, 2009
with comparative figures for prior years

Total General Educational Fund expenditures		\$ 444,198,347
Deduct:		
Expenditures not related to teaching programs:		
General University Research	\$ 13,152,003	
Public Service	4,470,171	
Scholarships	<u>73,044,991</u>	<u>90,667,165</u>
Net expenditures for teaching programs		<u>\$ 353,531,182</u>
Full-time equivalent enrollment 2008-2009		<u>26,768</u>
Cost per student 2008-2009		<u>\$ 13,207</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2009 and the four previous years:

Year	Enrollment	Cost per Student
2008-2009	26,768	\$13,207
2007-2008	25,937	12,582
2006-2007	25,150	12,461
2005-2006	25,410	11,914
2004-2005	25,921	11,293