



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 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 State University of Iowa (University) and its discretely presented component units as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 12, 2013. Our report includes a reference to other auditors who audited the financial statements of the University of Iowa Research Foundation, the State University of Iowa Foundation and Affiliates and the University of Iowa Health System and Subsidiaries 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. The financial statements of the discretely presented component units 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 which 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 which have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying Schedule of Findings as item (A) which we consider to be a significant deficiency.

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. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in a separate departmental report.

State University of Iowa's Response to the Finding

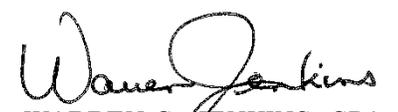
The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the University's response.

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 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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2013

State University of Iowa

Schedule of Findings

Year ended June 30, 2013

Finding Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

- (A) Financial Reporting – During the audit, we identified items which were not properly classified in the University’s financial statements. Also, University of Iowa Hospitals and Clinics (UIHC) entered into a capital lease for a parking ramp which had not been recorded in the University’s financial statements. In addition, a parcel of land recorded as a donation in a prior year was not recorded in the University’s financial statements. Adjustments were subsequently made by the University to properly classify and record these amounts in the financial statements.

Recommendation – The University should implement procedures to ensure all accounts are properly recorded and classified in the University’s financial statements.

Response – The University agrees with the Recommendation and has modified accounting procedures and internal controls to properly classify information reported in the audited financial statements. In each case cited by the State Auditor’s Office the University reported information conservatively in the financial statements. The University consults each year with the State Auditor’s Office regarding materiality factors and other considerations that may impact how transactions are classified.

- Historically the University has treated the insurance payment as an operating expense in the month in which it is paid which conservatively reports this transaction in the financial statements. A prepaid insurance expense was established in fiscal year 2013 in the amount of \$1.5 million to account for the 4 month coverage period that should be expensed in fiscal year 2014. The University has modified its accounting procedures for recording prepaid expense and will report in all future periods the appropriate portion of catastrophic property insurance as prepaid expense based on the insurance coverage period.
- In fiscal year 2013, UIHC reported an inter-departmental payable as if it were a payable to an external entity. UIHC should have recorded the transaction as an inter-departmental payable and also booked the inter-departmental receivable so payables and receivables would net to zero. Had the error not been corrected, it would have overstated accounts payable by \$1.7 million. The University has worked with the UIHC Finance and Accounting Department to ensure future accruals for appropriate activities use the inter-departmental payable/receivable institutional account so proper elimination entries can be made prior to financial statement preparation.

- UIHC has entered into a lease arrangement with the City of Coralville for parking spaces in the City's parking ramp adjacent to the UIHC Iowa River Landing Medical Office Building. UIHC treated this arrangement as an operating lease but it should have been reported as a capital lease. In the future, the University and UIHC will evaluate all new external lease agreements to determine if the lease should be reported as an operating lease or as a capital lease.
- Finally, the last item refers to a master ground lease dating back to 1988 in which the State of Iowa authorized the Board of Regents to enter into ground lease arrangements with companies to promote economic development initiatives at the University (formerly Oakdale) Research Park Corporation. Although no one currently employed by the University was on staff at the time this ground lease was authorized, the University had assumed this land was reported on the State of Iowa's balance sheet. After discussing this transaction with the Department of Management, it was decided the best course of action was to report this land as an asset in the University's financial statements.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.