OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
FOR RELEASE July 24, 2003 515/281-5515

Auditor of State David A. Vaudt today released a report on the University of Northern Iowa for the year ended June 30, 2002. The University of Northern Iowa previously released its annual financial report for the year ended June 30, 2002.

The University of Northern Iowa is governed by the Board of Regents. For the fiscal year ended June 30, 2002, the full-time equivalent student enrollment was 12,186 with an average cost per student of $8,861, compared to 11,947 students and an average cost per student of $9,496 for the fiscal year ended June 30, 2001.

The University had total revenues and other additions of $228,549,419 for the year ended June 30, 2002, which included $38,351,612 of tuition and fees (net of scholarship allowances of $10,360,867), $101,645,241 from state appropriations, $28,149,689 from grants and contracts, and $34,576,672 from auxiliary enterprises.

The University had total expenses of $217,191,390 for the year ended June 30, 2002, which included $58,352,384 for instruction, $25,292,575 for operation and maintenance of plant and $33,384,483 for auxiliary enterprises. Also, $8,705,326 was expended for principal and interest on capital debt and leases.

A copy of the report is available for review from the University of Northern Iowa or the Office of Auditor of State.

# # #

REPORT OF RECOMMENDATIONS TO THE UNIVERSITY OF NORTHERN IOWA

JUNE 30, 2002

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

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

July 10, 2003

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

The University of Northern Iowa 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 (CAFR) and the State's Single Audit Report for the year ended June 30, 2002. We have also audited the financial statements of the University as of and for the year ended June 30, 2002 and have issued our report thereon dated December 20, 2002.

In conducting our audits, we became aware of certain aspects concerning the 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. The recommendations pertain to the University's internal control, compliance with statutory requirements and other matters which we believe you should be aware of. These recommendations have been discussed with University personnel, and their responses to these recommendations are included in this report.

In accordance with Section 11.28 of the Code of Iowa, we have also included unaudited financial and other information for the University on page 12 for the six years ended June 30, 2002.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the University of Northern Iowa, citizens of the State of Iowa and other parties to whom the University of Northern 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 University during the course of our audits. Should you have any 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 11 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

University of Northern Iowa

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

(A) Bank Reconciliation – During the period August 1, 2001 through June 30, 2002, the University worked on bank reconciliations, but did not finish the reconciliations or resolve all the identified variances.

Recommendation – To improve financial accountability and control, reconciliations of the book and bank balances should be completed monthly and retained. Any variances should be investigated and resolved timely.

Response – In fiscal year 2003 all bank reconciliations were completed on a timely basis. There are no unidentified variances at this time.

Conclusion – Response accepted.

(B) Segregation of Duties for Journal Entries – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The following items were noted:

(1) Two individuals within the Controller's office can prepare, approve, enter and post journal entries.

(2) Numerous journal entries posted to the system did not contain adequate descriptions or supporting documentation.

Recommendation – Duties should be segregated so that one individual can not prepare, approve, enter and post transactions/documents. The purpose of the journal entry should be clearly described. In addition, documentation should be prepared and maintained to support the journal entry.

Response – We agree that one person should not prepare, approve, enter and post journal entries. Steps will be taken to segregate duties in the accounting section of the Controller's Office to the extent possible given a small accounting staff. The Controller will make an after-the-fact review of all journal entries on a monthly basis. This will serve as the approval step for internal control purposes.

Most journal entries are prepared by system users in various University departments rather than by accountants in the Controller's Office. Users are required to submit journal entries electronically. They have the option of submitting a paper copy of the journal entry and supporting documentation to the Controller's Office for filing or filing it in their department.

We will ensure that journal entries prepared by users include adequate descriptions and supporting documentation. As an added internal control step, we will ask the Operations Auditor's staff to inspect journal entries filed in University departments to ensure adequate supporting documentation is attached.

Conclusion – Response accepted.

(C) Accruals – The University's accounting system allows staff to input the date goods and services are received. Based on this date, the system records a payable or prepaid expense. The following items were noted:

(1) Thirty-nine expenditures for goods and services received and paid after June 30, 2002 were improperly recorded initially as prepaid expenses.

(2) Twenty-four of the 75 payables for goods and services tested were received after June 30, 2002. These items were initially coded incorrectly as fiscal year 2002 accounts payable.

Recommendation – The University should develop and implement procedures to ensure transactions posted in the accrual period are reviewed and recorded in the proper period.

Response – Accounting staff closed the books using Oracle Financials for the first time in July 2002. Staff were unable to anticipate the problem of items recorded late in fiscal 2002 being treated as both a prepaid expense and as accounts payable.

To avoid lapses in library subscriptions and maintenance contracts, we must pay vendors in advance of the effective date. Our accounts payable software was set up to pay most vendors on a "net-30" day basis, which caused a number of items that should have been paid for before June 30th to be paid in July. This resulted in items being recorded as a prepaid expense and as accounts payable. Upon discovery of this situation we adjusted our financial statements prior to release of our Annual Financial Report to properly reflect the transactions.

To avoid this situation from recurring in fiscal year 2003, checks will be written on June 30th to purge the system of most accounts payable. On the evening of June 30th a listing of prepaid expenses will be run to prevent any possible overlap of prepaid expense and accounts payable.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

(1) Tuition Rate – Students participating in the 2002 Camp Adventure program paid tuition of $285 for 12 credit hours. The normal resident tuition rate for 2002, as established by the Board of Regents, was $130 per credit hour. These credit hours can be used to fill general elective hours. Although the program credits students for 12 general elective hours, certain departments within UNI do not recognize the full 12 hours toward achieving a major. For example, the Department of Education will allow a student, with prior authorization, to use 6 of these hours to fill elective hours within the education major. In addition, neither UNI nor the Board of Regents could provide documentation authorizing the tuition rate of $285.

Recommendation – The University, Camp Adventure and the Board of Regents should review and determine the tuition and number of credit hours to be awarded for the program.

Response – Camp Adventure contracts with the U.S. military to fund the full cost of instruction of Camp Adventure participants. The University does not bill tuition when a governmental grant or contract pays for the full cost of instruction and the grant or contract prohibits the University from charging for tuition. The management of Camp Adventure chooses to assess a nominal fee that is labeled "tuition" to assist with the cost of marketing the program to military clients.

We will seek a solution to this recommendation prior to the summer 2004 Camp Adventure program.

Conclusion – Response accepted.

(2) Indirect Costs – Camp Adventure contracts with various federal government organizations to provide youth camp services at various locations around the world. The contract with each location is negotiated separately. Indirect costs of 10%, based on direct costs, are included in the contract price. Fifty percent of the indirect costs recovered are used by the Camp Adventure program for salaries and other expenses. The remaining 50% is forwarded to the General Fund of the University for overhead expenses. The indirect cost rate of 10% could not be supported by adequate documentation.

Recommendation – The University should perform an analysis to determine the actual costs associated with the Camp Adventure program and whether the indirect costs recovered are adequate to cover the associated costs.

Response – The University will analyze the cost of supporting the Camp Adventure program using a number of indirect cost models. An indirect cost rate will be determined that is equitable to the University and to Camp Adventure.

Conclusion – Response accepted.

(3) Requests for Payment – Camp Adventure is reimbursed for expenditures associated with providing services, which includes travel costs and per diem reimbursements, upon the completion of each summer program. The University uses General Fund monies to cover the costs of the program until reimbursement is received from the contractors. The Camp Adventure contracts include a stipulation that allows Camp Adventure to request reimbursement for airline tickets purchased for participant travel prior to the completion of the summer camps. Camp Adventure is not requesting reimbursement of these costs until the program is complete. As a result, the University is funding this program and these funds are not available for investment by the University.

Recommendation – Camp Adventure should request reimbursement of expenses as soon as allowable under the various contracts.

Response – Two Camp Adventure contracts permit billing military organizations in two installments. Air Force Non-Appropriated Fund contracts specify payment upon completion of the contract. Camp Adventure management will attempt to negotiate two payments per year in the case of existing multi-year contracts. They will attempt to negotiate two payments per year in the case of new contracts.

Conclusion – Response accepted. In addition, Camp Adventure should request reimbursement in accordance with contract terms.

(4) Expenditures – The following expenditures did not include documentation of the purpose of the expenditure, or how it benefits the Camp Adventure program.

(a) Purchase of blazers, pants and other clothing items for training staff. University policy does not allow the purchase of uniforms unless covered by the Collective Bargaining Agreement. Some of the items were later returned.

(b) Purchase of a VCR.

(c) Purchase of 2 TV/VCR combination units. The invoice noted they were to be used as prizes.

(d) Purchase of 2 Karakoe machines. The invoice noted they were to be used as prizes.

(e) Purchase of Christmas decorations from Hobby Lobby.

(f) Expenditure to Hobby Lobby for which documentation did not include a description of the items purchased.

(g) Purchase of etched mugs and souvenirs.

(h) Purchase of magnetic business cards and drink tumblers for recruiting.

(i) Purchases of food and beverages for which no purpose was noted.

(j) Purchase of supplies (soft drinks, snacks) for a leadership seminar held in Orlando, Florida

(k) Tuition payment to the University of Iowa for an employee of Camp Adventure.

(l) Payment to process the Immigration and Naturalization VISA for a Camp Adventure employee.

(m) Payment of $1,307 for a ticket from Milan, Italy to Chicago. We were unable to determine the original itinerary due to a lack of documentation.

(n) Various travel claims submitted by supervisors included expenditures that related to VIP tours. Expenditures included meals, travel and gifts. The purpose of these VIP tours was not documented. The University policy on "Hospitality Expenditures" requires that the business purpose and those individuals present be documented. According to Camp Adventure staff, these VIP tours are considered marketing tools.

(o) Purchases of supplies for various camp locations and camp participants. Receipts did not always identify the supplies or how they will be used. Some supplies included soft drinks and sundry items.

(p) Additional costs were incurred for airline ticket changes. The reason for the change was not documented.

(q) Payments for items not associated with the individual submitting the claim. The name of the individual was noted on the claim. However, there was no information as to how the individual was associated with Camp Adventure.

(r) Purchase of a computer and printer processed on a travel claim. The claim noted the purchase was for camp supplies. These items were not included on Camp Adventure's capital asset listing, and the location of the items was not documented.

(s) Supporting documentation for various expenditures was hand-written. (Ex. train fares).

Recommendation – The University should review and document the public purpose or the benefit received for non-routine expenditures.

Response – Camp Adventure personnel will routinely document the public purpose of expenditures when the purpose of the expenditure is not obvious.

Conclusion – Response accepted.

(5) Travel Expenditures – Prior to departing for the various locations, students and supervisors receive a cash advance for expenditures, including the per diem, travel between sites, lodging and other expenses. We reviewed 17 supervisor claims and noted the following:

(a) For six of the 17 claims reviewed, individuals were reimbursed for all expenses, in excess of the authorized amount. For the remaining 11 claims, the individuals were only reimbursed up to the authorized amount, although expenses were identified that exceeded the authorized amount. All claims reviewed included similar expenses, such as staff development meals, travel, hotel, phone and other expenses.

(b) Three individuals received travel advances in excess of actual expenditures. These individuals retained the excess cash advance. The University's policy is to include the unreturned portion as income on the employees W-2.

(c) We observed that two people traveling to the same location were treated differently when reimbursed for expenses. One individual was reimbursed for all expenses incurred, while the other individual was not reimbursed for all expenses.

Recommendation – The University should review all claims to ensure that all necessary and reasonable expenses incurred while on University business are reimbursed up to the authorized amount.

Response – We will respond separately to the three comments.

(a) Effective summer 2003, Camp Adventure management prepared personal service contracts for its supervisors to document the types of expenses and the maximum amount the program will reimburse. The contracts include instructions for obtaining pre-approval of purchases which cannot be anticipated.

(b) The Auditor is correct that three Camp Adventure supervisors received travel advances in excess of the expenditures they could document. Camp Adventure management made several attempts to obtain documentation of additional valid expenses or repayment of the sum advanced. In accordance with University policy, the funds not returned were coded as taxable income. The mentioned supervisors will not be permitted to participate in the program in the future.

(c) Except in unusual circumstances, supervisors who travel to the same place and spend the same number of days at that location should receive the same expense reimbursement. Camp Adventure management will consistently apply its reimbursement policy to all supervisors. Exceptions to the policy will require documentation by Camp Adventure management.

Conclusion – Response accepted.

(6) Personal Service Contracts – Camp Adventure maintains offices and staff at each of its 12 partner universities. These individuals help in recruiting and marketing the Camp Adventure program at these schools and schools in the surrounding area. In addition, they also help provide training to the students who enroll in the program. In some cases, these individuals are considered staff of the partner university, while others are independent contractors. Camp Adventure does not have personal service contracts with the various consultants and staff who are not UNI employees.

Recommendation – The University should require the use of personal service contracts for all staff who are not on the University's payroll. The contract should include the duration of the contract, compensation plan, job description, performance requirements, and any additional information needed regarding reimbursing expenses.

Response – Camp Adventure management will contract with partner universities for services where possible. Where that is not possible, Camp Adventure will prepare personal service contracts with the individuals.

Camp Adventure management began using personal services contracts effective summer 2003.

Conclusion – Response accepted.

Staff:

Questions or requests for further assistance should be directed to:

Michelle B. Meyer, CPA, Manager
James S. Cunningham, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Darryl J. Brumm, CPA, Senior Auditor II
Gary D. Van Lengen, CPA, Staff Auditor
Jeffery M. Evans, Assistant Auditor
Donald N. Miksch, Assistant Auditor
Nicole B. Tenges, Assistant Auditor

University of Northern Iowa

Cost per Student
(Unaudited)

Year ended June 30, 2002
with comparative figures for prior years

Total General Educational Fund expenditures (expressed in thousands)		$ 117,744
Deduct:		
Expenditures not related to teaching programs: (expressed in thousands)		
Research separately budgeted	$ 650	
Extension and public service	2,582	
Student aid	6,537	9,769
Net disbursements for teaching programs		$ 107,975
Full-time equivalent enrollment 2001-2002		12,186
Cost per student 2001-2002		$ 8,861

Comparative enrollment statistics and cost per student for the year ended June 30, 2002 and five previous years.

Year	Enrollment	Cost per Student
2001-2002	12,186	$ 8,861
2000-2001	11,947	9,496
1999-2000	11,804	9,264
1998-1999	11,589	8,987
1997-1998	11,577	8,445
1996-1997	11,541	8,116