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AUDIT MEMORANDUM

TO: Regent Teresa A. Wahlert, Audit and Compliance Committee Chair
Board of Regents, State of Iowa

FROM: Todd T. Stewart, Internal Audit Director
Board of Regents, State of Iowa

DATE: December 22, 2005

SUBJECT: FY2006 Mid-Year Progress Report on Universities' Compliance with Regent
Partnership Plan for Transformation & Excellence

SUMMARY

Per your request, Internal Audit has completed a mid-year review of progress made by the Regent universities in implementing the initiatives of the *Regent Partnership Plan for Transformation & Excellence* (Plan) for FY 2006. This memorandum is an enterprise-wide report which includes the results of the review at all three Regent universities. In summary, all three universities have established internal controls to account for and track Plan sources and uses, and each university is making reasonable progress in fulfilling overall Plan objectives.

Since the FY 2006 Plan objectives are still in progress as of this mid-year review, this interim review is not expected to provide definitive conclusions of whether the universities will fully meet the objectives of the Plan. In July 2006, after the first full year of the Transformation Plan is complete, we will complete the comprehensive review that will allow us to conclude whether the universities are materially in compliance with all legislative provisions and provide additional assurance on whether the universities made progress toward their strategic goals during FY 2006.

BACKGROUND

The *Regent Partnership Plan for Transformation & Excellence* is a four-year effort that combined a steady increase in state appropriations in return for limiting tuition increases and a commitment to reallocate internal funds toward critical needs of the universities. During the 2005 legislative session, the Legislature provided the universities with \$24 million in additional state appropriations for FY 2006.

The Regents asked the Internal Audit Director to review the implementation of the Plan at each university. The review is to provide an assurance that the universities are complying with the strategic initiatives of the Plan, using the new incremental and reallocated funding for the spending priorities outlined in the Plan, and determining whether the universities are reallocating funds as agreed to in the Plan and in accordance with the Regents' policy for reallocations.

SCOPE

The scope of this review includes all new FY 2006 revenue and reallocations and the uses of these funds as defined by state legislation, the Plan, Board policy, and university budgets. Each university's budget, as approved by the Board of Regents at its June 2005 meeting, was used as the main resource for this review. The following charts summarize all funding sources and uses included in the scope:

SUMMARY OF SOURCES OF NEW REVENUES & REALLOCATIONS FOR FY 2006

	SUI	ISU	UNI	Total
New Incremental State Funding	\$9,908,000	9,687,693	4,503,617	24,099,310
Tuition Increase	8,200,000	7,649,175	1,150,000	16,999,175
New Other Income	<u>1,850,000</u>	<u>602,590</u>	<u>200,000</u>	<u>2,652,590</u>
Subtotal New Revenue	19,958,000	17,939,458	5,853,617	43,751,075
Planned Reallocations	<u>10,850,000</u>	<u>9,153,451</u>	<u>4,788,534</u>	<u>24,791,985</u>
Total	<u>\$30,808,000</u>	<u>27,092,909</u>	<u>10,642,151</u>	<u>68,543,060</u>

Source: Agenda items 11b (SUI), 11c (ISU) and 11d (UNI) from Board of Regents June 13-14, 2005 meeting.

SUMMARY OF BUDGETED USES OF NEW REVENUES & REALLOCATIONS FOR FY 2006

	SUI	ISU	UNI	Total
Salaries and Benefits	\$18,079,170	17,755,635	7,763,040	43,597,845
Supplies & Services	3,227,830	4,528,590	404,574	8,160,994
Library Acquisitions	571,000	100,000	-	671,000
Utilities	2,310,000	300,000	853,125	3,463,125
Building Repairs	3,280,000	2,500,000	1,171,875	6,951,875
Equipment	-	200,000	(50,463)	149,537
Student Aid	<u>3,340,000</u>	<u>1,708,684</u>	<u>500,000</u>	<u>5,548,684</u>
Total	<u>\$30,808,000</u>	<u>27,092,909</u>	<u>10,642,151</u>	<u>68,543,060</u>

Source: Prepared by Internal Audit from documentation provided by university budget personnel.

AUDIT PROCEDURES

We have performed the procedures described below through October 31, 2005;

- Reviewed the strategic initiatives as part of the overall Plan.
- Verified on a sample basis that new incremental funding amounts and budget reallocations were incorporated into each university's financial information system.
- Performed analytical procedures to determine if budgeted revenues are being received as expected and as reflected in the Plan.
- Determine each university's progress in implementing selected strategic initiatives by discussing status of implementation with university administrators, reviewing expenditure detail, and examining source documentation.
- Performed analytical procedures to determine if funds are being expended on the strategic initiatives as identified in the Plan.

MID-YEAR ANALYSIS

Revenues

Approximately 55% of the new budgeted revenues are in the form of the additional appropriation made by the State Legislature. Approximately 39% of the new revenues are from increases in budgeted tuition and fees. While state appropriations are on track, actual tuition and fees received to date are somewhat behind projections. The universities anticipate that increased budgeted tuition revenues will be substantially realized by year end.

The remaining 6% of new budgeted revenues are attributable to other income, which includes indirect cost recovery, miscellaneous fees, and interest income. These revenues are more difficult to project whether they will be fully realized by year end.

Summary

Based on discussions with university budget officials, they do not believe projected shortfalls in revenue will significantly impact the spending on the strategic initiatives of the Plan. If new revenue collections do not meet expectations for FY 2006, expenditure cutbacks may need to be made by the universities.

PLAN ACCOUNTABILITY AND COMPLIANCE

Based on discussions with university officials and our review, we have been able to confirm that the universities have appropriately adopted the Plan, committed the funding in their financial systems, and have provided a mechanism for tracking its use. Additional observations relative to each university are as follows:

University of Iowa –

On a sample basis, we tested whether the amounts committed to the initiative were subsequently budgeted into the university's financial system. We tested 71% of the \$30.8 million committed to the plan and found no significant exceptions. The university's Provost Office worked with the university's Budget Development Office to ensure the budgeted initiatives were fully incorporated into the budget system. This allowed us to identify the purpose and amount of each initiative and trace those amounts to the proper budget accounts.

The only significant change not detailed by the university was an expansion of the objective to increase faculty salary competitiveness. Units are in the process of making decisions regarding implementing a mid-year faculty salary increase. Additional details will be available in January. \$1.3 million has been committed for use in a mid-year faculty salary increase. The source of these funds is from new (\$0.5 million) and reallocated (\$0.8 million) resources.

Iowa State University –

Early in the fall 2004, ISU began developing strategic initiatives for purposes that would yield progress on the university's 2005 – 2010 strategic plan, and demonstrate compliance with the Regents' reallocation policy. The university used a commercial web-based software package to facilitate the reallocation process. The software allowed web-based entry of each proposed reallocation, sign-off following three levels of administrative approval, and generation of a range of different summary reports. The system allows the university to identify the source, current use, destination, and future use of each reallocation. The system will also allow the university to track each reallocation in future years to help provide assurance that ISU is in compliance with the Regents' reallocation policy. On a sample basis, we determined amounts allocated to specific initiatives were incorporated into ISU's budget system.

University of Northern Iowa –

UNI developed its strategic initiatives through its normal budgeting process. UNI's FY 2006 reallocation budget transfers are contained in the budget system and were available in UNI's financial information system in July 2005. As a result, 100% of UNI's strategic initiatives for FY 2006 were incorporated into UNI's financial information system. On a sample basis, we verified that UNI has adequately established, implemented, and is tracking the strategic initiatives provided to the Board at the June 2005 Board meeting in its financial information system.

In addition, strategic initiative detail was reviewed for compliance with the intent of the Plan and with the Board's new reallocation policy. Based on that review, approximately sixteen reallocation items totaling \$656,247 were for positions/programs that were reallocated in FY 2005 and already existed prior to July 1, 2005. UNI should work with the Board Office to determine if these reallocation items are allowable or if they should be reassigned to different positions/programs before the end of fiscal year 2006.

PLAN PROGRESS AND SUMMARY

We analyzed each university's strategic initiatives to assess the progress that has occurred through the end of October 2005. Much of our analysis involved reviewing year to date expenditures in the expense categories identified as priorities such as salaries, building repairs and student aid. Detailed information regarding specific initiatives is available upon your request.

Overall our analysis shows that the universities are making significant progress in achieving their strategic initiatives as reflected in the Plan and in accordance with Board Policy.

AUDIT MEMORANDUM DISTRIBUTION:

Gary Steinke, Executive Director, Board of Regents, State of Iowa

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