



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ October 24, 2017

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released a report on Iowa State University of Science and Technology, Ames, Iowa for the year ended June 30, 2016. Iowa State University of Science and Technology previously released its annual financial report for the year ended June 30, 2016.

Iowa State University of Science and Technology is governed by the Board of Regents. For the year ended June 30, 2016, the full-time equivalent student enrollment was 35,379 with an average cost per student of \$13,364, compared to 34,025 students and an average cost per student of \$13,453 for the year ended June 30, 2015.

Mosiman recommended the University ensure all purchases have a clear business purpose and also strengthen controls over preparation of the Schedule of Expenditures of Federal Awards (SEFA).

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 <https://auditor.iowa.gov/reports/1761-8020-BR00>.

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

JUNE 30, 2016

Iowa State University of Science and Technology



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October 9, 2017

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


Iowa State University of Science and Technology (Iowa State University or 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, 2016. We have also audited the financial statements of Iowa State University as of and for the year ended June 30, 2016 and have issued our report thereon dated December 14, 2016.

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 page. We believe you should be aware of these recommendations, which relate to the University's internal control. This recommendation has been discussed with university personnel and their response to the recommendation is 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 included certain unaudited financial and other information on page 11 to report an average cost per student for Iowa State University for the five years ended June 30, 2016, as required by Section 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 10 and they are available to discuss these matters with you.


MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa State University of Science and Technology

Report of Recommendations to Iowa State University

June 30, 2016

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

No matters were noted.

Other Findings Related to Internal Control:

The Iowa State University Foundation (Foundation) is a non-profit organization established to benefit Iowa State University. According to Iowa State University policy titled, "ISU Foundation Funds" gifts to the Foundation are to be used to support the mission of the University. The policy also requires expenditures from ISU Foundation accounts to relate to a University activity or function, support the University's advancement and are expected to be commensurate with the probable benefit to the University. The policy states, "Foundation funds are not to be used for the personal benefit of University employees and must be used prudently." The policy states, "The appropriate, allowable and documented expenditures policy, University procurement policies and donor memorandum of agreement apply to funds provided to Iowa State University via the ISU Foundation." The policy further states adequate documentation must be provided indicating appropriateness, reasonableness, and the business purpose of expenditures.

Further, policy 1.4 of the University's departmental procurement procedures states, among other things, with the exception of 206 vending funds, all funds deposited with the University, regardless of source are University funds and are to be handled in accordance with University and Regent procurement policies. This policy also states funds originating through the ISU Foundation are transferred to the University as 497 funds and these funds are treated like any other University fund with certain exceptions. University policy allows these funds to be used to support the mission of the University including events where alcohol is served, as long as it is consistent with the donor's intended use for these funds.

We scanned expenditures from the ISU Foundation 497 account on the Iowa State University accounting system titled the Greater University Fund for Excellence (GUFFE). The Greater University Fund for Excellence has been utilized by the President's Office to foster relationships with potential donors to the University Foundation. The expenditures from this fund were made for the purpose of fundraising for the Foundation and were ultimately paid by private Foundation funds. Current practice expects the University President to assist the Foundation with fundraising. We also reviewed the ISU Internal Audit Report dated December 12, 2016 and the workpapers prepared by the ISU Internal Audit Department and concur with Internal Audit's findings.

We performed additional limited fieldwork and reported on one specific issue identified in the following comment and recommendation.

- (A) Aircraft Purchase and Usage – At the time of the purchase of the Cirrus SR-22, policy 8.2 of the departmental procurement procedures required equipment with a unit cost greater than \$250,000 to be submitted to the Board Office for approval. For large purchases in prior years, Board Office approval included a justification from the University to the Board Office and the written signature of the Executive Director approving the purchase.

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In July 2014 the University used ISU Foundation 497 accounts to purchase a Cirrus SR-22 aircraft. The University recorded a \$498,000 gift at the time of the donation which properly reflected a \$28,000 trade-in of a Piper PA-28-161 (Piper Cherokee) owned by the University. ISU internal audit staff discussed the purchase with the Executive Director of the Board of Regents who confirmed he was aware of the purchase of the aircraft in advance, however, the evidence of approval is a memo signed by then Senior Vice President for Business and Finance stating the Board Office was informed of the transaction and indicated approval to proceed. Written approval by the Executive Director of the Board Office was not obtained.

The ISU Internal Audit Department performed a review of the trips taken on the Cirrus SR-22 and we have reviewed that documentation. The ISU Internal Audit Department identified 76 trips on the aircraft which included 52 trips for the President to obtain an instrument rating. We also obtained the hobbs meter reading for the Cirrus SR-22 from the University. The hobbs meter reading identifies the amount of time the aircraft engine is running including ground operations such as taxi and engine checks. From the time the University purchased the aircraft in July 2014, the airplane logged a total of 264.8 hours on the hobbs meter, or an average of 88 hours per year in the three years it was owned. We have not identified a requirement for the University President to be a licensed pilot. Based on the limited use of the Cirrus SR-22 for flights with clear business purposes, we question whether the purchase served a University purpose.

One of the Cirrus SR-22 flights occurred on March 12, 2016, the start of spring break, in which Mr. Leath and a University pilot flew the aircraft from Ames to Mr. Leath's home in Ashe County, North Carolina and the other pilot brought the aircraft back to Ames. The flight was noted as instrument flight rules (IFR) training for the University pilot. On March 15, 2016, the King Air left Ames and arrived in Ashe County, North Carolina and the following day left Ashe County, North Carolina for various locations finally arriving back in Ames on March 19, 2016. The business purpose subsequently provided by the University was to present a speech, attend a University programs meeting in Pittsburgh and an ISU mens basketball game in Denver, Colorado. Because the trip was used to transport former President Leath to his home in North Carolina the business purpose for the Cirrus SR-22 trip on March 12, 2016 is not clear and no further explanation has been provided. According to the flight log provided by ISU Internal Audit Department total flight time was 9.1 hours. Records do not exist to determine if any portion of this flight was reimbursed by former President Leath.

Recommendation – The University should ensure all purchases have a business purpose, the business purpose is documented when not clearly evident and are made in accordance with procurement policies including obtaining written approval from the Board Office when required. Because at least part of the March 12, 2016 flight did not have a clear University business purpose and the former President has reimbursed for other flights when a clear business purpose was not present, the University should determine what portion of the flight was personal and consider seeking reimbursement from former President Leath.

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Response –

Expenditures from the GUFFE Account for the Purchase of the Cirrus SR22 were Consistent with University Policy and with Donor Intent

As the Audit report references, the GUFFE account is primarily used by the President's Office for fostering and developing relationships with alumni, students, potential donors, and the broader University community for the overall benefit of the University. The Cirrus was purchased, in part, as a tool to create and foster these important relationships and for fundraising purposes. According to University policy, ISU Foundation Funds may be used for hospitality expenses related to employee, alumni, and student events, and are expected to be commensurate with the probable benefit to the University. Additionally, as specifically noted in the Allowability & Appropriateness manual, "[s]ince building relationships with alumni and fundraising are integral parts of University administration," fundraising expenses can be paid for from "any source except sponsored programs funding." The primary test for "allowability" for the use of Foundation Funds, is compliance with donor intent. Costs associated with fundraising are specifically authorized as an appropriate type of expenditure from ISU Foundation Funds, as long as such expenditures are consistent with donor intent. All ISU Foundation Funds placed in the GUFFE account are either unrestricted donations to be used at the discretion of the ISU Foundation or were donated specifically for the use of the President at his/her discretion. No expenditures from GUFFE were inconsistent with donor intent.

Because the Cirrus was purchased as a tool for fostering and building relationships and to facilitate the President's fundraising activities, the use of Foundation Funds to purchase the aircraft was consistent with University policy. Additionally, use of Foundation Funds for the purchase of the Cirrus was consistent with donor intent because the funds used were unrestricted.

Board of Regent Approval of the Purchase and Use of the Cirrus SR22

As noted in the Internal Audit report dated October 20, 2016, at the time the Cirrus was purchased Board of Regents approval was not required for purchases of equipment costing less than \$1,000,000. Since the price of the Cirrus was well below this threshold, no Board approval was required. Section 8.2 of the 2014 procurement manual provided that purchases of equipment with a purchase price between \$500,000 and 1,000,000 should be "submitted to the Board Office for approval." With respect to the purchase of the Cirrus, this provision was followed. Then Senior Vice President (SVP) Warren Madden submitted the purchase to the board office for approval, which was granted. Auditors were provided a written memo by Mr. Madden documenting his conversation with then Board of Regents Executive Director Bob Donnelly who "indicated approval to proceed" with the purchase. It is the University's understanding that internal auditors spoke with Executive Director Donnelly who confirmed that he approved the purchase as noted in Mr. Madden's memo. The current version of this policy adjusts the expenditure levels for Board of Regent approval, but no longer contains a provision for "Board Office" approval of expenditures.

Additionally, the University appropriately documented the business justification for the purchase of the Cirrus. A purchase order for the Cirrus was submitted and approved according to policy. The purchase order provided a documented business purpose for the purchase. The Cirrus was purchased to replace an existing older aircraft. As listed on the purchase order request submitted by SVP Madden, the Cirrus was purchased "to improve

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University Transportation Services” because the Cirrus was safer, faster, and more efficient than the small aircraft previously owned by the University. By approving the purchase, Mr. Madden and Executive Director Donnelly approved the business justification for the expenditure of funds to purchase the aircraft. Expenditures for the purchase of the Cirrus were within Mr. Madden’s approval authority and discretion. All policies applicable to the purchase of the aircraft were followed. Changing circumstances at the University, including former President Leath’s decision not to continue flying University aircraft and the retirement of another of the University’s pilots, led the University to reevaluate the continuing need for a second University aircraft. It was ultimately determined that the Cirrus was no longer needed. Accordingly, on June 12, 2017, the Cirrus was sold for \$450,000, 90% of the original purchase price. Contrary to the audit report’s conclusion, the fact that circumstances changed and use of the Cirrus lessened over time does not call into question the business justification of the original decision or suggest that there was not a legitimate business justification for the purchase in the first place.

March 12, 2016, Cirrus Flight

In order to be insured to fly the Cirrus all pilots had to be instrument rated and proficient on the University’s aircraft. It is correct that the University President is not required to be a licensed pilot. However, President Leath’s ability to fly was widely reported and was known by the University and the Board of Regents. At the time, the thinking was that the President’s ability to fly the plane would allow him to more efficiently travel on University business and the Cirrus would also be used by other University pilots in the same way as the smaller plane had been used in the past. Because pilot training on University aircraft is required by University insurers and is also necessary to protect University assets and enhance the safety of University officials traveling on University business, pilot training provides a benefit to the University and is a legitimate business purpose justifying the use of University aircraft.

As noted by the audit report, the business purpose of the March 12, 2016, Cirrus flight was for IFR compliance for one of the University’s full time pilots. As part of the prior comprehensive review of the University Flight Services by Regent Internal Audit, this pilot was interviewed and confirmed the business/compliance purpose of this flight. President Leath’s presence on this flight also provided a business purpose and benefit to the University. As the University pilot confirmed, President Leath was the most experienced University approved pilot on the Cirrus SR22 aircraft and provided oversight for the full-time pilot’s IFR compliance. While President Leath did also receive a benefit from this flight, being transported to North Carolina, neither internal audit nor the State Auditor have identified any additional cost to the University from the fact that the full-time pilot’s IFR compliance flight was taken to North Carolina rather than some other random location. Additionally, President Leath’s assistance to the University’s full- time pilot’s IFR requirement provided a benefit to the University.

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As alluded to in the audit report, President Leath subsequently made a payment to the University of \$14,575.00, which represented the cost of 55 hours of training on the Cirrus at \$265.00 per hour. President Leath also made payments of several thousand dollars for flights that had a mixed business/personal purpose as agreed to by Executive Director Donnelly. It is the University's understanding that the hours of training were arrived at between President Leath and Executive Director Donnelly based on a review of President Leath's private flight log. It is unclear whether the flight noted by the auditors was included in the calculation of training hours or not. This flight, however, was not identified in the comprehensive internal audit or by Executive Director Donnelly as one of the mixed business/personal flights for which a payment would be made. The University believes that the flight had a legitimate business purpose and no further reimbursement is required.

Conclusion – Response acknowledged. At the time of the purchase of the Cirrus SR22, equipment with a unit cost greater than \$250,000 was required to be submitted to the Board Office for Executive Director approval. Other purchases exceeding \$250,000 included the written signature of the Executive Director of the Board Office. In August 2016, the procurement policy was changed from requiring Board Office approval for equipment with a unit cost greater than \$250,000 or a total purchase cost of \$500,000 to equipment costing greater than \$1,000,000. The University should ensure all purchases have a business purpose and the business purpose is clearly documented.

- (B) Schedule of Expenditures of Federal Awards (SEFA) – A deficiency in internal control over the SEFA preparation 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 of the SEFA on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the University's SEFA. During the audit, we identified material amounts of expenditures not included on the SEFA and other expenditures were misclassified. Adjustments were subsequently made by the University to properly report the amounts.

Recommendation – The University should implement procedures to ensure expenditures are properly reported on the University's SEFA.

Response – The University will implement additional procedures to ensure the accuracy of the accounts listed and that all expenditures are properly reported on the University SEFA. These procedures will include an additional review of the report prior to submission. This review will be conducted by another employee within Sponsored Programs Accounting.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to Iowa State University

June 30, 2016

Staff:

Questions or requests for further assistance should be directed to:

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Janet K. Mortvedt, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

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Report of Recommendations to Iowa State University

Cost per Student
(unaudited)

Year ended June 30, 2016
with comparative figures for prior years

Total General Educational Fund expenditures		\$ 625,299,084
Deduct:		
Expenditures not related to teaching programs:		
General University research	\$ 11,246,284	
Public service	4,241,552	
Scholarships	<u>136,998,328</u>	<u>152,486,164</u>
Net expenditures for teaching programs		<u>\$ 472,812,920</u>
Full-time equivalent enrollment 2015-2016		<u>35,379</u>
Cost per student 2015-2016		<u>\$ 13,364</u>

Comparative enrollment statistics and cost per student for the year ended June 30, 2016 and the four previous years:

<u>Year</u>	<u>Enrollment</u>	<u>Cost per Student</u>
2015-2016	35,379	\$13,364
2014-2015	34,364	13,453
2013-2014	33,171	12,585
2012-2013	31,119	12,661
2011-2012	29,775	12,629