

STATE OF IOWA

**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**

JUNE 30, 2008

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Chester J. Culver

Governor

Charles J. Krogmeier

Director, Department of Management

Legislative Branch

John P. Kibbe

President of the Senate

Patrick J. Murphy

Speaker of the House of Representatives

Glen Dickinson

Director, Legislative Services Agency

Judicial Branch

Marsha K. Ternus

Chief Justice of the Supreme Court



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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 Governor and Members of the General Assembly:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 10, 2008 under separate cover. Our report was modified to include a reference to other auditors. We conducted our audit 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. Other auditors audited the financial statements of the Tobacco Settlement Authority, a major governmental fund, and certain discretely presented and blended component units, as described in our report on the State of Iowa'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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the State of Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Iowa's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the State of Iowa's financial statements that is more than inconsequential will not be prevented or detected by the State of Iowa's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting. We also noted other matters involving the internal control over financial reporting which will be reported to management in separate departmental reports.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the State of Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance 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 separate departmental reports.

The State of Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the State's responses, we did not audit the State of Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the State of Iowa and other parties to whom the State of Iowa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 23, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. Findings were noted for the following departments:

(1) **Iowa Department of Administrative Services**

(a) The GAAP package contains information used to prepare journal entries for the financial statements. The following items were noted:

1. The Department understated the amount of unassigned vehicles inventory by \$169,243. This item was properly adjusted for reporting purposes.
2. The Department understated the risk financing liability by \$39,782.

(b) The GAAP package also contains information used to prepare notes to the financial statements. The following items were noted:

1. The Department overstated the carrying amount of cash by \$723,320 and understated the bank balance by \$33,548. In addition, the amounts reported as funds insured by either the Federal Deposit Insurance Corporation or the State Sinking Fund were incorrect. These items were properly adjusted for reporting purposes.
2. The Department understated future minimum lease payments by \$952,580 and understated fiscal year 2008 rental expense by \$142,250. These items were properly adjusted for reporting purposes.
3. The Department understated the amount of construction commitments by \$43,300.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – As noted above, the Department had corrected most of the items listed above, and will implement processes to ensure these errors will be corrected for future audits.

Conclusion – Response accepted.

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(2) **Iowa Department of Economic Development**

The Department reported the receipts for certain loans as investment income on the GAAP package. However, these receipts were coded as refunds and reimbursements revenue on the I/3 system. This information in the GAAP package is used to prepare journal entries for the financial statements. As a result, investment income was understated and refunds and reimbursements were overstated by approximately \$1,750,000.

Recommendation – The Department should ensure the GAAP package information reported is accurate.

Response – In the future, the Department will note on the GAAP package the revenue coding used to record loan payments to ensure the correct revenue code is reported to DAS-SAE.

Conclusion – Response accepted.

(3) **Iowa Department of Education**

The Department performs additional procedures after September 1 to identify additional accounts payable which were not included as expenditures on the I/3 system. However, at June 30, 2008, there were approximately \$4.3 million in requests for payments submitted by subrecipients which were not reported in the GAAP package to DAS-SAE.

Recommendation – The Department should obtain and process requests for payments to subrecipients more timely or the Department should consider estimating payables to more accurately report payables at year end.

Response – The position of Chief Financial Officer was staffed with interim status for the majority of the calendar year. This temporary situation caused loss of forward momentum in several categories, but particularly in management and tracking of expenditures and disbursement of payments. The remedy is obvious and in place – we now have stabilized the staffing in that position. We have instituted tracking systems to monitor work flow in the areas of contracts and claims. We are working to standardize all processes through the development of work flow manuals that explain expectations. These manuals will be used to train program staff over the next year for all Internal Operations processes, including claims and expenditures.

Conclusion – Response accepted.

(4) **Iowa Department of Education, Division of Vocational Rehabilitation Services (IVRS)**

(a) During the accrual period, the Department prepared a document to reduce Fund 0034 revenues by \$891,475 and

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move the revenue from fiscal year 2008 to fiscal year 2009. Because the revenue had been earned, the amount should have been reported in section 3 rather than section 2 of the unearned revenue page of the GAAP package. In addition, the Department coded the transaction on I/3 as prepaid expense rather than a reduction of accounts receivable. Due to the journal entry initially made from the GAAP package, revenue and prepaid expenses were understated and accounts receivable and deferred revenue were overstated. This was properly adjusted for reporting purposes.

- (b) During the accrual period the Department reduced revenues by \$423,000 in fiscal year 2008 to properly recognize them in fiscal year 2009. When a Department adjusts revenue reported on I/3 in this manner, the balances are to be reported in section 2 of the unearned revenue page of the GAAP package. An entry is then made by DAS-SAE to reclassify the negative accounts receivable as deferred revenue. The Department excluded the amount from the GAAP package and coded the transactions on I/3 as a reduction to prepaid expenses rather than a reduction to accounts receivable, resulting in an understatement of deferred revenue and prepaid expense. This was properly adjusted for reporting purposes.

Recommendation – Proper accounting procedures should be followed when adjusting revenues on the I/3 system during the accrual period. The Department should also ensure all deferred revenue is properly reported on the GAAP package.

Response –

- a) IVRS agrees the revenue was earned and should have been reported in section 3 of the GAAP package as the purpose of the transaction was to match revenue and expenditures within the fund. IVRS inadvertently reported the amount in section 2. Procedures will be put in place to properly identify transactions and record them in the correct sections of the GAAP package.
- (b) IVRS agrees two transactions for \$335,000 and \$88,000 should have been included in the GAAP package. When reviewing internal records to complete the GAAP package, these two transactions were missed and thus not reported. IVRS will more carefully review internal records to be sure all transactions are reported.

IVRS will review all transactions at the time of processing so that they are coded appropriately as prepaid expenditures or as a reduction to accounts receivable.

Conclusion – Response accepted.

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(5) **Iowa Department of Human Rights**

- (a) The GAAP package was submitted September 19, which was not timely.
- (b) During the accrual period, the Department reduced revenues by \$2,501,677 in fiscal year 2008 to properly recognize them in fiscal year 2009. When a Department adjusts revenue reported on I/3 in this manner, the balances are to be reported in section 2 of the GAAP package. An entry is made by DAS-SAE to reclassify the negative accounts receivable as deferred revenue. The Department coded the transactions on I/3 as accounts payable rather than a reduction to accounts receivable, resulting in an overstatement of accounts receivable and accounts payable. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package is submitted timely. In addition, proper accounting procedures should be followed when adjusting revenues on the I/3 system during the accrual period.

Response – Under normal circumstances the GAAP package is compiled and the I/3 documents prepared by two fiscal employees of the Iowa Department of Human Rights. During the fiscal year close-out period in September 2008, one of these employees was on extended leave. In the ensuing rush to complete the task of adjusting revenues between fiscal years, the remaining staff member coded the initial transaction incorrectly as an accounts payable. This error carried forward as this form became the document template and was continually reused.

The Iowa Department of Human Rights will work diligently to ensure the GAAP package is submitted timely and information is properly recorded on the I/3 system for fiscal year 2009.

Conclusion – Response accepted.

(6) **Iowa Department of Human Services**

The Iowa Department of Human Services (DHS) processes and records county billing information for medical and facility services provided to individuals meeting specific criteria. As of June 30, 2008, the receivable balance for county billings included over \$8.7 million in claims disputed by counties receiving the billings.

Of the total disputed balance, approximately \$6.1 million originated prior to fiscal year 2007. DHS has a process for resolving disputed billings. However, this process currently results in the resolution of only 16% to 37% of the total amount disputed per year. In addition, over \$4.2 million of the disputed amount consists of disputes which counties indicate are the responsibility of the Iowa Department of

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Corrections. DHS does not have procedures in place to pursue the necessary evidence to resolve these disputes. As a result, the collectability of the disputed balance is in question.

Recommendation – DHS should establish procedures to ensure the total balance reported as county billings receivable is appropriate and should consider reporting an estimate representing balances considered uncollectible. In addition, DHS should establish procedures to pursue the necessary evidence and related collection from the Iowa Department of Corrections.

Response – The amount identified as owed to the State from counties is based on the Code of Iowa and Administrative Rules. The Department continues to work with counties in resolving billing disputes. There currently exists no statutory authority to determine any portion of the outstanding receivables as uncollectible.

Counties have disputed over \$4.2 million in outstanding charges asserting the Iowa Department of Corrections is responsible rather than the county. The Code of Iowa, Chapter 230 places financial responsibility with the county of legal settlement. We are seeking further clarification of responsibility for these charges through a change in this chapter, to be considered during this legislative session. Once clarified, payment resolution will be more attainable.

Conclusion – Response accepted.

(7) **Iowa Judicial Branch**

Prior to fiscal year 2004, Chapter 421.17(25)(f) of the 2003 Code of Iowa allowed the Judicial Branch to keep 10% of income tax offset collections to defray the costs of the income offset procedures. In the 80th General Assembly, 2003 Session, Ch. 145 Section 254, an amendment was made to strike Chapter 421.17(25) in the 2003 Code of Iowa. The Iowa Judicial Branch was not aware of the change in legislation and continued to retain 10% of the income offset collections. In fiscal year 2009, the Iowa Judicial Branch became aware of the error and made adjustments to move the amounts retained from income offsets for July 2008 through November 2008 to the State's General Fund. For the period July 1, 2004 through June 30, 2008, the Iowa Judicial Branch retained \$2,207,962 of income tax offset collections in error.

Recommendation – The Iowa Judicial Branch should consult legal counsel to determine the disposition of this matter. In addition, the Iowa Judicial Branch should establish procedures for reviewing legislative changes annually to ensure compliance with applicable laws, rules and regulations.

Response – We will consult legal counsel to determine disposition of this matter. We have proposed legislation in this session to allow the Iowa Judicial Branch to retain 10% of the income tax offset. We have

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procedures for reviewing legislative changes annually to ensure compliance with applicable rules and regulations.

Conclusion – Response accepted.

(8) **Iowa Department of Natural Resources (DNR)**

- (a) The GAAP package was submitted October 1, 2008, which was not timely.
- (b) Loans receivable for three funds were reported on the GAAP package twice, once on an individual loan receivable page and again on the summary page of other accounts receivable in the amounts of \$6,081,808, \$320,345 and \$725,000. This was properly adjusted for reporting purposes.
- (c) Supporting documentation was not provided to determine whether the amounts reported in the GAAP package as unearned revenue were proper.
- (d) There were several other GAAP package pages with immaterial errors noted.

Recommendation – The Department should ensure the GAAP package is submitted timely and information reported is accurate and supported.

Response –

- (a) The GAAP package is due before all financial activity is final for the fiscal year. DNR has material financial transactions each fiscal year that take place in the time between the GAAP package due date and the cutoff date in the State's financial accounting system for the fiscal year accrual period activity (mid-September). If we were to submit the GAAP package according to the due date set by DAS-SAE (first week of September), it would not be materially correct. DAS-SAE's current policy is they will only accept GAAP packages with all pages completed and the package must be materially correct. DNR has offered to submit all pages on time except for the pages which have material activity after the due date (such as the capital assets, deferred revenue and receivables pages). Since this is not an option, the first week of September due date is not attainable.
- (b) When the State started using the GAAP package for gathering information for the preparation of the State's Comprehensive Annual Financial Report (CAFR), the Department was instructed by DAS-SAE to report these loans receivable amounts on both pages mentioned (loans receivable page and receivables summary page). These loans receivable totals are clearly labeled as "Loans" on both pages. DNR was never notified these loans should no longer be reported on the receivables summary page. As the Department's GAAP

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package is quite complex, we would recommend enhanced communication between DAS-SAE, the Office of Auditor of State and the Department to ensure these types of communication errors do not occur in the future.

- (c) The Department's funding shares spreadsheet, which is audited annually, is the basis for determining the amount of unearned revenue at year end. It is included as backup support for the unearned revenue GAAP package page. The items noted in testing included federal and non-federal grants which had work that was not complete at fiscal year end. Therefore, the amounts were properly shown as unearned revenues and were rolled forward on the I/3 system upon approval by the Department of Management. Grant and other supporting documentation for these unearned revenues does exist, but was not included in with the GAAP package documentation. We will work in the future to provide the Auditors with contact information sooner so that they can view this documentation prior to the completion of GAAP package testing.
- (d) The Department will continue to work to minimize immaterial errors on the GAAP package.

Conclusion – Response accepted.

(9) **Iowa Department of Public Defense**

- (a) Certain revenues considered deferred revenue were excluded from the unearned revenue page of the GAAP package.
- (b) Several miscalculations were noted with the unearned revenue reported in the GAAP package.
- (c) Operating leases were not reported in the GAAP package.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – Clarification from the Auditors has resolved the misunderstanding in reporting of unearned revenue and operating leases.

Conclusion – Response accepted.

(10) **Iowa Department of Public Safety**

- (a) The GAAP package was submitted October 21, 2008, which was not timely.
- (b) The GAAP package was not reviewed by an independent reviewer prior to submittal to DAS-SAE.
- (c) Total construction commitments of \$2,471,021 reported on the GAAP package for two construction projects were incorrect.

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Actual unpaid construction contracts were \$1,624,581, an overstatement of \$846,440. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package is submitted timely, accurate information is reported and supported and properly reviewed by appropriate management prior to submission.

Response –

- (a) Due to the amount of information required and the amount of detail the Iowa Department of Public Safety must put into this package, it is impossible to complete it by the first part of September in any year. However, this last year's delay was compounded by the retirement of the person responsible for its completion. The retiree was instructed to provide the information and training to another individual so it could be completed. However, that person only received a copy of the prior years GAAP package with no training or backup documentation. Therefore, we had to figure out what had been done in the past to determine how to accurately complete the most current GAAP package. Now that this information has been reviewed and documentation improved upon we do not expect the GAAP package to be this late in future years.
- (b) In our attempt to get the GAAP package submitted this process was missed. We will make sure this step is completed in the future.
- (c) We unintentionally used the remaining balance of the appropriation rather than outstanding amounts on the contracts. We will report the appropriate amounts on the next GAAP package.

Conclusion – Response accepted.

(11) **Iowa Department of Workforce Development**

- (a) The delinquent employer contributions penalty and interest receivable was understated by \$317,488 and the allowance for doubtful accounts was understated by \$222,294, a net understatement of \$95,194.
- (b) The Trade Readjustment Assistance benefits payable was omitted from the GAAP package, resulting in a \$150,958 understatement of accounts payable.
- (c) Carryforward adjustments for fiscal year 2009 totaling \$5,297,509 were not originally reported on the unearned revenue page of the GAAP package as required. Even though a revision was submitted to DAS – SAE for correction, a \$98,824 understatement of the carryforward adjustment remained.

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- (d) Nine of twenty-seven long-term rental leases in effect during fiscal year 2008 contain a clause specifying the Department is to pay a certain percentage of property tax due on the rental property as a part of the rental agreement. The property tax due was not included as part of the current year rental expense disclosed in the GAAP package or for the rental expense obligation for future years. Rental payments for fiscal year 2008 were understated by \$129,272 and future lease payments were understated by \$295,605.
- (e) There were several other GAAP package pages with immaterial errors noted.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Responses –

- a), b), and c) Additional time will be spent reviewing the GAAP package prior to submission. This finding will be reviewed with the person who prepared the section of the report, as well.
- d) IWD and the Office of Auditor of State had agreed to include property tax at the rate known at the time the schedule is prepared (current year). However, the employee who prepares the schedule annually retired, and a new employee began work as the schedule was being prepared. As a result, the property tax was overlooked. This finding will be reviewed with the person who prepared the section of the report and management will ensure the property tax is included in future years.
- e) Additional time will be spent reviewing the GAAP package prior to submission.

Conclusion – Response accepted.

(12) **Second Judicial District**

Portions of the GAAP package were submitted by the District November 12, 2008 and the complete GAAP package was submitted December 8, 2008, which was not timely. As a result, the reported insured value of buildings and contents was understated \$5,245,600. This was properly adjusted for reporting purposes.

Recommendation – The Judicial District should ensure the GAAP package is submitted by the due date and is complete and accurate.

Response – The Second Judicial District will perform and put in place all appropriate management and planning procedures to ensure all future GAAP packages will be completed accurately in their entirety and submitted to the Iowa Department of Administrative Services by the annual submission deadline.

Conclusion – Response accepted.

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(B) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. Findings were noted for the following departments:

(1) **Iowa Department of Administrative Services**

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 system expenditures. One asset for \$21,536 purchased during the fiscal year was not added to the capital asset listing and one asset was added at an estimated amount and added again at an actual amount, resulting in an overstatement of asset additions of \$127,200.
- (b) Accumulated depreciation and depreciation expense for buildings and building improvements was understated by \$32,381.
- (c) Depreciation expense could not be recalculated for nine of twenty-five assets due to manual adjustments made by the Department and assets coded incorrectly on the capital asset system.
- (d) In the prior year, assets were moved between an organization within the same fund. The Department reported these as additions and deletions. In the current year, \$539,016 was reported again as additions and \$332,051 was reported again as deletions, resulting in an overstatement of \$206,965 for the ending balance reported.
- (e) An incorrect adjustment erroneously reduced additions by \$10,747.
- (f) One asset was added twice and one asset relating to the prior year was added again in the current year, resulting in an overstatement of \$17,080.
- (g) The Department does not have written accounting procedures for the reconciliation of State Vehicle Dispatch records to the Department's capital asset listing and reconciliation of the Department's capital asset additions to I/3 asset purchases.
- (h) The loss on disposal of assets was overstated for the Governmental Funds and the Internal Service Funds by \$4,626 and \$482,326, respectively. This was properly adjusted for reporting purposes.

Recommendation – The Department should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring capital asset additions are reconciled to I/3 asset purchases and depreciation expense is properly calculated and recorded. Also, the Department should develop written procedures for the reconciliation of the State Vehicle Dispatch records to the Department's capital asset listing and the reconciliation of the Department's capital asset additions to I/3 asset purchases.

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Response – The Department will take the appropriate steps to correct these issues for future audits.

Conclusion – Response accepted.

(2) **Glenwood Resource Center (GRC)**

(a) GRC purchased a boom truck for \$108,000 and was later reimbursed by the State of Iowa. GRC included the boom truck on the capital asset listing at a zero value.

(b) Construction in progress at June 30, 2008 of \$8,203 for an uncompleted storage building was included with completed buildings and subjected to depreciation expense.

Recommendation – Capital assets donated or reimbursed should be included on the capital asset listing valued at fair value at the date of donation or the amount paid. In addition, uncompleted construction in progress at year end should remain in construction in progress and not be included with completed buildings and be subjected to depreciation expense before the asset is placed into service.

Response – The boom truck has been corrected on the capital asset listing. Capital assets donated or reimbursed will be included on the capital asset listing valued at fair value at the date of donation or the amount paid. Depreciation for construction in progress has been corrected. Uncompleted construction in progress will be added to buildings when completed.

Conclusion – Response accepted.

(3) **Iowa Department of Inspections and Appeals**

Errors noted in the Department's vehicle depreciation schedule resulted in an understatement of accumulated depreciation of \$33,503.

Recommendation – The Department should review its capital assets procedures to ensure accurate and current records are maintained.

Response – The Department has reallocated staff to allow more focus on capital asset accounting and has revised procedures and corrected a spreadsheet error. This should allow for more accurate record keeping in the future.

Conclusion – Response accepted.

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(4) **Iowa Judicial Branch**

- (a) The year-end capital asset listing excluded the current year additions and included impaired assets which were deleted.
- (b) The ending balances for cost and accumulated depreciation for machinery, equipment and vehicles were overstated by \$109,519 and \$236,716, respectively.
- (c) Two assets included on the capital asset listing could not be located due to the asset being either discarded or traded-in during a previous fiscal year.

Recommendation – The Iowa Judicial Branch should develop capital asset procedures to ensure a detailed, up-to date capital asset listing is maintained to support the amounts reported on the GAAP package. Procedures should include, but not be limited to, ensuring capital asset additions are included in the capital asset listing when acquired and deletions are promptly reported and removed from the capital asset listing.

Response – We now use the capital asset program available through the State's I/3 accounting system and will maintain an up-to-date listing.

Conclusion – Response accepted.

(5) **Iowa Department of Natural Resources (DNR)**

- (a) The Department performs a monthly reconciliation of capital asset additions to I/3 expenditures. However, the following were noted:
 - (1) The written procedures for the reconciliation process are outdated.
 - (2) The reconciliation is not reviewed by someone independent of the reconciliation process.
 - (3) Reconciliations were not always performed timely.
- (b) The Department utilizes an Access database and the MEGA System to track capital asset activity. These systems cannot generate a listing of additions and deletions or distinguish between infrastructure and land improvements for financial statement reporting. Information is downloaded and additions and deletions are determined for financial reporting independently. A reconciliation is not performed between the tracking systems and information reported in the GAAP package for financial reporting. The following variances were noted:
 - (1) One project for \$93,043 reported on the GAAP package could not be traced to the MEGA system.

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- (2) One land addition for \$321,772 was not reported as an addition on the GAAP package.
- (3) Supporting documentation was not available for \$52,712 of equipment additions to the GAAP package.
- (c) The Iowa Department of Transportation (DOT) pays for road projects within DNR parks and properties. This amount is compiled by DNR throughout the year and is reported on the GAAP package as additions to infrastructure. The amount compiled by DNR throughout the year did not reconcile to the addition reported on the GAAP package. There are no written procedures for a reconciliation process between additions reported in the GAAP package and the amount paid by DOT.
- (d) The Honey Creek Premier Destination Park (Honey Creek) construction in progress is reconciled between additions reported in the GAAP package and expenditures reported in the I/3 system. There are no written procedures on the reconciliation process for Honey Creek construction in process.

Recommendation – The Department should update current written procedures and develop other written procedures to ensure a detailed, up-to-date capital asset listing is maintained and properly reported for financial statement purposes. Procedures should include, but not be limited to, a review of the reconciliation performed by accounting staff and a reconciliation between the Department's tracking system and amounts utilized on the GAAP package for financial reporting. These reconciliations should be performed timely and be reviewed by an independent person.

Response – During fiscal year 2009, the Department conducted a continuous process improvement event to address a number of the capital assets issues listed in this audit finding. As a result, we are currently in the process of revising our capital assets procedures along with implementing a new computer system which will replace our inadequate mainframe system. This new computer system is being designed so it will generate the proper reports needed for GAAP package reporting. In addition, this new, more flexible system will enable us to properly distinguish between infrastructure and land improvements and will allow us to properly summarize and report DNR's road projects so we no longer have to rely on obtaining information from DOT for our GAAP package. As a part of revising our system, we will rewrite our existing procedures to ensure applicable reviews and reconciliations are performed.

Conclusion – Response accepted.

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(6) **Iowa Department of Public Defense**

Military Division

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 system expenditures. The following items were noted:
 - (1) Two asset additions were assets previously included as buildings and building improvements.
 - (2) Three asset additions were assets previously included on the equipment listing.
 - (3) Three additions did not meet the capitalization threshold and should not have been included on the capital asset listing.
 - (4) Supporting documentation could not be located for two additions to validate asset cost.
 - (5) Two capital asset purchases were not included as additions to the asset listing.
 - (6) The capitalized cost did not equal actual asset acquisition cost for three asset additions.
 - (7) One capital asset purchased in fiscal year 2009 was incorrectly included as an addition in fiscal year 2008.
- (b) Two assets deleted were still in the possession of the Department.
- (c) Two assets transferred to another Department prior to June 30, 2008 were not removed from the listing.
- (d) Adequate supporting documentation was not maintained for five assets deleted.
- (e) One of five assets tested for existence was no longer in the possession of the Department at June 30, 2008.
- (f) Amounts reported in the GAAP package for disposal of assets and the associated accumulated depreciation were understated.
- (g) Accumulated depreciation was calculated incorrectly, resulting in an overstatement of depreciation expense and accumulated depreciation.

Homeland Security and Emergency Management Division

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 system expenditures. One asset addition was not included on the asset listing.
- (b) Six asset additions tested did not include the proper State identification tag.

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- (c) Accumulated depreciation was calculated incorrectly, resulting in an overstatement of depreciation expense and accumulated depreciation.

Recommendation – The Department should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring capital asset additions are reconciled to I/3 asset purchases, depreciation expense is properly calculated and recorded and asset deletions are properly authorized, supported and promptly removed from the capital asset listing. The Department should also ensure proper State identification tags are included on all asset additions. Amounts should be accurately reported on the GAAP package.

Response – The Department has implemented a capital assets tracking procedure (copy furnished to the Office of Auditor of State), which will ensure a current updated listing is maintained and reconciled to I/3 and supporting documentation is maintained and GAAP package reporting is accurate.

Conclusion – Response accepted.

(7) **Iowa Department of Workforce Development**

- (a) The Department did not reconcile capital asset additions to I/3 system expenditures. The following items were noted:
 - (1) Four of seventy-five capital asset expenditures tested were coded to an incorrect expenditure object code. Two were incorrectly coded to an expenditure object code for non-inventory assets and two were incorrectly coded to an expenditure object code for inventory assets.
 - (2) Two of seventy-five capital asset expenditures tested greater than \$5,000 were not included on the capital asset listing.
- (b) Two of ten capital assets observed at the Department had a value over the capitalization threshold of \$5,000 but were not on the Department's capital asset listing.
- (c) Two of twenty-five capital assets tested for existence and two of eight capital asset additions did not include a State identification tag.
- (d) Six of twenty-one capital asset additions did not have a State identification tag number yet assigned.

Recommendation – The Department should review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained. This includes ensuring capital asset additions are reconciled to I/3 system expenditures and all assets are properly accounted for and included on the capital asset listing. The Department should also ensure proper State identification tags are assigned and included on all asset additions.

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Response –

- a,1) The employee responsible for capital asset record keeping was off work for six months and then qualified for long term disability. A replacement was hired, but after several weeks on the job she was injured and has been absent since sustaining the injury. The result has been attempts by other employees to maintain the capital asset records on an intermittent basis. When the full time employee who is responsible for maintaining capital asset records returns, they will review records and reconcile with I/3 records.
- a,2) and b) When the full time employee who is responsible for maintaining capital asset records returns, the errors will be reviewed with them and capital asset expenditure coding and recording will be reviewed until it appears the coding problem has been corrected.
- c) When the full time employee who is responsible for maintaining capital asset records returns, the errors will be reviewed with them and capital asset expenditure recording will be reviewed until it appears the recording problem has been corrected. In addition, the capital asset policy will be reviewed with the management team, including field managers.
- d) It is our understanding these instances occurred in field offices. The capital asset policy will be reviewed with field managers and their supervisors. Also, we will look for tags on equipment additions during field office visits by fiscal and premises staff to ensure compliance.

Conclusion – Response accepted.

(8) **Iowa Department of Human Services, Toledo State Juvenile Home**

The Iowa Department of Administrative Services (DAS) receives state appropriations for various capital projects related to State owned buildings. DAS maintains detailed spreadsheets for each project. These spreadsheets are sent monthly to the Iowa Department of Human Services (DHS) for the DHS facilities.

The various DHS facilities report the construction in progress related to their projects in their GAAP packages. At year end, the Business Manager for the Toledo Juvenile Home (TJH) contacted DAS to obtain financial information related to the construction projects in progress, since TJH had not received the reports originally sent to DHS. DAS provided several electronic files containing the financial information to TJH. Some of the financial information provided is maintained as year-to-date and other spreadsheets document expenditures by fiscal year.

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TJH used the year-to-date information to prepare the construction in progress balance reported in the GAAP package at June 30, 2008, which included \$1,493,911 of expenditures related to fiscal year 2009. This was properly adjusted for reporting purposes.

Recommendation – The Toledo Juvenile Home should work with DHS to obtain these reports and work with DAS to gain a better understanding of the financial information provided to ensure the accuracy of amounts reported in the GAAP package.

Response - The Toledo Juvenile Home will confer with the Iowa Department of Administrative Services to ensure balances reported for construction in progress contain specific fiscal year totals, and not cumulative amounts.

Conclusion – Response accepted.

(C) Payroll

- (1) **Woodward Resource Center**
Iowa Department of Education, Division of Vocational Rehabilitation
Iowa Department of Inspections and Appeals
Iowa Judicial Branch
Iowa Department of Natural Resources
Iowa Department of Public Defense

Departments process and record payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Individuals at the above entities have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Departments should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Responses –

Woodward Resource Center – For documents that require more than one level of approval at the facility, Woodward Resource Center Human Resource staff will initiate a process to assure there is segregation of duties. The Human Resource Associate will do one level of approval and the Human Resource Administrative Assistant 2 will do the other level on the documents.

Iowa Department of Education, Division of Vocational Rehabilitation – The IVRS normal practice is for the Human Resource Associate to put initial (PA) approval on the P-1 documents, after verifying accuracy and appropriateness of the action(s). After this step, the Division Administrator, or in his absence, the Human Resource Executive Officer puts Department approval on the same document. The Bureau Chief for Administrative Services and Chief Financial Officer also have the ability to do this.

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The particular transaction observed by auditors in August, 2007 was approved by the Human Resource Associate, at both the "initial/PA" and the "department" levels of approval. This was not in accordance with normal practice and we have taken steps to ensure correction.

From now on, we will limit the Human Resource Associate's authority on P-1 documents to the first level of preparation/approval. We have designated another employee, from our Fiscal Section, as the back-up at this level only. These will be the only two employees to initiate P-1s at this time. Department approval will be maintained by the HR Executive Officer, Administrative Services Bureau Chief, Chief Financial Officer, and IVRS Division Administrator.

Iowa Department of Inspections and Appeals – The Department does not have sufficient staffing levels to employ Human Resource Associates. We have one full-time Human Resource Manager who is a professional and a valued member of the departmental management team. She also has the primary responsibility for entering and approving P-1 documents because no other staff is available for this function. The other individuals in the Department with this authority are simply emergency back-up for the personnel officer. It is almost never required that these individuals actually enter P-1 documents and would likely not be able to do so unless they were talked through the procedure by someone with more expertise. In addition, no payroll adjustments can be implemented without approval of DAS-HRE staff. Fiscal Services Bureau staff have unrestricted access to payroll records and on-line payroll and could easily determine if any irregularities existed. Under current procedures adopted after fiscal year 2007 audit recommendations, timesheets are not initiated and approved by the same individual even though the authority may exist for one person to do both due to the need for back-up personnel to ensure employees are paid timely and correctly.

Iowa Judicial Branch – All timesheets are reviewed and signed/approved by a supervisor. With a small limited number of our staff, P-1 documents can be initiated and approved by the same person. In those cases, if pay raises or new employees are involved, written approval is obtained and maintained to approve these actions. This approval is noted on the P-1 document and is reviewed by the payroll person at the Iowa Department of Administrative Services. The biweekly table of authorized positions is reviewed each pay period by someone other than the person authorized to prepare the online P-1 documents. We will review our processes to see if improvements can be made to strengthen our internal controls.

Iowa Department of Natural Resources – The Department employs two Human Resource Associates in our payroll and personnel section. Because both of these employees must process and record payroll and personnel information and serve as each others' backup, it is not

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possible to completely segregate the duties of initiating and approving payroll actions on the HRIS system. We do plan to work with the Office of Auditor of State to develop and implement alternative methods of strengthening controls in this area.

Iowa Department of Public Defense – The Department has reduced the number of employees with full approval level by 2. The Department is implementing an approval process by the Deputy Comptroller of all P-1 transactions. The Iowa Department of Administrative Services will provide a quarterly report of all approved P-1's, the Deputy Comptroller will review and approve (initial). Reports will be kept and filed by Deputy Comptroller.

Conclusions –

Woodward Resource Center – Response accepted.

Iowa Department of Education, Division of Vocational Rehabilitation – Response accepted.

Iowa Department of Inspections and Appeals – Response accepted.

Iowa Judicial Branch – Response accepted.

Iowa Department of Natural Resources – Response accepted.

Iowa Department of Public Defense – Response accepted.

(2) **Iowa Department of Human Services**

The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). A Department personnel assistant (PA) initiates payroll actions, such as adding new employees and recording pay raises, utilizing an online P-1 document. The Department's standard practice is for an independent person to apply the Department level approval before the P-1 document is submitted to the Department of Administrative Services – State Accounting Enterprise for final processing.

For the period July 1, 2007 through April 25, 2008, two P-1 documents were initiated and received Department level approval by the PA. These two P-1 documents were originally initiated by the PA and approved at the Department level by an independent person. However, changes had to be made to the original P-1 document. When these changes were made by the PA, instead of the P-1 going through the Department's standard practice, the PA applied the Department level approval. Therefore, independent approval was not performed.

Recommendation – The Department should establish procedures to ensure the changes to P-1 documents are independently approved.

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Response – The Administrator of the Iowa Department of Human Services' Division of Results Based Accountability, who oversees the Bureau of Human Resources, will remind its personnel assistants of the Department's standard practice, which is changes of P-1 documents will be independently approved. This reminder will be in the form of a written memo to each of the personnel assistants.

Conclusion – Response accepted.