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NEWS RELEASE

FOR RELEASE _____ July 13, 2009

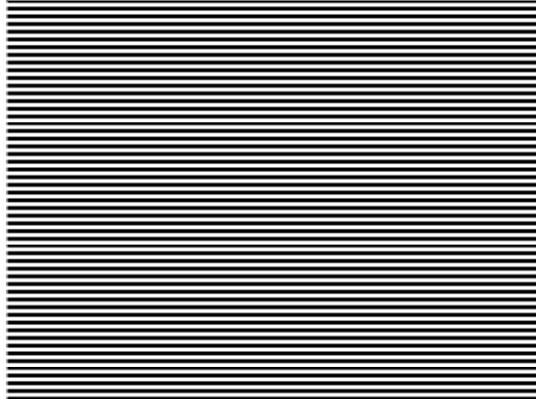
Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Public Defense for the year ended June 30, 2008.

The Iowa Department of Public Defense is composed of the Military Division and the Homeland Security and Emergency Management Division. The main responsibilities of the Military Division are to protect the citizens of the state, recruit and train military personnel and maintain the National Guard armories throughout the state. The Homeland Security and Emergency Management Division is responsible for disaster preparedness and relief coordination throughout the state.

A copy of the report is available for review at the Iowa Department of Public Defense, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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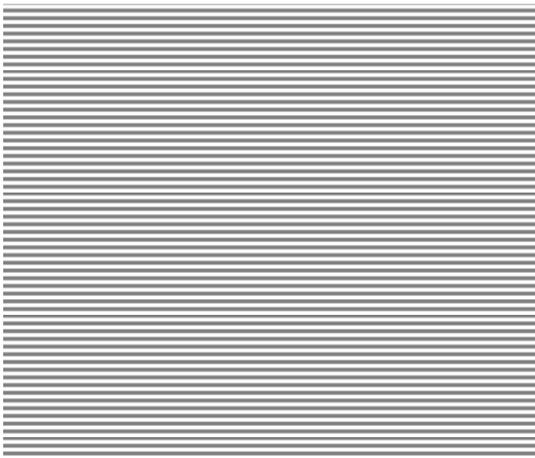
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF PUBLIC DEFENSE**

JUNE 30, 2008

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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July 7, 2009

To Brigadier General Timothy Orr, Adjutant General
of the Iowa Department of Public Defense:

The Iowa Department of Public Defense is 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, 2008.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report and the State's Report on Internal Control. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

The Iowa Department of Public Defense's responses to the findings identified in our audit are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Public Defense'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 and employees of the Iowa Department of Public Defense, citizens of the State of Iowa and other parties to whom the Iowa Department of Public Defense 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 Department 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 Department are listed on page 12 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 Chester J. Culver, Governor
Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

June 30, 2008

Findings Reported in the State's Single Audit Report:

CFDA Number: 12.401 – National Guard Military Operations and Maintenance (O&M) Projects

Agency Number: W912LP-05-2-1000

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-DOD-582-1

- (1) Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. As stated in the Cash Management Improvement Act (CMIA) Agreement, the National Guard Military Operations and Maintenance (O&M) Projects program is funded on a pre-issuance basis. This means federal draws are to be requested so they are not deposited more than three days prior to the date of disbursement.

A review of the Department's ledgers and cash management system identified draws are made on a reimbursement basis rather than a pre-issuance basis.

Recommendation – The Department should develop and implement procedures to ensure federal funds are requested on a pre-issuance basis rather than a reimbursement basis.

Response and Corrective Action Planned – The Department's Comptroller is working with the United States Property and Fiscal Officer (USPFO) to resolve this issue. The USPFO currently does not have a system in place to effectively make payments to the Military Division on a pre-issuance basis. There is a system through federal resources for the USPFO to establish a pre-issuance system. Implementation of this system is being discussed and negotiated by the two offices. It is the goal of the State Comptroller to have this system in place by October 1, 2010.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-DHS-583-1

- (2) Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received.

A review of the Department's ledgers and cash management system identified nine instances where the cash balance was in excess of \$100,000 for four to twelve days.

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Recommendation – The Department should monitor cash balances to ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.

Response and Corrective Action Planned – The Department has established an automated draw system for federal grants. This system will request funds once an expense is entered into the Department’s accounting system. The Department will monitor the receipt of federal dollars more closely to ensure claims are sent to the Iowa Department of Administrative Services – State Accounting Enterprise in a more efficient manner, thus reducing the time federal funds are in the state’s account.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-DHS-583-2

- (3) Subrecipient Monitoring – The Department has established a goal of performing monitoring reviews of ten percent of completed small projects. These projects should be reviewed for proper scope and allowability of project costs.

Department personnel assert the assignment of monitoring reviews for small project closeouts are done through e-mail communications. There was no documentation available to support the selection of ten percent of completed small projects or the monitoring reviews performed.

Recommendation – The Department should establish written procedures for the ten percent goal of completed small project monitoring reviews and ensure the reviews are performed and documented. Procedures should include, but not be limited to, the method used to establish the selection process, the projects selected and the results of the monitoring reviews.

Response and Corrective Action Planned – The Department is in the process of establishing a written standard and procedure through the development and implementation of a Division Monitoring Plan. The following components are currently a part of the Plan and will be implemented as a corrective action directly related to this single audit comment.

100% of small projects are currently reviewed by the Iowa Homeland Security and Emergency Management Division (HSEMD) in the pre-obligation grant monitoring period. This applicable monitoring data, pulled from the applicable grant management system (NEMIS/EMMIE), will be included in and tracked by HSEMD as part of reporting required within the Division’s Monitoring Plan.

An undetermined percentage of small projects are monitored by HSEMD during the project performance period due to required versions or amendments to projects leading to closeout. This applicable monitoring data will be included in and tracked by HSEMD as part of reporting required within the Division’s Monitoring Plan.

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Monitoring reviews conducted as a part of the closeout of small projects will be documented along with the final closeout report (P.4 documentation) through the development of a small project applicant site visit form. This applicable monitoring data will be included in future applicant files and tracked by HSEMD as part of reporting required within the Division's Monitoring Plan.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-DHS-583-3

- (4) Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes and in compliance with laws, regulations and provisions of the contract or grant. The Circular also requires each state to ensure required audit reports of subrecipients are completed within nine months of the end of the subrecipient's audit period, issue a management decision on audit findings within six months of receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate action on all findings.

The State of Iowa Single Audit Report for the year ended June 30, 2007 included a finding for the Iowa Department of Transportation related to allowable cost principles, including questioned costs. The report was issued by March 31, 2008 and was distributed to all State Agencies receiving federal funds. The Department has not issued a management decision on the audit findings and ensured the subrecipient has taken timely and appropriate action on the finding. Department personnel assert the Iowa Department of Transportation has not submitted its audit report and the management decision is not required until six months after receipt of the audit report. However, since the Iowa Department of Transportation is included in the State of Iowa Single Audit report, the distribution of the report to the Iowa Department of Public Defense, Iowa Homeland Security and Emergency Management Division constitutes receipt of the required audit report and a management decision should have been issued by September 30, 2008.

Recommendation – The Department should ensure policies and procedures are followed, even when the subrecipient is another State Agency and management decisions are issued within six months of receipt of the audit report.

Response and Corrective Action Planned – The Department's Comptroller has established procedures to review the State of Iowa Single Audit Report for findings relating to the Department's subrecipients that are State of Iowa Agencies. Findings will be reported to the Iowa Homeland Security and Emergency Management Division (HSEMD) Administrator for his action. The Department's Comptroller's Office will establish timelines for the HSEMD's Administrator's corrective actions.

Conclusion – Response accepted.

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CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-DHS-583-4

- (5) Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes and in compliance with laws, regulations and provisions of the contract or grant. The Circular also requires each state to ensure required audit reports of subrecipients are completed within nine months of the end of the subrecipient's audit period, issue management decisions on audit findings within six months of receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

The Department has established policies and procedures to be followed in the performance of subrecipient monitoring. However, the following items were noted during testing:

- (a) When an entity receives more than \$500,000 from the Department, a single audit was not always performed. The Department does not analyze detailed information in the accounting system to determine whether the funds received by the entity were federal, requiring a single audit.
- (b) The subrecipient audit report review documentation maintained by the Department contained errors or inconsistencies with information reported within the subrecipient audit reports.
- (c) The Department's review of subrecipient audit reports identified two entities with significant deficiencies noted, but subsequent follow-up and resolution of the findings was not noted.

Recommendation –

- (a) The Department should analyze information within the accounting system to ensure audit reports are received and reviewed for all subrecipients which receive \$500,000 or more in federal awards each year. The Department should also follow-up with the entity if a single audit appears to be required but was not performed.
- (b) The Department should ensure documentation maintained as part of the audit report review process is consistent with information contained within the subrecipient audit reports.
- (c) For subrecipient audit reports which contain significant deficiencies, appropriate follow-up and resolution of the findings should be documented.

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Response and Corrective Action Planned –

- (a) The Department's Comptroller's Office has established a report that lists all subrecipients who have received more than \$300,000 from the Department. This report is then compared to the audit reports received to ensure all subrecipients who are required to submit a single audit report have done so. If a discrepancy is found a letter is mailed to the subrecipient requesting a single audit report.
- (b) The Department's Comptroller's Office has established procedures to review the subrecipients' single audit reports. Information concerning federal dollars received by the subrecipient will be reviewed in conjunction with Iowa Homeland Security and Emergency Management Division records to verify amounts reported are correct. Discrepancies will be investigated and communication with the subrecipient will be established to reconcile the discrepancy.
- (c) The Department will now modify the monitoring process to ensure review of all required audit reports is conducted to ensure findings specific to subrecipients that may involve pass-through funding provided by HSEMD are identified. The specific corrective action will be that audit related management decisions for subrecipients will now be triggered by the Department's receipt of the report and will be issued within six months of that time, effective March 1, 2009.

Conclusion – Response accepted.

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

- (1) Financial Reporting – The Department records 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. The following were noted:
- (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.

- (2) 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. The following were noted:

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.

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- (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.
- (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.

- (3) Payroll – The Department processes and records payroll and personnel information on the Human Resources Information System (HRIS). The Human Resources Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Several individuals within the Department have the ability to initiate and approve timesheets.

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

Response – 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.

Conclusion – Response accepted.

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Other Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters

No matters were noted.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2008

Staff:

Questions or requests for further assistance should be directed to:

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Lesley R. Geary, CPA, Senior Auditor II
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Other individuals who participated on the audits include:

Brett C. Conner, Staff Auditor
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