

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, 2009

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Chester J. Culver

Governor

Richard C. Oshlo, Jr.

Interim 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, 2009, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2009 under separate cover. Our report was modified to include a reference to other auditors. Our report also expressed qualified opinions on the governmental activities and the General Fund, a major fund, since we were unable to perform sufficient audit procedures on fourth quarter revenues, expenditures and cut off between fiscal years to satisfy ourselves as to the proper recording of revenues and expenditures of the General Fund and the governmental activities. Except as noted in the Independent Auditor's Report, 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 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

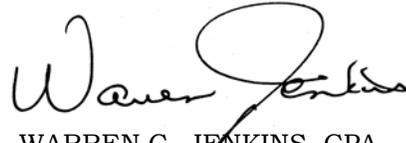
As part of obtaining reasonable assurance about whether the State of Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 of Iowa'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 31, 2009

Schedule of Findings

Year ended June 30, 2009

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 Department understated the amount of accounts payable by \$1,228,994. This was properly adjusted for reporting purposes.
- (b) The Department understated the amount of construction commitments by \$103,762. This was properly adjusted for reporting purposes.
- (c) The Department understated fiscal year 2009 rental expense by \$133,125.
- (d) The Department understated the risk financing liability by \$39,782.

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

Response – Notes have been included in the fiscal year 2009 GAAP package notebooks in each of the areas mentioned above. The preparers will be made aware of these errors. Written procedures are being developed for completing the GAAP package. A second review will be performed before the GAAP package is submitted.

Conclusion – Response accepted.

(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. The 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 approximately \$364,000. This was properly adjusted for reporting purposes.

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

Response – In the future, the Department will ensure the GAAP package information reported is accurate.

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, even with the additional procedures performed, there were still significant outstanding requests for payments submitted by subrecipients which were not reported in the GAAP package to DAS-SAE.

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Year ended June 30, 2009

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 Department is concerned as well about the volume of Appeal Board claims processed in the last Appeal Board window. There are several factors contributing to this issue. Everyone, including the Department and external subrecipients, has less staff this year than they've had in the past. Increased workloads with less staff contributes to slower processing time, both from the vendors/subrecipients in terms of invoicing and in the Department in terms of processing work through both the program bureaus and internal operations. Additionally, some activities simply don't fit well into a fiscal year accounting system. Internal operations has no control over when the billed activities occur in the field and consequently, we pay as we get claims up to the window when we no longer can pay. The Department has also experienced a good amount of turnover in key positions on the program side and internal operations. This transition leads to lags while capacity is built.

All of that serves as an explanation and not an excuse. The Department does want to reduce the number of late claims in the system because that is the right way to conduct business. Several events are in process that should work to improve this situation over time. We are still in the process of developing updated contracting and claims manuals for all staff to use. These manuals will standardize processes and identify the steps needed to properly enact a contract or to process a claim. Internal operations is also providing monthly information to all bureaus on unexpended balances and expenditures against the budget for the fiscal year. Internal operations is taking a more aggressive approach to stagnant pending claims by supplying more notice both to program staff and to subrecipients. The Chief Financial Officer is also taking a firmer approach to holding program staff and vendors to the conditions of contracts and grants, which means some late payments that went through in the past will be denied if the vendor is not complying with the agreed-upon conditions of payment.

Conclusion – Response accepted.

(4) **Iowa Department of Human Rights (DHR)**

The GAAP package was submitted September 22, 2009, which was not timely.

Recommendation – The Department should ensure the GAAP package is submitted timely.

Response – The DHR GAAP package was submitted electronically to DAS-SAE on September 4, 2009, the due date for the fiscal year 2009 package. It was noted in the Department's accompanying e-mail that DHR would need to provide additional information at a later date for two worksheets in the GAAP package, "Unearned" and "Comparative Analysis."

After DHR submitted the GAAP package on September 4, 2009, DAS-SAE replied on September 8, 2009 – "Given new auditing standards that took effect last year, we cannot accept incomplete packages as changes can be counted against us. I will discard this copy. Please send the complete package when you have it done and it will be marked in at that time."

State of Iowa

Schedule of Findings

Year ended June 30, 2009

The reason DHR had to provide additions to these worksheets is, as acknowledged by DAS-SAE in its State Accounting Policy and Procedure Manual, *“It is not always possible for departments to make final corrections and/or carry-forward certain revenues until the August month-end reports are distributed. It is recognized that departments need some time to make these adjustments. Documents prepared to make corrections to the financial reports and to carry-forward applicable revenues will be processed through the 10th working day of September. No documents for the previous fiscal year will be processed after the 10th working day of September.”*

Thus, Departments were given until September 15, 2009 by DAS-SAE to process these fiscal year 2009 year end corrections and carry-forward transfers. However, the document numbers and I/3 processing dates for these transactions were required by DAS-SAE to be listed in the “Unearned” section of the GAAP package due September 4th.

Since some transactions’ document numbers and I/3 processing dates were not determined until September 5 to September 15, DHR could not include them in the GAAP package by the 4th without submitting amended information later.

The completed GAAP package was submitted electronically September 22, 2010. The certification form was sent via local mail so DAS-SAE would have an original, signed copy from the DHR Director.

Conclusion – Response accepted.

(5) **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, 2009, the receivable balance for county billings included over \$9.5 million of claims disputed by counties receiving the billings.

Of the total disputed balance, approximately \$7.3 million originated prior to fiscal year 2008. DHS has a process for resolving disputed billings. However, this process does not result in timely resolution of disputed amounts. In addition, over \$5 million of the disputed amount consists of disputes which counties indicate are the responsibility of the Iowa Department of 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 Department recognizes the need to appropriately report the receivable balance. However, the Department has no statutory authority to write-off any portion of the outstanding balances. The Department is exploring alternative solutions with the Iowa Department of Management, as well as legislatively, to clarify the Code of Iowa.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

(6) **Iowa Judicial Branch**

- (a) Twelve instances were noted where incorrect formulas were used in the sick leave liability spreadsheet, resulting in the sick leave liability reported in the GAAP package being overstated by \$88,666.
- (b) The GAAP package did not include the receivable from Public Assistance disaster grants from the Iowa Department of Public Defense, Homeland Security and Emergency Management Division, resulting in a \$1,990,621 understatement of due from other funds.

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

Response – We will continue to improve our GAAP package reporting.

Conclusion – Response accepted.

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

- (a) The GAAP package was submitted October 2, 2009, which was not timely.
- (b) Supporting documentation was not provided to determine whether the amounts reported in the GAAP package as unearned revenue for donations received were proper.

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 which take place in the time between the GAAP package due date and the fiscal year end accrual period cutoff date (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. We will continue to work diligently to submit a materially correct GAAP package as soon as possible after the fiscal year end.
- (b) 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 donations for specific programs and federal and non-federal grants which had work which was not complete at fiscal year end. Therefore, the amounts were properly shown as unearned revenues and were rolled forward upon approval by the Iowa Department of Management. Grant and other supporting documentation for these unearned revenues does exist, but was not included with the GAAP package documentation.

Conclusion – Response accepted.

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Schedule of Findings

Year ended June 30, 2009

(8) **Iowa Department of Public Defense, Homeland Security and Emergency Management Division**

- (a) The Department uses a cut off date of July 10 for coding expenditures to the fiscal year on the I/3 system. The Department does not review claims paid after this date to determine whether the claims are for expenditures related to the previous fiscal year and should be included on the GAAP package. At June 30, 2009, there was approximately \$20 million in requests for payments submitted by subrecipients, related to fiscal year 2009, for the Public Assistance disaster grants which were not identified as accruals and reported in the GAAP package. In addition, the request for payment form used by the Department does not include a section for the subrecipient to clearly document the period covered by the expenditures for which funds are being requested. This was properly adjusted for reporting purposes.
- (b) Payments of approximately \$7.7 million to the Iowa Department of Transportation and the Iowa Judicial Branch were coded as expenditures rather than transfers between state departments. This was properly adjusted for reporting purposes.

Recommendation – The Department should develop policies and procedures to evaluate claims charged to the next fiscal year on the I/3 system to determine whether there are accruals to be included in the GAAP package. The Department should also consider whether the request for payment forms submitted by subrecipients related to the Public Assistance disaster grants should be modified to contain a section to clearly document the period covered by the expenditures for which funds are being requested.

The Department should also ensure payments made to other state departments are properly coded as transfers out rather than as expenditures.

Response –

- (a) The Public Assistance (PA) payment form is being modified to include a section to document the period covered by the expenditures for which funds are being requested. PA staff will review the in-house payment requests paid or received after July 10 to determine any accruals which should be reported on the GAAP package. Additionally, PA staff are developing a one-page form which will be sent out to applicants with open approved project worksheets at the end of the fiscal year requesting the dollar amount of expenditures incurred by June 30 of that fiscal year but not yet requested for payment. These accruals will also be included on the GAAP package accordingly.
- (b) Accounting staff have been made aware of DAS-SAE accounting procedures for the proper coding of transfers versus expenditures, and this coding is now being used.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

(9) **Iowa Department of Public Health (IDPH)**

In August 2008, a request for payment to a subrecipient pertaining to the year ended June 30, 2008 for approximately \$1.5 million was not reported in the GAAP package. As a result, fiscal year 2008 expenditures were understated and fiscal year 2009 expenditures were overstated.

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 – IDPH contractual agreements provide terms for the timely submission of invoices from contractors. The University of Iowa request for payment was received after repeated requests from IDPH staff for its submission. The IDPH will institute a procedure for estimating payables at year end to include in the GAAP package. In the event a significant payment after the close of the fiscal year is made, an amended GAAP package will be filed.

Conclusion – Response accepted.

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

The GAAP package was submitted September 22, 2009, which was not timely.

Recommendation – The Department should ensure the GAAP package is submitted timely.

Response – Due to the amount of information required and the amount of detail the Iowa Department of Public Safety must put into the GAAP package, it is impossible to complete it within the first few days of September. We will continue to work on trying to improve the completion time in future years.

Conclusion – Response accepted.

(11) **Iowa Department of Revenue**

To comply with governmental accounting and financial reporting standards, the Iowa Department of Revenue has established a process to calculate estimates to recognize tax revenues and refunds to be collected or paid in future periods which are attributable to the current and prior tax years. The estimates are based on historical data of tax receipts and refunds.

During fiscal year 2009, the portion of the estimate attributable to tax year 2008 was compared to actual receipts and refunds collected or paid. Using the current methodology, the estimate of corporate income tax refunds for tax year 2008 to be paid during fiscal year 2010 was calculated to be \$5,638,379. However, approximately \$38 million in corporate income tax refunds attributable to tax year 2008 were actually paid in fiscal year 2010 through September 30, 2009. This was properly adjusted for reporting purposes.

Recommendation – The Department should re-evaluate the current methodology for estimating future individual income, corporate income and other tax revenues and refunds to ensure the estimates are reasonable. Also, the Department should compare actual results subsequent to year end with the estimates to validate the estimates or identify additional amounts to be recorded.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

Response – The current methodology was created by consensus several years ago. Numerous factors, including the current tax system and the economy, affect the estimates. The Department agrees the refund estimation methodology should be reviewed with input from the Iowa Department of Administrative Services - State Accounting Enterprise and monitored to determine its effectiveness.

Conclusion – Response accepted.

(12) **Iowa Department of Transportation**

- (a) The Department coded deferred compensation payments of \$407,859 and flexible spending account payments of \$29,565 relating to the pay period ended June 25, 2009 as fiscal year 2010 expenditures rather than as an accrual for the year ended June 30, 2009.
- (b) The Department coded a \$166,100 payment to the University of Iowa for auction services provided on May 30, 2009 as a fiscal year 2010 expenditure rather than an accrual for the year ended June 30, 2009.
- (c) The Department did not properly determine the correct fiscal year to report Public Assistance disaster grant revenue. Four projects totaling \$1,305,279 were incorrectly coded to fiscal year 2010. This was properly adjusted for reporting purposes.

Recommendation – The Department should develop procedures to ensure receipts and expenditures occurring near the end of the fiscal year are reviewed and properly recorded on I/3 or included in the GAAP package.

Response – We will comply with the auditor’s recommendation.

Conclusion – Response accepted.

(13) **Iowa Department of Veterans Affairs**

- (a) In fiscal year 2008, receivables of \$614,165 and liabilities of \$480,383 were not included in the GAAP package. As a result, fiscal year 2008 revenues and expenditures were understated and fiscal year 2009 revenues and expenditures were overstated.
- (b) The Iowa Department of Public Defense prepares the GAAP package on behalf of the Iowa Department of Veterans Affairs. There is no independent review of the GAAP package by someone in the Iowa Department of Veterans Affairs prior to submission to DAS-SAE.

Recommendation – The Department should obtain and process revenues and expenditures more timely or the Department should consider estimating receivables and payables to more accurately report receivables and payables at year end. The Department should also ensure the GAAP package information reported is complete and accurate and properly reviewed by appropriate management prior to submission.

Response –

- (a) The Department will develop procedures to ensure proper reporting of payables and receivables, including reporting in the GAAP package, if necessary.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

- (b) The Department will have the Director of Veterans Affairs review the GAAP package information for completeness and accuracy and sign the report prior to submission.

Conclusion – Response accepted.

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

- (a) The delinquent employer contributions penalty and interest receivable allowance for doubtful accounts was overstated by \$635,224. This was properly adjusted for reporting purposes.
- (b) The delinquent employer contributions receivable allowance for doubtful accounts was understated by \$402,392. This was properly adjusted for reporting purposes.
- (c) The Trade Readjustment Assistance benefits payable was omitted from the GAAP package, resulting in an \$85,838 understatement of accounts payable and a \$65,665 understatement of receivables. This was properly adjusted for reporting purposes.
- (d) The Combined Wage Claims Payable to Other States was understated by \$2,711,219. This was properly adjusted for reporting purposes.
- (e) The schedule of future minimum operating lease payments was understated by \$4,511,665. This was properly adjusted for reporting purposes.
- (f) There were other GAAP package pages with immaterial errors noted.

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

Response –

- (a) The amount shown for allowance for doubtful accounts and net receivables were inadvertently reversed on the GAAP package. The total for receivables was correct. The error will be corrected when completing the fiscal year 2010 GAAP package.
- (b) Procedures will be corrected for fiscal year 2010.
- (c) This small balance was not reported in the fiscal year 2008 GAAP package and was not included in the fiscal year 2009 GAAP package. It will be included in the fiscal year 2010 GAAP package.
- (d) The payments from August 13 were not recorded on the original spreadsheet due September 1. The final Trust Fund reconciliation was not available until September 15 when it was supplied. The situation will be monitored in fiscal year 2010.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

- (e) New staff was involved in preparation of the schedule and the schedule was submitted prior to review. Procedures will be revised for the fiscal year 2010 GAAP package.
- (f) Closer review will be done for fiscal year 2010.

Conclusion – Response accepted.

(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) Accumulated depreciation and depreciation expense for buildings and building improvements was understated by \$61,136. This was properly adjusted for reporting purposes.
- (b) Accumulated depreciation and depreciation expense for buildings and building improvements was overstated by \$312,523.
- (c) The Department did not adjust current year additions for the retainage payable included in the prior year additions. As a result, current year additions were overstated for construction in progress, land improvements and buildings and building improvements by \$10,623, \$79,719 and \$537,602, respectively. This was properly adjusted for reporting purposes.
- (d) Accumulated depreciation was understated by \$20,238 due to adjustments made for prior year errors.
- (e) The loss on the disposal of assets was overstated for the Internal Service Funds by \$508,719. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained. Capital asset additions should be reconciled to I/3 asset purchases and properly adjusted for prior year retainage payable. Depreciation expense, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded.

Response – The Department has taken the following steps to address and eliminate the errors noted in the comment above.

- (a) An understatement of accumulated depreciation and depreciation expense for buildings and building improvements occurred during the preparation of the spreadsheet for the fiscal year 2009 audit. A correction has been made to adjust the spreadsheet for fiscal year 2010. Written procedures are being developed for creating the worksheet for depreciation expense for buildings and building improvements. This information will be completed in a timely manner to allow for the time needed to conduct a second review.
- (b) An input error occurred when completing the Capital Asset pages of the GAAP package. Written procedures are being developed for completing the GAAP package. A second review will be performed before the GAAP package is submitted.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

- (c) The adjustment for the fiscal year 2008 retainage payable was not accounted for during the preparation of the Infrastructure Asset Value spreadsheet for the fiscal year 2009 audit. The fiscal year 2010 spreadsheet has been adjusted. Written procedures are being developed for the preparation of this worksheet to avoid such errors in the future. This information will be completed in a timely manner to allow for the time needed to conduct a second review.
- (d) The Department has adjusted the Depreciation spreadsheet by \$20,238 so the correct amount will be reported for accumulated depreciation for fiscal year 2010. Written procedures are being developed for the preparation of the Depreciation worksheet to avoid such errors in the future. This information will be compiled in a timely manner to allow for the time needed to conduct a second review.
- (e) A formula error caused an overstatement of \$508,719 in calculating the amount of loss of disposal of an asset. The correct formula has been entered on the Capital Asset pages for fiscal year 2009 and a note has been included in the GAAP package notebooks. Written procedures are being developed for completing the GAAP package. A second review will be performed before the GAAP package is submitted.

Conclusion – Response accepted.

(2) **Iowa Department Human Services**

For three of forty-nine assets tested, the amount capitalized on the capital asset listing incorrectly included non capitalizable costs, such as software. As a result, equipment additions were overstated by \$168,613. This was properly adjusted for reporting purposes.

Recommendation – The Department should establish procedures to ensure accurate capitalization of equipment purchases.

Response – The Department recognizes the importance of accurate capitalization of assets. Management has met with staff responsible for the review and coding of invoices and reminded them of the need for accurate coding to ensure proper capitalization of assets.

Conclusion – Response accepted.

(3) **Iowa Medical and Classification Center (Institution)**

- (a) Three computer servers with costs totaling \$32,871 purchased during the year were not included as additions to the capital asset listing.
- (b) Repair expenditures totaling \$31,756 were included as additions on the capital asset listing.
- (c) Improvements of approximately \$350,000 paid by the Iowa Department of Administrative Services (DAS) were not included as additions on the GAAP package. This was properly adjusted for reporting purposes.

State of Iowa

Schedule of Findings

Year ended June 30, 2009

Recommendation – The Institution 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.

Response – We will double check all entries to ensure capital asset policies and procedures are followed and the asset listing is maintained and up to date.

Conclusion – Response accepted.

(4) **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. In addition, written procedures have not been developed for procedures to annually reconcile the monthly reconciliations to annual financial reporting.

(2) The reconciliation was not reviewed by someone independent of the reconciliation process.

(3) Reconciliations were not performed timely.

(4) The Department utilizes an access database and a mainframe land system to track capital asset activity. Although the access database system has the ability to generate a listing of additions and deletions, the mainframe system for land cannot generate these listings for financial statement reporting. Information for land from the mainframe system 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. A land addition of \$95,764 was not included on the GAAP package by the Department.

(b) The Iowa Department of Transportation (DOT) pays for road projects within DNR parks and properties. This amount is compiled by the Department throughout the year, but the Department relied on DOT records for amounts reported in the GAAP package as additions to infrastructure prior to fiscal year 2009. During fiscal year 2009, the Department updated its system, which allowed the Department to report amounts based on its records. The amount reported by the Department's system did not reconcile to the amount previously reported by the Department based on DOT amounts. There were no written procedures prior to fiscal year 2009 for a reconciliation process between additions reported in the GAAP package and the amount paid by DOT. A prior period adjustment was made to correct the financial statements.

(c) 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. However, there were no written procedures for the reconciliation process for Honey Creek construction in progress.

State of Iowa

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Year ended June 30, 2009

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 included in 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 capital assets findings identified in the previous fiscal year’s state audit report. As a result, we were successful in implementing a number of improvements to our capital assets systems during fiscal year 2009 including more accurate reporting of land improvements and infrastructure (such as roads). We are still working diligently in an effort to address the remaining issues mentioned. As a part of revising our systems, we plan to update our existing procedures to ensure all of our capital assets are accurately tracked and reported and applicable reviews and reconciliations are performed.

Conclusion – Response accepted.

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

Military Division

(a) The following errors were noted for capital asset additions:

- (1) Two asset additions for \$18,920 were assets purchased in a prior fiscal year.
- (2) Two capital asset purchases for \$12,295 were not included as additions on the asset listing.
- (3) The capitalized cost did not equal actual asset acquisition cost for three asset additions, understating additions by \$4,574.
- (4) One asset addition for \$101,095 was previously capitalized as part of building additions.
- (5) Accumulated depreciation and depreciation expense calculated on current year additions were overstated by \$3,324.

(b) Amounts reported in the GAAP package for disposal of assets and the associated accumulated depreciation were understated by \$570,334. This was properly adjusted for reporting purposes.

Homeland Security and Emergency Management Division

Accumulated depreciation was calculated incorrectly, overstating depreciation expense and accumulated depreciation by \$23,639.

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

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I/3 asset purchases and depreciation expense is properly calculated and recorded. Amounts should be accurately reported in the GAAP package.

Response – The Department has a policy in place which requires all assets be properly recorded and accounted for in a capital asset listing. Procedures will be reviewed and personnel will be trained to ensure procedures are followed and assets are properly accounted for and the GAAP package is accurate.

Conclusion – Response accepted.

(6) **Iowa Department of Veterans Affairs**

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures. One asset for \$6,640 purchased during the fiscal year was not added to the capital asset listing.
- (b) Additions were overstated by \$8,760 due to incorrect formulas on the spreadsheet.
- (c) Accumulated depreciation and depreciation expense were overstated by \$16,559 due to incorrect depreciation calculations.
- (d) One current year deletion was disposed of in the prior year.

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.

Response – The Department will develop written procedures to ensure the capital asset listing is maintained and reconciled to I/3, supporting documentation is maintained and the GAAP package information is accurate.

Conclusion – Response accepted.

(7) **Seventh Judicial District**

The District is constructing a new residential facility. Funds are appropriated to the Iowa Department of Corrections and are available to the District during construction. As work progressed, both the District and the Iowa Department of Corrections recorded the construction in progress in the GAAP package. This was properly adjusted for reporting purposes.

Recommendation – To prevent double counting of capital assets, the District should refrain from reporting construction in progress until the Iowa Department of Corrections transfers the completed building to the District.

Response – The District will not report the construction in progress until the Iowa Department of Corrections transfers the completed building to the District.

Conclusion – Response accepted.

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- (C) Payroll - 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. Findings were noted for the following departments where there were no compensating controls:

(1) **Woodward Resource Center**

Three individuals can initiate and approve P-1 documents.

Recommendation - To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associates.

Response - For documents that require more than one level of approval at the facility, Woodward Resource Center human resource (HR) staff will initiate a process to ensure there is segregation of duties. The HR associate will apply one level of approval and the HR Administrative Assistant II will apply the other level.

Conclusion - Response accepted.

(2) **Iowa Department of Education**

Individuals within the Department have the ability to initiate and approve timesheets.

In addition, the Department has assigned certain employees to “act for” other employees by entering their time into HRIS and approving their timesheet. There is no independent review of the information entered into HRIS by the “acts for” employees since in most cases the same person is entering the information and approving the information.

Several employees of the Department work on more than one federal program, so their time is allocated to the federal program based on time charged on their timesheet. A payroll clerk summarizes timesheets for all employees whose payroll is distributed between programs. There is no independent review to ensure the payroll distribution entered on HRIS is correct and the correct federal program is being charged.

Recommendation - To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll. Also, an independent review should be performed and documented over the information entered into HRIS by the “acts for” employee and the payroll distribution information entered on HRIS.

Response - We will establish review processes for payroll which will ensure no one person has the ability to submit data to HRIS without a second person reviewing the information for accuracy. This will specifically apply to any “acts for” employee.

Conclusion - Response accepted.

(3) **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

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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, 2008 through April 7, 2009, 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.

In addition, three Human Resource Associates who utilize online P-1 documents at the Department also have the ability to initiate and approve timesheets.

Recommendation – The Department should establish procedures to ensure the changes to P-1 documents are independently approved. In addition, the Department should implement procedures to segregate the duties of the Human Resource Associates.

Response – The PA's have been reminded of the procedure to follow regarding an approval, which does include making and approving any changes to P-1 documents.

Conclusion – Response accepted.

(4) **Iowa Judicial Branch**

Individuals within the Judicial Branch have the ability to initiate and approve timesheets.

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

Response – Due to major budget cuts, we have eliminated staff that work in the payroll and human resource applications, so segregation of duties is more difficult. However, we will continue to look for ways to strengthen our internal controls.

Conclusion – Response accepted.

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

Individuals within the Department have the ability to initiate and approve P-1 documents and initiate and approve timesheets.

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

Response – 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 possible to completely segregate the duties of initiating and approving payroll actions on the HRIS system. In an attempt to strengthen controls, we maintain a listing of all full time employees by cost center which is compared to the table of organization (TO) on a quarterly basis to ensure

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employees have not been added without proper approval. Additionally, a quarterly time report is posted to the intranet for supervisors to review to ensure all of the employees being charged have been properly authorized.

Conclusion – Response accepted.

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

Three individuals have the ability to apply multiple levels of approval to timesheets.

Recommendation – To strengthen controls, the Department should develop and implement procedures to further segregate duties so individuals do not have the ability to apply multiple levels of approval for timesheets.

Response – The Department has segregated the duties as much as possible while limiting the overall access to confidential payroll information to as few as possible. It has been our policy those who have multi-level approval authority only apply one level approval unless other approvers are absent so employees are paid in a timely manner.

Conclusion – Response accepted.

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

Individuals have the ability to initiate and approve P-1 documents without supervisory approval.

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

Response – Given the volume of activity requiring these and other time sensitive documents and the lack of adequate staff to provide for sufficient back-up, it is necessary for staff to have the authority to initiate and approve documents. It is the policy of the Department of Public Safety that staff who initiate a P-1 document not also put the Department Level approval on it. We will reinforce the policy with staff again.

Conclusion – Response accepted.

(8) **Iowa Department of Revenue**

One individual has the ability to initiate and approve P-1 documents without supervisory approval.

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

Response – The Department understands the importance of appropriate internal control. We have taken action to segregate duties so individuals cannot both initiate and approve P-1 documents for payroll actions. The corresponding changes have been made to the Human Resource Information System.

Conclusion – Response accepted.

(9) **Iowa Department of Veteran's Affairs**

At the Iowa Veterans Home, three individuals have the ability to initiate and approve a personnel action and apply departmental level approval.

Recommendation – To strengthen controls, the Iowa Veterans Home should develop and implement procedures to segregate the approval duties of payroll or develop an internal exception report, or receive one through HRIS, and have an independent person document their review on a regular basis.

Response – The Iowa Veterans Home follows the policies and the Administrative Rules of the Iowa Department of Administrative Services. The P-1 documents for new hires, promotions, other pay adjustments, terminations, demotions and transfers have two or more approval levels beyond the PA and Department level approvals. These approvals are not automatic. DAS-HRE approvals are required following the agency generation of a P-1. DAS-HRE reviews the P-1's at each appropriate level to ensure accuracy and compliance with applicable Administrative Rules and collective bargaining agreements to ensure accuracy prior to approving the document. The PAYL level of approval is done by DAS-SAE (centralized payroll) prior to processing. All across the board pay increases and automatic step increases for contract covered employees are computer generated and do not require a P-1. Final approval and processing of any pay document is given by the DAS and not the agency.

Conclusion – Response acknowledged. To strengthen controls, the Iowa Veterans Home should implement procedures to segregate approvals or have an independent person review an exception report of those instances where this occurs.

(D) Review Documentation

Iowa Department of Education

The Department periodically draws funds from the federal government. The draw is prepared and recorded on the I/3 system using a cash receipt and a grant information sheet as supporting documentation. One individual is responsible for the preparation of the document and another individual reviews the document, but there is no evidence of the review.

Recommendation – To strengthen controls, the Department should develop and implement procedures to document the independent review of federal draws.

Response – The Department will ensure a review process is in place to ensure any draw is independently reviewed by a second staff member. For example, the person developing a cash receipt (CR) will not be the person approving the CR on the I/3 system. A second party will do the approval so the amounts can be checked and verified.

Conclusion – Response accepted.