

**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, 2010**

**State of Iowa**

**Officials**

Name

Title

**Executive Branch**

Honorable Terry E. Branstad

Governor

David Roederer

Director, Department of Management

**Legislative Branch**

John P. Kibbe

President of the Senate

Kraig Paulsen

Speaker of the House of Representatives

Glen P. Dickinson

Director, Legislative Services Agency

**Judicial Branch**

Mark S. Cady

Chief Justice of the Supreme Court



OFFICE OF AUDITOR OF STATE  
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, 2010, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 15, 2010 under separate cover. Our report was modified to include a reference to other auditors. Our report also expressed qualified opinions on the Statement of Activities for the governmental activities and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, a major fund, since we were unable to perform sufficient audit procedures on fourth quarter fiscal year 2009 revenues, expenditures and cut off between fiscal years 2009 and 2010 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 an 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the State of Iowa's financial statements will not be

prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B), (C), (D) and (E) to be significant deficiencies.

#### 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 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

January 3, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Unemployment Trust Fund Receivables – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has established a ledger system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the running balance of employer contributions receivable and delinquent accounts for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services–State Accounting Enterprise (DAS–SAE) on a GAAP package.

(1) The employer contributions receivable as reported on the GAAP package was understated by \$60,065,596. The Department reported the same amount for the current year as was reported for June 30 of the prior year. This was properly adjusted for reporting purposes.

(2) The amount reported for accounts receivable on the GAAP package was not adjusted for write-offs of uncollectible employer contributions. Write-offs of uncollectible accounts are historically accounted for in June of each fiscal year. However, for fiscal year 2010, write-offs were not accounted for due to problems encountered in the transition to a new receivable system module.

Recommendation – The Department should ensure information generated for financial reporting is properly reviewed for accuracy. In addition, the Department should continue working towards completing implementation of the receivable system module with proper testing for accuracy.

Response – It is the intent of the new system to not only provide timely information, but more accurate information in regards to on-going business decisions, account collections and preparing the annual GAAP package. Improvements in all those functions, including a review for accuracy, should be seen when IWD prepares the GAAP package for fiscal year 2011.

Conclusion – Response accepted.

(B) 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 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 carrying amount of cash in the Workers Compensation Fund by \$5,379.

(b) The Department overstated future minimum rental payments for operating leases by \$909,707. This was properly adjusted for reporting purposes.

(c) The Department understated rental expense for operating leases by \$53,174. This was properly adjusted for reporting purposes.

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

State of Iowa

Schedule of Findings

Year ended June 30, 2010

Response – The Department will review the process used for the GAAP package, including identifying leases for Information Technology Enterprises to ensure the correct information is included for reporting purposes in fiscal year 2011.

Conclusion – Response accepted.

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

The Department overstated the amount of contractual commitments reported in the GAAP package by \$8,739,037. 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 accurately report contractual commitments on the GAAP package.

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.

Recommendation – The Department should consider estimating requests for payments from subrecipients to more accurately report payables at year end.

Response – By next fiscal year, the Department will have in place a system to track all obligations against funding streams. Currently, some of our federal funding streams are paid using grants which do not flow through Internal Operations. This creates much difficulty in accurately tracking obligations and expenditures against available funds. Once all obligations are tracked in the same system, it should be possible to estimate the remaining unpaid obligations for the GAAP package. Currently, that process would have to occur manually.

We acknowledge and agree the volume of Appeal Board claims is unacceptable. Additionally, we have to have a system in place to better estimate possible obligations paid using the Appeal Board process. Thank you for your continued pressure on this issue. That pressure is serving to cause us to positively adjust payment processes.

Conclusion – Response accepted.

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

Payments of approximately \$1.5 million between the Disability Determination-SSA Fund, a General Fund account, and the General Fund within the Division of Vocational Rehabilitation Services were coded as revenues and expenditures rather than transfers between funds. This was properly adjusted for reporting purposes.

Recommendation – The Division should ensure payments made to other funds are properly coded as transfers in and transfers out rather than revenues and expenditures.

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Response – Prior to fiscal year 2010, Iowa Vocational Rehabilitation Services (IVRS) coded the indirect cost transactions between Fund 0394 and Fund 0001 as a transfer using a revenue source of 0271 and an object of 2717 and added the AA sub revenue and sub object coding. In fiscal year 2010, the Iowa Department of Administrative Services changed the way transfers were coded in the I/3 accounting system and eliminated the AA sub revenue/sub object coding. IVRS did not correctly interpret the impact of DAS' change and continued to code the indirect cost transfer the same way in I/3 and adjusted the event type in order to continue using the 0271/2717 revenue and object combination. With the elimination of the AA coding, these transactions were not properly recorded as transfers, which resulted in revenues and expenditures being overstated. After this was brought to our attention, we had a discussion with members of DAS-SAE and now understand after DAS did away with the AA we needed to change the revenue and expenditure codes we were using on the IET document rather than changing the event type. IVRS is now coding these transactions as transfers by using the correct event type, revenue source and expenditure objective.

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, 2010, the receivable balance for county billings included over \$10 million of claims disputed by counties receiving the billings.

Of the total disputed balance, approximately \$7.6 million originated prior to fiscal year 2009. DHS has a process for resolving disputed billings. However, this process does not result in timely resolution of disputed amounts. In addition, over \$5.9 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 proposed legislative language in the 2010 session which would assist in resolving disputed billings. The Legislature did not review this language in the 2010 session. Legislation will be proposed again in the 2011 session. In addition, the Department is working with the Office of Attorney General and Iowa Department of Management to take collection actions against counties for disputed billings.

Conclusion – Response accepted.

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Year ended June 30, 2010

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

**Inspections and Appeals**

- (a) The Department understated the future minimum rental payments by \$105,993. This was properly adjusted for reporting purposes.
- (b) The Department understated operating lease payments by \$50,407. This was properly adjusted for reporting purposes.
- (c) The Department performs procedures after September 1 to identify additional accounts receivables which were not included as revenues on the I/3 system. However, even with the additional procedures performed, there were still receivables which were not reported in the GAAP package to DAS-SAE. In addition, the GAAP package did not include an allocation between current, non-current and allowance for uncollectible accounts. The Department understated accounts receivable by \$43,253. This was properly adjusted for reporting purposes.

**State Public Defender's Office**

The Department overstated the future minimum rental payments by \$36,487. This was properly adjusted for reporting purposes.

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

Response – The schedule for leases and future rent payments was corrected and was able to be incorporated into the GAAP package. Fiscal has requested any time there is a change to a lease, the business services area submit an additional copy to be kept with GAAP package information so the schedules can be updated.

The Health Facilities Division currently submits monthly reports of accounts receivable to Fiscal which will allow for tracking of all fines. Fiscal met with staff from the Office of Auditor of State to clarify what was considered current, non-current and allowance for uncollectibles so this should not be an issue in the future.

Conclusion – Response accepted.

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

- (a) The Department did not reflect the change in deferred revenue when reporting Condition 5 federal funds in the GAAP package. The information in the GAAP package is used to prepare journal entries for the financial statements. As a result, sales, rents and services was understated and federal support was overstated approximately \$614,000. This was properly adjusted for reporting purposes.
- (b) The Department overstated a loan receivable for the Landfill Alternative Financial Assistance Program by \$167,000. This was properly adjusted for reporting purposes.
- (c) The Department understated cash balances by approximately \$6,500.

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Year ended June 30, 2010

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

Response –

- (a) The Department inadvertently reported the total Condition 5 revenue received during the fiscal year instead of the amount actually expended/earned during the year. A notation has been placed in the GAAP package file to ensure the correct amount is reported on the Federal Grants page of the GAAP package in the future.
- (b) The loan tracking spreadsheet which is utilized to prepare the GAAP package was not updated to reflect a loan agreement which had been amended to a lower amount. Loan agreement amendments such as this are not a common occurrence. The error has been communicated to the person responsible for maintaining the spreadsheet to ensure loans are accurately reported in the future.
- (c) The staff person preparing the June 30 cash balance listing for the GAAP package inadvertently recorded the wrong dollar amount from one of the Park's bank statements. In the future, the Department will ensure the information reported is accurate.

Conclusion – Response accepted.

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

During the year ended June 30, 2010, the Department developed and implemented procedures to determine the amount of liabilities outstanding by subrecipients related to the Public Assistance disaster grants and the related federal receivable. These amounts were included in the GAAP package. The population of subrecipients and liabilities originally provided was not complete, so the balances reported were understated. In addition, the activity processed through the I/3 system during the accrual period was not adjusted from the amounts reported in the GAAP package, resulting in an overstatement. The GAAP package was subsequently revised and properly adjusted for reporting purposes.

Recommendation – The Department should develop policies and procedures to ensure the listing of subrecipients used to determine the Public Assistance disaster grant liabilities is complete and should adjust for activity processed through the I/3 system during the accrual period.

Response – The State Comptroller's Office is working with the Homeland Security and Emergency Management Division Recovery Bureau to ensure procedures will be updated to ensure all activity during the accrual period is properly accounted for and the GAAP package reporting is accurate.

Conclusion – Response accepted.

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

- (a) The Department understated the amount of unearned revenues by \$876,997. This was properly adjusted for reporting purposes.

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Year ended June 30, 2010

- (b) The Department understated the amount of future lease payments by \$334,220.

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

Response – The GAAP package information will be reviewed for accuracy and completeness by a separate staff member in the Bureau of Finance prior to submission.

Conclusion – Response accepted.

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

- (a) The unearned revenue page of the GAAP package captures information on unearned revenues carried forward on the State accounting system to the next fiscal year, unearned revenue not carried forward and revenue carried forward not meeting the definition of unearned revenue. Journal entries are prepared for each section reported.

- (1) Unearned revenue not carried forward was understated by \$614,403.
- (2) Unearned revenue carried forward was understated by \$1,828,681.
- (3) Revenue carried forward not meeting the definition of unearned revenue was understated by \$6,171,910.

These were properly adjusted for reporting purposes.

- (b) The Trade Readjustment Assistance benefits payable was omitted from the GAAP package, resulting in a \$90,789 understatement of accounts payable. This was properly adjusted for reporting purposes.
- (c) The Combined Wage Claims Payable to Other States was understated by \$1,109,551. This was properly adjusted for reporting purposes.
- (d) The schedule of future minimum operating lease payments was understated by \$155,590 for the applicable property tax adjustment. This was properly adjusted for reporting purposes.
- (e) 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 – IWD understands the importance of completing the GAAP package as accurately as possible and to that end, we have assigned the coordination and review of the GAAP package to an individual within IWD with both auditing and accounting expertise, who will ensure we have completed all necessary components and it is the best and most accurate information we have available at the time the report is due. Coordination is essential as is a pre-audit of that information.

Conclusion – Response accepted.

State of Iowa

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Year ended June 30, 2010

- (C) 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 on a timely basis.
- (b) Adjustments made for prior year retainage payable were incorrectly shown as deletions instead of an adjustment to additions, causing deletions and additions to be overstated by \$78,662 for land improvements and \$50,341 for buildings.
- (c) Accumulated depreciation was understated by \$18,841 and depreciation expense for buildings and building improvements was understated by \$699 due to incorrect adjustments made for prior year errors.
- (d) Depreciation expense for buildings and building improvements was overstated by \$8,096.
- (e) The gain on the sale and/or disposal of assets was reported as a loss. 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 on a timely basis and additions should be properly adjusted for retainage payable. Depreciation expense, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded.

Response – The Department did perform multiple reconciliations of capital assets during fiscal year 2010. There was no internal requirement as to how often those reconciliations were supposed to be performed. The reconciliations are to be completed on a more timely basis in fiscal year 2011. The remaining comments and clean up from previous years is noted and the Department will work with staff of the Office of Auditor of State to ensure the fiscal year 2011 GAAP package corrections resolve any outstanding comments from prior years.

Conclusion – Response accepted.

(2) **Iowa Department of Education**

- (a) The Department performs a monthly and annual reconciliation of capital asset additions to I/3 system expenditures. However, the reconciliation was not reviewed by someone independent of the reconciliation process.
- (b) During the year ended June 30, 2010, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The Department originally reported \$4,350,000 of intangible assets on the GAAP package, of which some had been placed in service in prior years. The Department could not support the estimate of costs included in the GAAP package. In addition, the Department did not determine a date placed in service, so the Department was not reporting current year or accumulated depreciation on the assets. This was properly adjusted for reporting purposes.

State of Iowa

Schedule of Findings

Year ended June 30, 2010

Recommendation – To strengthen controls, the Department should update current written procedures to include timely review and documentation of reconciliations between I/3 and the Department's capital asset tracking system by an independent person. The Department should also maintain documentation to support actual or estimated costs for intangible asset additions or deletions, including the dates placed in service.

Response – While the short answer is we will comply with this expectation (independent review, documentation of actual or estimated costs and reconciliations), there is a need to supply some context. At the time we did initial projections of cost for intangible assets, we were not aware of the option to depreciate out the cost of each asset. Because of the age of the assets we were counting, once we understood we could depreciate the asset, the net result was a zero claim.

It should also be noted at the time of the creation of the assets on our list, there was no requirement to document, project or aggregate cost of the asset for recordkeeping purposes. We are happy to manage that as a part of this new expectation, but we hope everyone understands that all agencies are playing catch-up with this new requirement.

Conclusion – Response accepted.

(3) **Iowa Judicial Branch**

- (a) Current year depreciation expense excluded depreciation on assets purchased prior to July 1, 2009, resulting in an understatement of depreciation expense and accumulated depreciation of \$542,391 reported on the GAAP package.
- (b) The accumulated depreciation deductions were understated \$1,996 on the GAAP package.
- (c) One capital asset addition was not included on the GAAP package, resulting in an understatement of capital assets of \$21,215.
- (d) The GAAP package did not include a \$9,863 loss on disposal of capital assets.

These items were properly adjusted for reporting purposes.

Recommendation – Depreciation expense, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded to ensure the GAAP package information is complete and accurate.

Response – We will have two people review our final GAAP package to ensure it is complete and accurate.

Conclusion – Response accepted.

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

- (a) Segregation of duties does not exist between the recording and reconciliation functions for capital assets.
- (b) In prior fiscal years, the Department performed a monthly reconciliation of capital asset additions and deletions manual spreadsheets to the capital asset systems/databases. However, the following were noted:

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Year ended June 30, 2010

- (1) Monthly reconciliations were not performed during the fiscal year. Capital assets were added to the systems/databases at year end. However, no evidence documenting a year-end reconciliation was provided.
  - (2) An adjustment for equipment of \$7,800 was not updated accurately on the access capital assets system database, causing an understatement in the equipment balance.
  - (3) Central office received confirmation for four equipment deletions for \$53,564 which were not deleted on the access database, causing an overstatement in capital assets.
- (c) 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 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.
  - (5) One capital asset reported as an addition for \$7,000 was owned by another entity.
  - (6) Construction in progress of \$3,528,661 was omitted from construction in progress on the capital assets listing. This was resolved for audit purposes.
- (d) The Honey Creek Premier Destination Park (Honey Creek) construction in progress additions reported in the GAAP package were reconciled with expenditures reported in the I/3 system. However, there are no written procedures on the reconciliation and reporting process.
- (e) Monona County contributed \$842,176 to the Department through a joint agreement for the Lewis and Clark Visitor Center which was not included as an addition to construction in progress. This was resolved for audit purposes.
- (f) An item for \$43,000 previously reported as construction in progress was reclassified as a building. The item capitalized was a building improvement which did not meet the threshold of \$50,000 and, accordingly, should not have been capitalized.
- (g) DNR procedures include confirming infrastructure with field personnel annually. Confirmations were not sent during the year.

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Recommendation – The Department should update current written procedures, develop additional written procedures and follow established 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 should be reviewed by an independent person. In addition, the Department should implement controls to ensure proper segregation of duties exists between the recording and reconciliation functions for capital assets.

Response – The staff person responsible for recording and tracking all of the DNR’s capital assets retired unexpectedly in January 2010 and had not updated any capital assets listings since the end of fiscal year 2009. Due to hiring restrictions, the Department was unable to hire a replacement for this position until October 2010. In order to complete fiscal year 2010, an accounts payable staff person was temporarily assigned to update the capital asset databases in addition to performing their normal job duties. Due to the complexity and volume of DNR’s capital assets activity, it is necessary to have a full-time employee dedicated to these job duties to ensure all assets are properly recorded and all reconciliations are properly completed. Since being hired, the new staff person has been working on revising capital assets written procedures including adding provisions for required reconciliations and proper segregation of duties as well as adjusting the asset listings to correct the noted audit findings.

Conclusion – Response accepted.

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

**Military Division**

- (a) The following errors were noted for capital asset additions:
  - (1) Two capital asset purchases totaling \$22,312 were not included as additions on the asset listing.
  - (2) Three assets provided and owned by the federal government were capitalized, overstating additions by \$15,444.
- (b) During annual inventory, six assets were found which were not on the Division’s capital asset listing.

**Homeland Security and Emergency Management Division**

- (a) One asset valued at \$8,772 could not be located.
- (b) Accumulated depreciation was calculated incorrectly, understating depreciation expense and accumulated depreciation by \$2,194.

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. Amounts should be accurately reported in the GAAP package.

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Response – Procedures will be implemented to properly ensure capital assets are reconciled with I/3 and amounts reported on the GAAP package are accurate. Documentation will be maintained to support all figures.

Conclusion – Response accepted.

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

- (a) The same individual records and reconciles capital asset records.
- (b) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for the Boards within the Department.
- (c) The Department is not completing or maintaining documentation evidencing proper approval for disposed assets.

Recommendation – Duties should be segregated to ensure one person does not perform incompatible duties. 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 all capital asset additions are reconciled to I/3 asset purchases and disposal of assets are properly approved and documentation is retained evidencing proper approval.

Response – Written procedures will be developed and implemented throughout the Department. These procedures will address segregation of responsibilities for asset records, reconciliation by staff within the four Boards (Medicine, Nursing, Pharmacy and Dental) of asset inventory to I/3 purchases and appropriate documentation of asset disposal.

Conclusion – Response accepted.

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

- (a) Additions were understated by \$791,902 due to incorrect formulas on the capital asset spreadsheet. The formula error had no effect on accumulated depreciation and depreciation expense. This was properly adjusted for reporting purposes.
- (b) The Department purchases vehicles through DAS-General Services Enterprises (GSE). Vehicles delivered but unassigned at June 30, 2010 were excluded from the capital asset listing causing equipment and vehicle additions to be understated by \$751,882. This was properly adjusted for reporting purposes.
- (c) The Department received equipment transferred from the Iowa Department of Public Defense - Homeland Security and Emergency Management Division for \$615,439 which was not included as additions on the Department's GAAP package. This was properly adjusted for reporting purposes.
- (d) Five capital assets purchased for \$84,771 were not included as additions on the asset listing.
- (e) Accumulated depreciation and depreciation expense for equipment and vehicles was understated by \$27,297. This was properly adjusted for reporting purposes.

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- (f) Amounts reported in the GAAP package for expenses and fees for disposal of assets were understated by \$67,617, causing the gain on disposal of assets to be overstated. 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 reconciliations between the Department’s tracking system and amounts included in the GAAP package for financial reporting are performed. In addition, the Department should develop procedures to identify transferred assets to ensure the capital asset listing is complete. Depreciation expense, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded.

Response – The Department’s policy is to maintain an up-to-date capital asset listing and reconcile it between I/3 and the Department’s tracking system and the GAAP package. Also, it is the Department’s intent to identify all transfers of assets and record them appropriately, along with the appropriate depreciation expense, accumulated depreciation and reporting of gains and losses at time of disposal. However, due to the recent reduction in workforce in the Department’s Finance area, our inability to replace those positions, and the requirement the GAAP package be completed within a week of the end of the fiscal year hold open period, the most recent GAAP report had errors in it which weren’t discovered until it was reviewed by staff of the Office of Auditor of State. We will make every effort to do a better job in the future.

Conclusion – Response accepted.

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

- (a) Four of fifteen capital assets selected from the listing could not be located. Also, one of the eleven capital assets observed did not have a State property tag affixed to it.
- (b) Four of ten capital assets selected for observation could not be traced to the capital asset listing. Also, two expenditures for items with a value of over \$5,000 each could not be traced to the capital asset listing.
- (c) Thirteen of fifteen capital asset deletions tested lacked evidence of approval prior to the deletion.
- (d) Capital assets were tested as a part of field office visits. The following items were noted:
- (1) Two of five capital assets selected for existence testing at the Burlington field office could not be located.
  - (2) Manager approvals for capital asset deletions were not retained at the Davenport field office.
- (e) Intangible assets of \$3,591,638 for the unemployment insurance tax system redesign were not initially reported on the GAAP package. This was properly adjusted for reporting purposes.

State of Iowa

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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 all assets are properly accounted for, included on the capital asset listing and tagged with a State property tag. In addition, approval prior to the deletion of items from the capital asset listing should be obtained and retained.

Response – The individual assigned to maintain and oversee inventory control has not had sufficient time to do justice to this aspect of financial management. Therefore, the duties involved have been placed with an Accountant 2 within the bureau and duties were restructured to allow time to analyze the inventory and make necessary inquiries. At that same time, inventory control needs to be stressed to each individual manager responsible for segments of inventory. The importance of which will be stressed to those managers through written communication on an annual basis and via periodic meetings held with local managers.

Conclusion – Response accepted.

- (D) 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) **Iowa Department of Education**

Nine 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 – In April 2010, the Department made an adjustment to this process which corrected this issue. There is no longer anyone at the Department both entering and certifying time sheets, even in an “acting for” capacity. Every time sheet gets an independent review and certification.

Conclusion – Response accepted.

State of Iowa

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(2) **Iowa Communications Network**

For the period July 1, 2009 through March 18, 2010, one P-1 document was initiated and received department level approval by the same person.

In addition, three employees who utilize online P-1 documents at ICN also have the ability to initiate and approve timesheets.

Recommendation – The ICN should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Response – The ICN 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. In addition, we have changed approval rights so individuals capable of initiating P-1's do not have the authority to do departmental approvals.

Conclusion – Response accepted.

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

Two 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 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 other's 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 on a quarterly basis by an independent, third person to ensure 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.

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

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

Six individuals have the ability to initiate and approve P-1 documents. The Department requests and receives a quarterly summary of P-1 actions. However, the review is not performed by an independent individual.

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.

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The Department should also ensure an independent individual performs the quarterly review of P-1 actions. This review should be evidenced by the signature of the independent reviewer and the date the review was performed.

Response – The Department has implemented a policy where no one individual will apply all approval levels to timesheets, except in case of emergency or absence of other authorized approvers. The P-1 quarterly review will be done by an independent individual not associated with the payroll process.

Conclusion – Response accepted.

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

Three individuals have the ability to initiate P-1 documents and prepare and approve timesheets.

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

Response – IDPH has requested the production of a quarterly P-1 APPRV report to be produced by DAS on a quarterly basis. The report will be sent to the Bureau of Finance for review to verify appropriate approvals of payroll documents by internal staff. Documentation of the review/approval of report will be maintained.

Conclusion – Response accepted.

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

Four individuals have the ability to 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 – Given the volume of activity requiring these and other time sensitive duties 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. Staff have been instructed the practice of initiating and applying approvals to the same document without the involvement of at least a second person does not provide ample internal control and is not allowable. It should also be noted the P-1 program does provide an audit trail which identifies who makes and adjusts documents so any problems with incorrect P-1s can be traced back to the individuals touching the document.

Conclusion – Response accepted.

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

Three individuals at the Iowa Veterans Home (IVH) 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.

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Response – Procedures have been implemented in fiscal year 2011 to have DAS-Human Resources Enterprise generate a quarterly report which shows the P-1 transactions. This report will be reviewed by the IVH supervisor of personnel.

Conclusion – Response accepted.

(E) 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 – In April 2010, we changed this process. Every cash receipt is now individually reviewed and evidenced by the initials on the bottom of the pay document.

Conclusion – Response accepted.