



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

July 23, 2003

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Justice for the year ended June 30, 2002.

The Iowa Department of Justice, with the Attorney General as head and chief legal officer of the state, is established under the Constitution of the State of Iowa and Chapter 13 of the Code of Iowa. The Attorney General's Office prosecutes and defends all cases in the Supreme Court in which the state is a party or has an interest. The Attorney General's Office also represents the state in other actions and proceedings, both civil and criminal, when, in its judgment, the best interests of the state require it to do so, or when requested to appear by the Governor or the Executive Council.

Vaudt recommended that the Department strengthen controls over cash receipts by segregating duties to the extent possible and that the Office of Consumer Advocate (OCA) reconcile FY02 operating expenses to related collections from utility companies, in a timely manner, to ensure that each utility company was billed accurately for their portion of OCA expenses.

A copy of the audit report is available for review in the Office of Auditor of State and the Iowa Department of Justice.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF JUSTICE**

JUNE 30, 2002

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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July 9, 2003

To the Honorable Thomas J. Miller, Attorney General
of the State of Iowa:

The Iowa Department of Justice is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2002.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. The recommendations pertain to the Department's internal control, compliance with statutory requirements and other matters which we believe you should be aware of. These recommendations have been discussed with Department personnel, and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Justice, citizens of the State of Iowa and other parties to whom the Iowa Department of Justice may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 9 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

Iowa Department of Justice

June 30, 2002

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

- (1) Segregation of Duties – During our review of internal control, existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's financial statements.

Certain individuals within the Office of Consumer Advocate and the Prosecuting Attorneys Office may receive, record, reconcile and prepare deposits for cash receipts. In addition, an initial listing of receipts is not prepared by the mail opener at either office.

Recommendation – We realize that with a limited number of Department employees, segregation of duties is difficult. However, the Office of Consumer Advocate and the Prosecuting Attorneys Office should review their operating procedures to obtain the maximum internal control possible under the circumstances. In addition, an initial listing of receipts should be prepared by the mail opener and compared to the amount recorded on IFAS by an independent person.

Response –

Office of Consumer Advocate – An initial receipt listing is not prepared by the Accounting and Assessments staff (A&A staff) because of the large number of checks received yearly in payment of Consumer Advocate and Department of Commerce Iowa Utilities Board (IUB) billings. Payments for billings issued by the A&A staff are received through the IUB Records Center and are delivered daily to the A&A staff by the IUB mail person. The Accountant II opens the mail and immediately endorses all receipts. All receipts must have a payment coupon included with the payment. If the company sending the receipt has not included the payment coupon, a copy is made from the receivable file to include with the receipt for the cashier. The payment coupon is date stamped to record the date of receipt. All receipts are deposited within two days of receipt with the majority being deposited within one day. The receipts and the payment coupons are given to the Accounting Clerk I who will prepare the deposit through the IFAS system. Each payment coupon is stamped with a validation number unique to the daily transmittal form.

Receipts are deposited daily in the state account with Wells Fargo Bank. The Accounting Technician II delivers the receipts daily to the bank and delivers the IFAS transmittal sheets daily to the state complex.

The Accounting Clerk I gives the Accountant II the processed payment coupons. The Accountant II matches the payment coupon with the open billing invoice in the pending file and enters the data from the payment coupons to the Receivable Journal. The information entered includes the paid date, the paid amount and the validation number assigned to the receipt listed on the state transmittal. Any daily transmittal issued can be recreated by company name (creating a listing for that day's deposit) by sorting the Receivable Journal. The paid billing invoices are given to the Accounting Clerk I for filing.

Report of Recommendations to the Iowa Department of Justice

June 30, 2002

Revised procedure with an effective date of July 1, 2003 will be added to the above:

A monthly printout of the deposits recorded in the Receivable Journal will be prepared by sorting the payment records in the journal. That printout will be compared with the recorded IFAS monthly report payment and reconciled by the Accounting Technician II who will also resolve any differences. The two printouts will be maintained in the audit file.

Prosecuting Attorneys Office – Beginning in fiscal year 2004, the Prosecuting Attorneys Office will enter all incoming checks into a central receipt book at the reception desk. These checks, along with the original receipt, will then be passed along to the appropriate support staff in the division. A cash receipt document is prepared by the support staff in the division and is sent to the Attorney General's Office for document processing and approval. All cash receipts from the Prosecuting Attorneys Office have been processed by the Attorney General's Office since the beginning of fiscal year 2003.

Conclusion –

Office of Consumer Advocate – Response acknowledged. The Department should segregate duties to the extent possible with existing personnel and utilize supervisory personnel to provide additional control through review of financial transactions and reports.

Prosecuting Attorneys Office – Response acknowledged. The amounts recorded in the central receipt book should be compared to the amounts recorded on IFAS by an independent person.

- (2) Computer Controls – The Office of Consumer Advocate does not require the use of user specific logins and/or passwords to access utility billings and capital asset information.

Recommendation – The Department should implement security features which limit access to computer programs to those who have a legitimate need.

Response – The Accounting & Assessments staff (A&A staff) of the Department of Commerce Iowa Utilities Board (IUB) prepares the utility billings and the capital asset information for the Office of Consumer Advocate. Organizational changes in the Department of Commerce effective with the beginning of fiscal year 2003 moved the A&A staff from the Administrative Services Division to the IUB. The A&A staff are now part of the IUB computer network. Passwords are required to access any of the computer programs that the A&A staff use. Prior to the reassignment of staff, the accounting group had stand alone computers that could be accessed by anyone. The change in assignment has created the security feature of limiting access to data.

Conclusion – Response accepted.

June 30, 2002

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Consumer Credit Code – Chapter 537.6104(5) of the Code of Iowa states that the administrator of the Iowa Consumer Credit Code shall report annually to the General Assembly on the operation of the consumer credit protection bureau and on the problems of persons of small means obtaining credit from persons regularly engaged in extending sales or loan credit. This report has not been made to the General Assembly for several years.

Recommendation – The Administrator of the Iowa Consumer Credit Code should make the required annual report to the General Assembly regarding the operation of the consumer credit protection bureau. If the Department does not intend to comply with this Code section, then steps should be taken to eliminate this requirement in the future.

Response – Beginning January 1, 2004, the Attorney General's Office will report annually to the General Assembly on the operation of the consumer credit protection bureau and on the problems of persons of small means obtaining credit from persons regularly engaged in extending sales or loan credit. It is the intent of this office to have the Code of Iowa language changed to eliminate this requirement in the future.

Conclusion – Response accepted.

- (2) Report to the Governor – Chapter 13.2(7) of the Code of Iowa requires the Attorney General to report to the Governor the condition of the Attorney General's office, opinions rendered, and business transacted of public interest. The report that covered calendar years 2001 and 2002 was due March 1, 2003.

Recommendation – The Department should make the condition of the Attorney General's office report available to the Governor by the reporting deadline.

Response – The Attorney General's report was filed with the Governor on May 13, 2003. The delay was caused by lack of adequate staff resources. It is important to note that, traditionally, Attorney General Opinions were the most widely used information included in the Attorney General's report. For over a year, Attorney General Opinions have been available to the public on the Attorney General's website a few days after Opinions are issued.

Conclusion – Response accepted.

- (3) Office of Consumer Advocate – The Office of Consumer Advocate (OCA) bills utility companies for its operating expenses in accordance with Chapters 475A.6 and 476.10 of the Code of Iowa.

At May 7, 2003, the OCA had not performed a reconciliation comparing total expenses for FY02 to related billings/collections from utility companies to determine if any additional amounts are due from or owed to the utility companies.

In addition, the amounts collected from utility companies have not been reconciled to IFAS revenues for the year ended June 30, 2002.

Report of Recommendations to the Iowa Department of Justice

June 30, 2002

Recommendation – The Office of Consumer Advocate should reconcile FY02 operating expenses to related collections to ensure that each utility company was billed accurately for their portion of OCA expenses. In addition, OCA should develop and implement procedures which provide for timely reconciliations of utility collections to IFAS revenues.

Response – The remainder assessment reconciliation and the accounts receivable reconciliation are prepared by the Accounting & Assessments staff (A&A staff) of the Department of Commerce Iowa Utilities Board (IUB) as authorized by Chapter 476.10 of the Code of Iowa. Organizational changes in the Department of Commerce effective with the beginning of fiscal year 2003 moved the A&A staff from the Administrative Services Division to the IUB. The IUB has made staffing reassignments and issued new procedures to reduce the backlog of work that existed at the beginning of fiscal year 2003 and to bring all assignments current by the beginning of fiscal year 2004.

A final reconciliation of the fiscal 2002 remainder assessment will be completed by June 30, 2003. The reconciliation for the companies is prepared for the Consumer Advocate and the IUB jointly. The final reconciliation of the fiscal 2003 remainder assessment will be completed by October 31, 2003. The new procedure for the remainder reconciliation (effective with fiscal year 2003) is as follows:

The reconciliation of remainder assessment charges will be completed annually by October 31 for the fiscal year ending August 31. The reconciliation has been added as a performance measure in the IUB budget. The new IUB procedure is being implemented as the revised procedure for the Consumer Advocate because the reconciliation is completed jointly.

A joint Accounts Receivable Journal is prepared for the Consumer Advocate and the IUB because charges are issued for both on the same company invoice. The Accounts Receivable Journal has been revised during the fiscal year 2003 billing cycle and is still being updated. The Accountant II enters the billing and payment information into the journal for the Consumer Advocate and the IUB. The Accounts Receivable Journal is a complete record of the numbered company invoices that have been issued and a complete record of the payment data.

A reconciliation of the receivable balances will be made for the fiscal year 2003 journal before the close of the fiscal year. The following procedure with an effective date of July 1, 2003 will be added to the procedures for the Accounts Receivable Journal:

A monthly printout of the deposits recorded in the Receivable Journal will be prepared by sorting the payment records in the journal. That printout will be compared with the recorded IFAS monthly report payment and reconciled by the Accounting Technician II, who will also resolve any differences. The two printouts will be maintained in the audit file.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Justice

June 30, 2002

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Jeremy J. Howard, CPA, Staff Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Sheila M. Jensen, Assistant Auditor
Brad T. Holtan, Assistant Auditor
Scott D. Bantz, Assistant Auditor