



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ July 11, 2011

Contact: Andy Nielsen  
515/281-5834

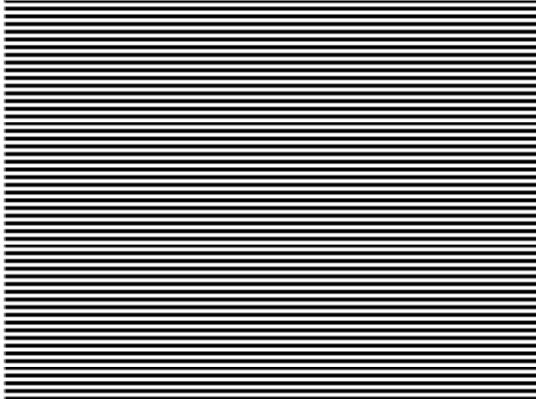
Auditor of State David A. Vaudt today released a report on a review of selected application controls over the Iowa Department of Transportation's Payroll System for the period April 12, 2010 through June 30, 2010.

Vaudt recommended the Department establish written procedures to strengthen controls for the review of user access rights, employee citizenship designations and ensuring two levels of approval are required for personnel action forms. The Department responded positively to the recommendations.

A copy of the report is available for review at the Iowa Department of Transportation, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1160-6450-BT01.pdf>.

###





**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF TRANSPORTATION  
ON A REVIEW OF SELECTED  
APPLICATION CONTROLS OVER THE  
PAYROLL SYSTEM**

**April 12, 2010 THROUGH JUNE 30, 2010**

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



**David A. Vaudt, CPA**  
**Auditor of State**







OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

June 7, 2011

To Paul Trombino III, Director of the  
Iowa Department of Transportation:

In conjunction with our audit of the financial statements of the State of Iowa for the year ended June 30, 2010, we conducted an information technology review of selected application controls of the Iowa Department of Transportation for the period April 12, 2010 through June 30, 2010. Our review focused on the application controls of the Iowa Department of Transportation's Payroll System as they relate to our audit of the financial statements. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure all deficiencies in internal controls are disclosed.

In conducting our review, we became aware of certain aspects concerning information technology controls for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations which pertain to the Department's application controls over the Payroll System. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Transportation, citizens of the State of Iowa and other parties to whom the Iowa Department of Transportation 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 Iowa Department of Transportation during the course of our review. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our review of the Payroll System are listed on page 6 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 Terry E. Branstad, Governor  
David M. Roederer, Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

April 12, 2010 through June 30, 2010

## **Payroll System General and Application Controls**

### **A. Background**

The Iowa Department of Transportation's Payroll System is comprised of several applications which pull data from a number of sources to calculate and generate employee salary and wage payments.

### **B. Scope and Methodology**

In conjunction with our audit of the financial statements of the State of Iowa, we reviewed selected aspects of the application controls in place over the Iowa Department of Transportation's Payroll System for the period April 12, 2010 through June 30, 2010. Specifically, we reviewed the application controls: access controls, segregation of users and business process controls including input, processing and output. We interviewed staff of the Department and we reviewed Department policies and procedures. To assess the level of compliance with identified controls, we performed selected tests.

We planned and performed our review to adequately assess those Department operations within the scope of our review. We developed an understanding of the Department's internal controls relevant to the operations included in the scope of our review. We believe our review provides a reasonable basis for our recommendations.

We used a risk-based approach when selecting activities to be reviewed. We focused our review efforts on those activities we identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we used our finite review resources to identify where and how improvements can be made. Thus, we devoted little effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our review reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

### **C. Results of the Review**

As a result of our review, we found certain controls can be strengthened to further ensure the reliability of financial information. Our recommendations, along with the Department's responses, are detailed in the remainder of this report.

#### **Application Controls**

- (1) Citizenship Designations – Office of Employee Services (OES) staff verify required employment documents and credentials for new hires and then create the Personnel Action Form (P-1) in the payroll system. The P-1 is preset to designate new employees as citizens. OES staff do not normally use or change this preset designation. As a result, one individual who was not a US citizen had FICA, Medicare and IPERS withheld from the employee's paycheck. This was not detected until the employee was notified by the Federal Government they should not be paying these taxes. Written guidance or policies and procedures have not been prepared for staff to follow. The designation has subsequently been changed and the excess withholding refunded to the employee.

Report of Recommendations to the Iowa Department of Transportation

April 12, 2010 through June 30, 2010

Recommendation – The Office of Employee Services should establish written procedures to provide staff with guidance and ensure non-US citizens are properly designated in the payroll system.

Response – The Office of Employee Services (OES) will establish and implement written procedures during fiscal year 2012.

Conclusion – Response accepted.

- (2) Review of Inactive User Accounts – Individuals in non-supervisory roles are occasionally granted access to modify timesheets when covering for other positions. The resource owner informally reviews and removes the access rights when no longer needed, but no documentation is retained.

Recommendation – The Department should establish procedures to periodically review inactive accounts and users' access rights to ensure they remain appropriate. Documentation of this review should be retained.

Response – The Office of Employee Services will develop written procedures and a review process.

Conclusion – Response accepted.

- (3) Segregation of Duties – There are 71 different P1 types where one individual can apply all of the approvals required to implement the personnel change (P1). The situations presenting the greatest risk are 14 individuals who can adjust vacation balances, bonus pay adjustments, annual pay adjustments, step increases (contract) and pay grade changes without a second level of approval.

Recommendation – The Department should take steps to ensure all P1 types require at least two levels of approval before processing and no one individual has the ability to apply all of the approvals required to process a particular P1.

Response – The Office of Employee Services has initiated an effort to have more than one approval level on all sensitive P1 types and a safeguard to ensure the same user cannot apply two consecutive approvals on a P1.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

April 12, 2010 through June 30, 2010

**Staff:**

Questions or requests for further assistance should be directed to:

Erwin L. Erickson, CPA, Director  
Scott P. Boisen, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this review include:

Adam D. Steffensmeier, Staff Auditor  
Jenny R. Lawrence, Staff Auditor