

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, 2011

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 M. 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



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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, 2011, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 15, 2011 under separate cover. Our report was modified to include a reference to other auditors. 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

Management of the State of Iowa is responsible for establishing and maintaining effective 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) through (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

December 29, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has developed the MYIOWAUI 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, including penalty and interest calculations, for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services-State Accounting Enterprise (DAS-SAE) on a GAAP package. The following issues were noted for the year ended June 30, 2011:

- (1) The MYIOWAUI system initially included previously written off employer accounts receivable, which resulted in incorrect accounts receivable and penalty and interest amounts reported to DAS-SAE, as follows:
 - (a) The employer delinquent accounts receivable was overstated by \$5,994,211.
 - (b) The penalty and interest receivable for delinquent accounts was overstated by \$19,400,971.

These amounts were properly adjusted for financial reporting purposes.

- (2) The system is unable to process and track return items (NSF checks).
- (3) The system is unable to run an aging report, which has been used in the past by IWD staff to develop the allowance for doubtful accounts. For fiscal year 2011, IWD applied the fiscal year 2010 allowance percentage, which was based on the prior year aging report, to the fiscal year 2011 accounts receivable balance. This was determined to be reasonable for reporting purposes.

In addition, the following findings relating to the Washington Trust financial information in the GAAP package submitted to DAS-SAE were noted:

- (1) The amount owed to the Integrated Information for Iowa (I/3) system fund 0691 from the Washington Trust Fund was overstated by \$16,041,525. This was properly adjusted for reporting purposes.
- (2) The Combined Wage Claims Payable to Other States and corresponding receivable were understated by \$251,631.
- (3) Washington Trust Fund deferred revenue-employer credit memos were understated by \$3,920,282. This was properly adjusted for reporting purposes.

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Recommendation – The Department should ensure financial information generated for the GAAP Package is properly reviewed for accuracy. In addition, the Department should continue to modify the MYIOWAUI system to ensure the data is accurate and timely.

Response – State fiscal year 2011 was the implementation year for the new Unemployment Insurance Tax system. Many of the system functions are still being developed and implemented. There have also been several scheduled system deployments and corrections to our production systems. This unfortunately has created a backlog of work and constant checking and rework for much of the data necessary for financial reporting. During fiscal year 2012, many more system functions will become available. As this happens, more accurate and timely data will become available. An aging report for accounts receivable is now functioning and more accurate methods of determining accounts receivable data are in process. Errors in the reporting of credit memos have been identified and are being corrected. Every effort to report accurate data will be made in the future and as the MYIOWAUI system functionality improves the data will be readily verifiable.

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 overstated future minimum rental payments for operating leases by \$958,356.
- (b) The Department overstated rental expense for operating leases by \$8,506.
- (c) The Department understated accounts receivable by \$29,165. This was properly adjusted for reporting purposes.

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

Response – The Department acknowledges the errors noted in (a) and (b) related to Information Technology Enterprise (ITE) leases. These are due to transitioning the responsibility to new staff and not having in place adequate time to review both hard copies and electronic spreadsheets used to track and calculate the reportable amounts.

The Department acknowledges the error noted in item (c) related to outstanding Code of Iowa section 29C.20 reimbursements. Again, this was due to transitioning the responsibility to new staff.

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To prevent these issues from re-occurring we will discuss the comments with the Finance staff. We are also going to move up all deadlines for GAAP package information, where possible, to allow for adequate review time and GAAP package assignments will be re-distributed.

Conclusion – Response accepted.

(2) Iowa Department of Economic Development

- (a) The Department overstated the amount of contractual commitments by \$13,700,155. This was properly adjusted for reporting purposes.
- (b) The Department understated the future minimum rental payments by \$113,993 due to the exclusion of the foreign offices. This was properly adjusted for reporting purposes.

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

Response – The Department will strengthen its processes and review regarding contractual commitments, lease costs and overall preparation of the GAAP package to minimize these misstatements in the future.

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 – During the year covered by this audit, the Department updated its operating manuals and implemented new Department contract and claims processes and procedures. The updated procedures and processes included in these manuals were developed, in part, to address the above concerns. It is an ongoing struggle to get outside vendors or subrecipients to submit documents or requests for payment in a timely way. The procedures and processes the Department updated were an attempt to lend some structure to the process to ensure we are getting requests for payment in advance of necessary deadlines. The Department acknowledges the volume of appeal board claims for payments is too high. Processes have now been put in place in the three funding areas where the highest number of appeal board claims are processed to attempt to reduce the volume.

Conclusion – Response accepted.

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(4) Iowa College Student Aid Commission

- (a) The Commission overstated Physician Recruitment new loans and loans receivable by \$13,511. Also, the Teacher Shortage Revolving Loans receivable was overstated by \$58,341 while the Teacher Shortage Revolving Loans interest receivable was understated by \$3,627.
- (b) There was no supporting documentation for a balance adjustment for Osteopathic Revolving Loans.
- (c) The Commission overstated the beginning balance for the Paul Douglas receivable and understated the current year disbursement activity by \$23,211.
- (d) The Commission overstated interest revenue for the Chiropractic Revolving Loans by \$4,632.

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

Response – The Commission will review the process used for GAAP package production, including the loan receivable, loan interest and loan principal calculations to ensure the correct information is included for reporting purposes for fiscal year 2012.

Conclusion – Response accepted.

(5) Iowa Department of Inspections and Appeals/State Public Defender's Office

- (a) The Department understated accounts receivable by \$80,437. This was properly adjusted for reporting purposes.
- (b) The Department understated the future minimum rental payments by \$158,121. This was properly adjusted for reporting purposes.
- (c) The Department understated rent expense by \$4,900. This was properly adjusted for reporting purposes.

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

Response – The schedules for leases and rent payments were corrected and incorporated into the GAAP package. Fiscal Services has requested any time there is a change to a lease, the State Public Defender submit an additional copy to be kept with the GAAP information so the schedules can be updated.

Conclusion – Response accepted.

(6) Iowa Judicial Branch

- (a) The Judicial Branch understated prepaid expenditures on the GAAP package by \$109,487.
- (b) The GAAP package was not properly reviewed since the same person who prepared the GAAP package signed as the reviewer of the GAAP package.

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Recommendation – The Judicial Branch should ensure the GAAP package information reported is complete and accurate. The GAAP package should be reviewed by an independent person to ensure accuracy.

Response – Four employees actually prepared the GAAP package and two employees reviewed but only one person signed as reviewer. Next year we will have an independent person review to ensure accuracy.

Conclusion – Response accepted.

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

The Department has developed procedures to determine the amount of liabilities outstanding by subrecipients related to the Public Assistance disaster grants and the related federal receivable. The amounts included in the GAAP package for the liability originally reported included errors. In addition, the activity processed through the I/3 system during the accrual period was not adjusted for activity already reported in the GAAP package, resulting in an overstatement of accounts receivable and accounts payable. The GAAP package was subsequently revised and properly adjusted for reporting purposes.

Recommendation – The Department should update current procedures to ensure the Public Assistance disaster grant liability is properly calculated and supported and is adjusted for activity already processed through the I/3 system during the accrual period.

Response – The Comptroller's Office will work with Public Assistance staff to develop and implement policies and procedures to properly account for and report the grant liability and ensure all documentation is maintained.

Conclusion – Response accepted.

(8) Iowa Department of Transportation

(a) The Department deposits revenues to an operating clearing account fund and subsequently prepares a cash receipt modification to record the revenue in the appropriate fund. Fiscal year 2012 revenue was incorrectly recorded to fiscal year 2011. Because the Department did not process the cash receipt modification or identify this in the GAAP package, revenue was overstated by \$40,546,301. This was properly adjusted for reporting purposes.

(b) The Department records certain federal receipts on the I/3 system and subsequently prepares an expenditure voucher to reimburse local governments, such as cities and counties, for road projects. During the accrual period certain federal receipts totaling \$2,076,013 were properly recorded to fiscal year 2011, but the corresponding expenditure was incorrectly recorded to fiscal year 2012. The Department subsequently made adjustments to correct this issue for reporting purposes.

(c) The following findings related to financial information included in the GAAP package submitted to DAS-SAE were noted:

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- (1) Operating leases only included office space. The Department made rental payments on equipment but did not review whether equipment leases should be included in the GAAP package.
- (2) Expenditures for construction vouchers paid in July and August of 2011 for fiscal year 2011 construction activity were incorrectly included in the construction obligation amount reported on the GAAP package. This resulted in an overstatement of construction obligations at June 30, 2011.

Recommendation – To strengthen controls, the Department should implement an independent review of the activity in the I/3 system and the operating clearing account to ensure activity is properly recorded. The independent review should include the initials of the reviewer and the date reviewed. In addition, the Department should ensure the GAAP package information reported is complete and accurate.

Response – The Department has implemented reconciliation procedures to ensure activity is properly recorded.

In addition, the Department has modified procedures to ensure equipment leases are properly recorded in future GAAP packages. Also, corrections made to the information compiled for the GAAP package omitted an adjustment which overstated the construction obligations. Future corrections will be posted in such a manner to allow all related parts of the GAAP package to be adjusted and correctly stated.

Conclusion – Response accepted.

(9) 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 which did not meet the definition of unearned revenue. Journal entries are prepared for each section reported.
 - (1) Unearned revenues carried forward were understated by \$118,005.
 - (2) Revenues carried forward not meeting the definition of unearned revenue were understated by \$7,985,591.

These were properly adjusted for reporting purposes.

- (b) Other GAAP package pages included immaterial errors.

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

Response – Due to the timing of when the GAAP package is due for submission as well as the need to make revenue transfers for enterprise funds between State fiscal years to maintain cash flow during the accounting hold open period, it is extremely difficult to determine estimated unearned revenues. Unearned

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revenues are not finalized until the very last day of the hold open period which is usually ten calendar days past the required date of the GAAP package submission.

During the course of the fiscal year 2011 GAAP package reconciliation with the DAS-SAE GAAP team, a report has been developed for use in future years to capture those entries posted during the hold open period which transfer revenues between fiscal years. Where estimation of unearned revenues is necessary due to the required date of submission occurring prior to the finalization of unearned revenues, IWD will attempt to estimate unearned revenues and revise the GAAP package when the finalization of unearned revenues has transpired.

Conclusion – Response accepted.

- (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) Buildings and building improvements were overstated by \$271,702 due to improperly including expenses which should not have been be capitalized.
- (b) Assets valued at \$16,218 were not added, resulting in an understatement of the GAAP package additions.
- (c) Accumulated depreciation for buildings was understated by \$106,739 due to a formula error. This was properly adjusted for reporting purposes.
- (d) Accumulated depreciation for equipment and land improvements was overstated by \$73,377 and \$4,496, respectively.
- (e) Equipment with an original cost of \$36,019 and accumulated depreciation of \$32,417 was sold during the year but was not deleted from the capital asset listing. The resulting loss of \$3,100 was not reported.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained. Capital assets, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded.

Response – The Department acknowledges the errors noted in items (a) and (b) and will initiate the steps noted below in fiscal year 2012.

The Department acknowledges the errors noted in items (c) and (d). Errors were made as a result of changing final numbers from formula to hardcoded; however, additional changes were made and then not reflected in final numbers. Other errors were due to miss-reading negative amounts as positives and also failing to have a check formula in place to prevent excess accumulated depreciation from being calculated.

For item (e), the asset was sold and was not removed from the capital asset system. We will research why the appropriate process was not followed for this assets disposal and implement corrective action to reduce the chances of this happening again.

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To prevent these issues from re-occurring we will discuss the comments with the Finance staff. We are going to move up all deadlines for GAAP information, where possible, to allow for adequate review time and GAAP package assignments will be re-distributed.

Conclusion – Response accepted.

(2) Iowa Department for the Blind

- (a) Adjustments made for the cost of equipment purchased was understated by \$20,578, resulting in the ending equipment balance being understated.
- (b) Additions to depreciation expense were overstated by \$33,296 and adjustments to accumulated depreciation were overstated by \$9,038, resulting in total accumulated depreciation at June 30, 2011 being overstated by \$42,334.
- (c) Gain of \$2,200 on the disposal of an asset was not reported. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained. Depreciation expense, accumulated depreciation and gain or loss on disposal of assets should be properly calculated and recorded.

Response – The Department corrected the capital asset balances and depreciation expense with a revised GAAP package. The Department will continue to review its procedures for capital asset inventory.

Conclusion – Response accepted.

(3) Iowa Department of Corrections

- (a) The Department capitalized \$281,898 as construction in progress and subsequently transferred this amount to the Iowa State Penitentiary - Fort Madison.
 - (1) The Department did not review individual transactions prior to the transfer, which resulted in assets transferred which potentially did not meet the required thresholds for capitalization. Assets not meeting the threshold should not have been transferred. Rather, the Department should have reduced its fiscal year 2011 additions. In addition the Department did not provide guidance to the Iowa State Penitentiary - Fort Madison as to the proper classification of the assets transferred.
 - (2) The amount transferred included engineering costs which, per Department policy, should not have been transferred to the Institution until the project was completed.
- (b) The Department incorrectly capitalized \$358,206 as construction in progress. The amount capitalized included equipment and other costs not meeting the State's capitalization policy. This was resolved for audit purposes.

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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.

Response – The Department will work with the Iowa State Penitentiary (ISP) to correct the transfer of \$281,898 which was incorrectly transferred to ISP. This will include going through the invoice in question to determine what should be transferred at this time and what should remain as construction in progress. Internal Department procedures will be changed to ensure a detailed up-to-date capital asset listing is maintained. All future invoices will be examined to determine if the asset meets the required thresholds for capitalization. The Department will notify the appropriate correctional facility by letter detailing assets to be transferred.

Conclusion – Response accepted.

(4) 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) One capital asset deletion was not properly authorized.
- (c) One capital asset, valued at \$10,807, could not be located.
- (d) One capital asset, with a net book value of \$8,075, failed and was replaced by the vendor with a new asset valued at \$30,600. This activity was not reflected in the GAAP package.

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 ensure a detailed, up-to-date capital asset listing is maintained.

Response – At the time covered by this audit, this was certainly true. It was an area which needed improvement and we have done so. We now review the capital assets list monthly using an independent person. We have also reassigned this area to a person who will properly address these issues.

Conclusion – Response accepted.

(5) Iowa Department of Inspections and Appeals/State Public Defender's Office

- (a) Capital asset additions were not reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records.
- (b) The Department did not perform a physical inventory of capital assets in fiscal year 2011.

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- (c) The personnel responsible for recording and maintaining capital asset records were not provided the Request for Proposals (RFP's) associated with capital asset purchases.
- (d) Asset tags were not promptly placed on equipment.
- (e) Deletion forms were not utilized for capital assets. In addition, policies and procedures were not adequate to ensure capital asset deletion documentation was provided to the personnel responsible for maintaining capital asset records.
- (f) The Department understated capital assets by \$56,592. This was properly adjusted for reporting purposes.
- (g) The Department understated accumulated depreciation by \$48,863. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure capital asset additions are reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records. Capital asset records should be maintained and tested periodically. Asset tags should be promptly placed on equipment. Deletion forms should be utilized and all deletion forms and Requests for Proposals should be provided to the personnel responsible for recording and maintaining capital assets. The Department should ensure the GAAP package information reported is complete and accurate.

Response – Due to a change in staffing, Fiscal Services was not able to review the inventory timely. Also, the I/3 reconciliation was not able to be performed. The Department will work to change this for the future. The Department will ensure RFP's are attached to the invoice for the asset. The Department will also ensure deletion forms are used. The Department will double check assets and depreciation to ensure they are recorded correctly.

Conclusion – Response accepted.

(6) Iowa Judicial Branch

- (a) One capital asset addition was not included on the GAAP package, resulting in an understatement of capital assets of \$10,000.
- (b) One capital asset deletion was not removed from the capital asset listing, resulting in an overstatement of capital assets and accumulated depreciation on the GAAP package of \$14,999.

Recommendation – The capital asset listing should be updated to include all additions and deletions to ensure the GAAP package information is complete and accurate.

Response – We plan to do a complete physical inventory to ensure the capital asset listing is complete and accurate.

Conclusion – Response accepted.

(7) Iowa Department of Public Defense

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

(1) A capital asset purchase of \$9,097 was not included as an addition on the asset listing.

(2) One asset was capitalized in error, overstating additions by \$5,440.

(b) For the Homeland Security and Emergency Management Division, one capital asset purchase of \$23,361 was not included as an addition on the asset listing.

Recommendation – The Department should review current 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. Amounts should be accurately reported in the GAAP package.

Response – Procedures are being updated and implemented to ensure all assets are reconciled to I/3 and properly reported on the GAAP package with documentation maintained.

Conclusion – Response accepted.

(8) Iowa Department of Natural Resources

(a) Segregation of duties does not exist between the recording and reconciliation functions for capital assets.

(b) 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 for annual financial reporting.

(2) Because documentation of monthly reconciliations was not available for the infrastructure, buildings and land improvement inventory, timeliness of the reconciliations could not be determined or it could not be determined whether reconciliations were reviewed by an independent person.

(3) 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 listing for financial statement reporting. Information for land from the mainframe system is downloaded and additions and deletions are independently determined for financial reporting. A reconciliation is not performed between the tracking systems and information reported in the GAAP package for financial reporting.

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- (c) 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 for the reconciliation and reporting process.
- (d) Of fifteen parcels of land selected for testing, multiple parcels were found to have variances between Department records and the County Recorder's records, resulting in an overstatement of 100.44 acres.

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 the reconciliation between the Department's tracking system and amounts 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 – Monthly reconciliations were completed for the infrastructure, buildings and land improvement inventory, but had not been placed into monthly reconciliation packets prior to our capital asset staff person's resignation in August 2011. However, the reconciliation for this was completed and documented on the "control" spreadsheet for the infrastructure, buildings and improvement inventory and this was provided to and reviewed by the auditors for fiscal year 2011.

The Department is currently working on updating written procedures and taking steps to ensure the capital assets listings are up-to-date, reconciled and properly reported for financial statement purposes. Progress on this has been slower than anticipated due to some unexpected turnover during the last few years in the capital assets staff position. The Department is also currently looking into converting to a new capital assets tracking system which would be more user-friendly and provide more timely and accurate financial reporting.

Conclusion – Response accepted.

(9) Iowa Department of Public Health

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for the four Boards within the Department. Personnel at two of the Boards stated they had performed the reconciliation. However, no supporting documentation was maintained to evidence the reconciliation. The other two Boards did not perform the required reconciliations.
- (b) For three of twenty asset disposals tested, the Department did not maintain documentation evidencing proper approval for disposed assets.
- (c) One capital asset purchase totaling \$5,003 was not included as an addition on the asset listing for the Board of Medicine.
- (d) The Department is not applying the depreciation policy consistently to all assets in the year of acquisition.

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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 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. The reconciliation should also be reviewed by a person independent of the record keeping process. The independent reviewer should sign and date the reconciliation as evidence of review. In addition, the Department should ensure the depreciation policy is applied consistently.

Response – The Department’s written procedures for capital asset management, including the reconciliation to I/3 asset purchases, the approval and retention of support for disposed assets and consistent application of depreciation methods will be implemented throughout the Department.

The four Boards within the Department have reviewed/ revised their respective formalized policies regarding capital asset acquisition and reconciliation. The Boards will reconcile the capital asset listing to I/3 asset purchases and document the reconciliation and review of all additions to capital assets for each state fiscal year. Documentation of the reconciliation of the capital asset additions will be available for all future audits.

Conclusion – Response accepted.

(10) Iowa Department of Workforce Development

- (a) Thirteen of twenty five capital assets selected from the listing could not be located.
- (b) One of the fifteen capital assets observed did not have a State property tag affixed to it.
- (c) Three of ten capital assets randomly selected for observation could not be traced to the capital asset listing.
- (d) Seven expenditures for items with a value of over \$5,000 each, totaling \$78,912, could not be traced to the capital asset listing.
- (e) In the prior year, twenty-one items with a value of over \$5,000 each, totaling \$185,618, could not be traced to the capital asset listing. These items still have not been included in the capital asset list.
- (f) In the prior year, eleven items included in the capital asset listing were determined to have been disposed of in prior years. These items still are included in the capital asset list.
- (g) Three of fifteen capital asset deletions tested were not properly approved.
- (h) Intangible assets of \$883,660 for the Global 360 software were not initially reported on the GAAP package. This was properly adjusted for reporting purposes.

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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 – Staff assignments are being modified to move this function from our Accountant 3 to an Accountant 2. We have attempted to do this in the past, however, staffing turnover from early retirements has made it difficult to accomplish this task. Financial Management is finally at a full staffing level now and this function is being moved. The main problem has always been having sufficient time to properly administer the inventory. Improvement should be seen with the final inventory for fiscal year 2012.

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

- (a) Thirty four individuals within the Department have the ability to initiate and approve timesheets.
- (b) 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 – While it is possible documents reviewed for this audit evidenced the above recommendation, the Department has implemented a process for independent review of all timesheets which includes a verification of payroll funding. We plan on continuing this process.

Conclusion – Response accepted.

State of Iowa

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(2) Iowa Judicial Branch

Four individuals have the ability to initiate and approve P-1 documents. Three of the four individuals also have the ability to initiate and approve timesheets.

For the period April 1, 2010 through March 25, 2011, fourteen P-1 documents were initiated and received department level approval by the same person.

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 – With budget cuts, we have fewer people to process payroll but we will continue to look for ways to segregate the duties as recommended.

Conclusion – Response accepted.

(3) Iowa Department of Natural Resources

Two individuals have the ability to apply multiple levels of approval to timesheets. These two individuals also have the ability to initiate and approve P-1 documents.

Also, one individual receives the preliminary payroll report, makes changes and reviews the final report. However, the preliminary payroll report is not maintained and there is no independent review to ensure the final adjusted payroll report is correct.

In addition, during testing of manual timesheets for timely supervisor approval, fifteen of thirty timesheets were either approved by a supervisor after the warrant date of their payroll or did not have the approval date documented.

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. The Department should obtain a listing from the Department of Administrative Services to verify Department approvals of P-1 documents are being applied appropriately. This report should be independently reviewed by the Bureau Chief or designee.

Also, the individual certifying the final payroll reports should periodically choose individual items from the payroll reports to review for accuracy and documentation of changes from the preliminary report should be kept with the final payroll report.

In addition, the Department should develop procedures to ensure timely approval of timesheets.

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. 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 by an independent, third

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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.

The Department will work with supervisors to ensure timesheets are approved timely and will look at ways to further strengthen controls over payroll.

Conclusion – Response accepted.

(4) Iowa Department of Public Defense

Two 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.

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 – Access to P-1 actions has been reduced to the minimum (4) needed to assure timely processing of payroll documents. It is necessary to have 2 individuals with multiple access levels to cover for absences. Review will be performed by an independent individual and properly noted.

Conclusion – Response accepted.

(5) 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 – The Department of Public Safety (DPS) has requested the Department of Administrative Services start providing a payroll report titled “P-1 APPRV”. This report will allow DPS to verify department approvals of payroll documents are being applied appropriately. Each report will be initialed and dated by the Finance Bureau Chief, or the Director of the Administrative Services Division, and kept on file as documentation of the supervisory review.

Conclusion – Response accepted.

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- (E) Procurement Cards – The Iowa Department of Natural Resources (DNR) issues procurement cards to designated DNR employees for use in purchasing office supplies, facility maintenance supplies, uniforms and other supplies, as necessary. As of June 30, 2011, 514 procurement cards were issued and in use. The dollar amount of procurement card activity for the period July 2010 through June 2011 was approximately \$1.8 million.

The rules governing the use of these cards are outlined in the Iowa Department of Administrative Services–State Accounting Enterprise (DAS-SAE) Purchasing Card Program Procedures Manual. Section 4.6 of the Purchasing Card Program Procedures Manual states each and every purchase must be supported by the vendor’s original receipt. In addition, section 4.8 requires the cardholder to send all supporting documentation to their agency accountant on a timely basis to ensure costs can be properly reconciled and processed on a timely basis to avoid late fees. The DNR has placed further restrictions on procurement card use based on these guidelines. These guidelines state the cardholders are required to print their procurement card statement monthly and send it to a designated central office employee with all supporting documents by the 10th of the following month. This is to allow for proper review and approval prior to being paid.

Of the 514 cardholders, 106 cardholders, or 20%, had not submitted supporting documentation to the central office by the 10th of the following month for the period September 2010 to December 2011. The number of delinquent months ranged from one to fourteen months.

Recommendation – The Department should ensure all purchases made with procurement cards are properly supported and supporting documentation is provided and used to reconcile card activity as outlined above. In addition, the Department should provide adequate training to employees to ensure cardholders are aware of requirements and should establish procedures to revoke cards if not in compliance.

Response – The Department is currently taking steps to ensure procurement card documentation is received by the 10th of the following month as defined in our policy. Additionally, the procurement card manual has been updated and distributed to all card holders and education is ongoing concerning the appropriate use of the procurement cards.

Conclusion – Response acknowledged. The Department should continue to reconcile the remaining past due cardholder accounts as soon as possible. After getting caught up, the Department should strictly enforce the timelines and revoke card privileges for noncompliant employees.