

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, 2012

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Terry E. Branstad

Governor

David Roederer

Director, Department of Management

Legislative Branch

Pam Jochum

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, 2012, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 14, 2012 under separate cover. Our report includes 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that 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 to be significant deficiencies.

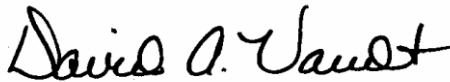
Compliance and Other Matters

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.

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 14, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS–SAE) in 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 future minimum rental payments for operating leases by \$138,960.
- (b) The Department understated rental expense for operating leases by \$68,286.
- (c) The Department understated prepaid expenses by \$120,598.
- (d) Supporting documentation for unassigned vehicles which are included in the inventory balance was not maintained.

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

Response –

- (a) The Department agrees with the finding of the auditor’s office for item a. The Department consolidated several worksheets used to track open leases for payment verification. During consolidation, three lines were accidentally omitted. The Department has made the corrections for this item.
- (b) The Department does agree there were errors in the worksheet used to track open leases for payment verification resulting in errors in the calculation of both current and future lease payments for GAAP reporting. However, the Department does not agree with all individual items identified by the auditors, which totaled \$68K. The Department will further research, and correct if necessary the individual items identified by the auditors and implement a review process for information entered into the spreadsheets.
- (c) The Department agrees with the findings of the auditor’s office for item c. To obtain a total listing of all prepaid items for GAAP reporting, various documents used to support I/3 entries were combined. One of the combined spreadsheets contained formulas, resulting in recalculated prepaid amounts. The Department will make adjustments to the review process of GAAP information going forward.
- (d) The Department agrees with the findings of the auditor’s office in item d. Changes to Fleet’s internal processes have been implemented so any new vehicle received is assigned a vehicle number with a category #7. The vehicle number and accounting information is placed on the vehicle

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assignment form and included in the mainframe information. This process places the vehicle into the agency's inventory and removes it from DAS unassigned, even though the vehicle may remain in the Fleet Garage lot. Vehicles can remain in category 7 until the older car reaches the maximum miles required before replacement, older vehicle is on the road, a scheduling issue or DAS Fleet garage may have to add accessories to the vehicle. The vehicle is not charged any monthly fees until the vehicle is placed into service at which point the category is changed to #8. Finance will coordinate providing the most up-to-date listing of unassigned vehicles for observation with Fleet staff.

Conclusion – Response accepted.

(2) Iowa Economic Development Authority

- (a) The Authority overstated the amount of contractual commitments by \$19,261,692. This was properly adjusted for reporting purposes.
- (b) The Authority understated accounts receivable by \$2,733,916. This was properly adjusted for reporting purposes.

Recommendation – The Authority should implement procedures to ensure the financial statement and footnote information reported to DAS-SAE is accurate.

Response – The Authority will improve both the calculation and subsequent review of entity wide adjustments to ensure these items are corrected for future financial statement preparation.

Conclusion – Response accepted.

(3) Iowa Department of Education

- (a) 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.
- (b) The Department also submitted, as a part of its original GAAP Package, estimates of various payables for certain funds within the Department. A revised GAAP Package page which excluded the original estimates was submitted to DAS-SAE. Given the nature of the programs, the existence of payables was reasonable. In addition, the estimates prepared were not adequately supported by the Department.

Recommendation – The Department should consider continuing to estimate payables and combine them with the actual payables to more accurately report payables at year end. The Department should also retain all documentation for estimated payables.

Response – The Department made significant progress in reducing the volume of Appeal Board claims from fiscal year 2011 to fiscal year 2012. We will continue to make progress in this area, the goal is always zero Appeal Board claims (although this standard will likely never be practically attainable). We

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implemented a new process in fiscal year 2013 related to grant expenditures. We now get the allocations when they are made (this was not consistently occurring in prior fiscal years) and we've created a query which tracks expenditures against those allocation amounts monthly. This will allow us to compare allocations to actual payments to determine the amount of the payables on next year's GAAP package. We will also just go with the estimates at the time we do the GAAP package, last year we did an additional adjustment in December which used actuals which we believe contributed to the confusion.

Virtually all of our managers are new in the last year, so efforts will be made to train them on necessary processes and procedures. The Appeal Board claims we did pay in fiscal year 2012 were reimbursement-based claims and we also always have a few subrecipients/vendors which do not submit invoicing in a timely manner despite all of our efforts to get them to do so.

Conclusion – Response accepted.

(4) Iowa College Student Aid Commission

The Commission incorrectly recorded accrual activity on I/3 to fiscal year 2013, resulting in an understatement of accounts receivable of \$722,081 for fiscal year 2012. The receivable was not reported in the Commission's GAAP package.

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

Response – The Commission received funds from another agency at the end of July for June. These funds were recorded in fiscal year 2013 and should have been recorded in fiscal year 2012. This error was not discovered in time to prepare corrective journal entries to the previous fiscal year. In the future the Department will look for ways to monitor deposits during the hold open period.

Conclusion – Response accepted.

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

Iowa Department of Inspections and Appeals

The Department understated accounts receivable by \$69,040. This was properly adjusted for reporting purposes.

State Public Defender's Office

(a) The Office incorrectly recorded two receipts for drug court cost reimbursements to fiscal year 2013, resulting in an understatement of accounts receivable by \$10,123. This was properly adjusted for reporting purposes.

(b) The Office understated the future minimum rental payments by \$118,000. This was properly adjusted for reporting purposes.

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Iowa Racing and Gaming Commission

- (a) The Commission recorded one weekly tax receipt to the wrong fiscal year, resulting in an understatement of accounts receivable by \$199,484. This was properly adjusted for reporting purposes.
- (b) The Commission understated rent expense by \$78,000. This was properly adjusted for reporting purposes.

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

Responses:

Iowa Department of Inspections and Appeals – The Department omitted the Adult Services accounts receivable. The Department will verify this information with Adult Services in the future.

State Public Defender's Office – The Office will ensure receipts are coded properly in the future. In addition, the Office will have another employee verify the schedule to ensure accuracy. Also, the Office will ensure the current lease is used.

Iowa Racing and Gaming Commission (IRGC) – IRGC will ensure receipts are properly coded in the future.

Conclusions – Responses accepted.

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

The Division has developed procedures to determine the amount of liabilities outstanding by subrecipients related to the Public Assistance and Hazardous Mitigation 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 Division should update current procedures to ensure the Public Assistance and Hazardous Mitigation 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 HSEMD staff to implement policies and procedures to properly account for and report the grant liability and required adjustments for the accrual period. Documentation will be maintained in the Comptroller's Office.

Conclusion – Response accepted.

(7) Iowa Department of Transportation

The Department utilizes a financial accounting system (FINBAS) to initially record financial activity. The financial activity is subsequently recorded to the I/3 system for external financial reporting. Although the Department performs reconciliation between the FINBAS system and the I/3 system, discrepancies are not always resolved timely.

Recommendation – To strengthen controls, the Department should resolve reconciliation discrepancies timely.

Response – The Department will review current procedures and modify where needed to ensure the timeliness in completing reconciliations, documentation of the variance and resolution of the variance in a timely manner

Conclusion – Response accepted.

- (B) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. Findings were noted for the following departments:

(1) Iowa Department of Administrative Services

(a) Buildings and building improvements were overstated by \$45,645.

(b) Accumulated depreciation for land improvements was overstated \$4,496.

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

Response – The Department agrees with the findings of the auditor’s office.

Building and building improvements were understated due to an omission on one of the numerous data warehouse pulls completed during the year, to accumulate the information. This will be pulled on a quarterly basis going forward.

Regarding land improvements, while we corrected current information we failed to correct the prior year information which resulted in the overstatement of accumulated depreciation on the land improvements. Updates to the spreadsheets have been made to show when items have been totally depreciated. In addition, notes have been made so adjustments can be made to the GAAP package for fiscal year 2013.

Conclusion – Response accepted.

(2) Iowa Department of Corrections

(a) The Department deleted \$3,572,000 of construction in progress for on-going projects not yet complete or transferred. This was resolved for audit purposes.

(b) The Department incorrectly capitalized \$310,100 as machinery and equipment. Of this amount, \$240,726 was for equipment and other costs not meeting the State’s capitalization policy. The remaining \$69,374 was for project costs which should have been capitalized as construction in progress. This was properly adjusted for reporting purposes.

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- (c) The Department understated construction in progress by a net amount of \$37,623. The account was understated by the \$69,374 noted in (b) above and overstated by \$31,751 of costs not meeting the State's capitalization policy. This was properly adjusted for reporting purposes.

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, ensuring capital asset additions are reconciled to I/3 asset purchases. Amounts should be accurately reported in the GAAP package.

Response – The Department has developed and implemented additional written procedures to ensure the detailed capital asset listing is up-to-date and maintained. Reconciliations to the I/3 system will be performed to ensure all capital assets are properly recorded. Additional review will be performed over the GAAP Package to ensure amounts are accurately reported.

Conclusion – Response accepted.

(3) Iowa Department of Inspections and Appeals/Iowa Racing and Gaming Commission

Iowa Department of Inspections and Appeals

- (a) Capital asset additions were not reconciled to I/3 by an employee who is not responsible for recording and maintaining capital asset records.
- (b) The Department included one vehicle twice in the capital assets listing and capitalized two other vehicles in error. This resulted in an overstatement of capital asset additions of \$19,050.
- (c) The Department understated accumulated depreciation by \$11,710.

Iowa Racing and Gaming Commission

- (a) Capital asset additions were not reconciled to I/3 by an employee who is not responsible for recording and maintaining capital asset records.
- (b) Deletion forms were not utilized for capital assets. In addition, policies and procedures were not adequate to ensure capital asset deletions were provided to the personnel responsible for maintaining capital asset records.

Recommendation – The Department and Commission should ensure capital asset additions are reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records. In addition, the Department and Commission should ensure the GAAP package information reported is complete and accurate. Deletion forms should be utilized and policies and procedures for capital asset deletions should be established and enforced to ensure personnel responsible for recording and maintaining capital assets are notified when disposition of a capital asset has occurred.

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Responses:

Iowa Department of Inspections and Appeals:

- (a) The Department has assigned an employee who is not responsible for reconciling capital assets to record and maintain capital asset records.
- (b) The Department will ensure vehicles are only listed once in the future.
- (c) The Department will ensure depreciation schedules are correct in the future.

Iowa Racing and Gaming Commission (IRGC) – IRGC will assign reconciliation duties to an employee who is not responsible for the record keeping of capital assets. The authorization for deletions is given jointly with the authorization of purchase as our deletions are mirrored by the purchase of replacement equipment. IRGC will ensure authorization for deletions is expressly stated with the authorization to purchase.

Conclusions – Responses accepted.

(4) 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 infrastructure, buildings and land improvements, timeliness of the reconciliations could not be determined or it could not be determined whether reconciliations were reviewed by an independent person. Monthly reconciliations for land were documented. However, they were not reviewed by an independent person or the reviews were not performed timely.
 - (3) Written confirmations were not completed for buildings. Buildings are only deleted from the asset listing upon recognition from contracts for demolition.
 - (4) Adjustments are made to the equipment listing based on confirmations received. An independent review of these adjustments was not documented.
- (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.

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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 the reconciliation between the Department’s tracking system and amounts in 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 Department is committed to improving our system for managing capital assets and included the goal in the Department’s 2012-2015 Risk Management Plan. The Department is currently in the process of implementing a new capital asset system in Great Plains (GP) for equipment, land, infrastructure, buildings and land improvement inventories. Detailed written procedures for the system will include additions, deletions, timely and independently reviewed monthly I/3 system reconciliations and a financial reporting annual reconciliation. Fiscal year 2012 infrastructure, buildings and land improvements were recorded on a construction-in-progress spreadsheet and will be added to the new system. Written confirmations for assets will be performed once the new system has been fully implemented.

Conclusion – Response accepted.

(5) Iowa Department of Public Health

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for two of the four Boards within the Department.
- (b) Sixteen capital asset additions totaling \$144,155 were purchased in the prior year and should have been added to the asset listing in fiscal year 2011.
- (c) Depreciation expense and accumulated depreciation were originally understated by \$61,298. Adjustments were subsequently made by the Department to properly report the amounts in the Department’s GAAP Package.
- (d) The amount capitalized for intangible capital assets was understated by \$37,516.

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. 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 capital assets are capitalized in the correct amounts and proper fiscal year.

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.

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

Conclusion – Response accepted.

- (C) Payroll – Departments process and record payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Findings were noted for the following departments where there were no compensating controls:

(1) Iowa Department of Education

Thirty 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 – We currently do not have the resources to be able to segregate these duties. Our Human Resource Associate has always been the primary manager of payroll, working under the Chief Financial Officer. There are no functions in HRIS where we allow a single point of authority for approvals, everything has at least two people approving, so we believe adequate checks and balances are in place.

Conclusion – Response accepted.

(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, 2011 through February 29, 2012, nineteen 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 – Our payroll processing people have been instructed to ensure someone else approves any P-1 document they initiate. In addition, we now receive a report form payroll showing who initiated and approved a P-1 document. This report is reviewed by an independent person.

Conclusion – Response accepted.

(3) Iowa Department of Natural Resources

Four individuals have the ability to apply multiple levels of approval to timesheets. These four 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 timesheets for timely supervisor approval, sixteen of ninety-three timesheets were either approved by a supervisor after the warrant date of the payroll or the timesheets did not have the approval date documented. For one timesheet, the same individual performed the employee and supervisor approval. Also, three timesheets had no supervisor approval on either a manual or electronic timesheet.

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 – To strengthen controls, the Department maintains a listing of all full time employees by cost center which is compared to the Table of Organization (TO) by an independent third person quarterly to ensure employees have not been added without proper approval. Additionally, a quarterly Cost Center Summary Report is posted to the intranet for supervisors to review to ensure all the employees being charged have been properly authorized.

Furthermore, the Department will implement new procedures. In the future, timesheet approval levels will be segregated between the two Human Resource Associates. P-1 document approval will also be segregated from P-1 initiation. If necessary, the Human Resource Supervisor will function as the back-up P-1 and timesheet approver.

The Department will also have an individual select a random selection of employees from the final payroll report to review for accuracy periodically.

In addition, the Department will continue to work with supervisors to ensure timesheets are properly approved in a timely manner.

Conclusion – Response accepted.

(4) Iowa Department of Public Defense

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

Five 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 (5) 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 – Prior to the end of fiscal year 2012, changes were made which no longer allow anyone in the Department the ability to both initiate and put department level approvals on any P-1s.

Conclusion – Response accepted.

(6) Iowa Communications Network (ICN)

Thirteen individuals within the ICN have the ability to initiate and approve P-1 documents. These thirteen individuals also have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the ICN 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 ICN should obtain a quarterly listing from the Department of Administrative Services to verify ICN approvals of P-1 documents are applied appropriately. The ICN should also ensure an independent individual performs the review of the quarterly report of P-1 actions. This review should be evidenced by the signature of the independent reviewer and the date the review was performed.

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Response – The ICN will obtain a quarterly listing from the Department of Administrative Services to verify approvals of P-1 documents are being applied appropriately. The ICN will ensure an independent individual performs the review of this quarterly report of P-1 actions. This review will be evidenced by the signature of the independent reviewer and the date the review was performed. The ICN will also evaluate the need for individuals to have the ability to apply multiple levels of approval for timesheets.

Conclusion – Response accepted.

(D) 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 DAS-SAE on a GAAP package. The following issues were noted for the year ended June 30, 2012:

- (1) Four of 25 accounts selected for penalty and interest testing were inactive accounts, which should have been removed from the accounts receivable included in the GAAP package.
- (2) According to IWD, an account goes to non-collectible status when the most recent debt creation date on the account is older than 720 days and the last payment received was greater than 90 days. These accounts should then be written off for reporting purposes. During testing, we noted \$174,960 of contributions, \$132,075 of interest and \$19,828 of penalties older than 720 days which were still included in the accounts receivable balance shown in the GAAP package.
- (3) Penalty and interest accounts receivable in the GAAP Package was overstated by \$628,496.
- (4) The system is unable to process and track return items (NSF checks).

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD should continue to modify the MYIOWAUI system to ensure the data is accurate, timely and operates according to established policy.

Response –

- (1) It is agency policy to not remove inactive accounts from MYIOWAUI until the account has reached termination requirements. However, we do not remove or terminate the accounts which have debt. In the future, inactive accounts will be removed from the accounts receivable balance in the GAAP package.
- (2) It is agency policy to keep all accounts within MYIOWAUI which have debt in our system. Non-Collectible status debt is “written off” or no longer reported as debt for state or federal reporting purposes. We continue to keep these accounts in MYIOWAUI as we do collect on some of this debt. In the future, accounts in non-collectible status will be removed from the accounts receivable balance in the GAAP package.

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- (3) During August and September 2012, we went through a Payment Maintenance process, resulting in the incorrect interest previously reported being removed and the accounts affected now have correct balances. Penalty was not charged through this process.
- (4) During the Payment Maintenance in August 2012, all returned items were accounted for and processed properly. Additionally, MYIOWAUI now has the functionality to properly account for returned items and procedures are in place and are being followed to get these into MYIOWAUI.

Conclusion – Response accepted.