



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

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NEWS RELEASE

FOR RELEASE

July 16, 2004

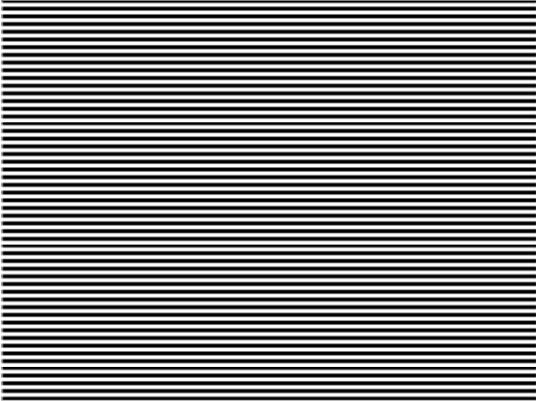
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Public Defense for the year ended June 30, 2003.

The Iowa Department of Public Defense is composed of the Military Division and the Homeland Security and Emergency Management Division. The main responsibilities of the Military Division are to protect the citizens of the state, recruit and train military personnel and maintain the National Guard armories throughout the state. The Homeland Security and Emergency Management Division is responsible for disaster preparedness and relief coordination throughout the state.

A copy of the report is available for review in the Iowa Department of Public Defense or the Office of Auditor of State.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF PUBLIC DEFENSE**

JUNE 30, 2003

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



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February 12, 2004

To Major General Ron Dardis, Adjutant General
of the Iowa Department of Public Defense:

The Iowa Department of Public Defense is part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2003.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations which include those reported in the State's Single Audit Report, as well as recommendations pertaining to the Department's internal control. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 10 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

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

June 30, 2003

Findings Reported in the State's Single Audit Report

CFDA Number: 12.402 – National Guard Special Military Operations and Projects

Master Cooperative Agreement: DAHA13-03-2-3048

Federal Award Year: 2003

Iowa Department of Public Defense – Military Division

State of Iowa Single Audit Report Comment: 03-III-DOD-582-1

- (1) CIVIC – A cooperative agreement was entered into between the National Guard Bureau and the State of Iowa for a Consolidated Interactive Virtual Information Center (CIVIC). The cooperative agreement established a relationship between the United States Government and the State of Iowa. Cooperative agreements are designed as legal documents between the State of Iowa and the National Guard Bureau and are not intended to directly benefit a federal agency, such as the U.S. Army or U.S. Air Force.

The CIVIC program was supported by the Iowa Technology Center (ITC), an entity formed by the Iowa Department of Public Defense and International Simulation & Training Systems (ISTS) in August, 1999 through the use of an Iowa Code Chapter 28E agreement.

Beginning in November 2000 and continuing through September 30, 2002, the cumulative amount expended for the CIVIC project totaled \$20,687,485. Expenditures incurred through September 30, 2002 and paid to ISTS under the Cooperative Agreement totaled \$1,467,441 for the fiscal year ended June 30, 2003.

The CIVIC program was ended in September 2002 due to questions involving contractor reimbursements. Beginning in July 2002, a committee was formed consisting of members of the United States Property and Fiscal Officer (USPFO), ITC, the Department of Public Defense and ISTS. This committee reviewed supporting documentation and identified allowable and unallowable costs. However, because the CIVIC program involved entities other than the Iowa National Guard, such as the U.S. Army and U.S. Air Force, the Cooperative Agreement was no longer deemed to be the appropriate vehicle to provide funding for the program.

The CIVIC program is currently under investigation by the Defense Criminal Investigative Service of the Department of Defense of Inspector General.

Due to the items above, costs of \$1,467,441 under the Cooperative Agreement for the quarter that ended September 30, 2002 are questioned.

Recommendation – The Department should continue to work with the Iowa Attorney General to resolve this matter. Additionally, to strengthen controls, the Department should identify risk factors associated with vendor contractors and require detailed documentation.

Response and Corrective Action Planned – The Attorney General's Office is involved in a contracting review with Defense Criminal Investigative Services. The findings and recommendations of these organizations will be supported and implemented in future agreements involving the Department of Public Defense.

Conclusion – Response accepted.

June 30, 2003

**CFDA Number: 12.401 – National Guard Military Operations and Maintenance
(O&M) Projects**

Master Cooperative Agreement: DAHA13-03-2-1000

Federal Award Year: 2003

Iowa Department of Public Defense – Military Division

State of Iowa Single Audit Report Comment: 03-III-DOD-582-2

- (2) Master Cooperative Agreement Appendices – OMB Circular A-133 requires proper monitoring of disbursements of federal funds. The Military Division signs appendices to the master cooperative agreement to provide services. The appendices become part of the master agreement. The state fiscal office has not compared the total expended to the appendices to ensure the project is on target and on budget. Additionally, the state fiscal office receives cooperative agreement modifications (CAM) that indicate approved funding for the fiscal year and subsequent increases and decreases.

The state fiscal office does not always receive the CAM's prior to exceeding the approved funding. Therefore, no one at the fiscal office is ensuring expenditures do not exceed budgeted amounts for each appendix.

Recommendation – The state fiscal office should ensure it receives copies of the master cooperative appendices and monitors disbursements to ensure they do not exceed the authorized amounts. Additionally, the Department should ensure it received a properly approved CAM prior to exceeding the funding limitation.

Response and Corrective Action Planned – The Military Division's Fiscal Staff is working with the United States Property and Fiscal Office Iowa to develop procedures to insure the requirements of OMB Circular A-133 are met. The receipt of appendices by the state fiscal office has improved from previous years, however, our goal is to have further improvements made by October 1, 2004.

Conclusion – Response acknowledged. We will review procedures at the time of the next audit.

**CFDA Number: 12.401 – National Guard Military Operations and Maintenance
(O&M) Projects**

Master Cooperative Agreement: DAHA13-03-2-1000

Federal Award Year: 2003

Iowa Department of Public Defense – Military Division

CFDA Number: 12.402 – National Guard Special Military Operations and Projects

Master Cooperative Agreement: DAHA13-03-2-3048

Federal Award Year: 2003

Iowa Department of Public Defense – Military Division

State of Iowa Single Audit Report Comment: 03-III-DOD-582-3

- (3) Request for Reimbursement – The Master Cooperative Agreement for the National Guard Military Operations and Maintenance Projects and the National Guard Special Military Operations and Projects states that for those states on a reimbursement basis, as Iowa is, the states shall expend the funds prior to requesting reimbursement from the federal government. During a review of the drawdowns for the year, for four of 50 reimbursements tested for the National Guard Military Operations and Maintenance Projects and for four of four reimbursements tested for the National Guard Special

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2003

Military Operations and Projects, state funds were not expended prior to the request for reimbursement from the federal government.

Recommendation – The Department should ensure state funds are being spent prior to requesting reimbursement from the federal government in accordance with the Master Cooperative Agreement. If it is not feasible for the state to expend funds prior to requesting federal reimbursement due to the large dollar amount of the expenditures, the state should work with the United States Property and Fiscal Office to begin receiving federal funds on an advance basis.

Response and Corrective Action Planned – The Division is striving to put procedures in place to change the Master Cooperative Agreement to an advance payment method. To ensure compliance with Federal regulations the Division has had to develop new reports. It is the intent of the Military Division to have these procedures in place in October 2004.

Conclusion – Response acknowledged. We will review progress at the time of the next audit.

**CFDA Number: 12.401 – National Guard Military Operations and Maintenance
(O&M) Projects**

Master Cooperative Agreement: DAHA13-03-2-1000

Federal Award Year: 2003

Iowa Department of Public Defense – Military Division

State of Iowa Single Audit Report Comment: 03-III-DOD-582-4

- (4) Construction Contracts – Section 18.6(9) of the Code of Iowa requires when the estimated total cost of construction, erection, demolition, alteration, or repair of a public improvement exceeds \$25,000, the Department shall solicit bids on the proposed improvement by publishing an advertisement in a print format. The advertisement shall appear in two publications in a newspaper published in the county in which the work is to be done. For two of eleven improvements tested, the Department did not publish an advertisement to solicit bids.

Recommendation – The Department should implement procedures to ensure an advertisement to solicit bids is published for all improvements over \$25,000.

Response and Corrective Action Planned – The Military Division has policies and procedures in place that comply with Chapter 18.6 of the Code of Iowa. These policies and procedures were not followed in these two incidents. But in each incident competitive bids were sought and obtained by the Division. The staff involved in the contracting process has been counseled concerning proper policies and procedures. All future improvements above \$25,000 will be published as required by Chapter 18.6 Code of Iowa.

Conclusion – Response accepted.

June 30, 2003

Findings Related to Internal Control

- (1) Cash Receipts – The Homeland Security and Emergency Management Division accumulates reimbursable costs for each federal program on a spreadsheet. These spreadsheets are to support requests for reimbursement for federal programs. These spreadsheets could not be located for four transactions tested.

Recommendation – The Homeland Security and Emergency Management Division should ensure supporting documentation is maintained for all cash receipts.

Response – All four spreadsheets in question have been located and are available for review. The Division document procedure for the spreadsheet has been revised and all spreadsheets are now attached to the cash receipt and placed in the appropriate file.

Conclusion – Response accepted.

- (2) Improper Cut-off of Receivables and Payables – Expenditures totaling \$196,458 incurred prior to June 30, 2003 were included as payables for fiscal year 2004 rather than fiscal year 2003. Also, receivables of \$91,420 earned prior to June 30, 2003 were not included in fiscal year 2003 activity, but were recorded as fiscal year 2004 revenue. These items were resolved for audit purposes.

Recommendation – The Department should review year-end processing procedures and ensure payables and receivables are recorded in the proper fiscal year.

Response – The Department has policies in place that require the recording of payables and receivables in the proper fiscal year. The Department will implement procedures and increase oversight by State Comptroller management to insure that the Comptroller's staff follows the recording policies.

Conclusion – Response accepted.

- (3) GAAP Package – The GAAP package is prepared by the Department and submitted to the Iowa Department of Revenue and Finance. The GAAP package provides additional financial information that cannot be obtained from the Iowa Financial Accounting System (IFAS). The GAAP package was not completed timely and had not been reviewed by Department management.

Recommendation – The GAAP package should be completed timely and reviewed by appropriate management prior to submission.

Response –

Military Division – The Military Division's portion of the GAAP package was completed and submitted timely. The Homeland Security/Emergency Management portion was late due to personnel changes at HLS/EMD. The Military Division's staff will put forth a greater effort in assisting HLS/EMD complete their portion timely.

A cover sheet will be developed to document the review of the GAAP package by Military Division's Comptroller and HLS/EMD's Administrative Bureau Chief.

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Homeland Security and Emergency Management Division – The GAAP package is due the first business day in September. The Division will endeavor to complete all prior fiscal year financial transactions 30 days prior to the GAAP package due date to ensure adequate time for timely submission of the report. The GAAP package will be reviewed by appropriate Department management and a certification of review will be signed and submitted with all future GAAP packages.

Conclusion – Responses accepted.

- (4) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department and division of state government to maintain an accurate, up-to-date inventory of all real and personal property belonging to the state and under their charge, control and management.

The following findings concerning the Homeland Security and Emergency Management Division were noted:

- (a) The Division did not perform a reconciliation of capital assets added to the capital assets record to the total capital expenditures for the year.
- (b) One of eleven assets tested for existence had been disposed of and had not been removed from the capital asset record.

Recommendation – The Department should ensure a detailed, up-to-date capital asset record is maintained. This includes ensuring capital asset additions are reconciled to capital expenditures and deletions are properly removed from the capital asset record.

Response –

- (a) We will review this requirement, implement the necessary procedures for compliance and complete the reconciliation.
- (b) The model in question was transferred to the Cerro Gordo Emergency Management Agency with appropriate documentation and will be removed from the capital asset record. The removal procedure will be reviewed and revised, as appropriate, to prevent the reoccurrence of this error.

Conclusion – Response accepted.

- (5) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same employee who prepares payroll also provides the final payroll approval.

Recommendation – We realize segregation of duties is difficult with a limited number of Department employees. However, the Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Department has followed the guidance of the Auditor's office and developed operating procedures that ensure the person who prepares payroll does not provide final payroll approval.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2003

- (6) Garrison Maintenance Bank Accounts – Small Garrison maintenance bank accounts are maintained around the state to provide readily accessible funds for small repairs and immediate necessities. Requests for reimbursements are not always requested quarterly as required by the Iowa National Guard Regulation (INGR) 1-5. Also, minor variances in the bank reconciliation process were not investigated and resolved.

Recommendation – The Department should ensure established procedures are followed for all Garrison maintenance bank accounts as required by with INGR 1-5. Also, variances in the bank reconciliation process should be investigated and resolved.

Response – Iowa National Guard Regulation 1-5 Appendix G contains the established procedures relating to Garrison Maintenance Bank Accounts.

Iowa National Guard Regulation 1-5 Appendix G 6.b.2 states “Audit all maintenance accounts and forward them to AGIA-FAC (Adjutant General Iowa – Facility and Construction Office) as of June 30 of each year. These must arrive not later than 10 July. Although this is the only mandatory audit, AGIA-FAC suggests that you request audit and reimbursement as needed (quarterly at a minimum) to ensure accuracy of records and availability of funds.” The Auditors were mistakenly told that quarterly was the requirement rather than that quarterly was a suggestion.

Variances in the bank reconciliations have not been dealt with in a timely manner. This issue will be handled more aggressively and resolved by the end of each fiscal year.

Conclusion – Response acknowledged. The Iowa National Guard should consider modifying the wording of Regulation 1-5 if the intent is not to reimburse the Garrison maintenance bank accounts at least quarterly.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2003

Staff:

Questions or requests for further assistance should be directed to:

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Kristen E. Harang, CPA, Staff Auditor
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