



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

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NEWS RELEASE

FOR RELEASE August 2, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Administrative Services for the year ended June 30, 2004.

House File 534, effective July 1, 2003, created the Iowa Department of Administrative Services for the purpose of managing and coordinating the major resources of state government including the human, financial, physical and information resources of state government. The Iowa Department of Administrative Services is mandated by statute to provide services for other state agencies. To fulfill this responsibility, the Department is structured into the following Enterprises: General Services Enterprise (GSE), Information Technology Enterprise (ITE), Human Resources Enterprise (HRE) and the State Accounting Enterprise (SAE).

Vaudt recommended the Department develop procedures to strengthen controls over cash receipts, payroll and inventory. In addition, the Department should prepare an analysis to support billing rates for information technology services, develop written policies and procedures regarding the execution of the renewal option on certain contracts and take steps to eliminate deficit balances in certain internal service funds. The Department's responses are included in this report.

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

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF ADMINISTRATIVE SERVICES**

JUNE 30, 2004

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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July 29, 2005

To Mollie Anderson, Director of the
Iowa Department of Administrative Services:

The Iowa Department of Administrative Services is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2004.

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 pertain to the Department's internal control, compliance with statutory requirements and other matters. 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 Department, citizens of the State of Iowa and other parties to whom the Department 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
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2004

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

- (1) Inventory Control Procedures – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's inventory records. The following conditions were noted:
 - (a) The Vehicle Dispatcher maintains a vehicle parts inventory for routine maintenance and repair and the Information Technology Enterprise maintains stock inventory for data processing systems. The employees responsible for this inventory order, receive and store the inventory. They also update the inventory records.
 - (b) All printing personnel have access to the printing inventory stored at the Grimes State Office Building.

Recommendation – The Department should implement procedures to segregate the purchasing, receiving, recording and custody functions for inventory to help safeguard inventory. In addition, the Department should restrict access to printing inventory.

Response – The Department will implement processes to ensure that duties for safeguarding the vehicle parts inventory and information technology stock inventory are adequately segregated.

The print division is in the process of building a secure location for its paper inventory. Access to that location will be restricted.

Conclusion – Response accepted.

- (2) Payroll – The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associate utilizes an online P-1 document to initiate and approve payroll actions such as adding new employees and recording pay raises. This individual also has the ability to initiate and approve timesheets.

In addition, several individuals within the Department have both Employee/Supervisor level approval for timesheets and PA/Department level approval for P-1 documents.

Recommendation – To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associate employee from the duties of payroll.

The Department should review current job duties to determine the necessity for employees having both Employee/Supervisor level approval for timesheets and PA/Department level approval for P-1 documents. Additionally, the Department should develop and implement controls to ensure transactions processed by individuals having both personnel and payroll authorizations are reviewed by someone in authority who is independent of the payroll process.

June 30, 2004

Response – The Department has reviewed current job duties, has documented the need for access, and has segregated duties of approving timesheets from approving P-1 documents where feasible. Effective June 2005, the Department has also implemented a process that ensures that all departmental payroll actions are reviewed and approved by someone independent of the payroll process.

Conclusion – Response accepted.

- (3) State Vehicle Dispatch – The Department maintains a vehicle pool for state employees to utilize or for other state agencies to purchase. The Department performs a reconciliation of vehicles per State Vehicle Dispatch records to the Department's capital asset listing for financial reporting purposes. Unexplained variances in vehicle balances and discrepancies in vehicles reported were noted between the State Vehicle Dispatch records and the Department's capital asset listing. In addition, identified variances had not been adjusted by the Department in a timely manner.

Recommendation – The Department should ensure the State Vehicle Dispatch records are reconciled to the Department's capital asset listing. In addition, adjustments should be made to the appropriate records for known variances in a timely manner.

Response – The Department will implement procedures to ensure that appropriate records are maintained to reconcile the capital asset listing to the State Vehicle Dispatch records.

Conclusion – Response accepted.

- (4) Cash Receipts – There is a lack of segregation of duties between the collection, deposit preparation and recording of cash receipts within Federal Surplus Property and Risk Financing operations.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Department should review and implement procedures to ensure proper internal controls over cash receipts are in place. Procedures, at a minimum, should include the use of an initial receipt listing which is compared to the amounts deposited and recorded in the accounting records by someone independent of the receipt process.

Response – The responsibilities for managing cash receipts for the Federal Surplus Property has been moved to the Department of Corrections effective May 2005.

The Department utilizes an initial receipt listing to record the Risk Financing receipts and document the segregation between opening and receiving receipts and accounting for receipts. Duties of opening mail, reviewing, accounting and depositing receipts for Risk Financing are segregated. The Department will reconcile the initial receipt listing to the resulting deposits to further demonstrate that all Risk Financing receipts are properly handled.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2004

- (5) Accounting and Office Procedures Manuals – We encourage the development of standardized accounting and office procedures manuals.

These manuals should provide the following benefits:

- (a) Aid in training additional or replacement personnel.
- (b) Help achieve uniformity in accounting and in the application of policies and procedures.
- (c) Save supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.

The Department has not completed written accounting and office procedures. For example, there was a lack of written procedures for the reconciliation of the Deferred Compensation Fund, the reconciliation between the cash balance on IFAS/I3 and the State Treasurer's ledgers and in the area of procurement card purchasing and payment processing.

Recommendation – The Department should develop written accounting and office procedures manuals.

Response – The Department will identify major accounting and office procedures to be documented and will begin the process of ensuring that written accounting and office procedures are established.

Conclusion – Response accepted.

June 30, 2004

Findings Related to Statutory Requirements and Other Matters:

- (1) Risk Financing – The State of Iowa is self-insured for various risks of loss related to its motor vehicle fleet. The Department maintains a database that identifies various information relating to bodily injury and property damage for which the state may be liable. The following conditions were noted:
 - (a) The fiscal year 2004 vehicle damage amount reported on the Quarterly Accident Report is overstated by \$2,360 when compared to IFAS/I3.
 - (b) Claims paid for bodily injury and property damages of \$19,042 were recorded on IFAS/I3 but were not entered into the Risk System.
 - (c) Fiscal year 2004 claims incurred and contingent liability were overstated by \$5,127 due to the IBNR being calculated at 140% instead of 40%. Also, the report used did not include all of the fiscal year 2004 bodily injury and property damage reserves.

Recommendation – The Department should ensure reports are generated which support amounts reported for risk financing on the Department’s GAAP Package and reconcile to IFAS/I3.

Response – The Department reconciles the risk database that produces its accident reports to the I/3 accounting system. That reconciliation process identifies variances between the two systems and ensures the ongoing accuracy of data in each system. When errors or omissions are discovered, the Department takes steps to ensure that corrections are made in the corresponding system. The Department will continue to conduct this reconciliation, document the results of the reconciliation and make corrections as necessary, being mindful of the importance of running the accident reports at appropriate cut-off dates to facilitate the reconciliation process.

Conclusion – Response accepted.

- (2) Billing Rates – The Department’s Information Technology Enterprise (ITE) charges other state agencies for information technology services (i.e. mainframe, network, security services, et al). Effective July 1, 2003, ITE increased billing rates for each line of service by 5.18%. The methodology used to determine ITE billing rates was not documented.

A detailed analysis of the mainframe lines of service was subsequently performed and billing rates for those services were decreased 12% effective January 1, 2004. Also, a limited review of billing rates for the other lines of service was performed and no changes were made to those rates.

Recommendation – The Department should support and document the methodology used for billing rates and any changes to those rates.

Response – DAS-ITE developed and used a revenue model to project and determine appropriate billing rates for FY 2005. The Department intends to further improve the analysis it uses to support billing rates through the use of revenue models and activity-based costing systems.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2004

- (3) Compliance with the Code of Iowa – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2004:

(a) Chapter 8A.321(10) requires the Department Director to prepare an annual status report for all ongoing capital projects of all state agencies, as defined by section 8.3A, and submit the status report to the Legislative Capital Projects Committee. The Department did not submit a capital projects status report to the Legislative Capital Projects Committee for fiscal year 2004.

(b) Chapter 7A.3 requires the Department to submit an annual report for the period ending June 30 in each year as soon as practical after the end of the reporting period. The June 30, 2004 report has not been filed.

Recommendation – The Department should comply with the Code of Iowa or seek to repeal outdated code sections.

Response – The Department will take steps to ensure that annual reports are submitted in compliance with the Code of Iowa.

Conclusion – Response accepted.

- (4) Printing Contracts – One of five printing contracts selected for testing could not be located. In addition, the renewal process on one contract was not documented to demonstrate the best price was obtained by renewing the contract instead of seeking bids.

Recommendation – The Department should ensure supporting documentation for all printing contracts is properly maintained. In addition, renewal documentation should include actions taken by the Department to demonstrate the best price was obtained for printing contracts.

Response – The Centralized Printing division will take steps to ensure that supporting documentation is maintained to support the award of printing contracts. The Centralized Printing division will follow the updated policies and procedures recommended by Centralized Purchasing for renewal of contracts. Implementing these new procedures will ensure that the Department maintains required documentation for all renewals of contracts.

Conclusion – Response accepted.

- (5) Centralized Purchasing Contracts – Fifteen centralized purchasing contracts were reviewed. Eight of the contracts renewed with the current vendor lacked documentation of the procedures performed by the Department during the renewal process. As a result, we were unable to determine whether the best price was obtained by renewing the contract or whether a separate bidding process could have achieved additional savings.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2004

Recommendation – The Department should develop written policies and procedures regarding the execution of the renewal option on purchasing contracts. Documentation should be maintained which demonstrates the best price and/or most favorable/beneficial results were achieved by renewing the contract instead of seeking bids from other vendors.

Response – The Centralized Purchasing division of the Department has conducted a thorough review of its contract renewal policies and procedures. It has executed updated policies and procedures to streamline and document the process. Implementing these new procedures will ensure the Department maintains required documentation for all renewals of contracts.

Conclusion – Response accepted.

(6) Deficit Fund Balances – The following Internal Service Funds had deficit fund balances at June 30, 2004:

(a) Surplus Property (Fund 661) negative fund balance of \$19,653.

(b) Centralized Printing (Fund 666) negative fund balance of \$162,506.

(c) General Office Revolving Motor Pool (Fund 662) negative fund balance of \$177,389.

Recommendation – The Department should take steps to eliminate these deficits in order to return these accounts to a sound financial position.

Response – During FY 2005, the Department has eliminated deficits in Surplus Property and Centralized Printing.

In November 2005, the Department received a refund for State fuel taxes of \$159,354.34 in the General Office Revolving Motor Pool fund. The Department has a pending Federal fuel tax refund estimated at \$50,510 for fuel purchases made in FY 2004. These two tax refunds eliminate the FY 2004 deficit balance in that fund.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2004

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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