



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

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NEWS RELEASE

FOR RELEASE _____ November 2, 2007

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, 2006.

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 General Services Enterprise (GSE), the Information Technology Enterprise (ITE), the Human Resources Enterprise (HRE) and the State Accounting Enterprise (SAE).

Vaudt recommended the Department develop procedures to strengthen controls over payroll and maintain documentation which supports billing rates for utility services. In addition, the Department should perform timely reconciliations for capital assets and take steps to resolve/correct variances noted. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Administrative Services, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2006

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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October 29, 2007

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 audit of the State's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006.

In conducting our audit, 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 audit. 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 audit of the Department are listed on page 11 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 Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2006

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 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.

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

Response – GSE - Our current procedures are under review to improve controls which will be completed by October 1, 2007.

ITE - We have implemented procedures in the data center to distribute functions of ordering, receiving, and inventory of data processing supplies. These procedures were submitted to the Office of Auditor of State for review to determine if they adequately meet the separation of duties requirements.

Conclusion – Response accepted.

- (2) Payroll – The Department processes and records 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. These individuals also 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 – The Department now reviews a report from ITE so we can review all P-1 documents and who they were approved by. This report will be reviewed on a quarterly basis from this point forward.

Conclusion – Response accepted.

- (3) Depreciation Ledger Reconciliation – The Department maintains a separate fund, Depreciation Revolving, which receives monthly depreciation payments from state agencies owning vehicles. A separate “depreciation ledger” is also maintained to track payments received and other activity/adjustments to the fund.

The Department reconciles I/3’s cash balance in the Depreciation Revolving Fund to its depreciation ledger. The reconciliation for June 2006 was not performed until after the close of the fiscal year. Also, a variance of \$77,923 was noted during this reconciliation. The Department could not explain the variance.

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In addition, several items on the reconciliation were not properly supported and/or adjusted timely.

Recommendation – The Department should reconcile the I/3 cash balance in the Depreciation Revolving Fund to its depreciation ledger on a regular basis and reconciling items/adjustments should be made in a timely manner.

Response – The Department will make a greater effort to perform this reconciliation on a quarterly basis.

Conclusion – Response accepted.

(4) 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. The following were noted:

(a) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for capital assets. Several instances were noted where capital assets placed in service prior to 2006 were reported as fiscal year 2006 additions.

(b) Depreciation expense and accumulated depreciation have not been recorded for \$5,037,402 of land improvements.

(c) Fifty assets were selected for recalculation of depreciation expense. Of those fifty assets:

(1) Depreciation expense was not recorded for ten months for ten of the vehicles tested, which resulted in an understatement of depreciation expense of \$241,027.

(2) Depreciation expense could not be recalculated for five non vehicle assets.

(d) Sixty assets were selected from the Department's capital asset listing for observation. Of those sixty assets:

(1) Five were sent to surplus property, but documentation to support the authorization and/or deletion of the assets was not located.

(2) One asset could not be located.

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 capital asset additions are reconciled to I/3 asset purchases, depreciation expense is properly recorded for land improvements and other assets and asset deletions are properly authorized, supported and removed from the capital asset listing. Also, the Department should develop a written policy on the removal/use of equipment from state property and develop a log to track the location of this equipment.

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Response – The Department is nearing completion of written procedures addressing the issues set forth in the recommendation above. The written procedures will be completed by October 31, 2007.

Conclusion – Response accepted.

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

- reconciliation of State Vehicle Dispatch records to the Department's capital asset listing,
- reconciliation of the I/3 cash balance in the Depreciation Revolving Fund to the Department's depreciation ledger,
- reconciliation of the Department's capital asset additions to I/3 asset purchases,
- reconciliation of the I/3 cash balance to the State Treasurer's general ledger,
- reconciliation of the Risk System to I/3 for the calculation of the risk financing liability,
- procurement card purchasing and payment processing, and
- internal allocation of shared services.

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

Response – The Department is in the process of developing written accounting and office procedure manuals. The Accounts Payable Team of the Finance area has completed their manuals, and the remaining Teams of Finance will have their manuals completed by December 31, 2007.

Conclusion – Response accepted.

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Findings Related to Statutory Requirements and Other Matters:

- (1) Billing Rates – Chapter 8A.121 of the Code of Iowa authorizes the Department to establish customer councils for the purpose of overseeing utility services provided to governmental customers and to establish billing rates for those services.

The Department has three Enterprises which establish billing rates for utility services. They are General Services (GSE), Human Resources (HRE) and Information Technology (ITE).

During fiscal year 2006, GSE billing rates were selected for review. The following items were noted:

- The Department did not document the methodology and/or assumptions used when establishing the billing rates.
- Underlying supporting documentation was not always maintained to substantiate the financial information compiled when establishing billing rates. For example, budgeted expenditures submitted to the Department of Management did not always agree with the budgeted expenditure information used in establishing the billing rates. The Department could not explain/support the variances. Also, support for full-time equivalent (FTE) information used in the calculation of certain rates was not maintained.
- The methodology for the utility rate for administrative costs related to the Depreciation Revolving Fund operations was not approved by the Customer Council for fiscal years 2005 and 2006. In addition, the memo provided as management approval of administrative expenses to be assessed was dated after agency cash balances had been debited.

Recommendation – The Department should document the methodology and assumptions used when establishing billing rates for utility services, maintain appropriate supporting documentation and obtain proper approval prior to the application of billing rates.

Response –

- The methodology and/or assumptions are now stated on the Utility Rate Recaps. Also contained in these files are the supporting budget documentation, agency impact, and mail merge information.
- During the time the budget was input in fiscal year 2006 the budget analyst position for GSE went through a transition change. These errors were made during this training phase. In the future when training is occurring it will be stressed that the information submitted to the Department of Management (DOM) and the utility rate documents presented to Customer Council establishing the billing rates must match.

Extra precautions will be taken at all times to verify that the budget expenditures that are reported to DOM agree with the budgeted expenditures that support the billing rates. If there is a need for a change, documentation will be made to support this change.

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- The methodology for the depreciation revolving fund operations are approved by the Customer Council at the time of the approval of billing rates.

Any administrative costs related to depreciation revolving fund operations will be approved by the Customer Council. All notifications will be sent out to agencies prior to cash balances being debited noting the future date the adjustment will occur.

Conclusion – Response accepted.

- (2) Leases – The Information Technology Enterprise (ITE) entered into numerous leases for computer equipment which ITE classified as operating leases. However, based on the criteria established in Financial Accounting Standards Board (FASB) Statement Number 13 (FASB 13), certain lease agreements may be more appropriately classified as capital leases, not operating leases.

Recommendation – ITE should document the analysis of lease agreements and, using the criteria established by FASB 13, document the basis for classifying leases as operating versus capital.

Response – The leases that ITE entered into were via statewide, open-ended, contracts established by DAS/GSE for general use of the Executive Branch. The leasing vendors were (and are) aware of our FASB 13 requirements and stipulations and efforts were made by the leasing vendor and DAS/ITE to comply. The leases that DAS/ITE enters into function as “equipment rentals”, having the intent and providing the opportunity, to “refresh” the technology at the end of the lease term (generally 36 months).

DAS/ITE has found that the ability to refresh equipment provides technological improvements, bigger, better, and more powerful equipment having upgraded capabilities, increased functionality, with less down time. Often the Department can receive these items at a lower lease cost per unit than what was paid for the original leased equipment. On occasion DAS/ITE has found it to be in the state’s best interest to extend a lease for an additional term which could have resulted in the extended lease becoming noncompliant with FASB 13 operating leases. In the future more precaution will be exercised when leasing or considering the option to extend a lease.

Conclusion – Response accepted.

- (3) Service Contracting – Five service contracts were selected for compliance testing with Iowa Administrative Code Chapters 106 and 107. The following items were noted:
- Two contracts were not signed prior to the start date.
 - The Department did not provide selection process information for one contract.
 - One contract did not include the independent contractor clauses.

Recommendation – The Department should ensure Iowa Administrative Code Chapters 106 and 107 requirements for service contracts are met and supporting documentation is maintained to demonstrate compliance.

Response – The Department will implement a training program to ensure all areas of DAS are aware of and comply with the Service Contracting requirements of Chapters 106 and 107 of the Iowa Administrative Code.

Conclusion – Response accepted.

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(4) Centralized Purchasing Contracts – A review of fifteen centralized purchasing contracts identified the following:

- Six 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.
- Two contracts, in excess of \$5,000 each, did not have documentation to demonstrate Targeted Small Businesses (TSB) were notified of the bid opportunity.
- Four contracts were not advertised for bids on the Department's website or newspapers.
- Six contracts were not signed by one or both parties.

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. In addition, the Department should ensure TSB's are notified of all applicable bid opportunities, contracts are advertised for bid on its website or newspaper and contracts are signed by all parties.

Response – The Department will develop written policies and procedures regarding contract renewals, maintain documentation regarding price/results, and ensure TSB's are notified of bid opportunities, as recommended by January 2008.

Conclusion – Response accepted.

(5) 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, 2006:

- (a) Chapter 25.2(5) requires the Department, on or before November 1 of each year, to provide the Treasurer of State with a report of all unpaid warrants which have been outdated for two years or more. This report has not been made available in a format that can be used by the Treasurer's Unclaimed Property division.
- (b) Chapter 8A.362(4)(c) requires the Department to submit an annual report by February 15th to the Iowa Department of Natural Resources regarding compliance with the corporate average fuel economy standards published by the United States Secretary of Transportation for new motor vehicles, other than motor vehicles purchased by the Iowa Department of Transportation, institutions under the control of the Board of Regents and the Iowa Department of the Blind. The Department did not submit the required report until September 26, 2006.

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

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Response –

- (a) The Department is currently working to provide the Treasurer of State paper copies of all of our reports. This information comes to us on paper and we are required to keep 10 years worth of data on hand. We are also the ones that must reissue any warrants that are found on this list.
- (b) Chapter 8A.362(4)(c) has been revised. Beginning fiscal year 2008, the annual report is due by June 15th. This enables purchases made in the later months of the fiscal year to be included while submitting a timely report.

Conclusion – Response accepted.

- (6) Negative Cash Balance – The Internal Service Fund, Postage/Corporate Express/Bond Fund, was established to account for the postage activity of the State. The Department is also utilizing the fund as a clearing account for eDAS billings made by the Department. Throughout the year, deficits were the result of eDAS collections allocated to the proper DAS funds prior to the collections of all billings.

Recommendation – The Department should review the activity being processed to ensure, where possible, a cash balance is maintained in the Fund and allocations are not recorded until collections are received.

Response – The Department will process the eDAS receipt documents first and when those have been processed through the I3 system, we will process the payment documents to distribute the funds from the eDAS Clearing Account to the appropriate funds.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

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Questions or requests for further assistance should be directed to:

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Other individuals who participated on the audits include:

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