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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

July 8, 2003

Contact: Andy Nielsen
515/281-5515

Auditor of State David A. Vaudt today released a report on the Iowa Department of General Services for the year ended June 30, 2002.

The Iowa Department of General Services is mandated by statute to provide services for other state agencies. To fulfill this responsibility, the Department is structured into the following divisions: Administration; Building Services; Capitol Complex Maintenance; Purchasing; Design and Construction; Fleet and Mail; and Printing and Imaging.

This report contains recommendations to the Department. For example, the Department should develop procedures to strengthen controls over cash receipts, capital assets and inventory. In addition, the Department should ensure that contracts and bidding documents are properly maintained and that change orders to construction contracts are completed and authorized before disbursements exceed the contract amount. The Department's responses are included in this report.

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

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

JUNE 30, 2002

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State

0360-3370-0000



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June 30, 2003

To Patrick Deluhery, Interim Director of the Iowa Department of General Services:

The Iowa Department of General 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, 2002.

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. The recommendations pertain to the Department's internal control, compliance with statutory requirements and other matters which we believe you should be aware of. 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 any 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 12 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, 2002

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

- (1) Inventory Control Procedures – During our review of the Department's inventories, the following items were noted:
 - (a) The Division of Printing and Imaging maintains an inventory of various state publications, such as the Code of Iowa, the Iowa Administrative Code, Election Laws of Iowa, and General Assembly Session Laws, as well as a supply of Iowa flags. Access to the publications inventory is not restricted.
 - (b) The Vehicle Dispatcher maintains a vehicle parts inventory for routine maintenance and repairs. The employee who orders, receives and stores inventory also updates the inventory records.

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 the publications inventory.

Response –

- (a) The "front-end" sales and collections for publications has migrated to the Legislative Services Agency, and are physically separate and discrete from the warehouse and fulfillment functions in the Grimes building. The inventory access problem was resolved at the beginning of FY02 with the closure and removal of the micrographic operation and the entire space has been allocated to publications storage. There is a storekeeper on staff full-time. The area is locked at night and manned during the day. However, if the storekeeper leaves the area temporarily, the door is not locked. This is being changed effective immediately.
- (b) Due to limited staff with the Fleet and Mail Division, problems with segregation of duties will continue.

Conclusion –

- (a) Response accepted.
 - (b) Response acknowledged. Controls should be segregated to the extent possible with existing staff.
- (2) Cash Receipts – Revenues are collected in different areas within the Department and ultimately are deposited through a cash register at the Customer Service Center (CSC). The following conditions were noted:
 - (a) The Vehicle Dispatch Division does not prepare an initial receipt listing. In addition, there is a lack of segregation of duties between collection, deposit and recording of cash receipts.
 - (b) Cash reconciliations are performed prior to the close of business each day and prenumbered receipts are issued for collections which are not included in the daily reconciliation. The Department does not reconcile the prenumbered receipts issued to the collections entered into the cash register the following day.

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- (c) Federal Surplus Property does not restrictively endorse checks upon receipt and the employee who opens the mail does not prepare the initial receipt listing.

Recommendation – The Department should implement procedures to ensure proper internal controls over cash receipts. Procedures, at a minimum, should include restrictively endorsing checks upon receipt, the use of an initial receipt listing and a reconciliation of the prenumbered receipts issued after the close of business to subsequent posting in the cash register the following day.

Response –

- (a) An initial receipt listing will be implemented with the beginning of FY04. Due to limited staff within the Fleet and Mail Division, problems with segregation of duties will continue.
- (b) Effective May 14, 2003, the Customer Service area implemented a new procedure to address this issue.
- (c) Federal Surplus Property implemented procedures at the start of FY03 and the person who opens the mail prepares the initial listing and restrictively endorses the checks.

Conclusion –

- (a) Response acknowledged. Controls should be segregated to the extent possible with existing staff.
- (b)-(c) Response accepted.
- (3) 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) Two assets had been sold/traded during FY02, yet remained on the Department's capital asset listing.
 - (b) Current year depreciation expense was overstated by \$114,988 due to errors in restating prior year accumulated depreciation.
 - (c) The Department performs a reconciliation comparing vehicles recorded on its capital asset inventory to the State Vehicle Dispatcher's records. When errors or variances are noted during the reconciliation process, corrections should be made to one or both listings to ensure the accuracy and completeness of the information.

Recommendation – The Department should ensure that a detailed, up-to-date capital asset inventory listing is maintained. This includes ensuring that assets are properly deleted, asset values include all costs incurred to prepare the asset for use and depreciation expense is properly calculated and applied. In addition, corrections should be made to records for any errors or variances noted during the reconciliations.

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Response –

- (a) Capitol Complex Maintenance Division has assigned responsibility for capital assets to an employee within that division. Assets will be removed from the listing in a timely manner.
- (b) The GAAP Package included \$100,000 in current depreciation expense in FY02 instead of the adjustment column. The amount entered was correct, the Department misclassified the amount as an expense instead of an adjustment. The remaining \$14,988 was an overstatement of depreciation expense and will be reviewed and corrected through an adjustment in FY03 in order to correct the accumulated depreciation.
- (c) The capital asset inventory is under review and corrections, where indicated, will be made.

Conclusion – Responses accepted.

- (4) Written Accounting Procedures – Written policies and procedures aid current and new employees in discharging accounting responsibilities and provide employees with management's written expectations. The Department has not completed a written policies and procedures manual for all accounting transaction cycles.

Recommendation – The Department should complete an accounting policies and procedures manual and make it available to all accounting staff.

Response – Vehicle Dispatch does have policy and procedures written. The policies and procedures are currently under revision due to staff changes and reassignment of duties. However, the Department acknowledges that there are not written accounting policies and procedures for all accounting positions and when staffing and time permits, we will address this issue.

Conclusion – Response acknowledged.

- (5) Vehicle Dispatcher Depreciation Ledger – The Vehicle Dispatcher maintains a subsidiary ledger for vehicle depreciation deposits received from and held on behalf of various state agencies. These deposits are used to purchase replacement vehicles as needed. The Vehicle Dispatcher did not perform a reconciliation of the subsidiary ledger balances to the Iowa Financial Accounting System (IFAS) at June 30, 2002.

Recommendation – The Vehicle Dispatcher should perform a reconciliation of the vehicle depreciation subsidiary ledger to IFAS at year end and make adjustments, if any, to the subsidiary ledger on a timely basis.

Response – A reconciliation of IFAS and the depreciation ledger will be performed at year-end and adjustments made as needed.

Conclusion – Response accepted.

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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 data base 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 Department purchased a new risk financing computer system, but has not taken steps to install/implement the new system. The current risk financing system does not produce accurate and reliable information.
 - (b) The fiscal year 2002 vehicle damage amount reported on the Quarterly Accident Report is understated by \$41,375 when compared to the Iowa Financial Accounting System (IFAS). Also, certain Attorney General claim settlements for property damage and bodily injury payments may not be recorded in the risk financing system causing a variance between the risk financing system and IFAS.
 - (c) Certain reserve balances were included on the risk financing system for cases/claims that had been closed. In addition, a property damage reserve was established in error for an accident in which all vehicles involved were owned by the State of Iowa.
 - (d) The “Accident Reserve” report was not printed simultaneously, at June 30, 2002, with the “Quarterly Accident Report” thereby not allowing a proper reconciliation to take place between the two reports.

Recommendation – The Department should ensure that reports are generated which support amounts reported for risk financing on the Department’s GAAP Package and which reconcile to the Iowa Financial Accounting System (IFAS). Cases that have been closed should have the corresponding reserve balance removed from the risk financing system and a review of established reserve balances should be performed to ensure that reserve balances are appropriate. Finally, the Department should install/implement the new risk financing system that was purchased.

Response –

- (a) The Risk Manager, representatives from DGS Tech Team and members of ITD staff have been involved in research and reprogramming efforts to implement the RiskPro software. At this time, it remains undetermined if RiskPro can be made to function as initially expected. No deadline for completion and implementation has been established due to continuing challenges.
- (b) The Quarterly Report from the risk system is a snapshot in time whereas IFAS has a holdover period for continued processing. Policies and procedures are being written which state that accident information will be coded to the fiscal year based on payment of the claim rather than date of accident.
- (c) Review of old claims continues in an effort to correct the reserves set in error or not removed upon settlement of claims.
- (d) The Quarterly Accident Report and the Accident Reserve Report are from two different databases. The reports are created for the same time frames. Every effort is made to create the reports at the same time.

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Conclusion –

- (a) Response acknowledged. A new system should be installed or the current system upgraded to help ensure accurate and reliable information is produced from the risk financing computer system.
 - (b)-(c) Responses accepted.
 - (d) Response acknowledged. Procedures and reports will be reviewed in the subsequent audit.
- (2) Compliance with the Code of Iowa – The following instances of non-compliance with the Code of Iowa were noted:
- (a) Chapter 18.18(1)(d) states in part, “The Department shall report to the General Assembly on February 1 of each year the following:
 - (i) A listing of plastic products which are regularly purchased by the Department and other state agencies for which recycled content product alternatives are available, including the cost of the plastic products purchased and the cost of the recycled content product alternatives.
 - (ii) Information relating to soybean-based inks and plastic garbage can liners with recycled content regularly purchased by the Department and other state agencies, including the cost of purchasing soybean-based inks and plastic garbage can liners with recycled content and the percentages of soybean-based inks and plastic garbage can liners with recycled content that have been purchased.

These reports were completed, however, not by February 1.

- (b) Chapter 18.6(11) states, in part, “The Director shall adopt rules which require that each bid received for the purchase of items purchased by the department includes a product content statement which provides the percentage of the content of the item which is reclaimed material.” These rules have not been incorporated into the Iowa Administrative Code.
- (c) Chapter 8D.10 requires the Department to submit to the General Assembly, on or before January 15th, an annual written report certifying identified savings associated with using the Iowa Communication Network. The required written report was not submitted.
- (d) Chapter 7A.3 requires the Department to submit a report for the biennial period ending June 30 in each even-numbered year, and file the report as soon as practical after the end of the reporting period. The June 30, 2002 report has not been filed.
- (e) Chapter 18.89 requires the Department to submit two copies of each publication to the library of Congress. Even though Iowa Code Chapter 18.75(6) provides that the Legislative Service Bureau (now Legislative Services Agency) shall solicit and process orders for the distribution of all printed Codes, session laws, administrative codes and bulletins, court rules and the state roster, the Department should ensure that distribution has taken place to comply with Chapter 18.89 of the Code of Iowa.

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Recommendation – The Department should comply with the Code of Iowa.

Response –

- (a) Reports for Section 18.18(1)(d) are based on information received from the vendor community. This information is not received in time to meet the February 1 deadline. It is possible that the new I/3 system will be able to capture the information or the Department will look at the possibility of having the dates for reporting purposes changed.
- (b) Purchasing is currently in the process of reviewing and revising the purchasing administrative rules and these requirements will be included.
- (c) Through an oversight by the Department, we failed to report that we did not utilize the ICN video conferencing services.
- (d) In the future, the Department will comply with this requirement. The Department will work towards submitting the biennial report on a timelier basis in the future.
- (e) The Printing Division will work to ensure that distribution has taken place to comply with Chapter 18.89 of the Code of Iowa.

Conclusion –

- (a) Response acknowledged. Until the required reporting date is changed or other methods identified, the Department should comply with the Code of Iowa.
 - (b)-(e) Responses accepted.
- (3) Delinquent Payments – The Centralized Printing Division has several operating leases for equipment and maintenance. The Division was delinquent on several lease payments during the fiscal year.

Recommendation – The Division should take the necessary steps to ensure that operating lease payments are made in a timely manner.

Response – The Printing Division was delinquent on a number of lease payments during FY02 and will work to ensure that payments are made on a timely basis.

Conclusion – Response accepted.

- (4) Printing Contracts – The Iowa Administrative Code (IAC) 401, Chapter 5.8(1) states that formal quotations shall be required on all printing items costing \$5,000 or more. Of five printing contracts costing \$5,000 or more, adequate supporting documentation (i.e. signed contract, bidding documents, etc.) for two contracts could not be located.

In addition, the Department did not maintain a listing of vendors who received bid specifications during fiscal year 2002.

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Recommendation – The Department should ensure that supporting documentation for all printing contracts is properly maintained. In addition, a listing of vendors receiving bid specifications from the Department should be maintained.

Response – The Printing Division agrees that supporting documentation for all printing contracts should be maintained, and will renew our efforts to do so.

At the beginning of FY02, Printing experienced some technical problems with the FAX and some procedural issues wherein the operator was not always printing out the FAX transmission log, but that has been corrected and the daily methodology is consistent. When the bid specifications are auto-dial faxed to the vendors within a particular group (relating to that particular print project), the auto-dial FAX prints out a log copy of each transmission so that we can verify successful transmission to each prospective vendor and potential bidder. These FAX transmission logs are saved.

Conclusion – Response accepted.

- (5) Centralized Purchasing Contracts – Twenty-five centralized purchasing contracts were reviewed and the following noted:
- (a) Bidding documents for five contracts could not be located.
 - (b) One contract was not signed by the vendor.
 - (c) One contract was not signed by either the vendor or the Department.
 - (d) One contract could not be located.

Recommendation – The Department should ensure that centralized purchasing contracts and bidding documents are properly maintained and that contracts are signed by all parties.

Response – The Department is reviewing the document filing procedures to ensure that instances of this nature will not occur again.

Conclusion – Response accepted.

- (6) Construction Contracts – A review of certain construction projects/contracts in effect during fiscal year 2002 identified the following:
- (a) For 12 contracts tested, change orders were completed and approved after disbursements exceeded the contract amount.
 - (b) Documentation could not be located for 4 change orders.
 - (c) Of five contracts tested for bidding, one bid tabulation sheet and one proof of advertisement could not be located.

Recommendation – The Department should develop and implement procedures to ensure that contract amounts are not exceeded before a change order has been completed and approved by proper personnel. In addition, documentation should be maintained to support change orders, bid tabulations and proof of advertisement.

Response – The Design and Construction Division is reviewing existing procedures and developing new procedures as necessary to address these concerns. In addition, the

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Purchasing area is reviewing its document filing procedures to ensure that instances of this nature will not occur again.

Conclusion – Response accepted.

- (7) Annual Membership Fees – The Department made two payments in the same fiscal year for an annual membership to the National Association of State Chief Administrators. The payments covered membership fees for fiscal years 2002 and 2003. Had the membership fee for fiscal year 2003 been coded to the proper fiscal year on IFAS, the Department would have had an additional \$3,500 to revert to the State General Fund in fiscal year 2002.

Recommendation – The Department should ensure that membership fees are recorded in the proper fiscal year.

Response – The Department will work to ensure that expenditures are recorded in the proper fiscal year.

Conclusion – Response accepted.

Iowa Department of General Services

Staff

Questions or requests for further assistance should be directed to:

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Other individuals who participated on this audit include:

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