



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE July 13, 2004

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of General Services for the year ended June 30, 2003.

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.

Effective July 1, 2003, the Iowa Department of General Services became the General Services Enterprise of the Department of Administrative Services.

Vaudt recommended the Department develop procedures to strengthen controls over cash receipts, capital assets and inventory. In addition, the Department should develop written policies and procedures regarding the execution of the renewal option on purchasing contracts. 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, 2003

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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December 12, 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, 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 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 9 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. Eisenhower, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2003

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

- (1) Inventory Control Procedures – 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.

Response – This is still the current situation due to lack of enough staff. Annually, inventory is taken by the Executive Officer. Currently, “spot checks” are done monthly by the Shop Supervisor.

Conclusion – Response acknowledged. Where duties cannot be adequately segregated, it is important this work be reviewed by supervisory personnel and this review be evidenced by the initials of the reviewer. In addition, documentation should be maintained for “spot checks” done on inventory.

- (2) Cash Receipts – There is a lack of segregation of duties between the collection, deposit preparation and recording of cash receipts within the Vehicle Dispatch Division and Risk Financing Operations. In addition, the Vehicle Dispatch Division does not prepare an initial receipt listing.

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 – Receipts are given to the customer and the money is kept in a locked safe. With the limited number of staff in our area, it is not possible to have an independent person verify the deposit to the Treasurer's receipt that is generated from the system.

Conclusion – Response acknowledged. Where duties cannot be adequately segregated, it is important this work be reviewed by supervisory personnel and this be review evidenced by the initials of the reviewer.

Report of Recommendations to the Iowa Department of General Services

June 30, 2003

- (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 findings were noted:
- (a) The Department utilized three separate reports for reporting capital assets. The reports included the Fixed Asset Inventory by Location Report (X006), Fixed Asset Depreciation Report (X003) and the Fixed Asset Transaction Detail Report (X002). A reconciliation of certain information contained in the various reports could not be completed. For example, the total ending balance for Fund 664 capital assets on report X003 did not reconcile to report X002. In addition, accumulated depreciation per report X003 did not reconcile to report X006. The Department could not explain the variances which existed between the three reports.
 - (b) Vehicle sales were not reflected properly on the Department's GAAP package. Vehicles in Fund 001 and Fund 664 were sold during the year for \$7,750 and \$63,193, respectively. The Department's GAAP package information did not include the sales revenue for Fund 001's vehicles and sales revenue of \$74,150 was reported for Fund 664. As a result, the calculation of the gain/loss on the sale of assets was not correct.
 - (c) The Department reconciles 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 the reports used for reporting capital assets are complete, accurate and can be reconciled. Procedures should be implemented to ensure information regarding the sale of capital assets is properly reflected on the Department's GAAP package. In addition, corrections should be made to records for any errors or variances noted during the reconciliation process.

Response –

- (a) The Department, now under the Department of Administrative Services, will be using a new AMS I3 capital asset system that will be installed on or before the close of fiscal year 2004.
- (b) The Department will develop procedures to ensure that the sale of capital assets is properly reported in the GAAP package.
- (c) In the future, the Department will adjust the records for any errors or variances noted during the reconciliation process.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of General Services

June 30, 2003

- (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 – The Department will make a concerted effort to develop a written set of policies and procedures in fiscal year 2005.

Conclusion – Response accepted.

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 fiscal year 2003 vehicle damage amount reported on the Quarterly Accident Report is overstated by \$32,525 when compared to the Iowa Financial Accounting System (IFAS).
- (b) Claims paid for bodily injury and property damages of \$26,238 were recorded on IFAS but were not entered into the Risk System. Of this amount, one claim for \$25,000 appears to be an AG settlement.

Recommendation – The Department should ensure reports are generated which support amounts reported for risk financing on the Department’s GAAP Package and reconcile to the Iowa Financial Accounting System (IFAS).

Response –

- (a) If a duplicate invoice is processed for payment, the payment can be credited back to the agency on IFAS but it cannot be deleted from the Risk System. The invoice still gets attached to an accident file in the Risk System. Risk management will make an effort to ensure that the reports match by working with ITE to correct the accident file in the Risk System when duplicates occur.
- (b) Risk management will make an effort to ensure all claims paid are entered into the Risk System.

Conclusion – Response accepted.

- (2) 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, 2003:

- (a) Chapter 18.18(1)(d) states the Department shall report to the General Assembly on February 1 of each year the following:

Report of Recommendations to the Iowa Department of General Services

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- (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 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 an annual report for the period ending June 30 in each year, and file the report as soon as practical after the end of the reporting period. The June 30, 2002 and the June 30, 2003 reports have not been filed.

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

Response –

- (a) Due to the delay in submittal of the 2003 report, a timeline for completion was established. As a result of the timeline, the report due February 1, 2004 was submitted in accordance with the Code of Iowa. The timeline requirement continues to be enforced.
- (b) Rules have been adopted and placed in our revisions to the Iowa Administrative Code that became effective on 12/3/03.
- (c)-(d) The Department will develop and maintain a calendar that will note the reports and the due date of each.

Conclusion – Response accepted.

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- (3) 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 tested costing \$5,000 or more, one contract could not be located and one contract was not bid.

In addition, the Department did not maintain a listing of vendors who received bid specifications during the year ended June 30, 2003.

Recommendation – The Department should ensure supporting documentation for all printing contracts is properly maintained and contracts costing \$5,000 or more are properly bid. In addition, a listing of vendors receiving bid specifications from the Department should be maintained.

Response – The one contract over \$5,000 that was not bid was interpreted by the Department to be a confirming order from the ordering agency. We later discovered that was not the case. The Department is to place the fax receipt indicating whom the bid was sent to in each bid file.

Better documentation for contract files and maintenance of a vendor listing will be achieved by a change in staff that is responsible for those duties.

Conclusion – Response accepted.

- (4) Centralized Purchasing Contracts – Fifteen centralized purchasing contracts were reviewed and the following findings were noted:

(a) Four contracts were renewed with the current vendor. However, there was a lack of 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.

(b) One contract could not be located.

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 centralized purchasing contracts are properly maintained.

Response –

(a) The Department will develop written policies and procedures regarding execution of the renewal option of purchasing contracts.

(b) System review determined that the contract was renewed and printed. However, the original copy could not be found in the contract file. The new E-Procurement System should eliminate this problem with paperless electronic contract documentation.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of General Services

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Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Deborah J. Moser, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Shawn P. Limback, CPA, Staff Auditor
Sheila M. Jensen, Staff Auditor
Nicole B. Tenges, Staff Auditor
Heather L. Templeton, Assistant Auditor
Jedd D. Moore, Assistant Auditor