



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

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NEWS RELEASE

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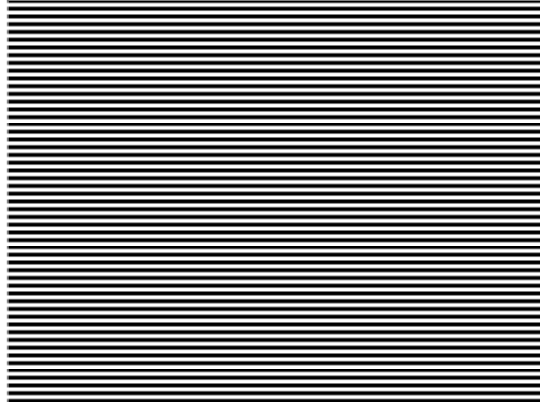
Auditor of State David A. Vaudt today released an audit report on the Iowa Legislature for the year ended June 30, 2003. The Iowa Legislature includes the following components: House of Representatives, Senate, Legislative Services Agency and Office of Citizens' Aide/Ombudsman.

Effective April 14, 2003, the Legislative Fiscal Bureau, Legislative Service Bureau, Legislative Computer Support Bureau and the Administrative Code Division were consolidated and are now known as the Legislative Services Agency.

Vaudt recommended the House of Representatives and Senate segregate payroll and personnel duties to the extent possible. In addition, Vaudt recommended the Legislative Services Agency take annual physical inventories of capital assets and ensure information reported on the GAAP package is accurate and complete. The Agency's responses are included in this report.

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

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**REPORT OF RECOMMENDATIONS TO THE
IOWA LEGISLATURE**

JUNE 30, 2003

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



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January 9, 2004

To the Members and Officials of the Iowa Legislature:

The Iowa Legislature 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, 2003.

In conducting our audit, we became aware of certain aspects concerning the Iowa Legislature'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 pertaining to the Iowa Legislature's internal control, compliance with statutory requirements and other matters. These recommendations have been discussed with Iowa Legislature 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 Legislature, citizens of the State of Iowa and other parties to whom the Iowa Legislature 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 Iowa Legislature during the course of our audit. Should you have questions concerning the above matters, we shall be pleased to discuss it with you at your convenience. Individuals who participated in our audit of the Iowa Legislature are listed on page 8 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

Finding Related to Internal Control:

- (1) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees so the activities of one employee act as a check on those of another.

Two employees within the House of Representatives and Joint House and Senate Finance Office and two employees within the Senate have the ability to perform the following payroll and personnel functions for which no compensating control exists:

- (a) Entering and approving time records on the payroll system (PAYN).
- (b) Comparing time records to payroll information.
- (c) Receiving and distributing payroll warrants.
- (d) Preparing P-1 documents that initiate and approve personnel actions such as adding new employees and recording pay raises.

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

House Response – The recommendation you have provided would require more employee's involvement, less confidentiality. The House of Representatives and Joint House and Senate Finance Office operates on a support team basis to achieve required results with minimum errors.

With regard to items (a) and (d), per Administration directive, the Senior Finance Officer informatively directs the Personnel Assistant (PA) to enter and approve P-1 documents. When work load is heavy or in the absence of the PA, the Senior Finance Officer inputs and approves P-1 documents. Our office has opted to not practice a one-step duty per person as absenteeism would hinder payroll results.

For item (b), the first payroll final report is proofread to the time records and P-1 input documents acting as the step of department approval.

With regard to item (c), during the interim, we alternate receiving warrants with the Senate. During the session, pages receive the warrants and deliver them to the Finance Office where they are immediately locked up. During session, PA and session only employees prepare warrants for distribution. The Senior Finance Officer distributes warrants. The PA distributes warrants in the absence of the Senior Finance Officer.

Payroll functions require review and authorization by the Speaker and Chief Clerk of the House of Representatives. The Joint House and Senate is reviewed by the Speaker, Chief Clerk, Senate President, Senate Majority Leader and the Secretary of the Senate.

Senate Response – For payroll and personnel functions, the Senate has two employees working together on the payroll system (PAYN). The same two work on the payroll information, the receiving and distributing payroll warrants, and preparing the P-1 documents.

Report of Recommendations to the Iowa Legislature

June 30, 2003

The administrative staff is too small to allow other persons to work with the payroll procedures plus confidentiality could become an issue.

Conclusion – Response acknowledged. Where duties cannot be adequately segregated, it is important this work be reviewed by supervisory personnel and this review evidenced by the initials of the reviewer. Also, at a minimum, receipt and distribution of payroll warrants should be handled by an individual independent of other payroll duties.

- (2) Capital Assets – Computer Support Division – Documentation authorizing the deletion of Computer Support Division assets was not prepared until after the assets were disposed of. According to Agency personnel, the Division Director verbally authorizes deletions prior to disposal.

In addition, the Computer Support Division does not take a complete physical inventory of capital assets.

Recommendation – The Computer Support Division should develop and implement procedures to ensure capital asset deletions are properly authorized and documented prior to disposal and a complete physical inventory of capital assets is taken at least once every two years.

Response – Procedures have been implemented by the Computer Support Division, of the Legislative Services Agency (LSA) to properly document and authorize in writing, the disposal of capital assets prior to removal from the office location. A complete physical inventory will be taken and reconciled to the capital asset listing every June.

Conclusion – Response accepted.

- (3) Legislative Information Office Receipts – Prenumbered receipts are not issued for all sale items. An independent person does not reconcile prenumbered receipts to deposits. In addition, the change fund does not have an established balance.

Recommendation – The Legislative Information Office should implement procedures to ensure prenumbered receipts are issued for all sale items and an independent person should periodically compare deposits to the prenumbered receipt book. Also, the Office should establish a balance for the change fund.

Response – The Legislative Information Office has implemented an appropriate software program for financial/inventory record keeping. This software provides prenumbered receipts as well as establishing a balance for the change fund. An independent staff member performing accounting functions for the LSA will reconcile Legislative Information Office receipts to deposits.

Conclusion – Response accepted.

June 30, 2003

Finding Related to Statutory Requirements and Other Findings:

(1) GAAP Package – To prepare timely financial statements for the State of Iowa, state agencies are required to submit GAAP packages by September 1 of each year. The GAAP packages include information which is not available on the Iowa Financial Accounting System (IFAS). The following were noted during testing of the Computer Support Division's GAAP package:

- The beginning accumulated depreciation amount did not reconcile to the prior year ending balance.
- Additions to accumulated depreciation only included depreciation expense on capital assets added during fiscal year 2003. Depreciation expense for existing assets, not fully depreciated, was not included.
- Accumulated depreciation was not reduced for capital assets deleted during fiscal year 2003.
- Capital lease obligations were overstated by \$27,070.

Recommendation – The Computer Support Division should take steps to ensure information reported on the GAAP package is accurate and complete.

Response – The LSA officially took control of the Computer Support Bureau function on July 1, 2003. Due to missing and incomplete accounting and inventory records, sufficient information was not available to ensure the timely submission of an accurate GAAP package. The LSA has implemented procedures to ensure that assets are properly authorized when deleted from the inventory and that depreciation expense is accurately recorded. The Computer Services Division will conduct an annual capital asset inventory to maintain accurate records.

Conclusion – Response accepted.

(2) Service Contracts – The Computer Support Division did not enter into a written contract with a consultant who provided training services costing \$20,762.

Recommendation – The Computer Support Division should ensure written contracts are in place for service contracts.

Response – The Computer Support Division has established a procedure that requires all service agreements be a written contract. Procedures have been implemented to ensure contracts are written and authorized by appropriate LSA management.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Legislature

June 30, 2003

- (3) Judicial Compensation Commission – Section 602.1514 of the Code of Iowa establishes a Judicial Compensation Commission composed of eight members, four of whom shall be appointed by the Governor and four of whom shall be appointed by the Legislative Council. The required appointments to the Judicial Compensation Commission have not been made.

Recommendation – The Senate and the House of Representatives should evaluate the purpose of the Judicial Compensation Commission and determine whether continuation of this Commission is warranted. If continuation of the commission is no longer warranted, the Senate and House of Representatives should seek to repeal this code section. If continuation is warranted, the required appointments should be made to the Commission to comply with the Code of Iowa.

Responses –

Senate and House Responses:

This Code requirement should be changed inasmuch as the Legislative body as a whole reviews the compensation of the judicial branch on a biennial basis through the consideration of the Salary Bill. Therefore, the oversight of the Judicial Compensation Commission is no longer warranted.

No bills were introduced into the 2004 Eightieth General Assembly to deal with these concerns. Next legislative session, this issue should be brought before the State Government Committee for review and whether continuation of this Commission is warranted.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Legislature

June 30, 2003

Staff:

Questions or requests for further assistance should be directed to:

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