

**STATE OF IOWA**

**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**JUNE 30, 2013**

**State of Iowa**

**Officials**

Name

Title

**Executive Branch**

Honorable Terry E. Branstad

Governor

David Roederer

Director, Department of Management

**Legislative Branch**

Pam Jochum

President of the Senate

Kraig M. Paulsen

Speaker of the House of Representatives

Glen P. Dickinson

Director, Legislative Services Agency

**Judicial Branch**

Mark S. Cady

Chief Justice of the Supreme Court



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

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Governor and Members of the General Assembly:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the State of Iowa's basic financial statements, and have issued our report thereon dated December 13, 2013. Our report includes a reference to other auditors who audited the financial statements of the Tobacco Settlement Authority, the Honey Creek Premier Destination Park Authority, the Iowa Finance Authority, the University of Iowa Foundation, the Iowa State University Foundation, the University of Northern Iowa Foundation, the University of Iowa Research Foundation and the University of Iowa Health System & Subsidiaries, as described in our report on the State of Iowa's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Iowa Foundation, the Iowa State University Foundation, the University of Northern Iowa Foundation and the University of Iowa Health System & Subsidiaries were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Iowa's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the State of Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) through (D) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of non-compliance or other matters which will be reported to management in separate reports.

#### State of Iowa's Responses to the Findings

The State of Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The State of Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the State of Iowa's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 13, 2013

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has developed the MYIOWAUI system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the balance of employer contributions receivable and delinquent accounts, including penalty and interest calculations, for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The following were noted for the year ended June 30, 2013:

- (1) IWD reported \$16,678,220 of accounts receivable and \$9,201,359 as an allowance for doubtful accounts in the accounts receivable GAAP package page and also in the Unemployment Benefits Fund page. As a result, the net accounts receivable balance was overstated by \$7,476,861. This was properly adjusted for reporting purposes.
- (2) According to IWD, an account goes to non-collectible status when the most recent debt creation date on the account is older than 720 days and the last payment was not received within 90 days. These accounts should be written off for reporting purposes and not be included in the balance reported in the GAAP package. During testing, \$319,240 of \$47,993,020 of contributions, \$189,343 of \$14,569,869 of interest and \$36,644 of \$2,738,264 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD should continue to modify the MYIOWAUI system to ensure the data is accurate, timely and conforms to established policy.

Response – For number (1), IWD will ensure the numbers are cross checked between the submittal of the draft GAAP package and the final GAAP package reporting dates to ensure receivables are not accounted for in both locations of the report. For number (2), IWD will also review the existing policy for non-collectible accounts and determine if the language should be updated and/or changed. The policy appears to be inconsistent in terms of stating balances should be considered uncollectible after 720 days or if they have not made payment within the past 90 days. It would be unclear to determine whether balances should or shouldn't be included on the GAAP package with a definition which includes conflicting statements. IWD will review any applicable federal guidelines and determine what action should be taken before the next GAAP package is due.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2013

- (B) Financial Reporting – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS–SAE) in a GAAP package. The GAAP package is to be submitted to DAS–SAE by the first week of September each year. Findings were noted for the following departments:

**(1) Iowa Communications Network**

The Department understated accounts payable by \$608,516.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – Most of the variance was because fiscal year 2013 purchase orders (POs) were received after we closed the inventory for the year. We had quite a few PO's in which the equipment was shipped directly to the sites instead of going through the warehouse. Another issue is large projects, where the installation and implementation costs are included with the price of the equipment on the PO. Thus the project may not be complete, but the equipment may have been delivered, creating a problem for how to receive and record the line items for the equipment portion of the PO. \$578,859 is due to one of the situations listed above. Unfortunately, we don't have a good process to ensure the packing slips are returned to the warehouse so the PO can be received and recorded. In the past, the accounts payable staff reviewed the open PO list regularly to track down these instances. But because of under staffing and abnormally high absences by employees, this was not done near the end of the year. We have taken steps to remedy the off-site receiving process by asking the engineering staff to make sure warehouse staff are notified when equipment has been received and the accounts payable staff will get back to reviewing open POs timely.

Conclusion – Response accepted.

**(2) Woodward Resource Center**

Woodward Resource Center understated accounts receivable by \$419,100. This was properly adjusted for reporting purposes.

Recommendation – Woodward Resource Center should ensure the GAAP package information reported is complete and accurate.

Response – Woodward Resource Center has reviewed and retrained on procedures to ensure receivables are properly accounted for in the GAAP package.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2013

**(3) Iowa Department of Transportation**

- (a) Future lease obligations were understated by \$286,644.
- (b) The Department makes loans to cities for road projects and subsequently reports these loan receivables in the GAAP package. A portion of one loan receivable totaling \$592,671 is disputed by the City because the Department has not provided cost documentation satisfactory to the City.

Recommendation – To strengthen controls, the Department should implement procedures to ensure the GAAP package information reported is complete and accurate. In addition, the Department should continue to work with the City to resolve the dispute to ensure loans receivable are accurately reported.

Response –

- (a) The Department will review current procedures related to lease obligations and modify where needed to minimize misstatements.
- (b) The Department will continue to work with the City to resolve the disputed amount.

Conclusion – Responses accepted.

- (C) 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. Findings were noted for the following departments:

**(1) Iowa Department of Administrative Services (DAS)**

- (a) Capital asset additions were overstated by \$53,740.
- (b) Accumulated depreciation for land improvements was overstated by \$4,496.
- (c) Accumulated depreciation for equipment was overstated by \$37,330.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained. Capital assets, accumulated depreciation and gain or loss on the disposal of assets should be properly calculated and recorded.

Response – The Department agrees with the Capital Asset finding by the State Auditor’s Office.

Due to turn over and reassignments during fiscal year 2013, there were numerous people involved in updating the capital asset information on I/3, resulting in errors, duplications and omissions.

While some activity was cleaned up prior to the close of the fiscal year, not everything was completed. As a result, there will be additional clean up in fiscal year 2014.

State of Iowa

Schedule of Findings

Year ended June 30, 2013

DAS has identified staff within each enterprise to be responsible for inputting capital assets information into the I/3 capital asset system. We are currently waiting for SAE to schedule training for all identified staff to ensure information is entered correctly. The enterprise Chief Financial Officers (CFOs), or designees are responsible for reconciling the capital assets each quarter to ensure all applicable items have been entered.

Once testing has been completed by SAE on the capital asset shell creation DAS will begin using this feature which is part of the PRC payment process. This will ensure capital asset shells are initiated at the time of payment and ensure a timely and accurate entry of DAS capital assets.

Conclusion – Response accepted.

**(2) Iowa Department of Education**

On September 12, 2011, the Department was assigned six vehicles originally owned by Library Service Areas which were eliminated. These vehicles have not been added to the Department's capital asset listing. Since they were purchased by other entities, the value is not known. In addition, one vehicle belonging to the State Library has not been included on the Department's listing. Also, one vehicle purchased in fiscal year 2013 for \$21,873 was not included as an addition to the Department's capital asset listing.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained and ensure the amounts are accurately reported in the GAAP package.

Response - We agree with this finding. Those assets should have been included and we will adjust our process to ensure they are included in the future.

Conclusion – Response accepted.

**(3) Iowa Workforce Department (IWD)**

- (a) The Department did not maintain an intangible asset listing. As a result, the original balance reported in the GAAP Package for intangible assets could not be supported. The Department subsequently prepared an intangible asset listing and made a GAAP package adjustment for \$1,681,575, primarily relating to prior year additions which should not have been added.
- (b) Seven of twenty-five capital assets observed did not have a State property tag affixed to them.
- (c) For eleven of the twenty-five items tested, the capital asset listing did not contain enough information to identify the individual capital asset for observation.
- (d) Approval for deletions was done after the end of the fiscal year.

State of Iowa

Schedule of Findings

Year ended June 30, 2013

Recommendation – The Department should develop procedures to ensure a detailed up-to-date capital asset listing is maintained for all assets with enough information to identify the capital assets. Procedures should include, but not be limited to, ensuring all capital assets deletions are approved timely and prior to deletion and all assets are properly tagged.

Response –

- (a) This was corrected for GAAP package reporting purposes and no further action appears to be necessary at this time.
- (b) IWD will reiterate the policies regarding the tagging of equipment to all personnel responsible for the process. In addition, future on-site financial monitoring will include a larger sampling of inventory items to ensure tags have been affixed to the property.
- (c) IWD will review the inventory log to see if any additional information can be added. In some cases, this is not possible as many IT equipment items do not have serial numbers and, therefore, it is difficult to include any additional information other than what is listed on the current inventory. However, we will review those items and see what, if any, additional information could be included.
- (d) IWD will clarify the policy with staff regarding proper communication with Financial Management on the disposal of property to ensure we are notified at the time of disposal and not at the time of physical inventory.

Conclusion – Response accepted.

**(4) Iowa Department of Inspections and Appeals – State Public Defender’s Office/Iowa Racing and Gaming Commission**

**State Public Defender’s Office**

- (a) The Department did not delete an equipment item disposed of. This resulted in an overstatement of capital assets by \$10,925.
- (b) The Department understated accumulated depreciation by \$86,317. This was properly adjusted for reporting purposes.

**Iowa Racing and Gaming Commission**

Deletion forms were not utilized for capital assets. In addition, policies and procedures were not adequate to ensure capital asset deletions were provided to the personnel responsible for maintaining the capital asset records.

Recommendation – The Department should ensure capital asset additions are reconciled to I/3 by an employee not responsible for recording and maintaining the capital asset records. Additionally, the Department should ensure the GAAP package information reported is complete and accurate. Deletion forms should be utilized and policies and procedures for capital asset deletions should be established and enforced to ensure personnel responsible for recording and maintaining capital assets are notified when disposition of a capital asset has occurred.

State of Iowa

Schedule of Findings

Year ended June 30, 2013

Responses –

**State Public Defender's Office**

- (a) The Department did not delete a copier which was traded in. The Department will have a second employee review inventory to ensure all deletions are recorded.
- (b) The Department had formula errors in its spreadsheet for depreciation. Corrections have been made and the Department will have a second employee review the accuracy of the formulas for future reports.

**Iowa Racing and Gaming Commission**

The Commission will use documented e-mails for future asset deletions to ensure proper notification of capital asset deletions.

Conclusion – Responses accepted.

**(5) Iowa Department of Public Health**

- (a) The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for one of the four Boards within the Department.
- (b) Two assets were not in the Department's possession at the end of the fiscal year but were erroneously included in the capital asset listing. In addition, one asset was capitalized in error and another was capitalized at an incorrect amount. Capital assets were overstated by \$41,619.
- (c) One asset was purchased and received by year end but was not capitalized. Capital assets were understated by \$11,429.

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 all capital asset additions are reconciled to I/3 asset purchases. The reconciliation should also be reviewed by a person independent of the record keeping process. The independent reviewer should sign and date the reconciliation as evidence of review. In addition, the Department should ensure capital assets are capitalized in the correct amounts and in the proper fiscal year.

Response – The Department has written inventory guidelines and procedures which include steps to ensure additions are reconciled and duties are segregated as much as possible. The Department will review its procedures to determine where improvements can be made. Revisions will be made as appropriate, incorporating additional actions to prevent inadvertent mistakes.

Conclusion – Response accepted.

**(6) Iowa Department of Transportation**

Depreciation expense and accumulated depreciation were understated by \$373,047.

Recommendation – To strengthen controls, the Department should implement procedures to ensure the GAAP package information reported is complete and accurate.

Response – The Department will review current procedures related to depreciation expense and accumulated depreciation and modify where needed to minimize misstatements.

Conclusion – Response accepted.

- (D) Payroll – Departments process and record 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. Findings were noted for the following departments where there were no compensating controls:

**(1) Iowa Department of Education**

Twenty-one individuals within the Department 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 – We certainly understand the concern and the rationale behind the recommendation. In practical terms, this will be very difficult for us to implement due to staffing levels. We have developed a process where no one person can put all levels of approval on anything in HRIS. We believe this process gets us to the same result as the above recommendation.

Conclusion – Response accepted.

**(2) Iowa Workforce Development**

Two employees have the ability to initiate and approve P-1 documents. 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 – There are a limited number of options given IWD only has two HR staff members. However, we will review the current process and determine what actions might be taken to ensure tighter internal controls and segregation of duties for this function.

Conclusion – Response accepted.

**(3) Iowa Department of Natural Resources**

Three individuals have the ability to apply multiple levels of approval to timesheets. These three individuals also have the ability to initiate and approve P-1 documents.

Also, one individual receives the preliminary payroll report, makes changes and reviews the final report. However, the preliminary payroll report is not maintained and there is no independent review to ensure the final adjusted payroll report is correct.

In addition, nine of seventy timesheets were either not approved by a supervisor, were approved by a supervisor after the payroll warrant date or the timesheets did not have the approval date documented. For two timesheets, the same individual performed the employee and supervisor approval. One timesheet of the seventy could not be located.

Recommendation – To strengthen controls, the Department should develop and implement procedures to further segregate duties so individuals do not have the ability to apply multiple levels of approval for timesheets. The Department should obtain a listing from the Department of Administrative Services to verify Department approvals of P-1 documents are being applied appropriately. This report should be independently reviewed by the Bureau Chief or designee.

Also, the individual certifying the final payroll reports should periodically choose individual items from the payroll reports to review for accuracy and documentation of changes and the preliminary report should be kept with the final payroll report.

In addition, the Department should develop procedures to ensure timely approval of timesheets.

Response – The Department maintains a listing of all full time employees by cost center which is compared to the Table of Organization (TO) by an independent third person quarterly to ensure employees have not been added without proper approval. Additionally, a quarterly Cost Center Summary Report is posted to the intranet for supervisors to review to ensure all the employees being charged have been properly authorized.

Utilizing the two Human Resource Associates and the Human Resource Supervisor, the Department makes every effort to segregate timesheet approval levels and segregate P-1 initiation from P-1 approval.

In addition, the Department strengthened payroll internal controls during fiscal year 2013. The Department initiated a new procedure in which an individual selects a random selection of employees from the final payroll report to review for accuracy periodically. The Department also implemented TARS 10, a new version of the Time and Activity Reporting System, which allows for more accurate conservation officer time reporting and documentation of supervisor review.

Furthermore, the Department will continue to work with supervisors to ensure timesheets are properly approved in a timely manner and timesheet approval levels are segregated.

Conclusion – Response accepted.