

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

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NEWS RELEASE

FOR RELEASE

August 23, 2018

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released a report on the Iowa Department of Administrative Services for the year ended June 30, 2016.

The Iowa Department of Administrative Services is mandated by statute to provide services to other state agencies. To fulfill this responsibility, the Department is structured into the General Services Enterprise (GSE), the Human Resources Enterprise (HRE), the State Accounting Enterprise (SAE) and the Central Procurement and Fleet Services Enterprise (CPFSE).

Mosiman recommended the Department ensure capital assets are properly reported in the GAAP package and the monthly health insurance rate tables used for members of the Legislative Branch are in compliance with the Code of Iowa. The Department's responses to these recommendations are included in the report.

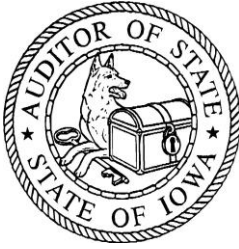
A copy of the report is available for review in the Iowa Department of Administrative Services, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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

JUNE 30, 2016

Iowa Department of Administrative Services



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STATE OF IOWA

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July 30, 2018

To Janet Phipps, 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 audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2016.

In conducting our audits, we became aware of 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 and 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. While we have expressed our conclusion on the Department's responses, we did not audit the Iowa Department of Administrative Services' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Administrative Services, citizens of the State of Iowa and other parties to whom the Iowa Department of Administrative Services 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.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

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Findings Reported in the State's Single Audit Report:

No matters were noted.

Finding Reported in the State's Report on Internal Control:

No matters were noted.

Other Findings Related to Internal Control:

- (1) 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 Department of Administrative Services records capital asset activity for all Capitol Complex buildings and building improvements. For fiscal years 2001 through 2015, the Department depreciated Capitol Complex building improvement additions in cost pools. In fiscal year 2016, the Department researched and assigned these depreciation improvements to specific buildings. Future building improvement additions will be depreciated against specific buildings instead of depreciated in cost pools.

The Department did not reconcile building and building improvement additions to depreciable base additions. We performed additional testing to reconcile historical building asset values with their corresponding depreciable bases as a result of the change in depreciation methodology. Through this reconciliation, we discovered multiple errors from fiscal year 2003 through fiscal year 2012 that impacted fiscal year 2016 balances. In total, fiscal year 2016 depreciation was understated by \$345,717 and accumulated depreciation was understated by \$3,160,169 at June 30, 2016. In addition, building asset values were overstated by \$498,806.

Recommendation – The Department should ensure capital asset transactions are properly reported on the GAAP Package. Procedures should include a reconciliation of asset values to depreciation bases to verify all building and building improvement additions are included in the depreciation worksheet calculations.

Response – The methodology for the allocation of the depreciation associated with major maintenance was changed from a “pooled depreciation” to “building specific” projects. The volume associated with depreciation adjustments spanning sixteen fiscal years and totaling more than \$188 million in depreciable property improvements/repairs was complex and time consuming. The Department has procedures in place to ensure all depreciable expenditures are included in future allocations.

Conclusion – Response accepted.

- (2) Payroll – Departments process and record payroll and personnel information in 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.

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Eighteen individuals within the Department have the ability to apply both the employee and supervisor approval on timesheets, in addition to having the ability to approve P-1 documents at both the PA and Department levels. Although there is a compensating control that P-1 documents are reviewed quarterly by the Bureau Chief for instances with the same approvals for both levels, this review was not performed timely during fiscal year 2016.

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 to P-1 documents and timesheets. The Department should obtain a listing to verify Department approvals of P-1 documents are being applied appropriately. This report should be independently reviewed on a timely basis.

Response – HRA Services Liaison (HR1) reviews the quarterly report and the Organizational Performance Bureau Chief validates it. Both sign and date the report by the end of the month following quarter-end. The Bureau has also created an exception report isolating transactions that have the individual applying both the PA and DEPT level. Management will utilize the report to take corrective action. The Bureau has instituted the review and signature of both the full report and the exception report and will transition to the exception report in fiscal year 2019.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

- (A) Targeted Small Business (TSB) Procurement Goal – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from certified targeted small businesses during the previous fiscal year.

The TSB procurement goal for the Department of Administrative Services for fiscal year 2016 was not set at a level exceeding the fiscal year 2015 actual TSB spending.

Recommendation – The Department should establish a dollar amount procurement level exceeding the previous fiscal year certified TSB procurement level or seek legislation to change this statutory requirement.

Response – A large component of the fiscal year 2015 actual TSB spend consisted of one vendor providing a service commodity for temporary employment services. However, the owner of this TSB business sold the operations to another company who did not meet the TSB criteria. The Department could have set an unrealistic goal to simply comply with the statute. Instead, the Department set a reduced goal for TSB spending in fiscal year 2016 to reflect an amount recognizing the loss of a significant TSB vendor.

Conclusion – Response acknowledged. The Department should comply with Chapter 73.16 of the Code of Iowa or seek legislation to change this statutory requirement.

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(B) General Assembly Health Insurance Premiums – Prior to the April 12, 2017 amendment, Section 2.40 of the Code of Iowa stated a member of the General Assembly may elect to become a member of a state group insurance plan for employees of the state established under Chapter 509A, subject to the following conditions:

- (1) The member shall be eligible for all state group insurance plans on the basis of enrollment rules established for full-time state employees excluded from collective bargaining as provided in Chapter 20 of the Code of Iowa.
- (2) The member shall pay the premium for the plan selected on the same basis as a full-time state employee excluded from collective bargaining as provided in Chapter 20.
- (3) The member shall authorize a payroll deduction of the premium due according to the member's pay plan selected pursuant to Section 2.10, subsection 4, of the Code of Iowa.
- (4) The premium rate shall be the same as the premium rate paid by a state employee for the plan selected.

Prior to the April 12, 2017 amendment, Section 2.40 of the Code of Iowa did not specify requirements for membership in state insurance plans for permanent employees of the General Assembly; these were addressed by Senate Concurrent Resolutions adopted at the beginning of each General Assembly. The 86th General Assembly adopted Senate Concurrent Resolution 1 relating to the compensation of chaplains, officers, and employees of the General Assembly, effective from January 12, 2015 until January 9, 2017, which states that permanent employees of the General Assembly shall receive health insurance as is comparably provided for full-time permanent state employees. The Senate Concurrent Resolution did not place the same restrictions on permanent employees as those found in Section 2.40 of the Code of Iowa. For the period reviewed, permanent employees of the General Assembly were offered health insurance plans comparable to plans provided to full-time permanent state employees.

The Department of Administrative Services administers health benefit programs for employees of the State of Iowa who are covered under Chapter 509A and administers the monthly health insurance rate tables set by the Executive Council. For the period reviewed, members of the General Assembly were offered a choice of four health insurance plans: Deductible 3 Plus, which was also offered to Executive Branch employees excluded from collective bargaining, but was not offered to Judicial Branch employees excluded from collective bargaining during calendar years 2015 through 2017; Blue Advantage, which was offered to both Executive Branch and Judicial Branch employees excluded from collective bargaining during calendar year 2015, but was not offered to Judicial Branch employees excluded from collective bargaining during calendar years 2016 and 2017; and Blue Access and Iowa Select, which were offered to both Executive Branch and Judicial Branch employees excluded from collective bargaining during calendar years 2015 through 2017.

The health care plans and premium rates paid by members of the General Assembly during calendar year 2015 were the same as the health care plans and premium rates offered to members of the United Electrical, Radio and Machine Workers of America/Iowa United Professionals (UE/IUP). The health care plans and premium rates paid by members of the General Assembly during calendar years 2016 and 2017 were not identical to any other groups. The employee share premium rates charged to members of the General Assembly were the same as those charged to Judicial Branch employees excluded from collective bargaining for some of the plans offered to both groups for all three calendar years.

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The employee share premium rates paid by members of the General Assembly for the Blue Access and Iowa Select health insurance plans during calendar years 2015 through 2017 agreed with the employee share premium rates paid by Judicial Branch employees excluded from collective bargaining, except for the Iowa Select family plan in calendar years 2016 and 2017. In calendar year 2016, thirty members of the General Assembly with Iowa Select family plans paid \$10.36 per month more than Executive Branch employees excluded from collective bargaining and \$4.36 per month more than Judicial Branch employees excluded from collective bargaining. In calendar year 2017, thirty-three members of the General Assembly with Iowa Select family plans paid the same monthly employee share of premium as Executive Branch employees excluded from collective bargaining and \$5 per month more than Judicial Branch employees excluded from collective bargaining.

During the second half of fiscal year 2016 and all of fiscal year 2017, the Blue Advantage health insurance plan was not offered to Judicial Branch employees excluded from collective bargaining. The employee share premium rates paid during the second half of fiscal year 2016 and in fiscal year 2017 by one member who selected the Blue Advantage plan did not agree with the employee share premium rates paid by Executive Branch employees excluded from collective bargaining. The one member of the General Assembly selected a family health plan and paid lower premiums than Executive Branch employees excluded from collective bargaining. The net underpayment of Blue Advantage health insurance plan premiums by the one member of the General Assembly for the second half of fiscal year 2016 and all of fiscal year 2017 was \$1,050 and \$2,043, respectively.

During calendar years 2015 through 2017, which covered both fiscal year 2016 and 2017, the Deductible 3 Plus health insurance plan was not offered to Judicial Branch employees excluded from collective bargaining. The employee share premium rates paid during fiscal year 2016 by thirteen members and paid in fiscal year 2017 by twelve members of the General Assembly with Deductible 3 Plus plans did not agree with the employee share paid by Executive Branch employees excluded from collective bargaining. Six members in fiscal year 2016 and five members in fiscal year 2017 with single health plans paid lower premiums than Executive Branch employees excluded from collective bargaining. Eight members in fiscal year 2016 and seven members in fiscal year 2017 with family health plans paid slightly higher premiums than Executive Branch employees excluded from collective bargaining. The net underpayment of Deductible 3 Plus health insurance plan employee share premiums by the members of the General Assembly for fiscal years 2016 and 2017 were \$1,327 and \$2,231, respectively.

Legislation passed and effective on April 12, 2017 requires General Assembly members and legislative branch full-time employees to pay that portion of the total premium for the plan selected on the same basis as paid by the largest number of full-time state employees of the Executive Branch, other than the State Board of Regents, who are excluded from collective bargaining as provided in Chapter 20 of the Code of Iowa.

Although the legislation was effective upon enactment, the legislation specified it applies to a member of the General Assembly or a full-time employee of the General Assembly electing to become or to continue as a member of a state group insurance plan established anew under Chapter 509A of the Code of Iowa that becomes effective on or after the effective date of April 12, 2017, which would be January 1, 2018.

Recommendation – The Department should establish procedures to ensure the monthly health insurance rate tables used for members and employees of the General Assembly are in compliance with the Code of Iowa. The Department should not allow preferential treatment of any group of employees.

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Response – At the time the General Assembly selected the health insurance plans in question the statute was ambiguous with regard to the options available to the Legislative Branch. The passage of Senate File 230 substantiated the ambiguity and provided clarity in the application of the health insurance plans available to members of the General Assembly beginning with January 1, 2018. However, there appears to remain ambiguity with regard to employees of the Legislative Services Agency.

Conclusion – Response accepted.

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Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated in the audits include:

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