

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, 2019

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Kim Reynolds

Governor

David Roederer

Director, Department of Management

Legislative Branch

Charles Schneider

President of the Senate

Pat Grassley

Speaker of the House of Representatives

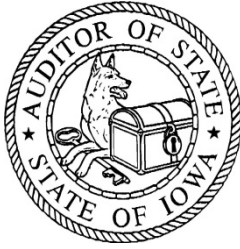
Glen P. Dickinson

Director, Legislative Services Agency

Judicial Branch

David Wiggins

Chief Justice of the Supreme Court



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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, 2019, 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 17, 2019. Our report includes a reference to other auditors who audited the financial statements of the Tobacco Settlement Authority, the Iowa Public Television Foundation, the Iowa Public Radio, Inc., the Iowa Finance Authority, the University of Iowa Center for Advancement and Affiliate, the Iowa State University Foundation, the University of Northern Iowa Foundation and the University of Iowa Health System, 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 Iowa Public Television Foundation, the University of Iowa Center for Advancement and Affiliate, the Iowa State University Foundation and the University of Northern Iowa Foundation 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 the 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 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) and (C) 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.

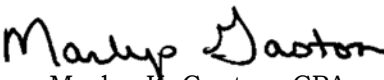
However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in separate reports.

The 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

December 17, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Unemployment Benefits Fund

Iowa Department of Workforce Development

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the financial statements.

Condition – 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, 2019:

- (1) IWD overstated accounts receivable by \$12,568,856 and overstated the allowance for doubtful accounts by \$8,392,193 on the GAAP package Unemployment Benefits Fund page. As a result, the net accounts receivable balance was overstated by \$4,176,663. This was properly adjusted for reporting purposes.
- (2) IWD overstated accounts payable by \$7,441,715 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (3) 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, \$221,809 of \$19,394,068 of contributions, \$2,728,990 of \$13,530,312 of interest and \$137,758 of \$1,313,813 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Cause – Although policies and procedures have been established to require independent review of year-end cut-off transactions to ensure financial statements are accurate and reliable, the review did not identify material errors made in the GAAP package by the preparer.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

State of Iowa

Schedule of Findings

Year ended June 30, 2019

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 numbers (1) and (2), IWD will require additional supporting documentation and add another level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. The agency will also provide additional training to employees preparing this information to better report this data in future years. For number (3), the discrepancy is caused from the comparison of the Employer Accounts Receivable created from the MYIOWAUI system and the Non-Collection List. The problem lies where uncollected debt is never removed from the MYIOWAUI system so uncollected debt older than 720 days appears on this report but is removed from the Non-Collection List. The reason the debt is not taken out of the MYIOWAUI system is because there are times we consider the debt uncollectible; however, we do receive payment on this at a later date. If there is no way to correct this in the system, a comparison between the two reports will need to be done before the accountant completes this portion of the GAAP package, backing out those accounts which appear older than 720 days out of the calculation.

Conclusion – Response accepted.

(B) Financial Reporting

Iowa Economic Development Authority

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

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.

Condition – The Authority overstated contractual commitments related to infrastructure by \$336,678 and understated other contractual commitments by \$230,990. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures are in place to review GAAP package information, the review did not identify the contractual commitment misstatements.

Effect – The amounts reported as contractual commitments by the Authority were misstated.

State of Iowa

Schedule of Findings

Year ended June 30, 2019

Recommendation – The Authority should develop and implement additional procedures to ensure information reported to DAS-SAE in the GAAP package is accurate.

Response – In early fiscal year 2020, the Authority’s financial management section consolidated the tracking of contractual commitments with one newly hired individual. This will allow the Authority to provide more current updates during the fiscal year and will also allow additional time for a thorough review prior to inclusion in the financial statements.

Conclusion – Response accepted.

(C) Capital Assets

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State’s financial statements.

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.

(1) Iowa Department of Commerce, Alcohol Beverages Division

Condition – The following conditions were noted:

- (1) Intangible asset additions and adjustments were overstated by \$455,156 for governmental activities capital assets and \$1,168,782 for business type activities capital assets. The business type activities capital assets were properly adjusted for reporting purposes.
- (2) Construction in progress additions, adjustments and reclassifications were overstated by \$1,015,943 for business type activities capital assets. This was materially adjusted for reporting purposes.
- (3) Business type activities land improvement reclassifications were overstated by \$1,205,900, buildings and building improvement reclassifications were understated by \$3,167,265 and machinery, equipment and vehicles deletions were overstated by \$40,280. Governmental activities capital asset machinery, equipment and vehicles deletions were understated by \$40,280. The business type activities capital assets were properly adjusted for reporting purposes.
- (4) Business type activities accumulated depreciation additions were understated by \$78,138 and accumulated depreciation deletions were overstated by \$40,280. Governmental activities capital assets accumulated depreciation additions were understated by \$5,306 and accumulated depreciation deletions were understated by \$40,280. The business type activities capital assets were properly adjusted for reporting purposes.

State of Iowa

Schedule of Findings

Year ended June 30, 2019

Cause – Policies have not been established and procedures have not been implemented to require timely reconciliation of capital asset additions to I/3 expenditures and an independent review of capital asset additions, deletions, adjustments, reclassifications and depreciation to ensure they are properly recorded and reported.

Effect – Lack of policies and procedures resulted in Division employees not detecting the errors in the normal course of performing their assigned functions.

Recommendation – The Division 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, adjustments and reclassifications are reconciled to I/3 asset purchases and other supporting documents, if applicable. The reconciliation should also be reviewed by an independent person to ensure capital asset additions, deletions, adjustments and reclassifications and any related depreciation are identified and properly recorded and reported. The independent reviewer should sign and date the reconciliation as evidence of the review.

Response – The Division has recognized the need to update procedures and has made personnel changes within the accounting department to create greater efficiencies and accountability. The Division's current asset listing is managed on an excel workbook and will be reviewed on a yearly basis by the Bureau Chief, Comptroller and the Accountant II. Should revisions need to be made to the asset listing, the Comptroller will review the asset listing and make the necessary adjustments with a final review done by the Accountant II to ensure accuracy. The Division has also begun exploring using the I/3 asset listing system. At the time of this audit, the Division was still exploring the use of I/3 and recognizes the need to have a better asset management system. The use of the I/3 tool will provide the Division with a consolidated listing, as well as the ability to reconcile all assets back to the I/3 system and have greater systematic control over capitalization.

Conclusion – Response accepted.

(2) Iowa Department of Public Defense

Condition – Building additions were understated by \$1,342,029 and accumulated depreciation additions related to buildings were understated by \$230,062.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of capital asset additions and depreciation to ensure they are properly recorded and reported.

Effect – Lack of policies and procedures resulted in Department employees not detecting the errors in the normal course of performing their assigned functions.

Recommendation – The Department should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained and independently reviewed to ensure capital assets and depreciation are properly recorded and reported.

State of Iowa

Schedule of Findings

Year ended June 30, 2019

Response – The Department will develop written procedures to ensure a detailed, up-to-date and accurate capital asset listing is maintained. The Department is coordinating with the Geographic Information Systems Manager as well as the Construction and Facilities Management Office to identify the complete acquisition costs of new facilities as well as the costs of capitalized projects. We are also coordinating with the Purchasing Office and the State Property Book Office to identify all new capital assets and capture the disposal of assets no longer required.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2019

INSTANCES OF NON-COMPLIANCE:

No matters were noted.