

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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

**NEWS RELEASE**

FOR RELEASE

November 9, 2021

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters on the State of Iowa for the year ended June 30, 2020. The State of Iowa previously released its annual financial report for the year ended June 30, 2020.

**AUDIT FINDINGS:**

Sand reported eighteen findings related to the receipt and disbursement of taxpayer funds of the State of Iowa. The findings address issues such as inaccurate financial information generated for the GAAP package related to Unemployment Insurance, material amounts of inventory, prepaid expenses, unearned revenues, capital assets and accumulated depreciation not properly reported in the financial statements, and segregation of duties for the approval of P-1 documents. Sand provided the state agencies with recommendations to address each of these findings.

Two of the findings discussed above are repeated from the prior year. Each Department head has a fiduciary responsibility to provide oversight of their Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible" care one exercises in their fiduciary capacity.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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**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, 2020**

**State of Iowa**

**State of Iowa**

**Officials**

Name

Title

**Executive Branch**

Honorable Kim Reynolds

Governor

Kraig Paulsen

Interim Director, Department of Management

**Legislative Branch**

Jake Chapman

President of the Senate

Pat Grassley

Speaker of the House of Representatives

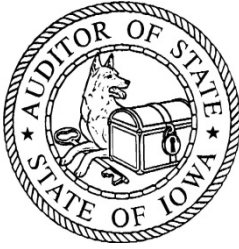
Timothy McDermott

Interim Director, Legislative Services Agency

**Judicial Branch**

Susan Christensen

Chief Justice of the Supreme Court



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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, 2020, 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 September 27, 2021. Our report includes a reference to other auditors who audited the financial statements of the Tobacco Settlement Authority, the Iowa PBS 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 PBS 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 deficiencies in internal control we consider to be a material weaknesses 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 deficiencies described in the accompanying Schedule of Findings as items (A)(1) through (A)(4) and (B)(1) to be material weaknesses.

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)(2) through (B)(5) and (C) 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.

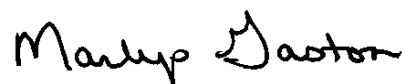
However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in separate reports.

#### 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

September 27, 2021

State of Iowa

Schedule of Findings

Year ended June 30, 2020

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Unemployment Benefits

**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.

(1) Unemployment Benefits Fund Employer Accounts

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, 2020:

- (a) IWD overstated unearned revenue by \$3,853,111 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) 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 should not be included in the balance reported in the GAAP package. During testing, \$217,098 of \$18,224,768 of contributions, \$3,608,894 of \$13,844,914 of interest and \$157,955 of \$1,396,219 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, 2020

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 – IWD will require additional supporting documentation and add a second level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. For (b), 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 and then back those accounts which appear older than 720 days out of the calculation.

Conclusion – Response accepted.

(2) Unemployment Insurance Trust Activity

Condition – Each state maintains its own Unemployment Insurance (UI) trust fund reserve built from state taxes, primarily on employers, and used only to pay for UI benefits. The Iowa Unemployment Compensation Trust Fund is established within the Treasury of the United States and contains the deposits from state and federal unemployment taxes. To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the activity within the trust is reconciled to the state accounting system and reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) IWD understated due to other funds by \$1,618,473 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) IWD understated payables by \$4,529,158 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (c) IWD understated unearned revenue by \$1,370,588 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

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.



State of Iowa

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Year ended June 30, 2020

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.

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD should modify procedures to ensure all activity is accounted for from the trust to the state financial accounting system through the reporting period to ensure the data is accurate, timely and conforms to established policy.

Response – IWD will require additional supporting documentation and add a second level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. Transactions occurring within the hold open period will also require an additional level of review to ensure they are reported correctly on the GAAP package Unemployment Benefits Fund page.

Conclusion – Response accepted.

(3) Unemployment Benefits Fund Reconciliation

Condition – IWD utilizes an external accounting system for the processing of Unemployment Insurance (UI) benefit payments to claimants. The system processes claims, then communicates that information to the State's accounting system for payment. IWD has developed a process to reconcile the two systems daily to ensure payments agree by program type and in total for financial reporting purposes. Although IWD did perform UI benefit payment reconciliations to the state accounting system, the reports generated from the benefit claimant system did not identify each unemployment insurance program by federal program and sub fund associated with the Coronavirus Aid, Relief and Economic Security (CARES) Act.

In addition, the reconciliation performed showed material variances between federal and non-federal programs. Reconciliations were subsequently corrected, and the activity was reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) For individual claimant transactions and per our review of corrected reconciliations, we determined IWD had processed claims using State UI funds but those claimants were to be paid from funding provided by the CARES Act. As a result, IWD understated receivables by \$116,034,769 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) IWD understated payables by \$34,975,093 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (c) IWD understated unearned revenue by \$7,712,274 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

State of Iowa

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Year ended June 30, 2020

Cause – Although policies and procedures established in the reconciliation processes identified material variances by program and sub fund, IWD did not correct these errors for several months after they were brought to their attention.

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

Recommendation – IWD should follow policies and procedures already established to ensure variances in the reconciliation process are investigated and corrected immediately.

Response – 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. Procedures have been established to ensure all unemployment programs are tracked correctly and programs have a sub fund account when applicable. IWD has instituted bi-weekly and monthly meetings with members of the benefits and IT teams to quickly identify and correct programs that may be missing critical accounting fields. In addition, procedures and policies have been developed to correct material variances associated with unemployment benefit reconciliations in a timely manner.

Conclusion – Response accepted.

(4) Unemployment Insurance Fact-Finding

Condition – If an unemployment insurance (UI) claim is determined monetarily eligible, a Notice of Claim (form 65-5317) is sent to the claimant's most recent employer and to all employers in the claimant's base period. The employer may protest payment of benefits if the employer feels the individual is not qualified. To protest a UI claim, or to report payments applicable to the days/weeks following the effective date of the UI claim, the employer must mail, submit electronically or fax the notice to IWD stating the reasons for protest and sign the notice. The employer's signature must be on the protest or it may be rejected by IWD. The response must be postmarked or received within ten days from the date it was mailed to the employer. The fact-finding interview is conducted by telephone. A notice for the fact-finding interview is mailed to the employer and the claimant. The notice will include the scheduled date, time and the telephone number the factfinder will call for the interview. If a claimant is determined to be overpaid for the period in question, IWD will set up an overpayment receivable within their system to collect the amount already paid out to the claimant. The overpayment receivables are then reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) IWD performed a reduced number of fact-finding interviews, focusing only on employer's that protested payment of benefits, for the period of April 1, 2020 to June 30, 2020 (period under audit). IWD subsequently performed a significant number of fact-finding interviews, for claimants with initial claims during this timeframe, after the end of the fiscal year. As a result of the completed fact-finding interviews, Federal UI benefit overpayments receivables were understated by \$4,144,877. In addition, Federal UI

State of Iowa

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Year ended June 30, 2020

benefit overpayment payables were also understated by the same amount on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

- (b) State UI benefit overpayments receivables were understated by \$8,507,565 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reported purposes.

Cause – From March to June 2020, IWD investigators focused on setting up and paying initial claimants due to a significant increase in unemployment caused by the global pandemic. As a result, IWD did not have enough resources to allocate to the number of fact-finding interviews that were required due to the significant increase of claims that were filed.

Effect – IWD employees did not identify overpayment receivables. As a result, material adjustments to the financial statements were necessary.

Recommendation – IWD should establish policies and procedures to ensure fact-finding interviews are being performed timely and overpayment receivables are properly reported on the GAAP package Unemployment Benefits Fund page.

Response – To begin, it is important to keep in mind that between March and June 2020, IWD received an unprecedented and historic number of unemployment claims unlikely to ever be seen again in a similar three-month period. Further, Congress created 4 new unemployment programs in March 2020 that had to be developed, tested and then implemented. At the same time, IWD received an unparalleled number of customer service phone calls and email requests for help. When claims went from approximately 125,000 a month pre-pandemic, to 250,000 to over 600,000 claims each month and phone calls went from less than 1,000 a day to 25,000 and more a day, it is not surprising that there would need to be a repositioning of IWD resources and priorities. U.S. Department of Labor (USDOL) provided guidance that paying claimants was the number one priority for all workforce agencies at the expense of any other activity. Indeed, during the time period in question, USDOL guidance indicated that payments took priority over conducting fact finding interviews.

When the pandemic hit Iowa in March 2020, IWD immediately instituted an "all hands-on deck" approach to staffing assignments in order to process the unprecedented number of unemployment claims and handle customer service requests. The UI division went from 139 employees to over 475 IWD staff working in the area literally overnight. Additionally, IWD immediately implemented mandatory overtime for all staff, expanding the work week to 10 hour weekdays and 8 hour Saturdays beginning the middle of March. We also hired over 250 temporary employees and utilized 55 volunteer staff from other agencies. Moving all resources to processing claims and providing customer service ensured we were paying all eligible claimants in the quickest time possible as we were directed to do and in line with our priorities.

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Year ended June 30, 2020

IWD conducted limited fact-finding interviews between March and May 2020. Once we had capacity to do so, we directed an unprecedented number of staff to engage in fact-finding in an effort to reduce the backlog and catch up as quickly as possible. Through our efforts we went from a high of approximately 15,000 fact findings in the backlog to less than 5,600 by this fall.

The pandemic was a unique and never before seen circumstance and following guidance from USDOL, IWD performed the work that was the highest priority at the beginning of the pandemic. As time and resources became available, we moved resources to address other areas of concern, like fact-finding. We will continue to endeavor in the future, to use flexibility to establish priorities and then provide resources necessary to perform the priorities. We do not anticipate that the issues that lead to the finding in this audit report, in this particular period of time, will ever arise again. But if it should, we have the experiences, resources and processes in place to quickly address them as needed.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

(B) Financial Reporting

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.

**(1) Homeland Security and Emergency Management**

Condition – The Department entered into a contract with Nomi Health on April 15, 2020 for \$26,000,000. On April 17, 2020, \$15,050,000 was paid on the contract for the period of April 13, 2020 through October 16, 2020. As of June 30, 2020, prepaid expenses in relation to the contract with Nomi Health were understated by \$7,590,330 and inventory received from Nomi Health was understated by \$4,430,030. These amounts were properly adjusted for reporting purposes.

In addition, the Department drew down federal funds to reimburse the costs related to the Nomi Health contract and as a result, the Department understated unearned revenues by \$5,692,748.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of year-end cut off transactions to ensure the State’s financial statements are accurate and reliable.

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

Recommendation – The Department should establish policies and procedures to ensure all prepaid expenses, unearned revenues and inventory are identified and properly reported in the GAAP package.

Response – The Department recognizes that the issues relating to prepaid expenses, unearned revenue and inventory were primarily caused by the tracking of each across two fiscal years. The Department has already established a policy to identify and correctly report these items within future GAAP packages. All items associated with this finding were approved and fully reimbursed by FEMA.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

**(2) Iowa Department of Public Safety**

Condition – The following conditions were noted:

- (a) The Department overstated construction and other significant commitments by \$420,714. This was properly adjusted for reporting purposes.
- (b) The Department overstated construction in progress by \$406,040 and overstated accumulated depreciation by \$44,287.
- (c) The Department overstated prepaid expenses by \$83,073.

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

Effect – The amounts reported as construction and other significant commitments, construction in progress, accumulated depreciation and prepaid expenses by the Department were misstated.

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

Response – The Department will ensure information reported on the Department's GAAP package is accurate.

Conclusion – Response accepted.

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

Condition – The Department overstated federal revenues related to FEMA (Federal Emergency Management Agency) funds by \$356,300 and understated unearned revenues.

Cause – Although policies and procedures are in place to review GAAP package information, the review did not identify the unearned revenues misstatement.

Effect – The amounts reported as unearned revenues by the Department were misstated.

Recommendation – The Department should implement procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Response – The Department will work to adequately adjust policies and procedures to ensure unearned revenues are properly reported in the future.

Conclusion – Response accepted.

State of Iowa  
Schedule of Findings  
Year ended June 30, 2020

**(4) Office of Chief Information Officer**

Condition – The Office understated contractual commitments related to computer software by \$1,288,843.

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

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

Recommendation – The Office should implement additional procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Response – We will develop procedures to ensure that contractual commitments are reported properly and that accrued payments made in the hold-open period after June 30 are not deducted from the contractual obligations balance reported in the GAAP package.

Conclusion – Response accepted.

**(5) Iowa Department of Administrative Services**

Condition – The following conditions were noted:

- (a) The Department reported a receivable of \$1,058,062 in an incorrect fund. The receivable, which represented a federal reimbursement for a construction contract managed by the Department, was incorrectly reported in the major capital project fund rather than the general fund, where the project was expended and where a corresponding state agency had also reported the receivable. This was properly adjusted for reporting purposes.
- (b) Unearned revenues and corresponding prepaid expenses related to capital projects were understated by \$146,991. 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 errors made in the GAAP package by the preparer.

Effect – The amounts reported as receivables and unearned revenue by the Department were misstated.

Recommendation – The Department should implement additional procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

Response – We will develop procedures to ensure that information reported in the GAAP package is accurate. a) The reimbursement was reported incorrectly in the fiscal year 2020 GAAP package; however, it has been corrected in the amended GAAP package for fiscal year 2021. The reimbursement has not been received at this point of time. The reimbursement will be deposited to the General Fund in the accounting system. b) The error was identified and corrected in December 2020.

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 Public Defense**

Condition – Current year depreciation on armory buildings was understated by \$1,378,294 because of the capital asset spreadsheet not being updated to reflect June 30, 2020 in the depreciation calculation.

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

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 is independently reviewed to ensure data is accurately entered and capital assets are properly recorded.

Response – The Department will develop written procedures on maintaining the capital asset listing spreadsheet and the process used to calculate the annual accumulated depreciation on capital assets. The Department has protected the excel spreadsheet used for the capital asset listing so that only those with training and editing permission can make changes. The Department will conduct an additional internal review to ensure the accuracy of information on our listing.

Conclusion – Response accepted.



State of Iowa

Schedule of Findings

Year ended June 30, 2020

**(2) Office of Chief Information Officer**

Condition – Additions to computer software in progress were understated by \$6,788,783. The capital assets were properly adjusted for reporting purposes.

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 to ensure they are properly recorded and reported.

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

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

Response – We will continue to develop reconciliation procedures and ensure that intangible assets, including purchased software, are properly reported in the GAAP package.

Conclusion – Response accepted.

**(3) Eldora Training School**

Condition – The following conditions were noted:

- (a) Construction in progress was understated by \$4,759,701. This was properly adjusted for reporting purposes.
- (b) A capital asset addition in the amount of \$43,792 was added as a building instead of equipment.
- (c) Accumulated depreciation was overstated by \$33,845.
- (d) The gain/loss on disposal of assets was reported as a loss of \$31,132 rather than a gain of \$7,729.

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, depreciation and gain/loss on disposal of assets to ensure they are properly recorded and reported.

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

Recommendation – The Training School 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, depreciation and gain/loss on disposal of assets are properly recorded and reported.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

Response – We will communicate with the GAAP Team to request training for the business office staff, especially since we have many capital projects going on now and into the future.

Conclusion – Response accepted.

(D) Payroll

Criteria – 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. Findings were noted for the following departments where there were no compensating controls:

**(1) Iowa Medical and Classification Center – Oakdale**

Condition – Three individuals within the Department have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, fifty-two P-1 documents were initiated and received department level approval by the same person.

Cause – Policies have not been established and procedures have not been implemented to require the segregation of duties of the Human Resource Associates from the duties of payroll, resulting in the same individual having the ability to initiate and approve P-1 documents.

Effect – Inadequate segregation of duties over payroll functions could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

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 – This has been resolved since the finding. All P-1's are having HR staff complete the first level of approval and the second level is completed by someone else.

Conclusion – Response accepted.

**(2) Woodward Resource Center**

Condition – Three individuals within the Department have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, five P-1 documents were initiated and received department level approval by the same person.

State of Iowa

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Year ended June 30, 2020

Cause – Policies have not been established and procedures have not been implemented to require the segregation of duties of the Human Resource Associates from the duties of payroll, resulting in the same individual having the ability to initiate and approve P-1 documents.

Effect – Inadequate segregation of duties over payroll functions could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

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 – Woodward Resource Center will add a remark when the P-1 is being approved by the same person at the PA and the Departmental level.

Conclusion – Response accepted.

**(3) Eldora Training School**

Condition – Four individuals within the Training School have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, fifteen P-1 documents were initiated and received department level approval by the same person.

Cause – Policies have not been established and procedures have not been implemented to require the segregation of duties of the Human Resource Associates from the duties of payroll, resulting in the same individual having the ability to initiate and approve P-1 documents.

Effect – Inadequate segregation of duties over payroll functions could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, the Training School should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Response – We will continue to work with the HR supervisor to ensure that either the business manager or the superintendent's secretary signs off on the department level approval of all P-1's. In the event that we are unavailable, the HR supervisor will print the P-1 and obtain an independent signature approval.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

**(4) Anamosa State Penitentiary**

Condition – Two individuals within the Penitentiary have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, fifty-five P-1 documents were initiated and received department level approval by the same person.

Cause – Policies have not been established and procedures have not been implemented to require the segregation of duties of the Human Resource Associates from the duties of payroll, resulting in the same individual having the ability to initiate and approve P-1 documents.

Effect – Inadequate segregation of duties over payroll functions could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, the Penitentiary should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Response – We changed the P-1 approval process in May 2020 so that the same staff person does not put both levels of approval on at our agency level.

Conclusion – Response accepted.

**(5) Iowa State Penitentiary – Fort Madison**

Condition – Two individuals within the Penitentiary have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, three P-1 documents were initiated and received department level approval by the same person.

Cause – Policies have not been established and procedures have not been implemented to require the segregation of duties of the Human Resource Associates from the duties of payroll, resulting in the same individual having the ability to initiate and approve P-1 documents.

Effect – Inadequate segregation of duties over payroll functions could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – To strengthen controls, the Penitentiary should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

State of Iowa

Schedule of Findings

Year ended June 30, 2020

Response – All P-1 documents will be done by one Human Resource staff and the second level will be completed by another. In the event it is necessary for one person to apply both approvals due to staff absences (vacation or sick) proper documentation will be maintained.

Conclusion – Response accepted.

**(6) Iowa Department of Administrative Services**

Condition – Twenty-two individuals within the Department have the ability to initiate and approve P-1 documents. For the period July 1, 2019 through March 23, 2020, six P-1 documents were initiated and received department level approval by the same person. The Department's procedures included an independent quarterly review of P-1 documents with approvals completed by the same individual. However, this review was not performed by the Department for the 2<sup>nd</sup> through 4<sup>th</sup> quarters of fiscal year 2020.

Cause – Although policies and procedures have been established to require a quarterly review of P-1 documents with approvals completed by the same individual, the review was not completed for all four quarters of fiscal year 2020.

Effect – The Department's lack of independent quarterly review of P-1 documents could adversely affect the Department's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

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. 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 – HRE had requested a replacement report from OCIO. The HRA team leader and Bureau Chief received the first report beginning July 2021, from HRIS to audit the levels of approval. The final reports from the legacy HRIS system to review were received on September 28, 2021.

The State of Iowa has transitioned to a new HRIS, Workday. The transition to Workday was effective September 17, 2021. The security roles in Workday have distinct tasks associated with each role. There are multiple roles in Workday, including HR Partner, HR Specialist and Payroll Partner. The Workday business processes are designed to allow an employee to approve a transaction at multiple levels. We are working with Workday to design a report to audit the function.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.