



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

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**NEWS RELEASE**

Contact: Ernest Ruben  
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**FOR RELEASE**

**September 2, 2022**

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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, 2021. The State of Iowa previously released its annual financial report for the year ended June 30, 2021.

**AUDIT FINDINGS:**

Sand reported twenty 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 cash, accounts receivable, inventory, prepaid expenses, capital assets, accounts payable, unearned revenues, compensated absences, revenues, expenditures and various related footnote disclosures for financial reporting and segregation of duties for the approval of P-1 documents. Sand provided the state agencies with recommendations to address each of these findings.

Eight 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 [Audit Reports – Auditor of State](#).

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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, 2021**

**State of Iowa**

**State of Iowa**

**Officials**

Name

Title

**Executive Branch**

Honorable Kim Reynolds

Governor

Kraig Paulsen

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, 2021, 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 August 5, 2022. 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), (B) and (C)(1) through (C)(3) 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 (C)(4) through (C)(9) and (D) through (E) 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.

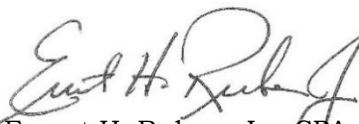
However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in separate reports.

#### 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.

  
Ernest H. Ruben, Jr., CPA  
Deputy Auditor of State

August 5, 2022

**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, 2021:

- (a) IWD overstated unearned revenue by \$3,661,255 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, \$150,465 of \$18,042,419 of contributions, \$4,887,274 of \$14,848,874 of interest and \$154,398 of \$1,568,347 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

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Year ended June 30, 2021

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 of 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, 2021:

- (a) IWD understated federal receivables, overstated due from other funds and understated expenditures by \$154,211,811 on the GAAP package Unemployment Benefits Fund pages. This was properly adjusted for reporting purposes.
- (b) IWD overstated revenues and transfers out by \$111,382,497 on the GAAP package Unemployment Benefits Fund pages. This was properly adjusted for reporting purposes.

Cause – For (a) above, IWD draws federal revenue for the respective programs based on anticipated expenditures related to those programs. During the fiscal year, after draws were completed, IWD assigned the incorrect program code to federal revenues received. Although policies and procedures have been established to require independent review of revenue coding to ensure financial statements are accurate and reliable, the review did not identify the material errors. At the end of the fiscal year, IWD transfers excess program revenue into the next fiscal year through a journal entry. Due to the imbalance created from the miscoding of the federal revenues, IWD transferred revenue into the next fiscal year for two federal programs which should not have been transferred. Additionally, due to the miscoding of the federal revenue, IWD also transferred expenditures for federal benefits which were properly reported in fiscal year 2021 to fiscal year 2022. They performed this transfer by reducing expenditures and increasing due from other funds.



State of Iowa

Schedule of Findings

Year ended June 30, 2021

For (b) above, IWD participated in the Federal Emergency Management Agency (FEMA) Lost Wages Supplemental Payment Assistance program for UI benefits. IWD drew excess revenues related to the program which was ultimately returned. When the funds were returned, IWD recorded the entry as a transfer out instead of a reduction of revenue. Although policies and procedures have been established to require independent review of transfer coding to ensure financial statements are accurate and reliable, the review did not identify the material error.

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

Response – IWD is developing policies and procedures to ensure federal unemployment benefits are reconciled at the program level. The intent of this policy is to ensure revenues are recorded accurately and align with related program expenditures. Staff have also been re-trained on various pre-audit approvals within I/3 financial to identify incorrect and or incomplete cash receipt transactions that may have the incorrect program code.

Policies and procedures are also in development to identify approval related to the movement of revenues from one state fiscal year to the next. Specific policies and procedures will address reconciliation requirements and how the roll forward of activity should be reported within the Department's GAAP package.

Conclusion – Response accepted.

(3) Unemployment Benefits Fund Reconciliation

Condition – IWD utilizes an external accounting system for processing Unemployment Insurance (UI) benefit payments to claimants, and billings and collections to and from other states for UI claimants. In addition, IWD utilizes a system to track employer unemployment insurance contributions and each state maintains its own UI trust fund reserve built from state taxes, primarily from employers, and used only to pay for UI benefits. IWD has developed a process to reconcile the systems daily to ensure payments agree by program type and in total for financial reporting purposes. IWD has also developed procedures to maintain accurate account balances using a manual general ledger to produce a monthly trial balance for external accounting systems which is reconciled to State accounting records.

The following were noted for the year ended June 30, 2021:

- (a) The manual general ledger was not maintained during the fiscal year. Manual ledgers were properly adjusted for reporting purposes after year end.
- (b) Monthly financial statements were not prepared during the fiscal year. Financial statements of the external accounts were updated for reporting purposes after year end.

State of Iowa

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Year ended June 30, 2021

- (c) Reconciliations of the manual general ledger and monthly financial statements to the State accounting records were not performed during the fiscal year. Reconciliations were performed after year end.

Cause – Although policies and procedures are established to maintain the manual general ledger, prepare monthly financial statements and perform a reconciliation to the State accounting system, due to a significant increase in transaction activity as a result of the pandemic, and staff turnover, IWD was unaware these tasks needed to be performed until it was brought to their attention during the audit. As a result, IWD did not correct these errors for several months.

Effect – The lack of maintaining manual general ledgers, monthly financial activity reports and reconciliations to the State accounting system can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – IWD should follow policies and procedures already established to ensure the manual general ledger and monthly financial activity is maintained. In addition, monthly reconciliations should be performed and variances between the systems should be investigated and resolved timely.

Response – The Department acknowledges these critical ledgers, reports, and reconciliations were not maintained throughout state fiscal year 2021. As these have been brought to our attention, keeping these ledgers and reconciliations up to date is a priority. The Department is in the process of bringing on additional staff to ensure those critical functions are completed and to minimize the negative impact of staff turnover and increased activity.

In addition, the Department is reviewing existing policies and procedures related to upkeep of general ledgers, to identify related source documents to substantiate balances and review how transactions are recorded with the state accounting system to enhance reconciliation and reporting related to UI benefit payments.

Conclusion – Response accepted.

(4) Unemployment Insurance Claimant Applications

Condition – Section 7511, Part V, of the Employment Security Manual (ESM) requires state unemployment compensation (UC) laws include provisions for such methods of administration as are, within reason, calculated (1) to detect benefits paid through error by the state UC agency or through willful misrepresentation or error by the claimant or others, (2) to deter claimants from obtaining benefits through willful misrepresentation, and (3) to recover benefits overpaid.

These required functions are accomplished through state agency Benefit Payment Control (BPC) units or other designated staff responsible for promoting and maintaining the integrity of the Unemployment Insurance (UI) program through prevention, detection, investigations, establishment and recovery of overpayments.

State of Iowa

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Year ended June 30, 2021

To receive UC, the Department must ensure claimants are “able to work” and “available to work” as required by section 303(a)(12) of the Social Security Act. After initial eligibility is determined, claimants’ eligibility for UC is determined on a weekly basis, and claimants are required to take certain actions to maintain that eligibility on a weekly basis. Ensuring that claimants have completed these actions, therefore, must be documented and verified by the state on a weekly basis.

On July 2, 2020, IWD implemented a system that would allow the Department to process pandemic unemployment applications relating to Pandemic Unemployment Assistance (PUA).

During testing, discrepancies were noted in payments made to PUA claimants. On July 14, 2020, IWD was informed that claimants that had entered more than one weekly claim for the same week were being paid for the same week multiple times. As a result, IWD issued duplicate payments to 3,164 claimants resulting in overpayments totaling \$4,722,484. This resulted in the amount for overpayment receivables being understated. This was properly adjusted for reporting purposes.

Cause – After the new system was implemented, claims were not properly reviewed on an individual level to determine if payments were being processed as prescribed.

Effect – IWD employees did not identify overpayment receivables related to the duplicate payments until after being requested during the audit process. As a result, material adjustments to the financial statements were necessary.

Recommendation – IWD should establish policies and procedures to effectively test new systems, after the system is determined effective, follow up review should be performed to ensure duplicate payments are not being processed. If errors are noted after payments are made, IWD should establish policies and procedures to identify all affected claimants and either cancel written warrants or set-up overpayment receivables timely and properly report these receivables on the GAAP package Unemployment Benefits Fund page.

Response – States were tasked with implementing new UI programs with little guidance from USDOL and frequent changes in the programs. Iowa implemented the programs as quickly as possible and made all efforts during the unprecedented claims levels to serve our customers. IWD will establish policies and procedures to thoroughly test our system when new programs are added to the unemployment insurance program or when a system updated is performed to makes changes to a program. IWD will establish policies to handle determining impacted claims and actions to take if any claims were overpaid.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2021

(B) Reconciliation of Unemployment Insurance Billings, Collections and Delinquent Accounts

**Iowa Department of Workforce Development**

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling Unemployment Insurance (UI) overpayment billings, collections and delinquent accounts and comparing UI overpayment collections to deposits to ensure proper recording of UI overpayment receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

Condition – UI overpayment billings, collections and delinquent accounts were reconciled monthly throughout the year and a delinquent accounts listing was prepared. However, the reconciliation performed showed unexplained variances between the ending of one month and the beginning of the next month. Reconciliations were subsequently corrected, and the activity was reported to DAS-SAE in a GAAP package. Although policies and procedures have been established to require independent review of the reconciliation, no evidence exists that the review was performed.

Cause – Policies have not been established and procedures have not been implemented to investigate variances in the monthly reconciliations of the UI overpayment billings, collections and delinquent accounts and UI overpayment collections to deposits.

Effect – This condition could result in unrecorded or misstated UI overpayment receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to investigate variances in the reconciliation of UI overpayment billings, collections and delinquent accounts for each billing period and collections to deposits. The Department designated independent person should review the reconciliation and monitor delinquents. The review of the reconciliation should be documented by the signature or initials of the reviewer and the date of the review.

Response – Processes and procedures will be designed and implemented that reconcile UI overpayment billings, collections, deposits and delinquencies on a monthly basis and variances are properly investigated. The process will include evidence of review by an independent reviewer, including the date the review was performed.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2021

(C) 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. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

**(1) Iowa Department of Administrative Services and Iowa Department of Management**

Condition – The Iowa Department of Administrative Services and the Iowa Department of Management are responsible for the issuance of the Annual Comprehensive Financial Report. The DAS-SAE GAAP Team compiles I/3 system activity and activity reported in each Department’s GAAP package in preparation of the State of Iowa’s financial statements. Material amounts of cash, accounts receivable, inventory, prepaid expenses, capital assets, accounts payable, unearned revenues, compensated absences, revenues, expenditures and various related footnote disclosures were not properly reflected in the State’s financial statements. Adjustments were subsequently made by the GAAP Team to properly report these amounts in the State of Iowa’s audited financial statements.

Cause – Although policies and procedures exist to require review of I/3 system activity and activity reported in the GAAP packages, the review did not identify the misstatements.

Effect – The amounts reported as cash, accounts receivable, inventory, prepaid expenses, capital assets, accounts payable, unearned revenue, compensated absences, revenues, expenditures and various related footnote disclosures were misstated requiring adjustments to the financial statements.

Recommendation – Additional policies and procedures should be implemented to ensure accurate financial statements.

Response – The GAAP Team will strive to reduce the number of errors during the preparation of the State of Iowa financial statements.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2021

**(2) Iowa Department of Workforce Development and Iowa Department Management**

Condition – American Rescue Plan Act (ARPA) of 2021 provides additional relief to address the continued impact of COVID-19 (i.e., coronavirus disease 2019) on the economy, public health, state and local governments, individuals, and businesses. Under the interim final rule, a recipient may use State and Local Fiscal Recovery Funds (SLFRF), a part of the American Rescue Plan, to make deposits into its state account of the Unemployment Insurance Trust Fund established under section 904 of the Social Security Act (42 U.S.C. 1104) up to the level needed to restore the pre-pandemic balance of such account as of January 27, 2020. On July 25, 2021, the State deposited \$237,470,586 of the SLFRF program into the state account of the Unemployment Trust Fund.

Each state maintains its own Unemployment Insurance (UI) trust fund reserve built from state taxes, primarily on employers, and used only to pay for state 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 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, 2021:

- (a) On their GAAP package, the Iowa Department of Management (DOM) understated accounts receivable related to federal revenues and the corresponding amount due to the Unemployment Insurance Trust Fund in the amount of \$237,470,586. This was properly adjusted for reporting purposes.
- (b) Iowa Workforce Development (IWD) understated the corresponding due from other funds in the Unemployment Insurance Trust Fund in the amount of \$237,470,586 on their GAAP package. This was properly adjusted for reporting purposes.

Cause – The understatement by both IWD and DOM is attributed to each agency’s collective interpretation of the interim final rule specific to the trust fund balance as of January 27, 2020 prior to the pandemic, and the impact of SFY 2022 activity on the trust fund balance at the time of the SLFRF deposit. Both factors, combined with the unique nature of the availability of SLFRF funds, led to the SLFRF deposit not being reported on each agencies respective GAAP package.

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

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Year ended June 30, 2021

Response – To ensure the State and Local Fiscal Recovery Funds (SLFRF) trust fund deposit adhered to guidance as specified in the interim final rule, the trust fund balance at the time of deposit (July 26, 2021) was a critical piece of the SLFRF trust fund deposit calculation. SLFRF were not deposited into the state account until state fiscal year 2022 and a small part of our calculation, in determining the trust fund deposit, was for activity from July 1, 2022 to July 23th, 2022.

Initial guidance under the interim final rule allowed the use SLFRF to be deposited into the state account of the Unemployment Trust Fund established under section 904 of the Social Security Act (42 U.S.C. 1104) up to the level needed to restore the pre-pandemic balances of such account on January 27, 2020.

Traditionally, DOM is not involved with the deposit of funds into Unemployment Compensation Trust Fund. Policies and procedures established for cut-off transactions were not followed due to the unique nature of the source of funding for the deposit and the impact of SFY 2022 activity to the final deposit amount.

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

**(3) Iowa Judicial Branch**

Condition – The Judicial Branch did not properly report activity for the Statement of Fiduciary Net Position or the Statement of Changes in Fiduciary Net Position for fiscal year 2021. The Judicial Branch understated accounts payable by \$40,692,878, reported fiduciary net position of \$4,069,320 when net position should not be reported for the Custodial Fund and understated both Custodial Fund additions and deductions by \$292,361,703.

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

Effect – The amounts reported for the Statement of Changes in Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position were misstated.

Recommendation – The Judicial Branch should implement additional policies and procedures to ensure all fiduciary activity is identified and properly reported in the GAAP package.

Response – The Judicial Branch will ensure information reported on their GAAP package is accurate going forward.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2021

**(4) Office of Treasurer of State**

Condition – The Office did not record \$489,389 for the Flood Control Payment in Lieu of Taxes program for fiscal year 2021, resulting in an understatement of receivables and an understatement of the corresponding payables due to Iowa county governments. These amounts were properly adjusted for reporting purposes.

In addition, the revenues were originally coded to an incorrect account. As a result, payments to subrecipients were not made on a timely basis.

Cause – Due to the timing of the receipt of program funds, the Office did not recognize receivables and the corresponding payables that should have been recorded to fiscal year 2021. 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 employees not detecting the error in the normal course of performing their assigned functions.

Recommendation – The Office should establish policies and procedures to ensure all receivables and payables are identified and properly reported in the GAAP package.

Response – With a retirement at fiscal year-end, information was provided to staff to look for a specific payment from the Army Corps of Engineers, but an official procedure was not put in place. A procedure will be in place moving forward to contact the Army Corps of Engineers to determine the date and amount of the payment. Additionally, if the payment is not received by the Treasurer's Office in time to disburse the funds in the current fiscal year, it will be recorded as a receivable.

Conclusion – Response acknowledged. The Office should also ensure the corresponding payables are identified and properly reported in the GAAP package.

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

Condition – The Department overstated prepaid expenditures by \$189,585.

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

Effect – The amounts reported as prepaid expenditures by the Department were misstated.

Recommendation – The Department should establish policies and procedures to ensure all prepaid expenditures are identified and properly reported in the GAAP package.

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

Conclusion – Response accepted.



State of Iowa

Schedule of Findings

Year ended June 30, 2021

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

Condition – The Office understated contractual commitments related to computer software by \$2,168,407 and broadband services by \$2,122,235. These were properly adjusted for reporting purposes.

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

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.

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

Condition – The following conditions were noted:

- (a) The Department reported receivables of \$1,759,578 in an incorrect fund. The receivables were incorrectly reported in the 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) Receivables reported in the general fund were overstated by \$1,138,757. This was properly adjusted for reporting purposes.
- (c) Unearned revenues and corresponding prepaid expenses related to capital projects were understated by \$208,217.

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

Effect – The amounts reported as receivables, unearned revenue and prepaid expenses 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.

Response – The Department has added an additional review step of GAAP packages. We continue to develop procedures to ensure proper reporting is in place.

Conclusion – Response accepted.

State of Iowa

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**(8) Iowa Economic Development Authority**

Condition – The Authority prepares financial statements which are included in the GAAP package. DAS-SAE includes the Authority’s financial statements as a component unit in the Annual Comprehensive Financial Statements (ACFR) for the State of Iowa. The following conditions were noted in the Authority’s financial statements:

- (a) Unspent Coronavirus Relief Funds (CRF) of \$181,164 were not recorded as unearned revenue.
- (b) Contractual commitments were overstated by \$294,555.

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

Effect – The amounts reported as unearned revenues and contractual commitments were misstated.

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

Response – The Authority will improve its processes and review procedures in order to ensure sufficient oversight to recognize unearned revenue in the future. Late in calendar year 2021 the Authority revised its process for tracking contractual commitments in order to establish uniformity with how these are actually reviewed by the Auditor of State. This revision will enable the Authority to more accurately reflect the Authority’s commitments at the end of each fiscal year.

Conclusion – Response accepted.

**(9) Iowa Department of Workforce Development**

Condition – The following conditions were noted:

- (a) The Department understated prepaid expenditures by \$3,335,354. This amount was properly adjusted for reporting purposes.
- (b) The Department overstated accounts payable by \$5,566,404. This amount 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 misstatements.

Effect – The amounts reported as prepaid expenditures and accounts payable 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, 2021

Response – The Department is in the process of identifying staff responsible for specific pages within the GAAP package. Staff are to be trained on how to properly reconcile and report activity within the GAAP package. In addition, to staff assigned specific roles, additional review of the GAAP package will be performed prior to submission to the GAAP Team.

Conclusion – Response accepted.

(D) 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.

**Iowa Department of Public Safety**

Condition – The following conditions were noted:

- (a) The Department understated depreciation related to equipment by \$9,576,638. This amount was properly adjusted for reporting purposes.
- (b) The Department understated equipment by \$60,814.

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 equipment and equipment depreciation by the Department were misstated.

Recommendation – The Department should implement additional procedures to ensure a detailed, up-to-date capital asset listing is maintained and information reported to DAS-SAE on the GAAP package is accurate.

Response – The understated depreciation was a culmination of a formula error that went undetected since the error began in the fiscal year 2016 GAAP package. The Department identified the formula error and has since corrected it and will implement procedures to ensure information reported in the Department’s GAAP package is accurate.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

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(E) Payroll

Criteria – Departments process and record payroll and personnel information in the Human Resource Information System (HRIS). The Human Resource Associates (HRA) 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 Administrative Services**

Condition – Six individuals within the Department have the ability to initiate and approve P-1 documents. For the period July 1, 2020 through March 10, 2021, two P-1 documents were initiated and received department level approval by the same person.

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 fiscal year 2021.

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 HRA 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 – Department of Administrative Services – Human Resources Enterprise (DAS-HRE) had requested a replacement report from the Office of the Chief Information Officer. The DAS 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 not 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.

State of Iowa

Schedule of Findings

Year ended June 30, 2021

**(2) 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, 2020 through March 10, 2021, fourteen 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 was resolved after the findings in the fiscal year 2020 audit. These were remaining in fiscal year 2021. Department staff corrected the issue and the implementation of using Workday for payroll and P-1 approvals has resolved the issue.

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, 2020 through March 10, 2021, twenty-seven 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 Training School’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 – The new system, Workday, no longer requires this like HRIS did. Therefore, it should not be an issue since the implementation of Workday began.

Conclusion – Response accepted.

State of Iowa

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**(4) Department of Public Safety**

Condition – Three individuals within the Department have the ability to initiate and approve P-1 documents. For the period July 1, 2020 through March 10, 2021, seven 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 – The Department will develop and implement procedures to ensure payroll duties are properly segregated.

Conclusion – Response accepted.

**(5) Anamosa State Penitentiary**

Condition – Two individuals within the Penitentiary have the ability to initiate and approve P-1 documents. For the period July 1, 2020 through March 10, 2021, 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 Penitentiary'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

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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. The instances in fiscal year 2021 where this happened were due to staff changes and not having a second staff person available to approve the P-1 documents. Staff will be reminded of the importance of having two separate staff approve P-1 documents.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.