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STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

September 27, 2023

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, 2022. The State of Iowa previously released its annual financial report for the year ended June 30, 2022.

AUDIT FINDINGS:

Sand reported twelve findings related to the receipt and disbursement of taxpayer funds of the State of Iowa. The findings address issues such as inaccurate financial information for the GAAP package related to Unemployment Insurance and material amounts of cash, accounts receivable, federal commodities, unearned revenues, compensated absences, revenues, expenditures and various related footnote disclosures for financial reporting. Sand provided the State with recommendations to address each of these findings.

Nine 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 website 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, 2022

State of Iowa

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Kim Reynolds

Governor

Kraig Paulsen

Director, Department of Management

Legislative Branch

Amy Sinclair

President of the Senate

Pat Grassley

Speaker of the House of Representatives

Timothy McDermott

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 auditing standards generally accepted in the United States of America 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, 2022, 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 18, 2023. 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.

Report on 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 (internal control) as a basis for designing audit procedures that are 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 certain deficiencies in internal control that we consider to be material weaknesses and 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)(3), (B) and (C)(1) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that 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)(2) through (C)(8) to be significant deficiencies.

Report on 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, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters which are required to be reported under Government Auditing Standards.

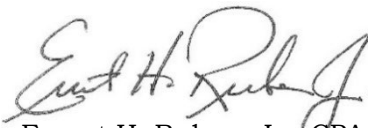
However, we noted certain immaterial instances of noncompliance or other matters which will be reported to management in separate reports.

The State of Iowa's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State of Iowa's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The State of Iowa's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 18, 2023

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.

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. For the year ended June 30, 2022, \$81,110 of \$19,510,758 of contributions, \$1,074,727 of \$15,363,583 of interest and \$31,122 of \$2,063,810 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 independent review did not identify material errors in the GAAP package.

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 continue to modify the MYIOWAUI system to ensure the data is accurate, timely and conforms to established policy.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

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. 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 errors were noted for the year ended June 30, 2022:

- (a) IWD understated federal receivables by \$7,930,586 on the GAAP package Unemployment Benefits Fund pages. This was properly adjusted for reporting purposes.
- (b) IWD overstated federal payables by \$11,907,219 on the GAAP package Unemployment Benefits Fund pages. 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 noted misstatements.

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 fund to the state financial accounting system through the reporting period to ensure the data is accurate, timely and conforms to established policy.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

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, 2022:

- (a) The manual general ledger was not maintained during the fiscal year. After year end, manual ledgers were adjusted for reporting purposes.
- (b) Monthly financial statements were not prepared during the fiscal year. After year end, financial statements of the external accounts were updated for reporting purposes.
- (c) Reconciliations of the manual general ledger and monthly financial statements to the State accounting records were not performed during the fiscal year. After year end, reconciliations were performed.

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 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.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

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 2022. 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.

(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.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

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.

(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, 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, 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 number of errors was significantly reduced throughout the preparation of the fiscal year 2022 Annual Comprehensive Financial Report. The GAAP Team will strive to reduce the number of errors further in the fiscal year 2023 preparation process.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

(2) Iowa Judicial Branch

Condition – Unearned revenues related to the Families First Act grant were understated by \$3,700,174.

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 unearned revenues for the Families First Act grant were misstated.

Recommendation – The Judicial Branch should implement additional policies and procedures to ensure all unearned revenues are 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.

(3) Iowa Department of Education

Condition – Federal commodities were overstated by \$8,038,784 due to a mathematical error. This amount was properly adjusted for reporting purposes.

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

Effect – The amount reported for federal commodities by the Department was misstated.

Recommendation – The Department should implement additional procedures to ensure federal commodities are properly reported in the GAAP package.

Response – The Department agrees with the auditors and when the overstatement was brought to the Department's attention, a revised GAAP package was submitted to make the correction. The Department will ensure a more detailed review of the information reported to DAS-SAE.

Conclusion – Response accepted.

(4) Office of Chief Information Officer

Condition – The Office understated unearned revenues by \$13,743,298 related to CARES Act and ARPA grant funds. \$13,517,151 of these unearned revenues 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 unearned revenues by the Office were misstated.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

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

Response – A significant portion of the funds drawn were with the expectation of expenses for the Data Center Migration project. Anticipated projects were later determined to be unallowable under ARPA guidelines which led to excess fund balances in that unit. Other projects also encountered delays which led to an accumulation of fund balance. OCIO has halted the draw down of funds to help reduce the level of fund balance related to ARPA projects. Once that level is reduced, OCIO will request draws when expenses are incurred.

Conclusion – Response accepted.

(5) 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) Accounts receivable were understated by \$759,767 and accounts payable were understated by \$1,377,994. These amounts were properly adjusted for reporting purposes.
- (b) An accounts receivable for \$43,015 was not recorded in the GAAP package.
- (c) Contractual commitments were understated by \$356,666. This amount was properly adjusted for reporting purposes.
- (d) The Authority did not submit their GAAP package to DAS-SAE in a timely manner.

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

Effect – The amounts reported as accounts receivable, accounts payable and contractual commitments were misstated. Delayed review and submission of the GAAP package causes delays in the issuance of the ACFR.

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

State of Iowa

Schedule of Findings

Year ended June 30, 2022

Response – The accounts receivable and accounts payable errors occurred due to a problem with a formula on an excel file. The IEDA will rectify this by having several staff review any internally generated files needed for financial statement preparation for accuracy and correctness. The \$43,015 account receivable was missed during the review of accruals and during early preparation of the Schedule of Expenditures of Federal Awards. Commitments were misstated due to the late discovery of more payments during the accrual period and the overall total commitments were adjusted at a very late stage in the financial reporting timeframe. The IEDA will improve their efforts to rectify errors like these and will ensure the GAAP package is submitted in a much more timely manner.

Conclusion – Response accepted.

(6) Iowa Department of Workforce Development

Condition – The Department overstated unearned revenues by \$3,281,354 due to the miscoding of a revenue correction.

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

Effect – The Department employees did not detect the errors in the normal course of performing their assigned functions. The amounts reported as unearned revenues were misstated requiring adjustments to the financial statements.

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

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.

(7) Iowa Department of Transportation

Condition – \$20,761,086 in receipts were incorrectly recorded to the miscellaneous revenue category. These receipts should have been recorded to receipts from other entities revenue category. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures exist to require review of system activity, the review did not identify the misstatements.

Effect – The Department employees did not detect the errors in the normal course of performing their assigned functions. The amounts reported incorrectly required adjustments to the financial statements.

Recommendation – The Department should implement procedures to ensure that all receipts are properly classified.

State of Iowa

Schedule of Findings

Year ended June 30, 2022

Response – The Department agrees with the finding. The implementation of a new accounting software took place in fiscal year 2022, along with a new revenue coding structure within the Department. We concur that these revenues were posted to an incorrect revenue code. We have performed an exhaustive review of the fiscal year 2023 data to ensure we have all revenues recorded to the appropriate revenue categories. Additionally, our procedures are documented as to which revenue codes are used for each revenue type and follow-up training had been provided to the appropriate staff. Finally, the Department now completes a monthly query of the miscellaneous revenue to ensure these revenues are posted to the appropriate category as an additional review step.

Conclusion – Response accepted.

(8) Iowa College Aid

Condition – Iowa College Aid understated unearned revenues by \$458,413 related to Coronavirus State and Local Fiscal Recovery Funds (SLFRF). 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 misstatements.

Effect – The amount reported as unearned revenues was misstated requiring adjustments to the financial statements.

Recommendation – Iowa College Aid should implement procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Response – Iowa College Aid received SLFRF funds in fiscal year 2021 and fiscal year 2022. The Department of Management requires a monthly, quarterly and annual reporting of these funds. Based on the reporting that was required, these funds were fully obligated to be spent by our partners in fiscal year 2022. Due to the nature of the work we do, our partners are school districts. This funding is also on a reimbursement basis so we cannot pay it out until they have submitted the requests to us. There are current procedures in place that track unearned revenue regarding SLFRF funding. The process includes monthly reporting of revenues and expenditures that we believe will satisfy this recommendation so that it is accurately reflected in future GAAP packages.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.