

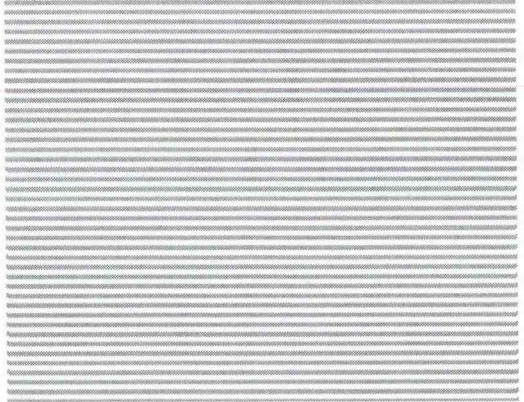
**REPORT OF RECOMMENDATIONS TO THE
INFORMATION TECHNOLOGY DEPARTMENT**

JUNE 30, 2001

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



Richard D. Johnson, CPA
Auditor of State



NEWS RELEASE

FOR RELEASE _____

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released a report on the Information Technology Department for the year ended June 30, 2001.

The Information Technology Department is mandated by statute to foster the development and application of information technology to improve the lives of Iowans.

Johnson recommended that the Department implement procedures to strengthen controls over payroll and fixed assets. Johnson also recommended that the Department complete a written policies and procedures manual for all accounting transaction cycles.

A copy of the report is available for review at the Information Technology Department or the office of Auditor of State.

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April 24, 2002

To Richard Varn, Director/Chief Information Officer,
Information Technology Department:

The Information Technology Department is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2001.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. The recommendations pertain to the Department's internal control and compliance with statutory requirements and other matters which we believe you should be aware of. These recommendations have been discussed with Department personnel, and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Information Technology Department, citizens of the State of Iowa and other parties to whom the Information Technology Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 8 and they are available to discuss these matters with you.

RICHARD D. JOHNSON, CPA
Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Fiscal Bureau

Information Technology Department

Report of Recommendations to the Information Technology Department

June 30, 2001

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

- (1) Segregation of Duties - An important aspect of internal control is the segregation of duties among employees so that the activities of one employee act as a check on those of another.

The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The payroll assistant utilizes an on-line P-1 document to initiate and approve payroll actions such as adding new employees and recording pay raises. This individual also has the ability to initiate and approve timesheets.

Recommendation - To strengthen controls, the Department should develop and implement procedures to segregate the duties of the personnel employee from the duties of payroll. Additionally, P-1 approval authority should be removed from the payroll assistant.

Response - The Department will modify the duties of the payroll assistant to only permit the initiation, and not approval, of payroll, timesheet, and P-1 actions.

Conclusion - Response accepted.

- (2) Fixed Assets - Code of Iowa, Section 7A.30, requires each division of state government to maintain a written, detailed, and up-to-date inventory of property under its charge and control.

The following items were noted:

- (a) The Department performed a complete physical inventory of fixed assets during the year. However, the fixed asset records were not updated timely for discrepancies noted.
- (b) Certain asset purchases coded to IFAS object code 501 were not added to the Department's fixed asset inventory or included in the Department's reconciliation of equipment purchases to fixed asset additions.
- (c) The fixed asset system does not provide a grand total of the fixed asset inventory.

Recommendation - The Department should develop procedures to ensure that the fixed asset inventory is updated timely when an annual inventory reveals discrepancies. The Department should also utilize appropriate IFAS object codes when adding items to their fixed asset inventory and for reconciling fixed asset additions to equipment purchases. In addition, programming changes should be made to the fixed asset system to provide for a grand total of the fixed asset inventory.

Report of Recommendations to the Information Technology Department

June 30, 2001

Response -

- (a) The Department will continue to develop and implement improved processes and procedures to ensure that the fixed asset inventory is accurate and timely updated. The Department has instituted tighter fiscal controls and is confident that year end inventory problems in future cycles will be minimal.
- (b) The Department will develop and follow an internal written policy and procedure to ensure that purchases are added to the fixed asset inventory and that the appropriate and necessary fixed assets reconciliation is completed.
- (c) The Department believes the fixed asset system report provides a grand total of the fixed asset inventory. The Department will work with the auditors to clarify and remedy this concern.

Conclusion - Responses accepted for (a) and (b). Response acknowledged for (c). The grand total provided is as of the date the report is generated. The system should be able to generate a report with a grand total as of fiscal year end.

- (3) Written Accounting Procedures - Written policies and procedures aid current and new employees in discharging their accounting responsibilities and provide employees written management expectations. The Department has not completed a written policies and procedures manual for all accounting transaction cycles.

Recommendation - The Department should complete and provide an accounting policies and procedures manual to all accounting staff.

Response - The Department agrees that an accounting policies and procedures manual should be developed. Rather than create the manual "from scratch", the Department has requested assistance from the auditors to identify a state agency that has an acceptable or recommended manual that could serve as a policies and procedures model, thereby abbreviating the time required to develop a thoughtful and meaningful document.

Conclusion - Response acknowledged. We will identify state agencies with similar written policies and procedures that the Department may contact for assistance.

June 30, 2001

Findings Related to Statutory Requirements and Other Matters:

- (1) Prepaid Expenses - Iowa Department of Revenue and Finance (DRF) policy 235.860 requires prepaid expenses to be moved forward into the year affected on the Iowa Financial Accounting System (IFAS). The Department has one and two year agreements that begin at fiscal year end. The Department pays these agreements from the current fiscal year and discloses the prepaid expense information in the GAAP reporting package rather than moving the expenses forward into the year affected on IFAS.

Recommendation - The Department should consult the Department of Management and the Iowa Department of Revenue and Finance to resolve this issue.

Response - The Department will consult with the Departments of Management and Revenue and Finance and do whatever is necessary to comply with this requirement.

Conclusion - Response accepted.

- (2) GAAP Reporting Package - In order to prepare timely financial statements for the State of Iowa, the Iowa Department of Revenue and Finance requires state agencies to submit GAAP reporting packages to them by September 1 of each year. The GAAP reporting packages include information which is not available on the Iowa Financial Accounting System (IFAS).

The Department's GAAP reporting package was submitted six weeks after the due date. In addition, capital lease information was not included in the GAAP package and the accounts payable information was overstated.

Recommendation - The Department should develop procedures to ensure that the GAAP reporting package is complete, accurate and submitted timely.

Response - The Department has developed and implemented significant budgeting and spending control processes and procedures. As a result of this improved accountability, GAAP reporting package information will be accurate and timely submitted.

Conclusion - Response accepted.

Report of Recommendations to the Information Technology Department

June 30, 2001

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Ernest H. Ruben, Jr., CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

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Sandra K. Struthers, CPA, Assistant Auditor
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