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STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE

February 23, 2024

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, 2023. The State of Iowa previously released its annual financial report for the year ended June 30, 2023.

AUDIT FINDINGS:

Sand reported nine 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 accounts receivable, unearned revenues, subscription-based information technology arrangements, deferred revenue, accounts payable and various related footnote disclosures for financial reporting. Sand provided the State with recommendations to address each of these findings.

Six 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, 2023

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, 2023, and the related Notes to Financial Statements, which collectively comprise the State of Iowa's basic financial statements, and have issued our report thereon dated December 22, 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 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), (A)(2) and (B) 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)(1) through (C)(6) 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
Chief Deputy Auditor of State

December 22, 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, 2023, \$149,496 of \$19,659,500 of contributions, \$6,010,351 of \$16,663,183 of interest and \$168,857 of \$3,138,389 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, 2023

Response – We have identified an issue with our reporting where some accounts are not pulling in the data needed to determine if the uncollected debt is older than 720 days. We are working on correcting the report. Until the report is corrected, we have identified a workaround for Financial Management to use by having them pull the Contributory Report and the Non-Collectible Debt report and find the common account numbers. The Contributory Report with the Non-Collectible Debt report account numbers removed will provide them with the information they are looking for.

Conclusion – Response accepted.

(2) 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, 2023:

- (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, IWD did not perform these tasks during fiscal year 2023 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.

State of Iowa

Schedule of Findings

Year ended June 30, 2023

Response – The Department acknowledges these critical ledgers, reports, and reconciliations were not maintained throughout state fiscal year 2023. 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. The Department focused in fiscal year 2023 on updating general ledger tabs with identifying the source documentation and developing supporting documentation storage folders.

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, 2023

Response – Each month when there is a variance between the ending of the one month and the beginning of the next month after Financial Management is reconciling the UI overpayments billings, collection and delinquent accounts, the team member from Financial Management will work with the Benefits Collection Manager to determine what is causing the variances. This is initiated by an email from the team member in Financial Management and we can provide copies of the emails that took place during the last year.

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 Judicial Branch

Condition – Accounts receivable were understated by \$12,658,702, allowance for uncollectible accounts were understated by \$10,126,961 and net receivables were understated by \$2,531,741. These amounts 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 accounts receivable, allowance for uncollectible accounts and net receivables were misstated.

Recommendation – The Judicial Branch should implement additional policies and procedures to ensure accounts receivable, allowance for uncollectible accounts and net receivables are properly reported in the GAAP package.

Response – We will continue to evaluate and improve our internal review process to ensure that errors will be caught before the package is submitted.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2023

(2) Iowa Department of Public Safety

Condition – The Department understated amounts reported on the GAAP package for Subscription-Based Information Technology Arrangements (SBITA). The SBITA liability was understated by \$1,107,820, interest liability was understated by \$48,729, SBITA assets were understated by \$1,389,884 and current year amortization was understated by \$386,486. These amounts were properly adjusted for reporting purposes.

Cause – Two contracts qualifying as SBITA were excluded from the GAAP package. Although policies and procedures are in place to review GAAP package information, the review did not identify the misstatements.

Effect – The amounts reported for SBITA were misstated.

Recommendation – The Department should implement effective policies and procedures to ensure information reported on the GAAP package is accurate.

Response – The Department has made changes in procedures to help ensure future SBITA information reported to DAS-SAE in the GAAP package is accurate.

Conclusion – Response accepted.

(3) Homeland Security and Emergency Management

Condition – Unearned revenues related to the Coronavirus State and Local Fiscal Recovery Funds grant were understated by \$3,528,913. 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 misstatement.

Effect – The amount reported for unearned revenues for the Coronavirus State and Local Fiscal Recovery Funds grant was misstated.

Recommendation – The Department should implement effective policies and procedures to ensure all unearned revenues are identified and properly reported in the GAAP package.

Response – The Department of Homeland Security will ensure all unearned revenues are reported on our GAAP package going forward.

Conclusion – Response accepted.

(4) Iowa Department of Workforce Development

Condition – The following conditions were noted:

- (a) The Department understated deferred revenue related to employer credits by \$22,061,522. This was properly adjusted for reporting purposes.
- (b) The Department overstated federal benefit overpayment payables to the U.S. Department of Labor by \$59,327,788. 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 amounts reported for deferred revenue and federal benefit overpayment payables were misstated requiring adjustments to the financial statements.

Recommendation – The Department should implement effective policies and 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. The Department is in the process of bringing on additional staff to ensure those critical functions are completed to minimize the impact of staff turnover and increased activity.

Conclusion – Response accepted.

(5) Iowa Department of Transportation

Condition – The following conditions were noted:

- (a) The Department recorded a lease in the GAAP package that had a start date in the subsequent year. This resulted in an overstatement of right-to-use leased assets and lease liability of \$1,041,280.
- (b) The Department understated unearned revenues by \$4,681,082.
- (c) The Department misclassified \$21,401,666 as miscellaneous revenue which should have been classified as receipts from other entities.
- (d) The Department misstated amounts reported on the GAAP package for Subscription-Based Information Technology Arrangements (SBITA). SBITA assets and accumulated amortization were understated by \$13,335,554 and \$12,625,166, respectively. In addition, SBITA assets of \$1,948,543 and current year amortization expense of \$1,110,722 were incorrectly reported in the General Fund, instead of the Internal Service Fund.

These amounts were properly adjusted for reporting purposes.

State of Iowa

Schedule of Findings

Year ended June 30, 2023

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

Effect – The amounts reported were misstated and required adjustments to the financial statements.

Recommendation – The Department should implement effective policies and procedures to ensure that all financial reporting is accurate.

Response – The Department believes we have the appropriate policies and procedures in place. The above were all the result of human error or in the instance of the SBITA and the unearned revenue, these were related to new GASB standards or grant types that the Department had not previously worked with. The Department will continue to educate the appropriate staff to ensure that the existing policies and procedures are effective in identifying the appropriate accounting.

Conclusion – Response accepted.

(6) Iowa Department of Transportation

Condition – The Department is required to submit financial information related to construction contracts entered into as of June 30, 2023. For certain contracts, the contractual commitment reported was as of August 30, 2023, rather than June 30, 2023.

Cause – Policies and procedures do not exist to ensure this is caught in the financial reporting process.

Effect – The Department employees did not detect the errors in the normal course of performing their assigned functions.

Recommendation – The Department should implement procedures to ensure construction obligation amounts are being accurately reported.

Response – The Department agrees with the comment, the staff member who created this report is no longer with the Department and the accounting team members responsible for this moving forward are aware of the misstatement and will be pulling the correct data moving forward.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.