



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____

August 29, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Administrative Services for the year ended June 30, 2007.

The Iowa Department of Administrative Services is mandated by statute to provide services for other state agencies. To fulfill this responsibility, the Department is structured into the General Services Enterprise (GSE), the Information Technology Enterprise (ITE), the Human Resources Enterprise (HRE) and the State Accounting Enterprise (SAE).

Vaudt recommended the Department ensure a detailed, up-to-date capital asset listing is maintained. In addition, the Department should ensure procedures for proper coding of receipts and expenditures at year end and reclassifying revenue or reversing an expenditure transaction are followed. Vaudt also recommended the Department maintain documentation which supports billing rates for utility services. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Administrative Services, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

###

**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF ADMINISTRATIVE SERVICES**

JUNE 30, 2007

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

August 27, 2008

To Mollie Anderson, Director of the
Iowa Department of Administrative Services:

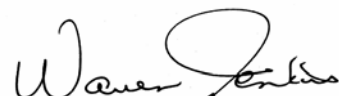
The Iowa Department of Administrative Services is a part of the State of Iowa and, as such, has been included in our audit of the State's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007.

In conducting our audit, 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. We believe you should be aware of these recommendations which include those reported in the State's Report on Internal Control, as well as other recommendations pertaining to the Department's internal control and compliance with statutory requirements and other matters. 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 Iowa Department of Administrative Services, citizens of the State of Iowa and other parties to whom the Iowa Department of Administrative Services 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 audit. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audit of the Department are listed on page 14 and they are available to discuss these matters with you.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Timothy C. Faller, Interim Director, Legislative Services Agency

June 30, 2007

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Reported in the State's Report on Internal Control:

- (1) Capital Assets – 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. The following were noted:
 - (a) The Department did not perform a reconciliation of capital asset additions to Integrated Information for Iowa (I/3) system expenditures. The following items were noted:
 - (1) Five asset additions totaling \$9,592 were recorded at estimated cost rather than actual cost.
 - (2) Five assets totaling \$32,934 previously leased under operating leases were purchased during the current fiscal year but were not added to the capital asset listing.
 - (3) One asset purchased for \$8,420 during the fiscal year was not added to the capital asset listing.
 - (4) Additions for buildings and building improvements were overstated by \$1,291,670 due to adding retainage payable which was already included as a prior year addition.
 - (b) Accumulated depreciation included \$20,723 for two assets previously deleted.
 - (c) Twenty-five assets were selected for recalculation of depreciation expense.
 - (1) Depreciation expense was calculated incorrectly, resulting in an overstatement of accumulated depreciation for land improvements of \$139,939 and of \$20,238 for buildings.
 - (2) Depreciation expense could not be recalculated for eleven non vehicle assets due to manual adjustments made by the Department.
 - (d) Two of twenty-five assets selected for observation could not be located.
 - (e) Five assets with a cost of \$150,361 were sent to surplus property in previous fiscal years but were still included on the capital asset listing.
 - (f) The Department does not have written accounting procedures for the reconciliation of State Vehicle Dispatch records to the Department's capital asset listing and the reconciliation of the Department's capital asset additions to I/3 asset purchases.

June 30, 2007

Recommendation – The Department should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring capital asset additions are reconciled to I/3 asset purchases, depreciation expense is properly calculated and recorded and asset deletions are properly authorized, supported and promptly removed from the capital asset listing. Also, the Department should develop written procedures for the reconciliation of the State Vehicle Dispatch records to the Department’s capital asset listing.

Response – The Department is reviewing its policies and procedures and the following items will be implemented before the end of the fiscal year 2008 and the early part of fiscal year 2009.

- Reports will be generated and monitored to ensure the timely processing of capital asset transactions.
- Quarterly reconciliations and comparisons will be performed on the following items:
 - I/3 expenditures to capital asset additions
 - Vehicles reported on the I/3 system to the Motor Pool inventory, and
 - Depreciation expense will be recalculated.
- Training of the Fixed Asset Coordinators to ensure capital asset transactions are correctly inputted.
- Quarterly meetings with the Fixed Asset Coordinators will be held for the first nine months of the fiscal year and monthly meetings the last quarter to ensure consistent handling of capital asset transactions.
- Procedures will be reviewed to develop a “Department wide” policy.

Conclusion – Response accepted.

(2) Financial Reporting – The Department records receipts and disbursements on the I/3 system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) on a GAAP package.

- (a) Proper accounting procedures should be followed when reclassifying revenue or reversing an expenditure transaction. The following items were noted:
1. The Department recorded various revenues to an improper sub-organization. To correct this error, the Department recorded an expenditure to the improper sub-organization and a revenue to the correct sub-organization rather than adjusting revenues in both sub-organizations, overstating revenues and expenditures by \$15,920,477. This item was properly adjusted for reporting purposes.
 2. The Department initially transferred an incorrect amount from one general fund to another. When correcting the error of \$12,548,902, the Department recorded another transfer in rather than reversing the transfer out. Transfers in and out between general funds are eliminated for reporting purposes.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

Recommendation – The Department should ensure proper accounting procedures are followed when reclassifying revenue or reversing an expenditure transaction.

Response – The Department has discussed with staff and re-emphasized the importance of proper revenue reclassifications and expenditure reversals.

Conclusion – Response accepted.

- (b) Receipts and expenditures occurring near the end of the fiscal year are to be reviewed and recorded on I/3 as an accrual or coded to the following fiscal year.
1. The Department coded deferred compensation payments of \$1,780,015 relating to the pay period ended June 28, 2007 as fiscal year 2008 expenditures rather than an accrual for the year ended June 30, 2007.
 2. The Department also coded receipts of \$436,553 from the Iowa Department of Transportation relating to the pay period ended June 28, 2007 as fiscal year 2008 revenues. The revenues related to deferred compensation, the state share of deferred compensation, dependent care, health care and the SLIP program.

Recommendation – The Department should develop procedures to ensure receipts and expenditures occurring near the end of the fiscal year are reviewed and properly recorded on I/3.

Response – The Department will review the procedures for coding to the proper fiscal year and take the appropriate actions to correct this issue for future fiscal years.

Conclusion – Response accepted.

- (3) Payroll – The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets.

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 has implemented procedures for fiscal year 2007 to review all P-1 transactions. This report is available for review in the office of the Accounts Payable Supervisor. The process has the Supervisor reviewing the P-1 transactions report and initials all transactions approved by the Human Resource Associates. This report is kept and filed by the Supervisor.

Conclusion – Response accepted.

June 30, 2007

Other Findings Related to Internal Control:

- (1) Inventory Control Procedures – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the Department's inventory records. The Vehicle Dispatcher maintains a vehicle parts inventory for routine maintenance and repair. The employees responsible for this inventory order, receive and store the inventory. They also update the inventory records.

Recommendation – The Department should implement procedures to segregate the purchasing, receiving, recording and custody functions for inventory to help safeguard inventory.

Response – Purchasing is done by the Garage purchasing agent, but approved by the Garage Supervisor. Receiving is handled by a technician or the garage clerk. The parts inventory is recorded by the Garage purchasing agent and all parts taken from inventory are recorded by the Garage purchasing agent. Effective for fiscal year 2008 spot checks of the parts inventory were performed randomly throughout the year by the Garage Supervisor. The year end inventory was conducted by the Purchasing agent and the counts are confirmed by the Risk Manager before adjustments are made to the inventory system.

Conclusion – Response accepted.

- (2) Accounting and Office Procedures Manuals – We encourage the development of standardized accounting and office procedures manuals to provide the following benefits:
- a. Aid in training additional or replacement personnel.
 - b. Help achieve uniformity in accounting and in the application of policies and procedures.
 - c. Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

The Department has not completed written accounting and office procedures. For example, there was a lack of written procedures for:

- reconciliation of the I/3 cash balance in the Depreciation Revolving Fund to the Department's depreciation ledger,
- reconciliation of the I/3 cash balance to the State Treasurer's general ledger, and
- internal allocation of shared services.

Recommendation – The Department should develop written accounting and office procedures manuals.

Response – 21 out of 23 DAS Finance Area desk manuals have been completed, and we are anticipating completing the remainder by the end of the fiscal year.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

- (3) Depreciation Ledger Reconciliation – The Department maintains a separate fund, Depreciation Revolving, which receives monthly depreciation payments from state agencies owning vehicles. A separate “depreciation ledger” is also maintained to track payments received and other activity/adjustments to the fund.

The Department reconciles I/3’s cash balance in the Depreciation Revolving Fund to its depreciation ledger. The reconciliation for June 2007 was not performed until after the close of the fiscal year. Also, a variance of \$261,979 was noted during this reconciliation. The Department could not explain the variance.

In addition, several items on the reconciliation were not properly supported and/or adjusted timely.

Recommendation – The Department should reconcile the I/3 cash balance in the Depreciation Revolving Fund to its depreciation ledger on a regular basis and reconciling items/adjustments should be made in a timely manner.

Response – In FY 2008, the Depreciation Ledger is now reconciled on a quarterly basis which was not done in FY 2007. Since the Depreciation Ledger is on a main frame program, a reconciliation is done between I/3 and the main frame program. There are timing issues between the main frame program and I/3 but the differences are all identified within the reconciliation. The reconciliation does contain the properly supported back-up information.

Conclusion – Response accepted.

- (4) Risk Financing – Vehicle Dispatch – The Department reports a liability for vehicle dispatch risk financing on the GAAP package, which relates to tort claims against the State of Iowa for personal injury and property damage caused by state vehicles. The following items were noted:

- Incorrect reserve amounts were used in the calculation of the claims liability, resulting in an understatement of \$6,810.
- The ending claims liability balance did not reconcile to the supporting documentation, resulting in an overstatement of \$39,782.
- The amount of current liability has not been updated based on current year information, thereby overstating the current liability and understating the long term liability by \$20,372.
- The written procedures for the risk financing claims liability calculation do not agree with the actual calculation performed.

Recommendation – The Department should ensure the correct amounts are used for the liability calculation and the ending balances can be traced to supporting documentation. The Department should also revise the risk financing claims liability calculation to agree with the written procedures or revise the procedures to agree with the calculation performed.

Response – During the audit of the GAAP package for the risk fund a discrepancy between the way the liability was being calculated and the procedure was documented was found. The calculation had previously been changed, but the procedures had not been changed to show this. The procedure will be changed for the preparation of the

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

GAAP package for fiscal year 2008. A number used for the calculation of the liability was taken from the wrong document on the fiscal year 2007 GAAP package. This has been corrected for fiscal year 2008.

Conclusion – Response accepted.

June 30, 2007

Findings Related to Statutory Requirements and Other Matters:

- (1) Billing Rates – Chapter 8A.121 of the Code of Iowa authorizes the Department to establish customer councils for the purpose of overseeing utility services provided to governmental customers and to establish billing rates for those services.

The Department has three Enterprises which establish billing rates for utility services. They are General Services (GSE), Human Resources (HRE) and Information Technology (ITE).

During fiscal year 2007, ITE billing rates were selected for review. The following items were noted:

- Budget amounts utilized in the rate calculation varied from the budget system information on I/3.
- Underlying supporting documentation was not always maintained to substantiate the financial information compiled when establishing billing rates.

Recommendation – The Department should maintain appropriate supporting documentation for billing rates.

Response – We will create a workbook to contain methodology used for rate development and a listing of components used to derive said rates.

Conclusion – Response accepted.

- (2) Leases – The Information Technology Enterprise (ITE) entered into numerous leases for computer equipment which ITE classified as operating leases. However, based on the criteria established in Financial Accounting Standards Board (FASB) Statement Number 13 (FASB 13), certain lease agreements may be more appropriately classified as capital leases, not operating leases.

In addition, rental expense reported on the GAAP package for fiscal year 2007 was overstated by \$623,993 due to spreadsheet errors.

Recommendation – ITE should document the analysis of lease agreements and, using the criteria established by FASB 13, document the basis for classifying leases as operating versus capital and ensure balances reported on the GAAP package are proper.

Response – The leases that ITE entered into were via statewide, open-ended, contracts established by DAS/GSE for general use of the Executive Branch. The leasing vendors were (and are) aware of our FASB 13 requirements and stipulations and efforts were made by the leasing vendor and DAS/ITE to comply. The leases that DAS/ITE enters into function as “equipment rentals”, having the intent and providing the opportunity, to “refresh” the technology at the end of the lease term (generally 36 months).

DAS/ITE has found that the ability to refresh equipment provides technological improvements, bigger, better, and more powerful equipment having upgraded capabilities, increased functionality, with less down time. Often the Department can receive these items at a lower lease cost per unit than what was paid for the original leased equipment. On occasion DAS/ITE has found it to be in the State’s best interest to extend a lease for an additional term which could have resulted in the extended

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

lease becoming noncompliant with FASB 13 operating leases. In the future more precaution will be exercised when leasing or considering the option to extend a lease.

Conclusion – Response accepted.

- (3) State Vehicle Dispatch – The Department maintains a vehicle pool for use by state employees or for purchase by state agencies. At year end, the Department performs a reconciliation of vehicles on State Vehicle Dispatch records to the capital asset listing for financial reporting purposes. The following items were noted:

- Two assets totaling \$38,552 were deleted from the State Vehicle Dispatch records, but not included as reconciling items on the GAAP package. The related accumulated depreciation was overstated by \$21,968
- Seven vehicles on the capital asset listing were recorded in the wrong fund.
- The reconciliation was not performed for all funds, resulting in a net understatement of \$45,916.

Recommendation – The Department should ensure the State Vehicle Dispatch records are reconciled to the Department’s capital asset listing on a regular basis and the capital asset listing is updated in a timely manner.

Response – Procedures have been adjusted to eliminate the errors listed above and will be in effect for the close out of the fiscal year 2008 audit.

Conclusion – Response accepted.

- (4) Service Contracting – Five service contracts were selected for compliance testing with Iowa Administrative Code Chapters 106 and 107. One contract did not include a review clause, an insurance clause and a conflict of interest clause.

Recommendation – The Department should ensure Iowa Administrative Code Chapters 106 and 107 requirements for service contracts are met and supporting documentation is maintained to demonstrate compliance.

Response – The Department is working to develop a class to ensure appropriate employees receive training for service contracting to improve compliance with the Iowa Administrative Code Chapters 106 and 107.

Conclusion – Response accepted.

- (5) Centralized Purchasing Contracts – A review of twenty-five centralized purchasing contracts identified the following:

- Five contracts, in excess of \$5,000 each, did not have documentation to demonstrate Targeted Small Businesses (TSB) were notified of the bid opportunity.
- Six contracts were not advertised for bids on the Department’s website or newspapers.
- Five contracts were not signed by one or both parties.
- One contract did not have documentation to demonstrate preference was given to an Iowa firm.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

- One contract did not have documentation to demonstrate the lowest bid was accepted.

Recommendation – The Department should ensure TSB’s are notified of all applicable bid opportunities, contracts are advertised for bid on its website or newspapers, contracts are signed by all parties and required documentation is maintained.

Response – Written policies and procedures have been developed and implemented in March 2008 addressing the audit issues noted above. Additionally, all purchasing agents meet individually on a monthly basis with the management team to review their contract activity for the prior month with an emphasis on these issues.

Conclusion – Response accepted.

(6) Compliance with the Code of Iowa – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2007:

- (a) Chapter 556.2C requires the Department, on or before July 1 of each year, to provide the Treasurer of State with a report of all unpaid outdated warrants which have been canceled and have not been previously reported to the office. This report has not been made available in a format readily useable by the Treasurer’s Unclaimed Property Division.
- (b) Chapter 8A.362(4)(c) requires the Department to submit an annual report by February 15th to the Iowa Department of Natural Resources regarding compliance with the corporate average fuel economy standards published by the United States Secretary of Transportation for new motor vehicles, other than motor vehicles purchased by the Iowa Department of Transportation, institutions under the control of the Board of Regents and the Iowa Department of the Blind. The Department did not submit the required report until August 8, 2007.
- (c) Chapter 7A.3 requires the Department to file an annual or biennial report to the Governor as soon as practical after the end of the reporting period. This report was not filed in fiscal year 2007.

Recommendation – The Department should comply with the Code of Iowa or seek to repeal outdated code sections.

Response –

- (a) DAS/SAE notifies the Treasurer of State each month about the outdated warrants for the month. This is the only notification that is done. We do have the information in paper form but the Treasurer of State wants the information in electronic format. This will be revisited after the warrant writing process is updated.
- (b) In previous years all vehicle ordering had not been completed by the February deadline. The due date has been changed for this report to the June 15 deadline. The deadline was met for the 2008 report.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

- (c) DAS sought a change to the Code striking this requirement which was accomplished during the 2007 Legislative Session. (See 2007 Iowa Acts, ch. 115, sec. 2)

Conclusion – Response accepted.

- (7) Negative Cash Balance – The Internal Service Fund, Postage/Corporate Express/Bond Fund, was established to account for the postage activity of the State. The Department is also utilizing the fund as a clearing account for eDAS billings made by the Department. Throughout the year, deficits were the result of eDAS collections allocated to the proper DAS funds prior to the collections of all billings.

Recommendation – The Department should review the activity being processed to ensure, where possible, a cash balance is maintained in the Fund and allocations are not recorded until collections are received.

Response – DAS no longer uses the Postage/Corporate Express/Bond Fund as a clearing account. The fund is only used for Internal exchange transfer (IET) documents and the movement of Correction Document Revenue (CDR's) to the appropriate revenue source. The clearing account is reconciled daily with DataWarehouse.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Administrative Services

June 30, 2007

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Jennifer L. Wall, CPA, Senior Auditor
Tiffany A. Berkland, Staff Auditor
Michael R. Field, Staff Auditor
Michael P. Piehl, Staff Auditor
Marta M. Sobieszkoda, Staff Auditor
Michael L. Castagnoli, Assistant Auditor
Michael D. Eckard, Assistant Auditor
Joshua B. Ludwig, Assistant Auditor
Jessica N. Meierotto, Assistant Auditor
Paula J. Smothers, Assistant Auditor