

**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, 2014**

**State of Iowa**

**Officials**

Name

Title

**Executive Branch**

Honorable Terry E. Branstad

Governor

David Roederer

Director, Department of Management

**Legislative Branch**

Pam Jochum

President of the Senate

Kraig M. Paulsen

Speaker of the House of Representatives

Glen P. Dickinson

Director, Legislative Services Agency

**Judicial Branch**

Mark S. Cady

Chief Justice of the Supreme Court



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

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Governor and Members of the General Assembly:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of and for the year ended June 30, 2014, 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 12, 2014. Our report includes a reference to other auditors who audited the financial statements of the Tobacco Settlement Authority, the Honey Creek Premier Destination Park Authority, the Iowa Finance Authority, the University of Iowa Foundation, the Iowa State University Foundation, the University of Northern Iowa Foundation, the University of Iowa Research Foundation and the University of Iowa Health System and Subsidiaries, 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 University of Iowa Foundation, the Iowa State University Foundation, the University of Northern Iowa Foundation and the University of Iowa Health System and Subsidiaries were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Iowa's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the State of Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) and (C) to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.


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


#### The State of Iowa's Responses to the Findings

The State of Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The State of Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the State of Iowa's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 12, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has developed the MYIOWAUI system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the balance of employer contributions receivable and delinquent accounts, including penalty and interest calculations, for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The following were noted for the year ended June 30, 2014:
- (1) IWD overstated accounts receivable by \$5,905,235 and understated the allowance for doubtful accounts by \$16,796,523 on the GAAP package Unemployment Benefits Fund page. As a result, the net accounts receivable balance was overstated by \$22,701,758. This was properly adjusted for reporting purposes.
  - (2) IWD overstated accounts payable by \$5,634,260 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
  - (3) 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 not be included in the balance reported in the GAAP package. During testing, \$363,679 of \$43,199,600 of contributions, \$228,900 of \$16,602,149 of interest and \$47,924 of \$2,074,463 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD should continue to modify the MYIOWAUI system to ensure the data is accurate, timely and conforms to established policy.

Response – For numbers (1) and (2), IWD will review reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP Package. For number (3), 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.

State of Iowa

Schedule of Findings

Year ended June 30, 2014

- (B) Financial Reporting – 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. The GAAP package is to be submitted to DAS–SAE by the first week of September each year. Findings were noted for the following departments:

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

- (a) Accounts payable were understated by \$1,579,363. This was properly adjusted for reporting purposes.
- (b) One payable listed in the GAAP package for \$85,545 was recorded in the wrong fund. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – The Department agrees with the comment. To ensure accrual entries are recorded in the proper fiscal year, the DAS-SAE Payroll Accountant has set up an annual reminder to confirm the Wellmark Standard Assessment annual billing has been received, paid and recorded timely in the proper fiscal year. The annual billings do not arrive from the vendor on a regularly recurring set schedule. DAS-SAE will work with the vendor to see if a set schedule can be agreed to.

In addition, changes made to the GAAP package information after being submitted did not go through the two step review process. This will be changed going forward. All information and any changes made to the GAAP package will go through a process of two reviews.

Conclusion – Response accepted.

**(2) Iowa College Student Aid Commission**

The Commission understated cash on hand reported in the GAAP package by \$20,700. Certificates of deposit of \$2,378,855 held by the Commission were recorded as government securities in the GAAP package. As a result, government securities were overstated by \$2,378,855 and cash on hand and in banks was understated by \$2,399,555 for the footnote disclosure. This was properly adjusted for reporting purposes.

Recommendation – The Commission should thoroughly review information reported in the GAAP package to ensure information reported is complete and accurate.

Response – The Commission will ensure information reported in the GAAP package is complete and accurate.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2014

**(3) Iowa Economic Development Authority**

The Authority overstated contractual commitments by \$9,263,299. This was properly adjusted for reporting purposes.

Recommendation – The Authority should ensure the information reported is complete and accurate.

Response - The Authority will improve both the calculation and subsequent review of information reported to ensure information is correct.

Conclusion – Response accepted.

**(4) Iowa Department of Human Rights**

The Department's contractual commitments included in the GAAP package were overstated by \$16,905,474. This was properly adjusted for reporting purposes.

Recommendation – The Department should implement procedures to ensure the information reported in the GAAP package is complete and accurate.

Response – The Department has updated its procedures to include instructions which clarify which items are to be included in the calculation of contractual commitments.

Conclusion – Response accepted.

**(5) Iowa Department of Human Services**

(a) Commitments due to outside contractors were understated by \$36,524,669. This was properly adjusted for reporting purposes.

(b) Drug rebate receivables were understated by \$11,780,783. Accounts payable due to the Federal government were also understated by \$11,780,783. The understatement of the accounts receivable and accounts payable did not have an effect on the net position of the State. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the information reported in the GAAP package is complete and accurate.

Response –

(a) The Iowa Department of Administrative Services provides the report of commitments from the I/3 system to the Department of Human Services. The report provided contains instances where a single contract is listed multiple times with differing values. For those items listed multiple times, the incorrect value was reported on the Department's GAAP package. The Department of Human Services continues to work with the Department of Administrative Services to receive a report of commitments from the I/3 system which is free from duplication. The Department has also revised procedures for how to report commitments when a contract appears on the report in multiple instances. Upon notification of the error, the Department reviewed all instances of duplication to ensure the appropriate contract amount was reported.

State of Iowa

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Year ended June 30, 2014

- (b) The Department of Human Services began a new program as a result of the Affordable Care Act. Drug rebate information from the Iowa Health and Wellness Program, which began January 1, 2014, was missed when determining the amount owed from drug rebate labelers and the subsequent federal share owed to Centers for Medicaid and Medicare Services (CMS) upon collection. The information was corrected upon notification and the procedures were revised to ensure inclusion of the additional drug rebate amounts in future years.

Conclusion – Response accepted.

**(6) Iowa Department of Transportation**

The Department makes loans to cities for road projects and subsequently reports loan receivables in the GAAP package. Four new loans totaling \$394,710 were reported as new loans in the current year which should have been reported in the prior year.

Recommendation – To strengthen controls, the Department should implement procedures to ensure the GAAP package information reported is complete and accurate.

Response – The Department will review current procedures related to loans receivables and modify where needed to minimize misstatements.

Conclusion – Response accepted.

- (C) Payroll – Departments process and record 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. Findings were noted for the following departments where there were no compensating controls:

**(1) Iowa Department of Education**

Twenty-five individuals within the Department 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 – We certainly understand the concern and the rationale behind the recommendation. In practical terms, this will be very difficult for us to implement due to staffing levels. We have developed a process where no one person can put all levels of approval on anything in HRIS. We believe this process gets us to the same result as the above recommendation.

Conclusion – Response accepted.



State of Iowa

Schedule of Findings

Year ended June 30, 2014

**(2) Iowa Department of Natural Resources**

Three individuals have the ability to apply multiple levels of approval to timesheets. These three individuals also have the ability to initiate and approve P-1 documents.

Also, one individual receives the preliminary payroll report, makes changes and reviews the final report. However, the preliminary payroll report is not maintained and there is no independent review to ensure the final adjusted payroll report is correct.

In addition, four of five timesheets tested were approved by a supervisor on or after the payroll warrant date.

Recommendation – To strengthen controls, the Department should develop and implement procedures to further segregate duties so individuals do not have the ability to apply multiple levels of approval to timesheets. The Department should obtain a listing from the Department of Administrative Services to verify Department approvals of P-1 documents are being applied appropriately. This report should be independently reviewed by the Bureau Chief or designee.

Also, the individual certifying the final payroll reports should periodically choose individual items from the payroll reports to review for accuracy and documentation of changes and the preliminary report should be kept with the final payroll report.

In addition, the Department should develop procedures to ensure timely approval of timesheets.

Response – The Department will develop and implement new procedures to segregate P-1 initiation from P-1 approval utilizing the two Human Resource Associates. Timesheet approval levels will also be segregated. The Human Resource Supervisor will function as a back-up for both timesheet and P-1 approval ensuring segregation of duties. The Department will also request a P-1 listing from the Department of Administrative Services periodically to verify P-1's are being applied appropriately.

Furthermore, the Department will periodically perform an independent review of final payroll journals to approved timesheets.

In addition, the Department will continue to work with supervisors to ensure timesheets are properly approved in a timely manner.

Conclusion – Response accepted.