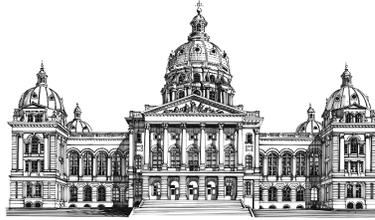

Iowa Legislative Services Agency Fiscal Services

Dennis Prouty
(515) 281-5279
FAX 281-8451



State Capitol
Des Moines, IA 50319
October 26, 2004

Auditor of State

ISSUE

This *Issue Review* summarizes the operations of the Office of Auditor of State and provides an update on reimbursements from State departments paid for work performed by the Office.

AFFECTED AGENCIES

Auditor of State
State departments billed by the Auditor of State.

CODE AUTHORITY

Chapter 11, Code of Iowa

BACKGROUND

Responsibilities

The Auditor of State is responsible for audits of State departments, counties, cities, school districts, and other governmental subdivisions defined in Section 11.6, Code of Iowa, and is required to provide guidelines to Certified Public Accounting (CPA) firms that perform these audits. All audits must be filed with the Auditor of State and are a matter of public record open to inspection.

The Auditor of State is a member of the State Executive Council, the State Appeal Board, the Iowa Telecommunications and Technology Commission, the Underground Storage Tank Insurance Board, the Vision Iowa Board, and the Tobacco Settlement Authority Board.

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Organization

The Auditor's Office includes three divisions, with the following duties and responsibilities:

Administration Division:

The Division is responsible for the general management of the office, which includes fiscal management, data processing, recruiting, and audit report printing and mailing. The Division is also responsible for human resource management, personnel training, and quality control.

Financial Audit Division:

The Division is responsible for the performance of annual audits of Iowa's Comprehensive Annual Financial Report, the State's Single Audit report, and State departments, as well as audits of counties, cities, school districts, and other governmental subdivisions as requested. The Division also reviews audits of governmental subdivisions performed by Certified Public Accounting (CPA) firms, performs re-audits as needed, and provides technical assistance to private citizens, CPA firms, government officials, and other governmental agencies.

Performance Investigation Division:

The Division is responsible for conducting comprehensive performance audits of State departments and programs. The Division also investigates suspected embezzlements and conducts special studies assigned by the Auditor of State or requested by the Legislature.

Access to Information

The Auditor's Office web site includes information regarding the Office, special reviews and audit reports, frequently asked questions (FAQ's), and links to audit resources and professional organizations. The web site is: <http://www.state.ia.us/government/auditor/index.html>. Special reviews and audit reports after July 1, 2002, are available on a separate web site at: <http://publications.iowa.gov/>.

FUNDING**Billings and Reimbursements**

Audits of all State departments are conducted annually. The Auditor's Office receives operating funds through a combination of billing revenues received from various entities and a General Fund appropriation. Section 11.5B, Code of Iowa, sets out a specific list of State departments the Auditor may bill. This list is provided in **Attachment A**.

The list of departments was developed to maximize the amount of federal and other funds utilized to pay audit costs. State agencies are billed on a quarterly basis, while local entities are billed when the annual audit is complete. State departments and agencies funded entirely from General Funds are not billed, and the cost for completion of the annual audits is covered by the General Fund appropriation to the Auditor's Office. The Auditor's Office also receives billing revenues from local entities.

The Auditor's Office prepares an estimate of the audit billings each year, and each department to be billed is notified by letter. The letter indicates the total billing, how much of the total should be paid with federal funds, and indicates that the billing will be sent in quarterly installments. Occasionally, special audit work is required. When this occurs, the department is usually notified by

the Auditor's Office in a revised letter, and the additional cost for audit services is added to the billing for the quarter in which it occurs.

Prior Years Billing Accuracy

In an ***Issue Review*** distributed in November 1992, analysis indicated that, except for a few individual cases, the Auditor's Office was reasonably accurate in estimating overall total billings to State departments. A factor not considered was the percent of each State department's budget allocated to audit costs. Some State departments and agencies absorbed fluctuations in audit costs where others could not. As noted above, special audits were occasionally requested (such as for fraud or embezzlement), and these could not be planned or budgeted ahead of time.

CURRENT SITUATION

The Auditor's Office continues to prepare billing estimate letters for State departments as mandated by Section 11.5B, Code of Iowa. **Table 1** provides a history of billing estimate letters sent by the Auditor's Office compared to the actual billings for FY 2001 – FY 2004. Columns for variances in dollars and percentages reflect an overestimate by the Auditor's Office ranging from 2.1% to 8.8%. The rationales for the variances include:

- Change in federal funds received or expended by a department
- Change in federal requirements for an agency
- Changes in agency operations such as internal controls
- Changes in agency duties and responsibilities
- Changes in State funding
- Increase or decrease in agency assistance
- Special requests by an agency.

BUDGET IMPACT

The Auditor's Office is dependent upon audit billing revenues, in addition to the General Fund appropriation, to meet payroll and pay other operating expenditures. Any delays in the payment of regular audit billings during the fiscal year or additional costs related to unexpected special audits require General Fund subsidy until the payments for services are received, as permitted by Section 11.5A, Code of Iowa. The Auditor's Office reports that for FY 2004, the General Fund was reimbursed, as all State departments paid outstanding bills prior to the close of the fiscal year in September.

The Auditor's Office will continue to make annual estimated billings and notify State departments of anticipated costs for budget purposes. **Table 2** provides a summary of the audit billing estimates from FY 2005 – 2007 provided by the Auditor's Office on August 25, 2004, to State departments for the development of biennium budgets for FY 2006 and FY 2007.

The table reflects estimated billings associated with two types of audits for departments that receive federal funds. The columns labeled "Single Audit" relate to costs associated with annual audits of states that administer federal financial assistance programs in conformance with the federal Single Audit Act of 1984 (Public Law 98-502), and the federal Office of Management and Budget Circulars

A-128 and A-133. The columns labeled "Regular Audit" relate to annual audits costs of State departments included in Section 11.6, Code of Iowa. These are estimates, changes may be required, and unexpected special audits cannot be anticipated.

ALTERNATIVES

1. The Legislature may wish to review the appropriations process used to annually fund the Auditor's Office. This might include changing the Code of Iowa to provide an increase in the General Fund appropriation for the Auditor's Office to cover the State share of audit costs that are currently appropriated to State departments.
2. Appropriations Subcommittees may wish to examine the reasons for delays in reimbursement for audit services billed by the Auditor's Office with State departments assigned to the Subcommittees.
3. Appropriations Subcommittees and LSA Fiscal Analysts should continue to monitor amounts budgeted for audit costs to ensure amounts are adequate to cover the estimates sent out by the Auditor.
4. Appropriations Subcommittees and LSA Fiscal Analysts should continue to monitor timeliness by the Auditor's Office regarding preparation and distribution of cost estimates for annual audit services to departments for purposes of budget preparation.

STAFF CONTACT: Sam Leto (Ext. 16764)

Repayment of Audit Expenses by State Departments and Agencies

The auditor of state shall be reimbursed by a department or agency for performing examinations of the following state departments or agencies or of funds received by a department or agency:

1. Department of Commerce
2. Department of Human Services
3. State Department of Transportation
4. Iowa Department of Public Health
5. State Board of Regents
6. Department of Agriculture and Land Stewardship
7. Iowa Veterans Home
8. Department of Education
9. Department of Workforce Development
10. Department of Natural Resources
11. Offices of the Clerks of the District Court of the Judicial Branch
12. The Iowa Public Employees' Retirement System
13. Federal financial assistance, as defined in Pub. L. No. 98-502, received by all other departments
14. Department of Administrative Services

**Auditor Of State History
Agency Billing Letters Vs Actual
FY 2001 through FY 2004**

Table 1

Agency	2001 Letter	2001 Actual	Dollar Variance	Percent Variance	2002 Letter	2002 Actual	Dollar Variance	Percent Variance	2003 Letter	2003 Actual	Dollar Variance	Percent Variance	2004 Letter	2004 Actual	Dollar Variance	Percent Variance
DEPARTMENT OF AGRICULTURE & LAND STEWARDSHIP	\$ 141,621	\$ 113,323	\$ 28,298	20.0%	\$ 148,702	\$ 128,020	\$ 20,682	13.9%	\$ 141,033	\$ 117,441	\$ 23,592	16.7%	\$ 135,487	\$ 95,904	\$ 39,583	29.2%
DEPARTMENT OF JUSTICE	2,663	2,329	334	12.5%	2,408	2,039	369	15.3%	2,403	1,342	1,061	44.2%	1,796	1,796	-	0.0%
COMMISSION FOR THE BLIND	9,826	9,754	72	0.7%	12,029	10,712	1,317	10.9%	12,711	11,399	1,312	10.3%	13,361	12,055	1,306	9.8%
CIVIL RIGHTS COMMISSION	581	150	431	74.2%	642	642	-	-	572	523	49	8.6%	599	470	129	21.5%
DEPARTMENT OF COMMERCE	78,796	59,670	19,126	24.3%	82,713	79,626	3,087	3.7%	87,872	76,870	11,002	12.5%	94,356	73,306	21,050	22.3%
CORRECTIONS DEPARTMENT, INCLUDING	3,431	1,632	1,799	52.4%	3,519	2,618	901	25.6%	3,727	2,256	1,471	39.5%	3,512	2,705	807	23.0%
DEPARTMENT OF CULTURAL AFFAIRS	968	728	240	24.8%	1,017	523	494	48.6%	572	14,139	(13,567)	-2371.9%	479	216	263	54.9%
DEPARTMENT OF ECONOMIC DEVELOPMENT	28,310	27,217	1,093	3.9%	30,550	28,828	1,722	5.6%	31,989	33,469	(1,480)	-4.6%	33,288	29,642	3,646	11.0%
DEPARTMENT OF EDUCATION (Public Instruction Division)	222,270	223,754	(1,484)	-0.7%	241,126	236,151	4,975	2.1%	257,819	252,283	5,536	2.1%	275,175	234,677	40,498	14.7%
DEPARTMENT OF EDUCATION (Vocational Rehabilitation)	48,358	44,617	3,741	7.7%	54,598	52,055	2,543	4.7%	55,309	48,306	7,003	12.7%	58,264	54,972	3,292	5.7%
COLLEGE AID COMMISSION	18,259	18,125	134	0.7%	20,839	24,610	(3,771)	-18.1%	27,411	26,749	662	2.4%	28,937	21,956	6,981	24.1%
DEPARTMENT OF EDUCATION -- IPTV (Public Broadcasting)	3,874	144	3,730	96.3%	4,067	-	4,067	100.0%	1,145	-	1,145	100.0%	1,197	770	427	35.7%
ELDER AFFAIRS	3,884	2,371	1,513	38.9%	4,825	4,825	-	-	6,219	5,805	414	6.7%	1,497	1,390	108	7.2%
DEPARTMENT OF WORKFORCE DEVELOPMENT	187,703	156,915	30,788	16.4%	207,025	196,389	10,636	5.1%	219,777	212,809	6,968	3.2%	241,518	220,456	21,062	8.7%
IOWA COMMUNICATIONS NETWORK	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEPARTMENT OF GENERAL SERVICES	4,358	798	3,560	81.7%	4,576	417	4,159	90.9%	401	448	(47)	-11.7%	419	110	310	73.9%
DEPARTMENT OF HUMAN RIGHTS	14,412	12,139	2,273	15.8%	29,961	28,796	1,165	3.9%	24,207	21,090	3,117	12.9%	25,445	18,408	7,037	27.7%
DEPARTMENT OF HUMAN SERVICES, INCLUDING INSTITUTIONS	815,071	726,357	88,714	10.9%	864,892	827,474	37,418	4.3%	914,621	812,994	101,627	11.1%	964,129	857,941	106,188	11.0%
DEPARTMENT OF INSPECTIONS & APPEALS	11,463	9,052	2,411	21.0%	12,920	12,312	608	4.7%	13,047	12,592	455	3.5%	13,740	12,786	954	6.9%
JUDICIAL BRANCH	1,211	861	350	28.9%	1,071	1,034	37	3.5%	1,259	549	710	56.4%	718	162	556	77.4%
LAW ENFORCEMENT ACADEMY	291	589	(298)	-102.7%	321	297	24	7.5%	343	331	12	3.5%	359	324	35	9.7%
LEGISLATURE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEPARTMENT OF NATURAL RESOURCES	217,457	181,632	35,825	16.5%	226,496	216,586	9,910	4.4%	241,956	232,168	9,788	4.0%	257,095	209,991	47,104	18.3%
DEPARTMENT OF PERSONNEL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEPARTMENT OF PERSONNEL - IPERS	55,775	55,313	462	0.8%	60,483	60,483	-	-	65,895	62,978	2,917	4.4%	69,300	69,300	-	0.0%
DEPARTMENT OF PUBLIC DEFENSE	24,455	8,961	15,494	63.4%	27,901	13,801	14,100	50.5%	22,918	22,719	199	0.9%	23,109	17,017	6,092	26.4%
DEPARTMENT OF PUBLIC HEALTH	115,510	93,600	21,910	19.0%	122,128	114,701	7,427	6.1%	132,014	122,519	9,495	7.2%	138,741	135,425	3,316	2.4%
DEPARTMENT OF PUBLIC SAFETY	2,179	5,909	(3,730)	-171.2%	2,408	2,408	-	-	2,575	2,539	36	1.4%	2,694	2,189	505	18.8%
BOARD OF REGENTS	14,591	12,385	2,206	15.1%	13,215	13,215	-	-	14,307	13,616	691	4.8%	14,668	13,422	1,246	8.5%
DEPARTMENT OF REVENUE & FINANCE	726	243	483	66.5%	763	540	223	29.2%	458	35	423	92.4%	479	-	479	100.0%
DEPARTMENT OF REVENUE & FINANCE - LOTTERY	-	91,577	(91,577)	-	-	97,148	(97,148)	-	109,010	102,170	6,840	6.3%	88,519	66,513	22,006	24.9%
GOVERNOR'S OFFICE OF DRUG CONTROL POLICY	2,421	1,564	857	35.4%	2,542	1,486	1,056	41.5%	1,717	1,411	306	17.8%	1,497	1,497	-	0.0%
DEPARTMENT OF TRANSPORTATION	311,469	285,963	25,506	8.2%	344,604	331,367	13,237	3.8%	348,495	335,531	12,964	3.7%	370,494	358,161	12,333	3.3%
DEPARTMENT OF VETERANS AFFAIRS (Veterans Home)	51,533	45,059	6,474	12.6%	52,983	50,784	2,199	4.2%	57,185	49,217	7,968	13.9%	58,117	51,687	6,430	11.1%
UNIVERSITY OF IOWA	475,938	443,277	32,661	6.9%	500,072	460,824	39,248	7.8%	527,543	505,203	22,340	4.2%	559,360	537,398	21,962	3.9%
IOWA STATE UNIVERSITY	439,568	385,978	53,590	12.2%	414,284	384,836	29,448	7.1%	437,235	422,622	14,613	3.3%	446,182	446,182	-	0.0%
UNIVERSITY OF NORTHERN IOWA	137,945	129,441	8,504	6.2%	152,550	151,901	649	0.4%	174,920	183,976	(9,056)	-5.2%	211,595	211,161	434	0.2%
IOWA BRAILLE & SIGHTSAVING SCHOOL	30,058	21,652	8,406	28.0%	31,244	31,244	-	-	33,137	33,085	52	0.2%	25,970	23,517	2,453	9.4%
IOWA SCHOOL FOR THE DEAF	53,950	29,811	24,139	44.7%	55,071	55,463	(392)	-0.7%	59,442	57,217	2,225	3.7%	39,114	35,117	3,997	10.2%
JUDICIAL BRANCH - CLERKS OF COURT	313,816	313,816	0	-	329,507	319,105	10,402	3.2%	342,684	328,106	14,578	4.3%	353,006	332,287	20,719	5.9%
FIRST JUDICIAL DISTRICT	484	512	(28)	-5.8%	535	535	-	-	622	570	52	8.4%	649	526	123	18.9%
SECOND JUDICIAL DISTRICT	790	442	348	44.1%	545	513	32	5.9%	587	518	69	11.8%	614	614	-	0.0%
THIRD JUDICIAL DISTRICT	534	349	185	34.6%	585	585	-	-	622	470	152	24.4%	649	503	146	22.5%
FOURTH JUDICIAL DISTRICT	282	282	-	0.0%	308	25	283	91.9%	172	157	15	8.7%	180	472	(292)	-162.2%
FIFTH JUDICIAL DISTRICT	387	384	3	0.8%	428	428	-	-	572	527	45	7.9%	180	123	57	31.7%
SIXTH JUDICIAL DISTRICT	-	-	-	-	535	535	-	-	622	592	30	4.8%	649	629	20	3.1%
SEVENTH JUDICIAL DISTRICT	-	-	-	-	268	268	-	-	383	122	261	68.1%	389	118	271	69.8%
EIGHTH JUDICIAL DISTRICT	-	-	-	-	268	126	142	53.0%	286	260	26	9.1%	299	216	83	27.8%
INFORMATION TECHNOLOGY DEPARTMENT	45,237	31,006	14,231	31.5%	-	36,674	(36,674)	-	39,172	39,637	(465)	-1.2%	39,874	36,626	3,248	8.1%
TOBACCO SETTLEMENT AUTHORITY	-	-	-	-	-	-	-	-	6,867	23,249	(16,382)	-238.6%	4,790	5,824	(1,034)	-21.6%
TOTAL	\$ 3,892,452	\$ 3,549,681	\$ 342,771	8.8%	\$ 4,067,524	\$ 3,982,949	\$ 84,575	2.1%	\$ 4,423,833	\$ 4,192,609	\$ 231,224	5.2%	\$ 4,602,489	\$ 4,196,560	\$ 405,929	8.8%

* Dollar Variance = (over)/under

Auditor of State Billing Estimates
FY 2005 through FY 2007

Table 2

Agency Billed	2005 Single Audit	2005 Regular Audit	2005 Total Billed	2006 Single Audit	2006 Regular Audit	2006 Total Billed	2007 Single Audit	2007 Regular Audit	2007 Total Billed
DEPARTMENT OF AGRICULTURE & LAND STEWARDSHIP	\$ 3,234	\$ 123,069	\$ 126,303	\$ 3,396	\$ 129,222	\$ 132,618	\$ 3,565	\$ 135,684	\$ 139,249
DEPARTMENT OF JUSTICE	1,856	-	1,856	1,949	-	1,949	2,046	-	2,046
COMMISSION FOR THE BLIND	12,993	-	12,993	13,643	-	13,643	14,325	-	14,325
CIVIL RIGHTS COMMISSION	599	-	599	629	-	629	660	-	660
DEPARTMENT OF COMMERCE	1,198	93,408	94,606	1,258	98,078	99,336	1,321	102,982	104,303
CORRECTIONS DEPARTMENT, INCLUDING INSTITUTIONS	3,423	-	3,423	3,594	-	3,594	3,774	-	3,774
DEPARTMENT OF CULTURAL AFFAIRS	359	-	359	377	-	377	396	-	396
DEPARTMENT OF ECONOMIC DEVELOPMENT	37,304	-	37,304	39,169	-	39,169	41,128	-	41,128
DEPARTMENT OF EDUCATION (Public Instruction Division)	117,659	157,948	275,607	123,542	165,845	289,387	129,719	174,138	303,857
DEPARTMENT OF EDUCATION (Vocational Rehabilitation)	23,023	31,986	55,009	24,174	33,585	57,759	25,383	35,265	60,647
COLLEGE AID COMMISSION	23,921	4,790	28,711	25,117	5,030	30,147	26,373	5,281	31,654
DEPARTMENT OF EDUCATION -- IPTV (Public Broadcasting)	1,078	-	1,078	1,132	-	1,132	1,188	-	1,188
ELDER AFFAIRS	1,497	-	1,497	1,572	-	1,572	1,650	-	1,650
DEPARTMENT OF WORKFORCE DEVELOPMENT	81,164	162,808	243,972	85,222	170,948	256,171	89,483	179,496	268,979
IOWA COMMUNICATIONS NETWORK	-	-	-	-	-	-	-	-	-
DEPARTMENT OF HUMAN RIGHTS	20,388	-	20,388	21,407	-	21,407	22,478	-	22,478
DEPARTMENT OF HUMAN SERVICES, INCLUDING INSTITUTIONS	328,739	645,001	973,740	345,176	677,251	1,022,427	362,435	711,114	1,073,548
DEPARTMENT OF INSPECTIONS & APPEALS	14,610	-	14,610	15,341	-	15,341	16,108	-	16,108
JUDICIAL BRANCH	299	-	299	314	-	314	330	-	330
LAW ENFORCEMENT ACADEMY	359	-	359	377	-	377	396	-	396
LEGISLATURE	-	-	-	-	-	-	-	-	-
DEPARTMENT OF NATURAL RESOURCES	64,458	195,821	260,279	67,681	205,612	273,293	71,065	215,893	286,958
IOWA PUBLIC EMPLOYMENT RETIREMENT SYSTEM (IPERS)	-	70,416	70,416	-	73,937	73,937	-	77,634	77,634
DEPARTMENT OF PUBLIC DEFENSE	18,593	-	18,593	19,523	-	19,523	20,499	-	20,499
DEPARTMENT OF PUBLIC HEALTH	50,950	92,232	143,182	53,498	96,844	150,341	56,172	101,686	157,858
DEPARTMENT OF PUBLIC SAFETY	2,395	-	2,395	2,515	-	2,515	2,640	-	2,640
BOARD OF REGENTS	898	13,772	14,670	943	14,461	15,404	990	15,184	16,174
DEPARTMENT OF REVENUE	299	-	299	314	-	314	330	-	330
IOWA LOTTERY AUTHORITY	-	88,509	88,509	-	92,934	92,934	-	97,581	97,581
GOVERNOR'S OFFICE OF DRUG CONTROL POLICY	5,090	-	5,090	5,345	-	5,345	5,612	-	5,612
DEPARTMENT OF TRANSPORTATION	62,684	311,974	374,658	65,818	327,573	393,391	69,109	343,951	413,060
DEPARTMENT OF VETERANS AFFAIRS (Veterans Home)	4,890	54,979	59,869	5,135	57,728	62,862	5,391	60,614	66,006
UNIVERSITY OF IOWA	106,621	448,946	555,567	111,952	471,393	583,345	117,550	494,963	612,513
IOWA STATE UNIVERSITY	108,671	356,083	464,754	114,105	373,887	487,992	119,810	392,582	512,391
UNIVERSITY OF NORTHERN IOWA	45,792	168,747	214,539	48,082	177,184	225,266	50,486	186,044	236,529
IOWA BRAILLE & SIGHTSAVING SCHOOL	599	25,762	26,361	629	27,050	27,679	660	28,403	29,063
IOWA SCHOOL FOR THE DEAF	648	35,543	36,191	680	37,320	38,001	714	39,186	39,901
CLERKS OF COURT	-	344,156	344,156	-	361,364	361,364	-	379,432	379,432
FIRST JUDICIAL DISTRICT	649	-	649	681	-	681	716	-	716
SECOND JUDICIAL DISTRICT	609	-	609	639	-	639	671	-	671
THIRD JUDICIAL DISTRICT	667	-	667	700	-	700	735	-	735
FOURTH JUDICIAL DISTRICT	180	-	180	189	-	189	198	-	198
FIFTH JUDICIAL DISTRICT	60	-	60	63	-	63	66	-	66
SIXTH JUDICIAL DISTRICT	709	-	709	744	-	744	782	-	782
SEVENTH JUDICIAL DISTRICT	539	-	539	566	-	566	594	-	594
EIGHTH JUDICIAL DISTRICT	299	-	299	314	-	314	330	-	330
TOBACCO SETTLEMENT AUTHORITY	-	4,790	4,790	-	5,030	5,030	-	5,281	5,281
DEPARTMENT OF ADMINISTRATIVE SERVICES	599	147,508	148,107	629	154,883	155,512	660	162,628	163,288
	\$ 1,150,602	\$ 3,578,248	\$ 4,728,850	\$ 1,208,132	\$ 3,757,160	\$ 4,965,293	\$ 1,268,539	\$ 3,945,018	\$ 5,213,557