



OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

FOR RELEASE July 27, 2010

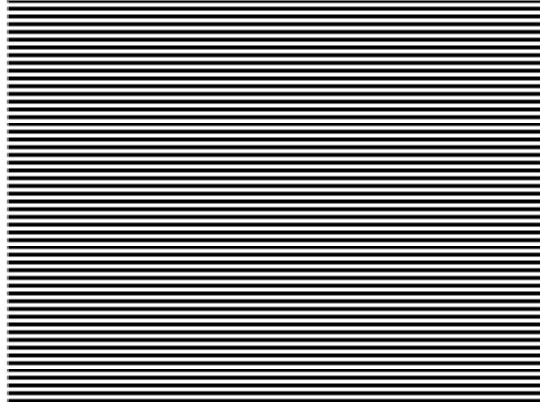
Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Public Defense for the year ended June 30, 2009.

The Iowa Department of Public Defense is composed of the Military Division and the Homeland Security and Emergency Management Division. The main responsibilities of the Military Division are to protect the citizens of the state, recruit and train military personnel and maintain the National Guard armories throughout the state. The Homeland Security and Emergency Management Division is responsible for disaster preparedness and relief coordination throughout the state.

A copy of the report is available for review at the Iowa Department of Public Defense, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1060-5820-0R00.pdf>

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF PUBLIC DEFENSE**

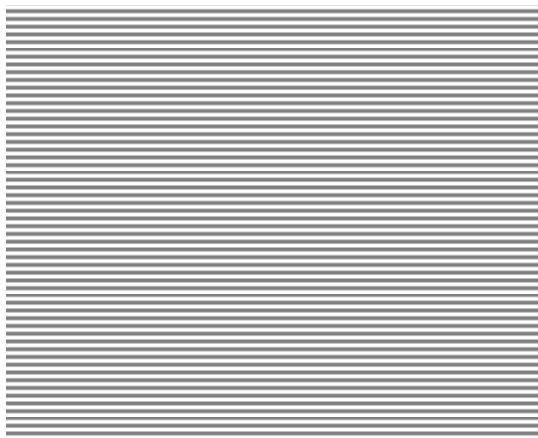
JUNE 30, 2009

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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July 14, 2010

To Brigadier General Timothy Orr, Adjutant General
of the Iowa Department of Public Defense:

The Iowa Department of Public Defense is part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2009.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report and 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. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Public Defense's responses and, accordingly, we express no opinion on them.

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 Public Defense, citizens of the State of Iowa and other parties to whom the Iowa Department of Public Defense may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 13 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
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2009

Findings Reported in the State's Single Audit Report:

CFDA Number: 12.400 – Military Construction, National Guard
Agency Number: W912LP-07-2-2005
Federal Award Year: 2007

CFDA Number: 12.401 – National Guard Military Operations and Maintenance (O&M) Projects
Agency Number: W912LP-08-2, W912LP-09-2
Federal Award Year: 2008, 2009

State of Iowa Single Audit Report Comment: 09-III-DOD-582-1

- (1) Disposition of Equipment – Significant changes were made to Chapter 7 of the Cooperative Agreement regulations, as noted in the National Guard Regulations (NGR) 5.1, effective April 3, 2008, which document policies and procedures regarding equipment. One of the changes instituted requires United States Property and Fiscal Office (USPFO) authorization for the disposition of equipment purchased with federal funds. The Department did not obtain USPFO authorization for disposed equipment purchased with federal funds.

Recommendation–The Department should establish policies and procedures necessary to comply with the National Guard Regulations.

Response and Corrective Action Planned – The Department is tracking equipment purchased with federal funds and is now obtaining USPFO authorization for disposed equipment purchased with federal funds. Documentation is maintained in the Comptroller's Office.

Conclusion–Response accepted.

CFDA Number: 12.401 – National Guard Military Operations and Maintenance (O&M) Projects
Agency Number: W912LP-08-2, W912LP-09-2
Federal Award Year: 2008, 2009

State of Iowa Single Audit Report Comment: 09-III-DOD-582-2

- (2) Cash Management–Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. As stated in the Cash Management Improvement Act (CMIA) Agreement, the National Guard Military Operations and Maintenance (O&M) Projects program is funded on a pre-issuance basis. This means federal draws are to be requested so they are not deposited more than three days prior to the date of disbursement.

A review of the Department's ledgers and cash management system identified draws are made on a reimbursement basis rather than a pre-issuance basis.

Report of Recommendations to the Iowa Department of Public Defense

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The Iowa Department of Administrative Services – State Accounting Enterprise has negotiated use of the post-issuance method in the fiscal year 2010 CMIA agreement for CFDA agreement for CFDA No. 12.401.

Response and Corrective Action Planned–Department response not requested.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 09-III-DHS-583-1

- (3) Cash Management–Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received.

A review of the Department’s ledgers and cash management system identified nine instances where the cash balance was in excess of \$100,000 for four to forty-two days.

Recommendation–The Department should monitor cash balances to ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.

Response and Corrective Action Planned–The Department will monitor cash balances to make sure that balances on hand are sufficient to cover current needs and are disbursed in a timely manner.

Conclusion–Response accepted.

June 30, 2009

CFDA Number: 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 09-III-DHS-583-2

- (4) Subrecipient Monitoring – The Department performs monitoring reviews for small projects on an as needed basis as the project progresses and also selects a small percentage of completed small projects to perform on-site monitoring reviews. These projects should be reviewed for proper scope and allowability of project costs.

There was no centralized source of documentation available to support the selection of the small projects monitored or documentation of the monitoring actually performed.

Recommendation – The Department should establish written procedures for the small project monitoring reviews and ensure the reviews are performed and documented. Procedures should include, but not be limited to, the method used to establish the selection process, the projects selected and the results of the monitoring reviews.

Response and Corrective Action Planned – Iowa Homeland Security and Emergency Management Division’s monitoring plan will be revised to include written procedures specific to small project monitoring reviews. It will address the method used to establish the applicant selection process, which projects will be monitored and a review process. A centralized system is being developed that will support the applicants and their projects selected for monitoring, actual monitoring completed and results of the monitoring to ensure the reviews are performed and documented. It will also capture the monitoring already done.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 09-III-DHS-583-3

- (5) Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in federal awards are completed within nine months of the subrecipient’s fiscal year end, issue a management decision on audit findings within six months of the receipt of the subrecipient’s audit report and ensure the subrecipient takes timely and appropriate action on all findings.

(a) Although the Department has established procedures to be followed in the review of subrecipient audit reports, there are no written policies or procedures in place for resolving subrecipient non-compliance or weaknesses in internal control.

(b) Several audit reports were not received by the Department in a timely manner. There are no written policies and procedures to ensure subrecipient audit reports are received in a timely manner or follow-up is done with the subrecipient if not received.

Report of Recommendations to the Iowa Department of Public Defense

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Recommendation–

- (a) The Department should develop written policies and procedures for resolution of subrecipient non-compliance or weaknesses in internal control.
- (b) The Department should develop policies and procedures to ensure subrecipient audit reports are received in a timely manner. If the Department has not received audit reports from subrecipients within nine months of the subrecipient's fiscal year end, the Department should follow up with the subrecipient to adhere to the requirement. Any correspondence and subsequent communications should be retained by the Department.

Response and Corrective Action Planned–

- (a) The Department has a written monitoring plan that addresses subrecipient audit findings. The Department will include procedures for resolving subrecipient non-compliance or weaknesses in internal controls.
- (b) The Department will monitor subrecipient audit reports and in March of each year will contact subrecipients who have not submitted their audit reports. The Department will make these contacts via letter and will retain a copy of the correspondence.

Conclusion–Response accepted.

CFDA Number: 97.036 – Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR, FEMA-3275-EM

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 09-III-DHS-583-4

- (6) Financial Reporting–Departments record receipts and disbursements on the Integrated Information for Iowa (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. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. The following were noted:
 - (a) The Department uses a cut off date of July 10 for coding expenditures to the fiscal year on the I/3 system. The Department does not review claims paid after this date to determine whether the claims are for expenditures related to the previous fiscal year and should be included on the GAAP package. At June 30, 2009, there were approximately \$20 million in requests for payments submitted by subrecipients related to fiscal year 2009 for the Public Assistance disaster which were not identified as accruals and reported in the GAAP package. In addition, the request for payment form used by the Department does not include a section for the subrecipient to clearly document the period covered by the expenditures for which funds are being requested. This was properly adjusted for reporting purposes.

The Department does not have a process for estimating potential claims outstanding from subrecipients. The amount of claims outstanding at June 30, 2009 is indeterminable.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2009

- (b) Payments of approximately \$7.7 million to the Iowa Department of Transportation and Iowa Judicial Branch were coded as expenditures, rather than transfers between state departments. This was properly adjusted for reporting purposes.

Recommendation–The Department should develop policies and procedures to evaluate claims charged to the next fiscal year on the I/3 system to determine whether there are accruals to be included in the GAAP package. The Department should also consider whether the request for payment forms submitted by subrecipients related to the Public Assistance disaster grants should be modified to contain a section to clearly document the period covered by the expenditures for which funds are being requested.

The Department should also ensure payments made to other state departments are properly coded as transfers out rather than expenditures.

Response and Corrective Action Planned–

- (a) The Public Assistance (PA) payment form is being modified to include a section to document the period covered by the expenditures for which funds are being requested. PA staff will review the in-house payment requests paid or received after July 10 to determine any accruals that should be reported on the GAAP Package. Additionally, PA staff is developing a one-page form which will be sent out to applicants with open approved project worksheets at the end of the fiscal year requesting the dollar amount of expenditures incurred by June 30 of that fiscal year but not yet requested for payment. These accruals will also be included on the GAAP Package accordingly.
- (b) Accounting staff have been made aware of DAS-SAE accounting procedures for the proper coding of transfers vs. expenditures, and this coding is now being used.

Conclusion–Response accepted.

June 30, 2009

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

- (1) Financial Reporting – The Department records receipts and disbursements on the Integrated Information for Iowa (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 (DASSAE) on a GAAP package. The GAAP package is to be submitted to DAS–SAE by the first week of September each year.
- (a) The Department uses a cut off date of July 10 for coding expenditures to the fiscal year on the I/3 system. The Department does not review claims paid after this date to determine whether the claims are for expenditures related to the previous fiscal year and should be included on the GAAP package. At June 30, 2009, there was approximately \$20 million in requests for payments submitted by subrecipients related to fiscal year 2009 for the Public Assistance disaster grants which were not identified as accruals and reported in the GAAP package. In addition, the request for payment form used by the Department does not include a section for the subrecipient to clearly document the period covered by the expenditures for which funds are being requested. This was properly adjusted for reporting purposes.
- (b) Payments of approximately \$7.7 million to the Iowa Department of Transportation and the Iowa Judicial Branch were coded as expenditures rather than transfers between state departments. This was properly adjusted for reporting purposes.

Recommendation – The Department should develop policies and procedures to evaluate claims charged to the next fiscal year on the I/3 system to determine whether there are accruals to be included in the GAAP package. The Department should also consider whether the request for payment forms submitted by subrecipients related to the Public Assistance disaster grants should be modified to contain a section to clearly document the period covered by the expenditures for which funds are being requested.

The Department should also ensure payments made to other state departments are properly coded as transfers out rather than as expenditures.

Response–

- (a) The Public Assistance (PA) payment form is being modified to include a section to document the period covered by the expenditures for which funds are being requested. PA staff will review the in-house payment requests paid or received after July 10 to determine any accruals which should be reported on the GAAP package. Additionally, PA staff are developing a one-page form which will be sent out to applicants with open approved project worksheets at the end of the fiscal year requesting the dollar amount of expenditures incurred by June 30 of that fiscal year but not yet requested for payment. These accruals will also be included on the GAAP package accordingly.
- (b) Accounting staff have been made aware of DAS-SAE accounting procedures for the proper coding of transfers versus expenditures, and this coding is now being used.

Conclusion–Response accepted.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2009

- (2) 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.

Military Division

(a) The following errors were noted for capital asset additions:

- (1) Two asset additions for \$18,920 were assets purchased in a prior fiscal year.
- (2) Two capital asset purchases for \$12,295 were not included as additions on the asset listing.
- (3) The capitalized cost did not equal actual asset acquisition cost for three asset additions, understating additions by \$4,574.
- (4) One asset addition for \$101,095 was previously capitalized as part of building additions.
- (5) Accumulated depreciation and depreciation expense calculated on current year additions were overstated by \$3,324.

(b) Amounts reported in the GAAP package for disposal of assets and the associated accumulated depreciation were understated by \$570,334. This was properly adjusted for reporting purposes.

Homeland Security and Emergency Management Division

Accumulated depreciation was calculated incorrectly, overstating depreciation expense and accumulated depreciation by \$23,639.

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 and depreciation expense is properly calculated and recorded. Amounts should be accurately reported in the GAAP package.

Response—The Department has a policy in place which requires all assets be properly recorded and accounted for in a capital asset listing. Procedures will be reviewed and personnel will be trained to ensure procedures are followed and assets are properly accounted for and the GAAP package is accurate.

Conclusion—Response accepted.

- (3) Payroll – Departments process and record payroll and personnel information on the Human Resource Information System (HRIS).

Three individuals have the ability to apply multiple levels of approval to timesheets.

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 for timesheets.

Response – The Department has segregated the duties as much as possible while limiting the overall access to confidential payroll information to as few as possible. It has been our policy those who have multi-level approval authority only apply one level approval unless other approvers are absent so employees are paid in a timely manner.

Conclusion—Response accepted.

June 30, 2009

Other Findings Related to Internal Control:

- (1) Payroll – Two administrative leave days were authorized by the Adjutant General for December 26, 2008 and January 2, 2009. These days were applicable to all federal full-time employees of the Iowa National Guard.

Eighteen state employees originally recorded holiday pay on their timecards for the two administrative leave days. Timecards were subsequently amended to reflect regular time worked for these days when the validity of the holiday pay was questioned by the payroll administrator.

Recommendation – Time originally recorded as holiday pay subsequently changed to hours worked should be charged as vacation for the employees involved. The Department should seek the advice of the Office of Attorney General for resolution.

Response – There was a new time keeper at the Sioux City Air Base. She thought State employees had the same holiday schedule the federal employees had and, therefore, initially recorded state employees as using holiday time on days they actually worked. The time keeper has been since trained in the correct manner to record state employee time.

Conclusion – Response acknowledged. The Department should review the affected timesheets and take appropriate corrective action as necessary.

- (2) Purchasing Cards – The Purchasing Card is a MasterCard credit card issued by Commerce Bank to the State of Iowa. The purpose of the Purchasing Card Program is to establish a faster, more cost-effective method for purchasing and payment. The Iowa Department of Administrative Services (DAS) implemented policies and procedures governing the program.

The DAS Purchasing Card policy requires a cardholder to be an employee of the State of Iowa, who is designated by their supervisor and approved by the Agency Administrator, to utilize the Purchasing Card to purchase supplies and/or goods. The cardholder is subject to single transaction limitations and a monthly limit. Each purchase must be supported by a receipt or other supporting documentation. Cardholders may only hold one card. A card without the cardholder's signature in the signature block is technically an invalid card.

The DAS Purchasing Card policy requires an Agency Administrator to be designated within the Agency for questions, issues and administration of the program. The Agency Administrator should keep an active and historical listing of all purchasing cards and limitations.

A review of purchasing card transactions identified the following:

Military Division

For one of twelve months tested, payment was made after the statement due date.

For two of twelve months tested, the reconciliation was performed more than thirty days after receipt of the invoice.

Homeland Security and Emergency Management Division

For two of twelve months tested, payment was made after the statement due date.

For one of twelve months tested, the reconciliation was performed more than thirty days after receipt of the invoice.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2009

Recommendation – The Department should establish procedures to ensure timely payment and a timely reconciliation process.

Response – The Department will monitor payments to ensure payments are made promptly. The reconciliation delays were due to lack of a backup at the site of the card holder. The area has assigned a backup person to complete the credit card reconciliation. The card control person will make every effort to ensure receipts are received from the various cardholders in a timely manner so reconciliations can be completed in a timely manner.

Conclusion–Response accepted.

Finding Related to Statutory Requirements and Other Matters

Biennial Reports–Chapter 7A.3 of the Code of Iowa requires the Adjutant General to file a biennial report in each even-numbered year. The reports shall cover the biennial period ending June 30 and shall be filed as soon as practicable after the end of the reporting period. The Adjutant General is also required to file summary reports relating to the Department's operations for the preceding fiscal year in each odd-numbered year. Such reports are to be filed as soon as practicable after June 30 of each odd-numbered year. Biennial reports are to be as detailed as may be required by the governor, or in case the reports are to be filed with the general assembly, the presiding officers of the two houses of the general assembly. The Department prepares annual reports rather than biennial reports and the fiscal year 2008 report was filed in March 2009 and the fiscal year 2009 report was filed in April 2010.

Recommendation–The Adjutant General should comply with this chapter of the Code of Iowa.

Response–The Department's goal is to have the annual reports compete by January 31, following the close of each fiscal year. Emphasis will be placed on accomplishing this goal in future years.

Conclusion–Response accepted.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2009

Staff:

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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