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NEWS RELEASE

FOR RELEASE

June 27, 2003

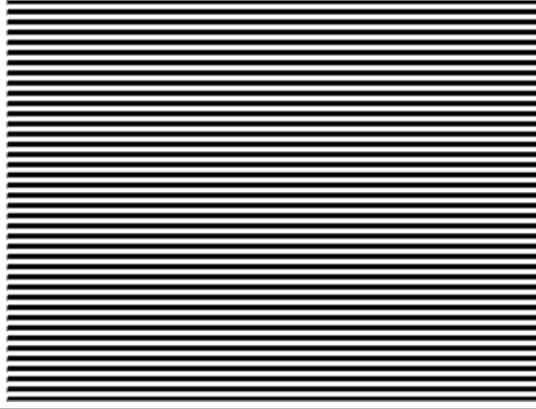
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Public Defense for the year ended June 30, 2002.

The Iowa Department of Public Defense is composed of the Military Division and the 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 Emergency Management Division is responsible for disaster preparedness and relief coordination throughout the state.

A copy of the report is available for review in the Iowa Department of Public Defense or the office of Auditor of State.

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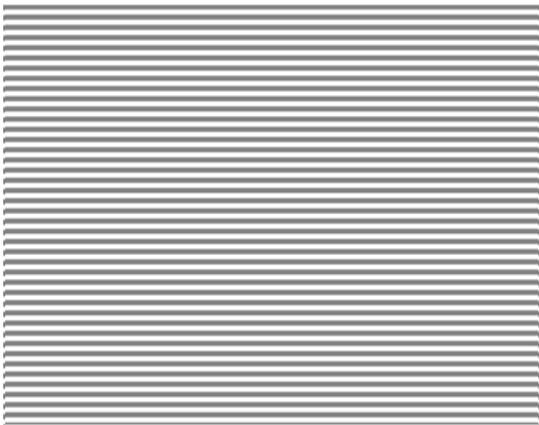
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF PUBLIC DEFENSE**

JUNE 30, 2002

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



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June 18, 2003

To Major General Ron Dardis, 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, 2002.

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. The recommendations include those which have been reported within the State's Single Audit Report, as well as recommendations pertaining to the Department's internal control, which we believe you should be aware of. 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 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 any 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 11 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2002

Findings Reported in the State's Single Audit Report:

CFDA Number: 12.402 – National Guard Special Military Operations and Projects

Master Cooperative Agreement: DAHA13-00-2-3048

Federal Award Year: 2002

Iowa Department of Public Defense – Military Division

02-III-DOD-582-1

- (1) CIVIC – A cooperative agreement was entered into between the National Guard Bureau and the State of Iowa for a Consolidated Interactive Virtual Information Center (CIVIC). The cooperative agreement established a relationship between the United States Government and the State of Iowa. Cooperative agreements are designed as legal documents between the State of Iowa and the National Guard Bureau and are not intended to directly benefit a federal agency such as the U.S. Army or U.S. Air Force.

The CIVIC program was supported by the Iowa Technology Center (ITC), an entity formed by the Iowa Department of Public Defense and International Simulation & Training Systems (ISTS) in August, 1999 through the use of an Iowa Code chapter 28E agreement.

Beginning in November 2000 and continuing through the fiscal year ended June 30, 2002, the cumulative amount expended for the CIVIC project totaled \$19,220,044. Expenditures for the year ended June 30, 2002 totaled \$12,459,644. Of this amount, \$11,275,861 was paid to ISTS during the fiscal year ended June 30, 2002 under the ITC operating agreement.

At the request of the United States Property and Fiscal Officer (USPFO), the National Guard Bureau performed an internal review and issued a final memorandum report to USPFO of Iowa on October 1, 2002. This memorandum concluded that, based on a revised visual analysis of costs for the period from October 1, 2001 through May 31, 2002, the State of Iowa had overcharged the CIVIC Cooperative Agreement by \$8,707,898. Some of the items in question included costs associated with the ISTS/ITC office in Arizona, marketing, homeland security, commercial business group, Christmas parties for the staff, and costs for individual retirement accounts. Additionally, because the CIVIC program began to involve entities other than the Iowa National Guard, such as the U.S. Army and U.S. Air Force, the Cooperative Agreement was no longer deemed to be the appropriate vehicle to provide funding for the program.

The CIVIC program was ended in September 2002 due to questions involving contractor reimbursements identified above, as well as the assertion that the original cooperative agreement was no longer the appropriate legal document to continue the CIVIC program.

The CIVIC program is currently under investigation by the Defense Criminal Investigative Service of the Department of Defense Office of Inspector General.

Due to the items noted above, costs of \$12,459,644 for the year ended June 30, 2002 are questioned.

Vendor payments were reviewed and approved by officials from both the Department and the USPFO. However, the controls in place were not effective to help prevent or detect potential questioned costs due to lack of sufficient detailed documentation.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2002

Recommendation – The Department should review the questioned costs and seek the assistance of the Iowa Attorney General to resolve this matter. Additionally, the Department should identify risk factors associated with vendor contracts and require detailed documentation.

Response and Corrective Action Planned – The Attorney General’s Office is involved in a contracting review with Defense Criminal Investigative Services. The findings and recommendations of these committees will be supported and implemented in future agreements involving the Department of Public Defense.

Conclusion – Response acknowledged. Regardless of the contractor, risk factors should be identified and sufficient detailed documentation required.

CFDA Number: 12.401 – National Guard Military Operations and Maintenance (O&M) Projects

Master Cooperative Agreement: DAHA13-01-2-1000

Federal Award Year: 2002

Iowa Department of Public Defense – Military Division

02-III-DOD-582-2

- (2) Compliance with Cash Management Improvement Act – The Cash Management Improvement Act (CMIA) agreement between the State of Iowa and U.S. Treasury for CFDA number 12.401 states that this program is on a reimbursable funding basis. “The state is required to submit a request for payment based on past expenditures within 14 days of those expenditures. The state will begin calculating a federal liability from the day the funds are disbursed until federal funds are received.”

Payroll drawdowns for the year were reviewed. For eight of twenty-six pay periods, payroll expenses for Security and Crash and Rescue were requested and received before the payroll warrants were issued. Also, for four of twenty-six pay periods, the request for reimbursement was submitted from fifteen to twenty eight days after the end of the pay period.

Recommendation – The Department should ensure that federal funds for payroll are requested on a reimbursement basis. In addition, the Department should request federal reimbursements on a timely basis.

Response and Corrective Action Planned – The Division is striving to put procedures in place to change the State/Federal Cooperative Agreement to an advance payment method. To insure compliance with Federal regulations the Division has had to develop new reports. Therefore, the October 1, 2002 deadline was not met. It is the intent of the Military Division to have these procedures in place October 1, 2004.

Conclusion – Response acknowledged. We will review progress at the time of the next audit.

June 30, 2002

**CFDA Number: 12.401 – National Guard Military Operations and Maintenance
(O&M) Projects**

Master Cooperative Agreement: DAHA13-00-2-1000

Federal Award Year: 2002

Iowa Department of Public Defense – Military Division

02-III-DOD-582-3

- (3) Master Cooperative Agreement Appendices – OMB Circular A-133 requires proper monitoring of disbursements of federal funds. The Military Division signs appendices to the master cooperative agreement to provide services. The appendices become part of the master agreement. The state fiscal office should be comparing the total expended to the appendices to ensure the project is on target and on budget. Additionally, the state fiscal office receives cooperative agreement modifications (CAM) that indicate approved increases and decreases.

The state fiscal office is not receiving the appendices on a timely basis, usually not until after the closeout of the particular appendices. Therefore, no one at the fiscal office is ensuring that expenditures do not exceed budgeted amounts for each appendix. Additionally, the Department is not necessarily receiving the CAM's prior to exceeding the funding limitation.

Recommendation – The state fiscal office should ensure it receives copies of the master cooperative appendices and monitors disbursements to ensure they do not exceed the authorized amounts. Additionally, the Department should insure they received a properly approved CAM prior to exceeding the funding limitation.

Response and Corrective Action Planned – The Military Division's Fiscal Staff is working with the United States Property and Fiscal Office Iowa to develop procedures to insure the requirements of OMB Circular A-133 are met. The receipt of appendices by the state fiscal office has improved from previous years, however, our goal is to have further improvements made by October 1, 2003.

Conclusion – Response acknowledged. We will review procedures at the time of the next audit.

CFDA Number: 12.402 – National Guard Special Military Operations and Projects

Master Cooperative Agreement: DAHA13-01-2-3048

Federal Award Year: 2002

Iowa Department of Public Defense – Military Division

02-III-DOD-582-4

- (4) Request for Reimbursement – The Master Cooperative Agreement for the National Guard Special Military Operations and Projects states that for those states on a reimbursement basis, as Iowa is, the states shall expend the funds prior to requesting reimbursement from the federal government. During a review of the drawdowns for the year, for 23 of 29 draws tested, state funds were not expended prior to the request for reimbursement from the federal government.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2002

Recommendation – The Department should ensure that state funds are being spent prior to requesting reimbursement from the federal government in accordance with the Master Cooperative Agreement. If it is not feasible for the state to expend funds prior to requesting federal reimbursement due to the large dollar amount of the expenditures, the state should work with the United States Property and Fiscal Office to begin receiving federal funds on an advancement basis.

Response and Corrective Action Planned – The Military Division is developing procedures for an advance payment method rather than reimbursement method. These procedures will be “phased in” by appendix numbers, and are expected to be completed October 1, 2004.

Conclusion – Response acknowledged. We will review progress at the time of the next audit.

CFDA Number: 12.402 – National Guard Special Military Operations and Projects

Master Cooperative Agreement: DAHA13-00-2-3048

Federal Award Year: 2002

Iowa Department of Public Defense – Military Division

02-III-DOD-582-5

- (5) Equipment – National Guard Regulation (NGR) 5-1, section 8.2c, states “Equipment purchased by the State Military Department for use under a National Guard Cooperative Agreement becomes the property of the State Military Department upon acquisition by the State, and the ownership of such equipment vests with the State Military Department.” The CIVIC program was ended in September 2002. The Department of Public Defense took possession of equipment and began identifying it as State of Iowa Property. Prior to this, equipment was not identified as belonging to the State of Iowa and was not reported as capital assets.

Recommendation – The Department should ensure that all equipment belonging to the State of Iowa and acquired under a cooperative agreement is identified and accounted for in accordance with NGR 5-1 and Iowa Code Chapter 7A.30.

Response and Corrective Action Planned – The Department has procedures in place to account for all equipment purchased through cooperative agreements. The Military Division had created and filled an additional position for use by the State Quartermaster to ensure state property is properly accounted for. It is the intent of the Department to comply with NGR 5-1 and Chapter 7A.30 of the Code of Iowa.

Conclusion – Response accepted.

June 30, 2002

Findings Related to Internal Control:

- (1) Capital Assets – Chapter 7A.30 of the Code of the Iowa requires each department and division of state government to maintain an accurate, up-to-date inventory of all real and personal property belonging to the state and under their charge, control, and management.

The following findings concerning the Military Division were noted:

- a) Certain building improvements were excluded from capital assets because costs were accumulated by project, not necessarily by building. Projects of less than \$50,000 were not included in buildings even though the cumulative amount by building may have exceeded \$50,000.
- b) Certain capital assets such as sewer systems were classified as building improvements. These assets may better be classified as infrastructure and would not be included in capital assets since they fall below the established capitalization threshold.
- c) The Department incorrectly classified building adjustments of \$76,683 as additions. In addition, an unsupported adjustment of \$48,837 was made to buildings on the GAAP Package so that the ending balance would reflect the balance shown on the capital asset listings for buildings.
- d) Three of fifteen assets tested for existence were not properly tagged. In addition, all three had no tag number noted on the asset listing.

The following findings concerning Emergency Management were noted:

- e) A portion of the accumulated depreciation attributable to capital asset deletions of \$89,889 was not eliminated.
- f) One asset for \$19,772 was incorrectly included twice as an addition and deletions totaling \$76,355 were not eliminated. Instead, an unsupported adjustment of \$96,127 was shown on the GAAP Package for these items.
- g) Four of eight assets acquired in FY02 were not properly tagged. In addition, these assets were not included on the capital asset listing.

Recommendation – Prior to submitting the GAAP Package, the Emergency Management Division and the Military Division should ensure that all capitalized assets are added to the capital asset listing and are properly tagged to identify the asset as State of Iowa property. Deleted assets should be removed from the capital asset listing. Additionally, adjustments to capital assets should be supported.

Response –

Military Division

- a) Prior to the preparation of the GAAP Package, our staff and a member of the Iowa Department of Revenue and Finance GAAP team made a decision to report building improvements greater than \$50,000 separately – not adding to the cost of the building, due to the way our system identifies them. Our system is flexible and can add improvements to cost of buildings and etc. We will begin to report improvements by contract which may include multiple projects for one location.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2002

- b) A member of the GAAP team had us move land improvements to building improvements after the GAAP Package was submitted.
- c) Adjustments to real property are made by the Facilities and Construction Department. All adjustments are verified with documentation. The Department is using a GIS/GPS system to support adjustments (form 1354).
- d) Two items are lost and one item is relocated. We are still investigating.

Emergency Management

- (e-g) The Iowa Emergency Management Division agrees with the recommendations of the Auditor and will implement procedures to ensure capital asset processes are sufficient to properly account for those items.

Conclusion –

Military Division

- a) Response accepted.
- b) Response acknowledged. Governmental Accounting Standards Board Statement Number 34, paragraph 19 provides examples of infrastructure assets. Infrastructure assets include sewer systems.
- c) Response acknowledged. The Military Division should work with the Department to ensure that capital asset additions and adjustments are classified correctly, adequately supported and properly reported.
- d) Response accepted.

Emergency Management

- (e-g) Response accepted.

- (2) Compliance with OMB Circular A-87 – OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, states “where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.” In addition, the Circular states “where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by period certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually.”

Appropriate time distribution records have not been maintained (i.e. timesheet, time studies, output studies) for Department employees who allocate time between one or more federal programs. Also, the Department did not obtain semi-annual certifications from those employees working solely on a single federal award program or cost objective.

Beginning with the first payroll period in fiscal year 2003, the Department partially implemented the “WORK” reporting system within the Human Resource Information System (HRIS).

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2002

Recommendation – The Department should continue with the implementation of the “WORK” system in order to maintain appropriate time distribution records to support payroll distribution costs among federal programs. In addition, the Department should obtain semi-annual certifications from those employees who work solely on a single federal award program or cost objective.

Response – Beginning with the first payroll in state fiscal year 2003, the “WORK” reporting system in the Human Resource Information System (HRIS) was implemented to meet the requirement of employees maintaining time distribution records. All employees of the division, whether they work on multiple activities or just one single federal award, are required to complete their work report each pay period before approving their timesheet. By having every employee certify the number of hours worked for each activity every pay period, the intent of the “personnel activity reports” regulation in OMB A-87 has been met.

OMB A-87 has the additional requirement of “At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent”.

At this time, EMD has not been able to complete the quarterly comparisons. We have pursued, to no avail, the ability to download the electronic data from the “WORK” system through the Information Technology Department (ITD). Without this data, we will make the comparison and adjustments manually. We continue to address the issue of receiving this data through ITD. Once we are able to obtain the data, EMD will make the proper adjustments to the charged costs. Additionally, it is anticipated that once the new payroll system is implemented through the State’s I/3 project, the need for cost redistribution will be obsolete. Based on information received through the I/3 Advisory Group meetings, we anticipate that the new I/3 payroll system will automatically redistribute personnel costs each pay period, based on the employee’s actual work activity.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Public Defense

June 30, 2002

Staff:

Questions or requests for further assistance should be directed to:

Joe T. Marturello, CIA, Manager
Ernest H. Ruben Jr., CPA, Senior Auditor II
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