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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE July 23, 2003

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

The Information Technology Department is mandated by statute to foster the development and application of information technology to improve the lives of Iowans.

Vaudt recommended that the Department implement procedures to strengthen controls over capital assets, develop a written policies and procedures manual for all accounting transaction cycles and maintain documentation to support billing rates.

A copy of the report is available for review at the Information Technology Department or the Office of Auditor of State.

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REPORT OF RECOMMENDATIONS TO THE INFORMATION TECHNOLOGY DEPARTMENT

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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David A. Vaudt, CPA
Auditor of State

June 30, 2003

To John Gillispie, Chief Operating Officer,
Information Technology Department:

The Information Technology Department is a 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 pertain to the Department's internal control, compliance with statutory requirements and other matters 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 Information Technology Department, citizens of the State of Iowa and other parties to whom the Information Technology Department 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 9 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

Information Technology Department

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

(1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has the ability to enter and approve purchase orders on IFAS, record deletions from the capital asset inventory and reconcile capital assets.

Recommendation – We realize that with a limited number of Department employees, segregation of duties is difficult. However, the Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Information Technology Department (ITD) will modify the employee's duties to allow for proper segregation of duties.

Conclusion – Response accepted.

(2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of state government to maintain a written, detailed and up-to-date inventory of property under its charge and control.

The Department maintains two computer programs for its capital assets. One program records capital asset activity for the year and the other program (the depreciation system) calculates depreciation expense and reports the total accumulated depreciation for each capital asset. The following were noted:

(a) Nineteen assets that were fully depreciated prior to fiscal year 2002 had depreciation expense recorded in the current fiscal year in error.

(b) Forty-three assets that were fully depreciated prior to fiscal year 2002 were not included on the depreciation system.

(c) Three assets that should have been fully depreciated by June 30, 2002, were not fully depreciated.

(d) For eight assets deleted during the current fiscal year, the depreciation system did not calculate the current year depreciation expense for those assets or the correct accumulated depreciation amount prior to the deletion.

(e) Seven assets that were still in the Department's possession were not included on the depreciation system and accumulated depreciation was not reported for these items.

Recommendation – The Department should combine the functionalities of the two computer programs to account for capital assets or perform a reconciliation between the two programs to ensure that the information is complete and accurate. The Department should continue to take a complete physical inventory of its capital assets and reconcile this information to the computer system information. In addition, depreciation expense and accumulated depreciation amounts for each capital asset should be reviewed to ensure that the computer program is calculating amounts accurately.

Response – One computer program is maintained for capital assets. As a result in improving the computer program, errors in previous year's depreciation calculations were discovered and identified to the auditors. The Department will take steps to ensure that depreciation expense calculations are complete and accurate. The Department will review its procedures for reconciling results of physical inventories to its capital asset records.

Conclusion – Response accepted.

(3) Written Accounting Procedures – Written policies and procedures aid current and new employees in discharging accounting responsibilities and provide employees written management expectations. The Department has not completed a written policies and procedures manual for all accounting transaction cycles.

Recommendation - The Department should complete and provide an accounting policies and procedures manual to all accounting staff.

Response – ITD has prepared written procedures on many job tasks. These are stored in the Department's LAN library. The Department recognizes that not all procedures are documented and will take steps to ensure that a complete accounting policies and procedures manual is available to all accounting staff.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

(1) Leases –

(a) Capital Lease – One lease for a server was reported as an operating lease on the Department's GAAP package when it should have been reported as a capital lease.

(b) Operating Leases –

(1) Six operating leases with remaining terms of less than one year at June 30, 2002 were reported on the GAAP Package resulting in an overstatement of $84,693 for the FY03 future lease obligations.

(2) Future lease payments were miscalculated for one lease due to recording the incorrect ending lease date when projecting future lease obligations. This resulted in overstating future lease obligations on the GAAP Package by $34,432 in FY04 and $172,162 in FY05.

(3) Future lease obligations for office space rental were not included on the operating lease schedule in the GAAP Package resulting in an understatement of future lease obligations of $61,922 annually through December 31, 2005.

(c) Other - Leases with Xerox for two printers that were entered into during the year ended June 30, 2002 were not included in the GAAP Package.

Recommendation – The Department should develop procedures to ensure that leases are properly classified and reported on the GAAP Package.

Response – The Department will review lease classification requirements and institute steps to ensure that leases are properly reported on the GAAP Package.

Conclusion – Response accepted.

(2) Billing Rates – The Department charges other state agencies for information technology services (i.e. mainframe, network, security services, et al). The methodology used to determine the billing rates for each type of service is not documented. In addition, the Department increased billing rates for fiscal year 2002 by 15%. However, the basis for this increase was not documented.

The Department indicated that the rates are established to recover costs. However, an analysis of costs and revenues for each type of service was not provided.

Recommendation – The Department should prepare an analysis or other documentation to support the billing rates used to bill other state agencies.

Response – ITD will strive to document the methodology used to determine billing rates in the future. ITD will be reexamining all rates within the next fiscal year as part of the new Department of Administrative Services. Additionally, during FY 2004, the Department will begin to document an analysis of cost and revenues by type of service.

Conclusion – Response accepted.

(3) <u>Contracts</u> – Certain contracts entered into between the Department and various private companies/consultants are the subject of an ongoing review. Additional findings, if any, will be included in a separate report that will be issued upon completion of the review.

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Shawn P. Limback, CPA, Staff Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Ernest H. Ruben, Jr., CPA, Senior Auditor II
Daniel L. Durbin, CPA, Staff Auditor
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Jake P. Keegan, Assistant Auditor
Jedd D. Moore, Assistant Auditor