

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

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NEWS RELEASE

FOR RELEASE

September 13, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2010.

The Department's purpose is to enhance the economic development of Iowa and provide for job creation and increased prosperity and opportunities for citizens.

A copy of the report is available for review in the Iowa Department of Economic Development, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1160-2690-0R00.pdf>.

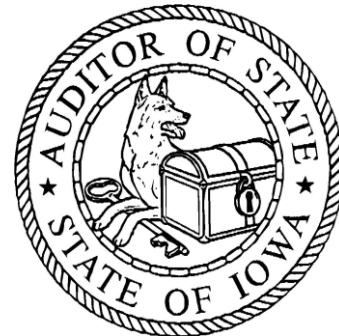
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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT**

JUNE 30, 2010

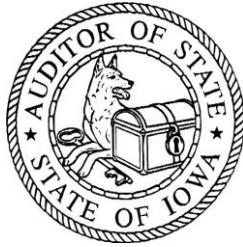
Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
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1160-2690-0R00



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September 7, 2011

To Deborah V. Durham, Director of the
Iowa Department of Economic Development:

The Iowa Department of Economic Development 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, 2010.

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 Economic Development'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 Economic Development, citizens of the State of Iowa and other parties to whom the Iowa Department of Economic Development 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 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

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2010

Findings Reported in the State's Single Audit Report:

CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

Agency Number: B-08-DF-19-0001

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 10-III-HUD-269-1

- (1) Eligibility – Under the housing programs and business assistance programs, eligible recipients include either individuals or businesses located within a presidentially declared disaster area which sustained economic damage resulting from the 2008 disasters. The recipients of benefits from the housing and business assistance programs must upload the application and necessary documentation on the Department’s Service Point database. This documentation included the ‘Consent and Release Form’ and ‘Duplication of Benefits Affidavit.’

Four recipient files tested did not contain a ‘Consent and Release Form’ on the Service Point database. In addition, one instance was noted in which the Service Point database did not contain the proper documentation for duplication of benefits.

Recommendation – The Department should establish procedures to monitor the disaster recovery housing and business assistance programs to ensure funds are properly awarded.

Response and Corrective Action Planned – The Department’s general process is to verify the Consent and Release Form and Duplication of Benefits Affidavit is uploaded prior to conducting a duplication of benefit check. However, the Department is working with the Recipient (Cedar Rapids) to review all business files and obtain any missing documentation and conduct duplication of benefits checks as necessary.

Conclusion – Response accepted.

CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

Agency Number: B-08-DC-19-0001, B-09-DC-19-0001, B-10-DC-19-0001

Federal Award Year: 2008, 2009, 2010

CFDA Number: 14.255 – ARRA-Community Development Block Grants/State’s Program Non-Entitlement Grants in Hawaii (Recovery Act Funded)

Agency Number: B-09-DY-19-0001

Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 10-III-HUD-269-2

- (2) Subrecipient Monitoring – Under the Community Development Block Grant (CDBG) program, housing rehabilitation grants may only be awarded to local governments. A local government may administer the program or may enter into a subrecipient agreement with an administrative entity, such as a Council of Governments, to administer the program. When a local government enters into such an agreement, the government effectively passes down all federal requirements of the program to the

Report of Recommendations to the Iowa Department of Economic Development

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administrative entity, except for approving final reports and requesting funds. The agreement may not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the local government is responsible for monitoring the administrative entity for compliance with CDBG program and OMB Circular A-133 requirements.

The Department has not appropriately identified the relationship between the local governments and Council of Governments administering the program as a subrecipient relationship. The Department defined activities performed relating to general administration and technical services activities as a vendor relationship. However, the guidelines adopted for general administration and technical services include activities of a subrecipient.

In addition, adequate monitoring of the Council of Governments is not performed when the Council of Governments is a subrecipient.

Recommendation – The Department should adopt or revise policies and procedures to reflect subrecipient monitoring procedures required under OMB Circular A-133. Also, the Department should establish procedures to evaluate the relationship between local governments and Council of Governments to properly identify subrecipient versus vendor relationships.

Response and Corrective Action Planned – The Department is currently working with the Iowa Association of Regional Councils and the Office of Auditor of State to determine the most compliant methodology to permanently resolve this ongoing issue. We hope to reach resolution and implementation by the end of fiscal year 2011.

Conclusion – Response accepted.

CFDA Number: 14.239 – HOME Investment Partnerships Program
Agency Number: M-08-SG-19-0001, M-09-SG-19-0001, M-10-SG-19-0001
Federal Award Year: 2008, 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HUD-269-3

- (3) Period of Affordability – The Code of Federal Regulations, 24 CFR 92.252, requires the Department to perform on-site inspections to determine compliance with property standards and verify tenant income information submitted by property owners. The frequency of the visits is dependent of the number of units. The Department has established a database to track the status of projects.

Eight instances were noted in which the current certification documentation was not maintained in the long-term monitoring files. Also, three instances were noted where the database contained incorrect dates compared to documentation maintained in the long-term monitoring files. In addition, four instances were noted indicating no record of a recent physical on-site inspection was performed in compliance with the Department's inspection schedule.

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Recommendation - The Department should establish procedures to ensure compliance with the period of affordability requirements.

Response and Corrective Action Planned -- The Department acknowledges the instances noted in the above comment but is unable to take corrective action. The HOME program was transferred to the Iowa Finance Authority (IFA) effective July 1, 2010 as per Executive Order of the Governor. Prior to the transfer, the Department trained IFA staff on existing policies and procedures for long-term compliance monitoring. IFA has since adopted its own policy and procedures when dealing with long-term monitoring of HOME projects.

Conclusion – Response accepted.

CFDA Number: 14.255 – ARRA-Community Development Block Grants/State’s Program Non-Entitlement Grants in Hawaii

Agency Number: B-09-DY-19-001

Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 10-III-HUD-269-4

- (4) Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant, including advising the recipient of the correct CFDA number.

The Department did not properly advise the recipients of the correct CFDA number.

Recommendation – The Department should ensure subrecipients are provided the correct CFDA number.

Response and Corrective Action Planned - The Department has since revised the single audit letters sent to ARRA recipients to include the correct CFDA number. These letters will be used in the mailing that will go out to recipients in June 2011 and forward.

Conclusion - Response accepted.

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

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 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 Department overstated the amount of contractual commitments reported in the GAAP package by \$8,739,037. This was properly adjusted for reporting purposes.

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

Response – In the future, the Department will accurately report contractual commitments on the GAAP package.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

- (1) Loan Receivables – The Department provides loans and forgivable loans through various programs. A review of the loan receivable activity identified the following:
 - (a) Each forgivable loan included in the ITRAC database has an “End Date,” which is the date the Department makes a decision as to whether the loan should be forgiven. For the CEBA, VAAP, PIAP, ARC and FES loan programs, numerous instances were noted where the “End Date” listed on the loan repayment database (LRD) was prior to June 30, 2010. However, decisions had not been made and/or documented by the Department as to whether the loans had been forgiven. As a result, the loan receivable balances and the related allowance for doubtful accounts could be overstated at June 30, 2010.
 - (b) A Brownfields loan had been forgiven. However, the amount was not properly reduced on the LRD system, resulting in an overstatement of loans receivable of \$100,000 at June 30, 2010.
 - (c) The Department reports loans receivable which are classified as non-current and current receivables. The Department utilizes a report from the LRD system to determine current receivables based on payments which are expected to be received within the next fiscal year. The Department’s LRD system did not properly calculate the current receivable for instances in which the payment amount changed due to changes from interest only payments to principal and interest payments or changes due to restructuring of a loan. Various misstatements were identified for the classification of current vs. non-current receivables.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2010

Recommendation –

- (a) The Department should develop and implement procedures to ensure forgivable loans are analyzed by the “End Date”, a decision is made and documented as to whether the loan is forgiven and the LRD system is updated accordingly.
- (b) The Department should develop and implement procedures to account for the loans receivable on the LRD upon the forgiveness of the loans.
- (c) The Department should ensure the LRD system reflects the correct payments.

Response –

- (a) The Department continues to show improvement in this area each fiscal year. We will continue to work with the compliance team to expedite the close out process for all forgivable loans as their project completion date nears.
- (b) This was an internal communication error. The project manager responsible for this close out inadvertently forgot to provide a copy to accounting. We will work close with this project manager to make sure they provide accounting with the necessary paperwork to accurately update the LRD system.
- (c) The Department continues to review various new loan systems as funding levels allow to replace the aging LRD system. We anticipate to begin work on a new system by the start of calendar year 2012.

Conclusion – Response accepted.

- (2) Foundation Segregation of Duties – The Iowa Department of Economic Development Foundation is a separate, nonprofit corporation incorporated under Iowa Code Chapter 504A. The purpose of the Iowa Department of Economic Development Foundation is “receiving and disbursing funds from public or private sources to be used to further the overall development and well-being of the State.” One individual is responsible for the following:
- (a) Petty Cash – The petty cash custodian is not prohibited from handling more than one fund or other cash receipts.
 - (b) Investments – The individual responsible for the detailed record keeping of investments is not independent of the custodian. Additionally, investment records are not periodically inspected by an individual having no responsibility for the custody or record keeping of investments.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, control activities should be reviewed to obtain the maximum internal control possible under the circumstances. Reviews should be performed by independent persons to the extent possible and should be evidenced by the reviewer’s initials or signature and the date of review.

Response – The Department will institute a separate review of the Foundation petty cash fund in order to maintain sufficient internal control. In addition, the accounting section suffered a 44% staffing loss with the retirement incentive in fiscal year 2010. This, plus the transition of a new administration has made it difficult to maintain proper internal

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control. With the transition stabilizing, the Administration Division will work with the department management to incorporate them to the foundation internal control structure.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Code Compliance – The Department was not in compliance with Chapter 15.103 of the Code of Iowa during the year ended June 30, 2010. This Code section states the Economic Development Board should consist of fifteen voting members and seven ex officio nonvoting members. The Economic Development Board only has thirteen voting members.

Also, the Department was not in compliance with Chapter 15.203 of the Code of Iowa during the year ended June 30, 2010. This Code section created the Agricultural Products Advisory Council. The Council is to consist of five members appointed by the Secretary of Agriculture and five members appointed by the Director of the Iowa Department of Economic Development. The Director has only appointed four members.

The Department was not in compliance with Chapter 15F.102 of the Code of Iowa during the year ended June 30, 2010. The Code section created the Vision Iowa Board. The Board should consist of thirteen members appointed by the Governor, except for the Director of Economic Development, Treasurer of State and Auditor of State. The Vision Iowa Board only consists of twelve members.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa.

Response – The Department will review attendance/appointments and work closely with the Governor's Office in order to maintain compliance with the various statutes governing the IDED Board, APAC and the Vision Iowa Board.

Conclusion – Response accepted.

- (2) Economic Development Board – The Economic Development Board should have fifteen voting members who are appointed by the Governor and seven ex officio nonvoting members. The Department is not in compliance with Chapter 69.15 of the Code of Iowa. This Code section states any member who has been appointed to the Board shall submit a resignation if the individual does not attend three or more consecutive meetings or the individual attends less than one-half of the regular meetings of the Board within any period of twelve calendar months.

One Economic Development Board member was absent for over fifty percent of the meetings and was absent for five consecutive meetings from August to December 2009.

Recommendation – The Department should take steps to ensure the Department complies with the Code of Iowa.

Response – The Department will ensure the statute related to the Department board meeting attendance is more strictly adhered to.

Conclusion – Response accepted.

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- (3) Targeted Small Businesses (TSB) – Section 11.46 of the Code of Iowa requires the Auditor of State to annually conduct a review of whether state agencies are meeting the goal for procurement activities and compliance with the forty-eight hour notice provision included in sections 73.15 through 73.21 of the Code of Iowa.

State agencies utilize the TSB Purchases of Goods and Services report, Report ID: FR194, from the Iowa Integrated Information System (I/3) data warehouse to determine TSB spending to be reported on the quarterly report. The TSB Purchases of Goods and Services report details TSB spending by vendor and identifies the vendor as TSB Women, TSB Minority or TSB Disabled.

Vendors identified as a TSB with multiple TSB designations may be included in the TSB Purchases of Goods and Services report under each designation. Four of the nine state agency TSB Purchases of Goods and Services reports reviewed included duplicate expenses. One of the agencies had already corrected the quarterly reports to eliminate duplicate expenses.

Recommendation – The Department, along with the other state agencies, should ensure accurate information is reported, as well as correcting the I/3 report used to submit quarterly reports.

Response – The Administration Division Administrator will review the reporting work done by the TSB compliance manager to correct deficiencies and timeliness of the required reports.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2010

Staff:

Questions or requests for further assistance should be directed to:

Michelle B. Meyer, CPA, Manager
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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Jessica N. Meierotto, Staff Auditor
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