



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

August 22, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2011.

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

House File No. 590 enacted during the 2011 Legislative session replaced the Iowa Department of Economic Development with the Iowa Economic Development Authority, effective July 1, 2011.

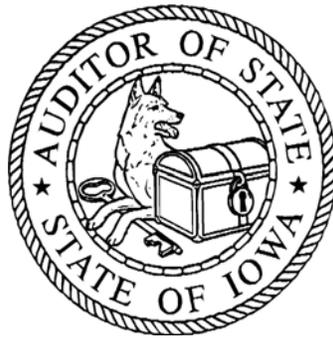
A copy of the report is available for review at the Iowa Economic Development Authority, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1260-2690-0R00.pdf>.

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

JUNE 30, 2011

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



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August 17, 2012

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

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, 2011. House File No. 590 enacted during the 2011 Legislative session replaced the Iowa Department of Economic Development with the Iowa Economic Development Authority, effective July 1, 2011.

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

June 30, 2011

Finding 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-DC-19-0001, B-09-DC-19-0001, B-10-DC-19-0001
B-11-DC-19-0001**

Federal Award Year: 2008, 2009, 2010, 2011

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: 11-III-HUD-269-1

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 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 government and a 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 a local government and a Council of Governments to properly identify subrecipient versus vendor relationships.

Response and Corrective Action Planned – The Department is currently reviewing a proposal submitted by the Iowa Association of Regional Councils regarding the regional distribution of regular CDBG funding. We will consider this and other options in making a final determination. In addition, monitoring procedures will be updated to include a financial review of the Council of Governments when a subrecipient relationship clearly exists.

Conclusion – Response accepted.

June 30, 2011

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

Financial Reporting – The Department records receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services–State Accounting Enterprise (DAS – SAE) in 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:

- (1) The Department overstated the amount of contractual commitments by \$13,700,155. This was properly adjusted for reporting purposes.
- (2) The Department understated the future minimum rental payments by \$113,993 due to the exclusion of the foreign offices. This was properly adjusted for reporting purposes.

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

Response – The Department will strengthen its processes and review regarding contractual commitments, lease costs and overall preparation of the GAAP package to minimize these misstatements in the future.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

- (1) Loans Receivable – 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 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, 2011. However, decisions had not been made and/or documented by the Department as to whether the loans had been forgiven. As a result, the loans receivable balance and the related allowance for doubtful accounts could be overstated at June 30, 2011.
 - (b) 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, 2011

Recommendation - The Department should ensure the LRD system is correctly reporting loan receivable information, including current receivables on all loans.

- (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 ensure the LRD system reflects the correct current and non-current receivable balances.

Response -

- (a) The compliance team has established procedures for the review and subsequent close out of these forgivable loans. While we continue to show considerable improvement over prior fiscal years, we will continue to monitor our processes to reduce the number of instances in future years.
- (b) The payment forecast reports for current loan receivables were not initiated at the proper point in time for fiscal year 2011 and this may have led to the understatement. The General Administration Division Administrator will ensure the reports are run in a timely manner at the end of fiscal year 2012 and compare with the details of this finding. This process should remedy the understatement of current receivables.

Conclusion - Response accepted.

- (2) Foundation Segregation of Duties - The Iowa Department of Economic Development Foundation is a separate, nonprofit corporation incorporated under Chapter 504A of the Code of Iowa. 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 signature or initials and the date of the review.

Response - The Authority is in process of reviewing its organizational structure and needs in the General Administration Division in the respective area responsible for these tasks. It is expected this review will assist in implementing the proper segregation of foundation duties by the end of fiscal year 2013.

Conclusion - Response accepted.

June 30, 2011

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, 2011. 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.

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

Response – With the appointment of a new Iowa Economic Development Authority (IEDA) board in the fall of 2011, the statutory requirement of voting members is now in compliance.

Conclusion – Response accepted.

- (2) 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 I/3 system 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. Five of the eleven state agency TSB Purchases of Goods and Services reports reviewed included duplicate expenses. However, four of the eleven state agencies reviewed adjusted the amounts reported on the quarterly reports to eliminate all or a portion of duplicate expenses reported. In addition, with concurrence of various state agencies, various other duplications were corrected in the report on Targeted Small Business Procurement Goals.

For two of the eleven state agency TSB Purchases of Goods and Services reports reviewed, the FR194 Report included a total of \$210,905 of expenses with a vendor which had been removed from the TSB listing in fiscal year 2005. Two of the eleven TSB Purchases of Goods and Services reports properly included vendors which are certified TSB vendors but were not included on the FR194 report.

In addition, the Department has not established procedures to provide adequate follow-up with state agencies which did not properly submit required quarterly reports or set a TSB procurement goal.

Recommendation – The Department, along with other state agencies, should ensure accurate information is reported, as well as correcting the I/3 report used to submit quarterly reports. Also, the Department should establish procedures to adequately follow-up with state agencies to ensure all required reports are submitted on a timely basis.

Response – The General Administration Division Administrator will assume a more active role in the TSB reporting process to ensure the accuracy and timeliness of the report is improved.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2011

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 in the audits include:

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