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Auditor of State

NEWS RELEASE

FOR RELEASE

August 5, 2013

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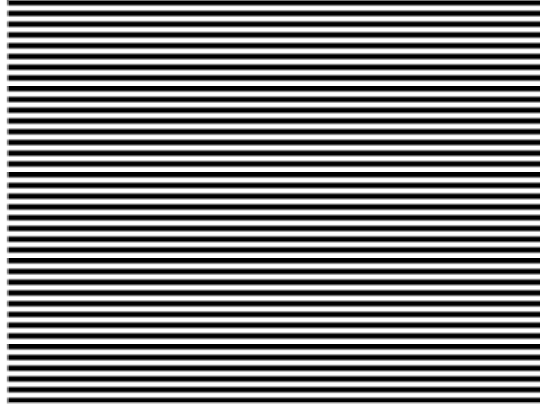
Auditor of State Mary Mosiman today released a report on the Iowa Economic Development Authority for the year ended June 30, 2012.

The Authority'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 and merged the Iowa Office of Energy Independence with the 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/1360-2690-0R00.pdf>.

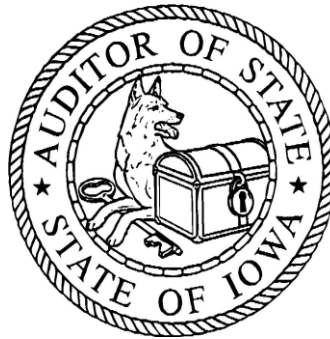
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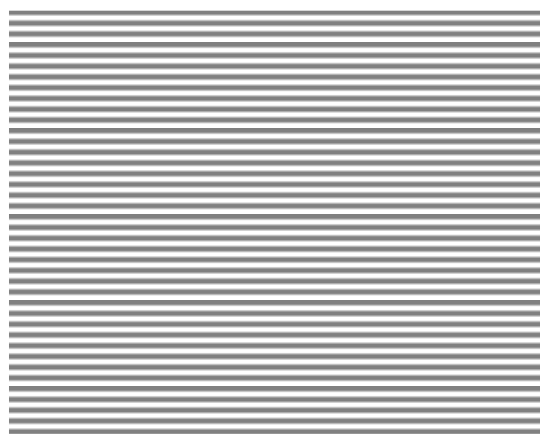
**REPORT OF RECOMMENDATIONS TO THE
IOWA ECONOMIC DEVELOPMENT AUTHORITY**

JUNE 30, 2012

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



Mary Mosiman, CPA
Auditor of State





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July 31, 2013


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


The Iowa Economic Development Authority is a discretely presented component unit 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, 2012. House File No. 590 enacted during the 2011 Legislative session replaced the Iowa Department of Economic Development with the Iowa Economic Development Authority and merged the Iowa Office of Energy Independence with the Authority, effective July 1, 2011.

In conducting our audits, we became aware of certain aspects concerning the Authority'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 Authority's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Authority personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Authority's responses, we did not audit the Iowa Economic Development Authority'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 Economic Development Authority, citizens of the State of Iowa and other parties to whom the Iowa Economic Development Authority 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 Authority 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 Authority are listed on page 10 and they are available to discuss these matters with you.


MARY MOSIMAN, 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, 2012

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-DC-19-0001, B-09-DC-19-0001, B-10-DC-19-0001, B-11-DC-19-0001, B-12-DC-19-0001

Federal Award Year: 2008, 2009, 2010, 2011, 2012

CFDA Number: 14.255 – ARRA - Community Development Block Grants/State's Program and 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: 12-III-HUD-269-1

- (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 local 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 Authority has not appropriately identified the relationship between the local government and a Council of Governments administering the program as a subrecipient relationship. The Authority 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 a Council of Governments is not performed when the Council of Governments is a subrecipient.

Recommendation – The Authority should adopt or revise policies and procedures to reflect subrecipient monitoring procedures required under OMB Circular A-133. Also, the Authority 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 Authority is beginning the process to hire a financial monitor whose responsibilities will include a physical monitoring visit to each Council of Government (COG) once per fiscal year. The monitoring will be solely focused on the internal financial management of each active Community Development Block Grant project being administered for a unit of local government by the respective COG. This information will be used by the Authority to make a determination as to the relationship between the COG and unit of local government according to the requirements of OMB Circular A-133. This action will be in place by June 30, 2013.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Economic Development Authority

June 30, 2012

CFDA Number: 81.041 – State Energy Program and ARRA – State Energy Program
Agency Number: DE-FG26-07NT43164, DE-EE0000162
Federal Award Year: 2007

CFDA Number: 81.128 – ARRA – Energy Efficiency and Conservation Block Grant Program

Agency Number: DE-EE0000812
Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 12-III-DOE-301-1

- (2) Subrecipient Monitoring – Award Notification – OMB Circular A-133, Section .400(d) requires the Authority to provide certain award information to its subrecipients. This information includes the CFDA title and number. The Authority did not provide the correct CFDA number to its subrecipients.

Recommendation – The Authority should ensure its subrecipients are notified of the required information each year.

Response and Corrective Action Planned – The Authority will properly advise the subrecipients of the correct CFDA number.

Conclusion – Response accepted.

June 30, 2012

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

Financial Reporting – The Authority 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 (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:

- (a) The Authority overstated the amount of contractual commitments by \$19,261,692. This was properly adjusted for reporting purposes.
- (b) The Authority understated accounts receivable by \$2,733,916. This was properly adjusted for reporting purposes.

Recommendation – The Authority should implement procedures to ensure the financial statement and footnote information reported to DAS-SAE is accurate.

Response – The Authority will improve both the calculation and subsequent review of entity wide adjustments to ensure these items are corrected for future financial statement preparation.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

- (1) Loans Receivable – The Authority provides loans and forgivable loans through various programs. A review of the loan receivable activity identified the following:
 - (a) In three instances, the requirements were met for the loan to be forgiven and the Authority had sent a letter of forgiveness prior to June 30, 2012, but the loans were not written off prior to June 30, 2012 and as a result, the loans receivable balance and related allowance for doubtful accounts were overstated at June 30, 2012.
 - (b) The Authority reports loans receivable which are classified as non-current and current receivables. The Authority utilizes a report from the loan repayment database (LRD) system to determine current receivables based on payments expected to be received within the next fiscal year. The Authority'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 a loan. Various misstatements were identified for the classification of current versus non-current receivables.

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

- (a) The Authority should develop and implement procedures to ensure the LRD system is updated for loans forgiven.
- (b) The Authority should ensure the LRD system reflects the correct current and non-current receivable balances.

Report of Recommendations to the Iowa Economic Development Authority

June 30, 2012

Response – The Division Administrator will communicate to the respective team leaders responsible for monitoring the status of forgivable loans that the accounting section must be notified and copied when loan forgiveness takes place. In addition, the Division Administrator will assume a more active role in reviewing the LRD payment forecasts to ensure all loans, especially those with non-standard repayment terms, are properly reported.

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 devoting more resources to the accounting section for fiscal year 2014. This will allow the current custodian to assume more of an oversight and review role while delegating the day-to-day functions of disbursements and receipts in the Foundation to other staff within the section.

Conclusion – Response accepted.

- (3) Iowa Power Fund (IPF) – The IPF is a financial assistance program established during the 2007 legislative session. The IPF was created to further the goals of increasing the research, development, production and use of biofuels and other sources of renewable energy to improve energy efficiency and reduce greenhouse gas emissions. Businesses, nonprofit organizations, educational institutions, units of state and local government and individuals conducting business, research or programs in Iowa may apply for IPF grants. The program is designed to encourage, support and provide for research, development, early commercialization and the implementation of energy and fossil fuels. Each project is tracked separately and individual project files are maintained.

Policies and procedures have not been formally developed and reduced to a written format.

Report of Recommendations to the Iowa Economic Development Authority

June 30, 2012

Recommendation – The Authority should develop and implement policies and procedures which are reduced to a detailed written format to help ensure activities are performed properly and consistently. The policies should include procedures for fiscal and program monitoring, site visits requirements and documentation to be maintained. In addition, policies should address new grant awards, the maintenance period and verification of success payments.

Response – The Authority will formally develop policies and procedures related to all facets of monitoring and close out of both existing and any new Iowa Power Fund Projects.

Conclusion – Response accepted.

June 30, 2012

Findings Related to Statutory Requirements and Other Matters:

Targeted Small Businesses (TSB) – Section 11.26 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 Integrated Information for Iowa (I/3) System 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. Five of the ten state agency TSB Purchases of Goods and Services reports reviewed included duplicate expenses. However, with concurrence of various state agencies, various duplications were corrected in the report on Targeted Small Business Procurement Goals.

For five of the ten state agency TSB Purchase of Goods and Service reports reviewed, the FR194 Report included expenses with vendors which should have been removed from the TSB listing prior to fiscal year 2012. In addition, expenses related to four vendors were double counted on the FR194 report.

In addition, the Authority 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 Authority, 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 Authority should establish procedures to adequately follow-up with state agencies to ensure all required reports are submitted on a timely basis.

Response – With the departure of the existing TSB staff responsible for this function in April 2012, the reporting duties have been assigned to the Administrative Services Division Administrator. The Administrator will actively work with State Accounting Enterprise and all other related state entities to improve both the accuracy and timeliness of reporting.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Economic Development Authority

June 30, 2012

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated in the audits include:

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