



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

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NEWS RELEASE

FOR RELEASE July 21, 2004

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, 2003.

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

Vaudt recommended the Department develop and implement procedures to ensure that loan receivable activity is accurately reported and supported and federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner.

A copy of the report is available for review in the Iowa Department of Economic Development or the Office of Auditor of State.

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

JUNE 30, 2003

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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February 20, 2004

To Michael T. Blouin, 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, 2003.

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, as well as other recommendations pertaining to the Department's internal control, 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.

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 10 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, 2003

Findings Reported in the State's Single Audit Report:

CFDA Number: 14.228 – Community Development Block Grants/State's Program

Agency Number: B-01-DC-19-0001, B-02-DC-19-0001, B-03-DC-19-0001

Federal Award Year: 2001, 2002, 2003

CFDA Number: 14.239 – HOME Investment Partnerships Program

Agency Number: M-01-SG-19-0001, M-02-SG-19-0001, M-03-SG-19-0001

Federal Award Year: 2001, 2002, 2003

State of Iowa Single Audit Report Comment: 03-III-HUD-269-1

Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. As stated in the Cash Management Improvement Act (CMIA) Agreement, the CDBG and HOME programs are funded on a cash advance basis. This means federal draws are not to be deposited more than three days prior to the date of disbursement.

A review of the Department's ledgers and cash management system identified the following:

- (a) In fifteen instances, the Department drew CDBG funds, but the corresponding disbursements were not made until four to twenty-two working days later. The draw amounts ranged from \$560 to \$1,489,612.
- (b) For three of fifteen HOME draws tested, deposits were not expended within three days. The corresponding disbursements were not made until seven to eight working days later. The draw amounts ranged from \$1,194 to \$425,000.
- (c) Three of fourteen payroll draws for HOME and seven of twenty payroll draws for CDBG were not drawn within the proper time period.

Recommendation – The Department should develop and implement procedures to ensure federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.

Response and Corrective Action Planned – The finding reflected an improvement over the previous fiscal year which demonstrates that the more "hands on" approach implemented in February 2003 is showing results. The Department will continue this approach and intensify its efforts to eliminate this finding from future audit reports. We will also implement a more rigid draw schedule immediately to further refine this process.

Conclusion – Response accepted.

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CFDA Number: 14.228 – Community Development Block Grants/State’s Program

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Federal Award Year: 2001, 2002, 2003

CFDA Number: 14.239 – HOME Investment Partnerships Program

Agency Number: M-01-SG-19-0001, M-02-SG-19-0001, M-03-SG-19-0001

Federal Award Year: 2001, 2002, 2003

State of Iowa Single Audit Report Comment: 03-III-HUD-269-2

Monitoring of Subrecipient Audit Reports – OMB Circular A-133 Subpart C.300(e) and Subpart D.400(d) (4) require the Department to ensure subrecipients expending \$300,000 or more in federal awards submit audit reports to them within nine months of the subrecipient’s fiscal year end.

Ten of fifteen CDBG subrecipients and two of ten HOME subrecipients did not submit an audit report to the Department within nine months of their fiscal year end.

Recommendation – The Department should develop and implement procedures to ensure that subrecipients who expended more than \$300,000 in federal awards submit an audit report within nine months of their fiscal year end.

Response and Corrective Action Planned – Although many of these audits were not received within the prescribed time frame (nine months after audit completion), all but two of the 25 audits were received within two weeks after the prescribed time frame. The Department did make a good faith effort to meet this requirement, not only by sending a reminder letter to all projects regarding the audit requirement, but also by following up with telephone calls to those projects that had not submitted audits by March 2003.

The Department’s plan for corrective action will be to start the reminder process earlier in future years. Instead of waiting until March to check on audit submissions (deadline is typically March 31st), the Department will start this process on February 1st, 2005. Since basically all of the submissions were late by only two weeks or less, if the Department starts the entire process one month earlier in the future, it is hoped that all the audits will be submitted within the prescribed time frame.

Conclusion – Response accepted.

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 on the Loan Repayment Database (LRD) has an “End Date” which is the date the Department makes a decision as to whether the loan should be forgiven or not. For the CEBA, VAAP, PIAP and ARC loan programs, numerous instances were noted where the “End Date” listed on the LRD was prior to June 30, 2003. However, decisions were not made and/or documented by the Department as to whether the loans had been forgiven or not. As a result, the loan receivable balances and the related allowance for doubtful accounts could be overstated at June 30, 2003.

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- (b) For certain loan programs, the Department uses a percentage of the loan receivable balance in the calculation of the allowance for doubtful accounts. The basis for the percentage used is not documented (i.e. there is no historical trend or other analysis to support the percentage).
- (c) The Department is required to report loan receivable balances as current and noncurrent on the GAAP package. The basis/method used for determining the current versus noncurrent amount is not documented.
- (d) Ten loans/forgivable loans were identified that were forgiven, converted to grants or written off during the year. However, they were still included on the LRD at June 30, 2003, resulting in an overstatement of loans receivable of approximately \$1.4 million.
- (e) Loans totaling \$752,931 were considered delinquent and included in the Department's calculation of the allowance for doubtful accounts. However, it was later determined the loans were not delinquent and their loan repayments had been delayed or restructured.
- (f) Warrants for certain loan programs were requested and held by the Department until all of the necessary paperwork was received from the loan applicant. For twenty warrants tested, the warrants were held from 18 to 103 days before the paperwork was received/finalized and the warrant was mailed to the loan applicant.

Recommendation – The Department should develop and implement procedures to ensure:

- (a) forgivable loans are analyzed by the “End Date”, a decision is made and documented as to whether the loan is forgiven or not and the LRD is updated accordingly.
- (b) the percentages used in the calculation of the allowance for doubtful accounts are supported by historical trends or other analyses.
- (c) the basis/method used for determining the current and noncurrent portion of the loan receivable balances are properly supported.
- (d) loans forgiven, converted to grants or written off are removed from the LRD.
- (e) loans with repayments that have been delayed or restructured are not included in the calculation of the allowance for doubtful accounts.
- (f) warrants are not requested until all of the required paperwork has been received from the loan applicant and approved by the Department.

Responses –

- (a) In the spring of 2004, the Department formed a new team named State Investment Management Team. This team will be responsible for the monitoring and close-out for every state funded incentive project from the time an award is made and a contract negotiated until the project is completed. With the formation of this team, the Department will be able to better manage its outstanding loan receivable portfolio and therefore avoid any possible overstatement.

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(b), (c) and (e) With the hiring of an in-house loan collection staff in March 2004, the Division Administrator for Administration will utilize this expertise to develop and implement more standard procedures for the computation of both, receivable balances and the allowance for doubtful accounts. The staff person will identify the best approach for arriving at current and noncurrent receivables and will perform periodic testing on loan forgiveness rates to ensure the Department is stating these balances in a reasonable and correct manner.

(d) and (f) The formation of the State Investment Management Team under the control of the Division Administrator for Administration will allow him to better manage the issuance of warrants and close-out processes for financial assistance projects. Warrants issued on project awards will be held by Fiscal for 20 days pending the recipient meeting all the stipulations set forth by the contract. This period will be shortened to 10 days during the last month of the fiscal year. If contract conditions are not met by these timeframes, warrants will be cancelled and reissued when appropriate.

Conclusion – Responses accepted.

June 30, 2003

Findings Related to Statutory Requirements and Other Matters:

- (1) Code of Iowa Required Reports – The Department is required to prepare and submit various reports per the Code of Iowa:
 - (a) Chapter 15.113 – The Department did not provide the Legislative Services Agency, by January 15, with data on all assistance or benefits provided under the Community Economic Betterment Program, the New Jobs and Income Program and the Iowa Industrial New Jobs Training Act.
 - (b) Chapter 15.114 – The Department did not submit a report in accordance with Section 7A.11 not later than November 1 detailing the activities of the contracted microenterprise organization and describing the success of the project.
 - (c) Chapter 15E.111(8) – The Department, in conjunction with the Office of Renewable Fuels and Coproducts, did not prepare a report each six months detailing the progress of the Department and other agencies regarding value-added agricultural products and processes financial assistance program.
 - (d) Chapter 260G.4C – The Department did not prepare an annual report regarding the activities of the Accelerated Career Education Programs during the previous year by December 31 and submit it to the Governor and General Assembly.
 - (e) Chapter 496B.16 – The Department has not received reports on the condition of the State’s development corporations at least annually and, accordingly, the reports were not passed on to the Commissioner of Insurance and the Superintendent of Banking as required.

Recommendation – The Department should complete and submit all reports as required by the Code of Iowa and/or seek to repeal of outdated sections of the Code.

Response – While the Department did submit the CEBA and Iowa Industrial New Jobs Training Program reports, they were turned in after the required deadline. We have implemented a new process including monthly reminders to ensure that legislatively mandated reports are submitted within their respective timeframes. The Department will also work with the Legislative Services Agency to determine if what we are currently doing for award announcements via our board packets would satisfy some of the requirements. We will also review all reports for validity and appropriateness and work to repeal those sections of the Code of Iowa which no longer meet criteria and need.

Conclusion – Response accepted.

- (2) Iowa Economic Development Board – Board Member Attendance – The Iowa Economic Development Board consists of eleven voting members. The Governor appoints ten members and the eleventh member is the Secretary of Agriculture. The main duties of the board are to develop and coordinate the implementation of a twenty-year comprehensive economic development plan; prepare a five-year strategic plan for state economic growth; approve the budget of the department; establish guidelines, procedures and policies for awarding grants or contracts; review grants or contracts awarded by the department; and adopt all necessary rules recommended by the director or administrators of divisions prior to their adoption.

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Two members missed three consecutive regular meetings during fiscal year 2003. Per Chapter 69.15 of the Code of Iowa, each member, in effect, resigned when they missed three consecutive meetings.

Also, as documented by the board minutes, the Secretary of Agriculture did not attend any of the monthly board meetings held during state fiscal year 2003, but did send a non-voting designee to four of the twelve meetings. Because this individual does not have voting rights, it takes away the potential tie-breaking vote on the board. However, effective July 1, 2004, Chapter 15.103 of the Code of Iowa was amended to include the Secretary of Agriculture or designee as a voting members of the Iowa Economic Development Board.

Recommendation – The Department should encourage board members to attend each meeting and should work with the Governor’s Office to have those individuals who miss three consecutive meetings replaced.

Response – The Department will more closely monitor board members to ensure proper compliance with the Code of Iowa regarding attendance. We will notify the Governor’s Office when a member misses three consecutive meetings so they have the opportunity to accept or deny the resignation.

Conclusion – Response accepted.

- (3) Vision Iowa Board – The Vision Iowa Board was created to oversee the award of grants and loans to local governments for the development of large tourism projects.

The Vision Iowa Board is required by Chapter 15F.102(2)(c) of the Code of Iowa to have one member who is a supervisor from a county ranking in the bottom 33 counties by population according to the 1990 census.

During the year ended June 30, 2003, four new members were appointed to the Vision Iowa Board to replace previous board members. However, one of the appointments did not comply with the requirements of Chapter 15F.102(2)(c) of the Code of Iowa because the board member was not from a county ranking in the bottom 33 counties according to the 1990 census.

Recommendation – The Department should work with the Governor’s Office to achieve the membership required by the Code of Iowa.

Response – The Department will work with the Governor’s Office to ensure the Vision Iowa Board membership is in compliance with the Code of Iowa.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

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Staff:

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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