



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____ July 29, 2005

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, 2004.

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 loan receivable activity is accurately reported and supported and federal funds are drawn in amounts sufficient to cover current needs and are disbursed timely.

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

###

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

JUNE 30, 2004

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



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

July 26, 2005

To Mary Lawyer, Acting 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, 2004.

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 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 Thomas J. Vilsack, Governor
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2004

Findings Reported in the State's Single Audit Report:

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

Agency Number: B-02-DC-19-0001, B-03-DC-19-0001, B-04-DC-19-0001

Federal Award Year: 2002, 2003, 2004

CFDA Number: 14.239 – HOME Investment Partnerships Program

Agency Number: M-02-SG-19-0001, M-03-SG-19-0001, M-04-SG-19-0001

Federal Award Year: 2002, 2003, 2004

State of Iowa Single Audit Report Comment: 04-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 eight instances, the Department drew CDBG funds, but the corresponding disbursements were not made until four to thirteen working days later. The draw amounts ranged from \$24,450 to \$882,416.
- (b) In ten instances, the Department drew HOME funds, but the deposits were not expended within three days. The corresponding disbursements were not made until four to eleven working days later. The draw amounts ranged from \$21,877 to \$694,204.
- (c) Two of fourteen payroll draws for HOME and two of fourteen 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 Department will intensify its efforts to eliminate this finding from future audit reports. We have also implemented a more rigid draw schedule to further refine this process. However, staff illnesses and a new accounting system hindered this process somewhat. Accounting will more closely monitor draw frequency when received from program staff.

Conclusion – Response accepted.

June 30, 2004

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, 2004. 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, 2004.
 - (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, 2004, resulting in an overstatement of loans receivable of approximately \$1 million.
 - (e) 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 nine of thirteen warrants tested, the warrants were held seven or more days before the paperwork was received/finalized and the warrant was either mailed to the loan applicant or cancelled by the Department. The warrants held ranged from \$6,000 to \$300,000.

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) warrants are not requested until all of the required paperwork has been received from the loan applicant and approved by the Department.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2004

Response -

- (a) The Department did show significant progress on several of the programs mentioned. However, more progress needs to be demonstrated on the remainder. The Business Services Team will take a more active role in closing out loans and forgivable loans issued prior to October 1, 2004.
- (b,c) The Department will have documentation in place for determining the allowance for doubtful accounts and current versus noncurrent receivable amounts by June 30, 2005.
- (d) The Department will improve communications with Business Finance and Business Services staff to ensure accounting receives all notification of loan forgiveness.
- (e) Effective July 1, 2005, all requests for disbursements on loans and forgivable loans must be accompanied by a checklist showing all conditions for release of funds according to the contract have been met. This checklist must be signed by the respective program manager. The accounting section will not process any disbursement requests without this certification.

Conclusion - Response accepted.

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Code Compliance - The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2004:
 - (a) 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.
 - (b) 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.
 - (c) 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.
 - (d) Chapter 21.5 of the Code of Iowa requires boards to cite, and document in the minutes, the reason for entering into closed session by reference to a specific exemption under Chapter 21.5.

In one instance, the Iowa Economic Development Board failed to cite, and document within the minutes, the specific exemption under Chapter 21.5 for entering into a closed session. In addition, the Agricultural Products Advisory County failed to cite, and document within the minutes, the specific exemption before entering into six closed sessions.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2004

- (e) Chapter 15.103 of the Code of Iowa created the Iowa Economic Development Board which consists of eleven voting members. The Secretary of Agriculture is the only member not appointed by the Governor.

The Secretary of Agriculture did not attend any of the monthly board meetings held during fiscal year 2004 and was represented by a non-voting designee at only three of twelve meetings.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa and/or seek to repeal outdated Code sections.

Response –

- (a,b,c) Beginning in August 2004, the Department developed a detailed tracking system for all statutory reporting requirements, and implemented it at the same time. This should eliminate any future findings.
- (d) The Department will improve its procedures for citing the code section appropriate for closed session meetings.
- (e) The Department will continue to encourage the Secretary of Agriculture or the designee to attend IDED Board meetings.

Conclusion – Response accepted.

- (2) Economic Development Foundation – The bank signature cards for several Foundation accounts contained the names of two former employees. In addition, there is no indication the Foundation bank reconciliations are reviewed by an independent person.

Recommendation – The Department should ensure all signature cards on Foundation bank accounts contain only the names of current employees. In addition, bank reconciliations should be reviewed by an independent person and this review should be evidenced by the initials of the reviewer.

Response – The Department will update all signature cards on Foundation bank accounts by June 30, 2005. In addition, a proposed new accounting staff member will be assigned the task of reviewing bank reconciliations on a monthly basis.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2004

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
James S. Cunningham, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Jennifer R. Edgar, Staff Auditor
Donald N. Miksch, Staff Auditor