



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE

November 20, 2018

Auditor of State Mary Mosiman today released a report on a review of the Animal Compliance Fund (Compliance Fund) administered by the Department of Natural Resources (DNR) for fiscal years 2014 through 2018. The review was conducted at the request of Senator David Johnson to determine if revenues deposited to the Compliance Fund were expended in accordance with section 459.401 of the *Code of Iowa*. The review was also conducted to determine if DNR's administration of the Compliance Fund complied with requirements established by the *Code of Iowa*, Iowa Administrative Code, and DNR policies and procedures and to determine if the Compliance Fund is meeting the goals and objectives established by the *Code of Iowa*.

The Animal Agriculture Compliance Fund was established as part of the "Animal Agriculture Compliance Act" (Act) established by Chapter 459 of the *Code of Iowa*. The Act governs animal feeding operations (AFOs) including monitoring and enforcing air and water quality. The *Code* requires DNR to establish administrative rules relating to the construction, expansion, or operation of AFOs. The requirements shall include but are not limited to the issuance of permits, and departmental investigations, inspections, and testing. DNR staff also follow-up on complaints related to air and water quality around AFOs.

The Act established the Compliance Fund as a non-reverting fund. As such, revenue remaining in the fund at the end of a fiscal year is not deposited in the State's General Fund. The *Code* allows DNR to collect construction permit application fees, manure management plan fees, an annual compliance fee, and educational program fees from AFOs. The fees are deposited in 1 of 3 sub-accounts (accounts) within the Compliance Fund. The 3 accounts are the General, Assessment and Educational accounts. The *Code* establishes how the fees collected are allocated to each of the 3 accounts. The annual compliance fee represents the primary source of revenue collected for the Act and is deposited in the Assessment account.

The *Code* also states "Moneys in the compliance fund are appropriated to the department exclusively to pay the expenses of the department in administering and enforcing the provisions of subchapters II (*Air Quality*) and III (*Water Quality*) as necessary to ensure that animal feeding operations comply with all applicable requirements of those provisions, including rules adopted or orders issued by the department pursuant to those provisions. The moneys shall not be transferred,

used, obligated, appropriated, or otherwise encumbered except as provided in this subsection. The department shall not transfer moneys from the compliance fund's Assessment account to another fund or account, including but not limited to the fund's general account." The Code does not prohibit the transfer of funds from the General or Educational accounts provided the transfer of funds is related to the administration of the Animal Compliance Act.

Mosiman reported DNR transferred a total of \$10,824,832.00 from the Compliance Fund to the DNR's General Fund for fiscal years 2014 through 2018 for administrative expenses related to the Act. The \$10,824,832.00 transferred to DNR's General Fund was for expenses recorded for the administration of the Act including \$7,313,108.34 of payroll costs, \$347,530.50 of travel costs, \$1,038,199.38 of professional and scientific services to Iowa State University for educational expenses, and \$904,518.00 of indirect costs.

DNR transfers the revenue recorded in the Assessment account first to cover the administrative expenses of the Animal Compliance Act, excluding educational expenses. The revenue recorded in the Educational accounts is transferred to cover educational expenses. After the revenue recorded in the Assessment and Educational accounts has been transferred, the remaining administrative and educational expenses are covered by transferring funds from the General account. However, all the transfers are recorded in the State's accounting system in the Educational accounts within the Compliance Fund.

The table below shows the total amount transferred from the Compliance Fund to DNR's General Fund and the amount of current year revenue recorded in the State's accounting system for the 3 accounts to cover the administrative expenses related to the Agriculture Animal Compliance Act.

Description	Fiscal Year					Total
	2014	2015	2016	2017	2018	
Revenues recorded in:						
Assessment acct	\$ 1,310,263.13	1,344,832.58	1,429,794.18	1,451,323.24	1,516,677.31	7,052,890.44
Educational acct	113,968.57	117,587.50	112,102.50	113,649.40	109,025.00	566,332.97
General acct	499,721.33	558,330.47	541,857.82	560,290.62	576,878.72	2,737,078.96
	1,923,953.03	2,020,750.55	2,083,754.50	2,125,263.26	2,202,581.03	10,356,302.37
Transferred out	1,920,339.00	2,112,531.00	2,223,692.00	2,630,035.00	1,954,860.00	10,841,457.00
Fund balance increase/(decrease)	\$ 3,614.03	(91,780.45)	(139,937.50)	(504,771.74)	247,721.03	(484,154.63)

The table also shows in fiscal years 2015, 2016, and 2017 the fund balance decreased. The decrease is the result of the revenue recorded in the 3 accounts not being sufficient to cover the expenses recorded in DNR's General Fund for fiscal year 2015, 2016, and 2017. As a result, a portion of the fund balance accumulated in the fund was also transferred. In fiscal years 2014 and 2018, revenues exceeded the amount transferred to cover expenses and as a result the fund balance increased for these 2 fiscal years. Because the Compliance fund is a non-reverting fund, the balance

remaining in the fund may be used in future years to cover administrative costs of the Act when the revenue received in the a fiscal year are not sufficient to cover the administrative expenses.

Mosiman reported because DNR transfers funds from the Compliance Fund Assessment account to DNR's General Fund, DNR did not comply with section 459.401.3 of the *Code of Iowa*, which states "The department shall not transfer moneys from the compliance fund's Assessment account to another fund or account, including but not limited to the fund's general account."

Mosiman also reported it is not transparent how the revenues recorded in the Compliance Fund are spent because only transfers to DNR's General Fund are recorded in the State's accounting system for the Compliance Fund. In order to determine how funds deposited to the Compliance Fund are used, it is necessary to obtain information maintained on a spreadsheet by DNR staff which shows how costs related to the Act are allocated to the 3 accounts within the Compliance Fund. Mosiman reported using the information provided by DNR and information recorded in the State's accounting system for DNR's General Fund, it was determined the amounts transferred from the Compliance Fund were used for administrative expenses of the Animal Agriculture Compliance Act, such as payroll, travel, professional and scientific services and indirect costs for the administration and enforcement of the Act.

Mosiman also reported DNR has not evaluated the unencumbered and unobligated money in the Assessment and Educational accounts at the end of each fiscal year to determine if the annual compliance fee should be adjusted.

Mosiman recommended DNR comply with section 459.401(3) of the *Code of Iowa* and record expenses related to the Animal Compliance Assessment account within the Assessment account and not as a transfer out of the Compliance Fund and its related accounts. Mosiman also recommended DNR record expenses directly to the fund(s) the expense pertains to instead of transferring revenue from individual funds or accounts to the DNR General Fund. This would allow for better matching of revenue and expenses and a more transparent accounting of how the revenue received in the Compliance Fund is expended.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

###

**REPORT ON A REVIEW OF
THE ANIMAL COMPLIANCE FUND
ADMINISTERED BY THE
DEPARTMENT OF NATURAL RESOURCES**

**FOR FISCAL YEARS
2014 THROUGH 2018**

Table of Contents

	<u>Page</u>
Auditor Transmittal Letter	3-4
Introduction	5
Objectives, Scope, and Methodology	5-6
Animal Agriculture Compliance Fund	6-14
Findings and Recommendations	15-18
Schedules:	<u>Schedule</u>
Revenues and Expenses by Sub-Account by Fiscal Year	1 20-21
Detailed Expenses by Fiscal Year	2 22-25
Schedule of Revenue, Expense, and Account Balance	3 26-27
Staff	28
Appendices:	<u>Appendix</u>
Copy of Letter Requesting Review	A 30-31
Copy of DNR Compliance Fee Summary	B 33



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

Auditor's Transmittal Letter

To the Governor, Members of the General Assembly,
Members of the Natural Resource Commission,
Members of the Environmental Protection Commission,
and the Director of the Department of Natural Resources:

At the request of Senator David Johnson and in conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Animal Agriculture Compliance Fund (Compliance Fund) administered by the Department of Natural Resources (DNR) for fiscal years 2014 through 2018. We reviewed the Compliance Fund to determine compliance with applicable sections of the *Code of Iowa*, the Iowa Administrative Code (Administrative Rules), and DNR policies and procedures. In conducting our review, we performed the following procedures:

- (1) Reviewed applicable sections of the *Code of Iowa*, Administrative Rules, and DNR policies and procedures for the Compliance Fund and interviewed DNR personnel in the Field Services and Compliance and Finance Bureaus who administer the Compliance Fund to gain an understanding of requirements established regarding the Compliance Fund and how it is administered.
- (2) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (3) Determined if DNR complied with funding or allocation requirements established by the *Code of Iowa* for the Compliance Fund.
- (4) Tested selected deposits recorded in the Compliance Fund to determine if the fees received were properly recorded to the correct account within the Compliance Fund.
- (5) Tested selected disbursements from the Compliance Fund to determine if the payments complied with applicable sections of the *Code of Iowa*, Administrative Rules, and DNR policies and procedures.
- (6) Evaluated transfers from the Compliance Fund to determine if the transfers were made for necessary and reasonable expenses of the Animal Agriculture Compliance Act.
- (7) Evaluated the fund balance in the Compliance Fund to determine if it was used in accordance with the requirements of the Animal Agriculture Compliance Act.

Based on these procedures, we determined DNR did not comply with the *Code of Iowa* prohibiting the transfer of funds from the Compliance Fund's Assessment account to any other account or fund. In addition, because the expenses for the administration of the Animal Agriculture Compliance Act (Act) are recorded in DNR's General Fund rather than the Compliance Fund, it is not apparent how funds were expended for the administration of the Act without detailed information on how DNR records and transfers funds.

However, using reports provided by DNR and information recorded in the State's accounting system for DNR's General Fund, we were able to determine the amounts transferred from the Compliance Fund were used for administrative expenses such as payroll, travel, professional and scientific services, and indirect costs for the administration and enforcement of the Animal Agriculture Compliance Act.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards.

We would like to acknowledge the assistance and many courtesies extended to us by the personnel of the Department of Natural Resources for the courtesy, cooperation, and assistance provided to us during our review.


MARY MOSIMAN, CPA
Auditor of State

October 11, 2018

Introduction

The Animal Agriculture Compliance Fund (Compliance Fund) is administered by the Department of Natural Resources (DNR). The Compliance Fund was established as part of the “Animal Agriculture Compliance Act” (Act) in Chapter 459 of the *Code of Iowa*. The Act governs animal feeding operations (AFOs) including monitoring and enforcing air and water quality standards.

The Act requires DNR establish administrative rules relating to the construction, expansion, or operation of AFOs. The requirements shall include but are not limited to the issuance of permits, and departmental investigations, inspections, and testing. To address these responsibilities, several DNR Bureaus work with AFOs:

- Air Quality Bureau - evaluates the air quality near AFOs in rural Iowa.
- Field Services and Compliance Bureau – reviews manure management plans, inspects earthen basins and construction sites, responds to manure, fertilizer, and chemical spills.
- Construction Permitting Section - review applications for construction of AFOs to ensure all requirements are met before a permit is issued.
- National Pollutant Discharge Elimination System Sections (NPDES) - issues NPDES and storm water permits. The U.S. Environmental Protection Agency delegated the authority to issue these permits to the DNR.

Permitting and inspections are completed by staff at the 6 DNR field offices throughout the State. DNR inspects 20% of the AFO facilities annually and requires each facility be visited at least once every 5 years. In addition, staff follow-up on findings related to inspections done in the previous year and any complaints received to ensure the finding or complaint has been resolved. Field office staff are also responsible for assessing penalties for non-compliance with requirements of the Act.

In order to facilitate monitoring of the facilities, DNR established a compliance database. The database includes all the information related to the facilities including dates of inspections and any fines assessed by the DNR.

Section 459.400 of the *Code of Iowa* requires DNR to establish the Animal Agriculture Compliance Fund. The Compliance Fund includes 3 sub-accounts (accounts) which track the revenue received from fees collected in accordance with the requirements of the Act. Annual compliance fees paid by the AFOs are recorded as revenue in the Assessment account, commercial service license and educational fees are recorded as revenue in the Educational accounts and all other fees are recorded in the General account within the Compliance Fund. The *Code* specifies DNR shall not transfer moneys from the Assessment account.

The *Code* established the Compliance Fund as a non-reverting fund. As a non-reverting fund, revenue remaining in the fund at the end of a fiscal year does not revert to the State’s General Fund. The balance remains in the Compliance Fund to be used in accordance with the requirements of the *Code*.

Objectives, Scope, and Methodology

Objectives

Our review was conducted to determine:

- if DNR expended revenues received under the Act in accordance with section 459.401(3) of the *Code of Iowa* for administering and enforcing the provisions of subchapters II (*Air Quality*) and III (*Water Quality*).

- if DNR administers the Compliance Fund in accordance with applicable laws, Administrative Rules, and DNR policies and procedures.

Scope and Methodology

We reviewed the operations of the Compliance Fund for fiscal years 2014 through 2018. To gain an understanding of DNR's operations, policies, and procedures related to the Compliance Fund we interviewed staff from DNR's Finance and Field Services and Compliance Bureaus, reviewed Chapter 459 of the *Code of Iowa*, the Iowa Administrative Code (Administrative Code), and DNR policies and procedures.

In addition, we reviewed and analyzed information recorded in the State's accounting system and financial reports prepared by DNR to determine how funds were expended for the administering and enforcing the provisions of subchapters II (*Air Quality*) and III (*Water Quality*).

Animal Agriculture Compliance Fund

As previously stated, section 459.400 of the *Code of Iowa* required DNR to establish the Animal Agriculture Compliance Fund (Compliance Fund). The section also established the General, Assessment, and Educational accounts within the Compliance Fund. The *Code* established the Compliance Fund as a non-reverting fund.

Revenue – The *Code* requires DNR to establish, assess, and collect fees for the administration of the Act. The fees collected include construction permit fees, manure management plan filing fees, indemnity fees, manure application certification fees, and an annual compliance fee. **Appendix B** includes the list of fees included in the Act. Several of the fees collected by DNR and their respective maximum amounts, if applicable, established by the *Code* are as follows:

- Construction permit application fee (CP) - one-time fee required to be submitted with the application to be reviewed and approved by DNR prior to constructing an AFO. The fee is not to exceed \$250.00.
- Manure Management Plan (MMP) filing fee - required to be submitted when the AFO submits its original MMP for approval. The fee is not to exceed \$250.00.
- Annual Compliance fee - required to be submitted with an annually updated MMP. The annual fee shall not exceed \$0.15 per animal unit based on the capacity of the confinement feeding operation covered by the MMP.
- Commercial Manure Service (CMS) business license fee - CMS is a business, sole proprietor, or business association that transports, handles, stores, or applies manure for a fee. A CMS must be licensed and pay an annual business license fee of \$200.00 by March 1.
- Commercial Manure Service Representative (CMSR) fee – A CMSR is a manager, employee, agent or contractor of a CMS. This person transports, handles, stores or applies manure on behalf of the business. An annual certification fee of \$75.00 is required for each CMSR.
- Confinement Site Manure Applicator (CSMA) fee – A CSMA is a person that applies manure on land that originates from a manure storage structure that is located on a confinement feeding operation site. A confinement feeding operation site has animals that are confined to roofed areas. The Confinement Site Manure Applicator pays a three-year certification fee of \$100.00.

In addition to the CMS fee and the Confinement Site Manure Applicator fee, the *Code* assesses a \$25.00 educational fee to be paid by CMS, CMSR, and CSMA.

Section 459.401 of the *Code* requires the fees collected by DNR be deposited to the Compliance Fund in the following accounts.

- General account (473A) – Appropriations made by the general assembly, federal program/grant funds, or funds from private sources specifically to be used for the Compliance Fund. Unless otherwise specifically provided in statute, moneys required to be deposited in the Compliance Fund shall be deposited into the General account. The General account shall include all of the following:
 - (1) The construction permit (CP) application fee pursuant to section 459.303.
 - (2) The manure management plan (MMP) filing fee pursuant to section 459.312.
 - (3) Educational program fees required to be paid by commercial manure service representatives (CMSR) or confinement site manure applicators (CMSA) pursuant to section 459.400.
 - (4) A commercial manure service (CMS) license fee as provided in section 459.400.
- Assessment account (473B) – composed of moneys collected from the annual compliance fee pursuant to section 459.400.
- Educational (Compliance) account (473C) – composed of moneys collected from the commercial manure service license fee and the educational program fee required pursuant to section 459.400.

DNR charges interest on any delinquent fees imposed under the Act as allowed by the *Code*. The interest is deposited to the account where the fee assessed is recorded.

As part of administering the Act, DNR created various reports which are required to be submitted by AFO's and other stakeholders along with the required fee. When fees are received by DNR, they are recorded to the proper account within the Compliance Fund based on the information on the forms attached with the fee payment. Based on our testing of selected deposits, the DNR properly recorded the fees to the correct account as required by the *Code*.

Section 459.400(1)(d) states “The amount of the educational program fees together with commercial manure service licensing fees shall be adjusted annually by the department based on the costs of administering section 459.315 and paying the expenses of the department relating to certification.”

According to DNR officials, when DNR updated the Administrative rules years ago, they worked with stakeholders, including AFO operators, and set the fees at the maximum allowed by the *Code*. DNR officials have not re-evaluated the fees to determine if the amounts should be adjusted based on the administrative costs as required by section 459.400(1)(d) of the *Code*. However, DNR prepares a report projecting the revenues and expenses for the next 5 years. Based on the projections and the projected fund balance in the Compliance Fund, DNR does not feel the fees need to be adjusted at this time. However, the fund balance has declined from a high of approximately \$1.3 million in fiscal year 2014 to a balance of \$631,000 at the end of fiscal year 2018.

Although DNR has projected the balance for the next 5 years, DNR has not evaluated the individual fees as required by section 459.400(1)(d) of the *Code*. In addition, DNR has not determined if the fees charged exceed the cost of administering the program or if the maximum fees allowed by the *Code* are sufficient to cover the cost of administering the Act.

Expenses Recorded in the Compliance Fund – As previously stated, the *Code* requires DNR to establish administrative rules relating to the construction, expansion, and operation of AFOs. The requirements shall include, but are not limited to, the issuance of permits, and departmental investigations, inspections, and testing. Based on these requirements, expenses considered reasonable for the administration of the program include payroll, travel, supplies, equipment, and other general support costs for the 6 field offices.

Schedule 1 summarizes the activity recorded in the State’s accounting system for the 3 accounts within the Compliance Fund for fiscal years 2014 through 2018. As shown by the **Schedule**, only revenue was recorded in the General (473A) and Assessment (473B) accounts. No expenses were recorded in these accounts. The only expenses recorded in the Compliance Fund were transfers out of the Educational account (473C).

In addition to **Schedule 1, Table 1** summarizes the activity in the State’s accounting system for the 3 accounts within the Compliance Fund. The **Table** also summarizes the increase or decrease to the Compliance Fund’s total fund balance each year as a result of these transactions. While the amounts shown in **Table 1** agree with the Compliance Fund’s total fund balance as recorded in the State’s accounting system, the State’s accounting system does not record a fund balance for each of the 3 accounts within the Compliance Fund.

Table 1

Description	Fiscal Year				
	2014	2015	2016	2017	2018
Revenue recorded in:					
Assessment account	\$1,310,263.13	1,344,832.58	1,429,794.18	1,451,323.24	1,516,677.31
Educational account	113,968.57	117,587.50	112,102.50	113,649.40	109,025.00
General account	499,721.33	558,330.47	541,857.82	560,290.62	576,878.72
Total revenue	1,923,953.03	2,020,750.55	2,083,754.50	2,125,263.26	2,202,581.03
Transferred out*	1,920,339.00	2,112,531.00	2,223,692.00	2,630,035.00	1,954,860.00
Increase/(decrease) to the Compliance Fund’s fund balance	\$ 3,614.03	(91,780.45)	(139,937.50)	(504,771.74)	247,721.03

* - Transferred from the Educational account within the Compliance Fund to DNR’s General Fund.

Section 459.401(3) of the *Code* states “Moneys in the compliance fund are appropriated to the department exclusively to pay the expenses of the department in administering and enforcing the provisions of subchapters II [*Air Quality*] and III [*Water Quality*] as necessary to ensure that animal feeding operations comply with all applicable requirements of those provisions, including rules adopted or orders issued by the department pursuant to those provisions. The moneys shall not be transferred, used, obligated, appropriated, or otherwise encumbered except as provided in this subsection. The department **shall not transfer moneys from the compliance fund’s Assessment account** [emphasis added] to another fund or account, including but not limited to the fund’s general account.”

When asked why only transfers out were recorded in the Compliance Fund, DNR officials stated DNR has always recorded all program expenses in DNR’s General Fund and transferred funds from the appropriate sources, including the Compliance Fund, to DNR’s General Fund to cover the expenses paid by each program. DNR officials also stated they have recorded the transfers exclusively in the Educational account within the Compliance Fund for many years and have never evaluated if the transfers should be recorded in the General and/or Assessment accounts within the Compliance Fund. It is not clear why DNR has recorded the transfers only in the Educational account and not in the General and Assessment accounts.

According to DNR officials, the fees recorded in the 3 accounts within the Compliance Funds are transferred to DNR’s General Fund for the following uses:

- (1) Fees recorded in the Assessment account are used first since most of the activity in the field offices is ensuring compliance with the provisions of the Act.
- (2) Fees recorded in the Educational account are used to pay the costs related to educational programs under the Act. The main educational contract is with Iowa State University for creating and updating the Manure Applicator training modules on-line at “elearning-dnr.iowa.gov.”

- (3) Fees recorded in the General account are used to pay any other expenses related to ensuring compliance with the provisions of the Act or additional educational expenses after all the fees recorded in the Educational account have been used.

If DNR uses the fees recorded in the Assessment account first as stated in (1) above, the State's accounting system should reflect transfers from the Assessment account to DNR's General Fund. In addition, only the costs related to educational programs should be transferred from the Compliance Fund's Educational account to DNR's General Fund based on the explanation in (2) above. However, as stated previously, the State's accounting system reflects all the funds transferred to DNR's General Fund from the Compliance Fund are from the Educational account.

Animal Agriculture Compliance Expenses Recorded in DNR's General Fund - As stated previously, DNR records the administrative expenses for the Animal Agriculture Compliance Act in DNR's General Fund. DNR officials provided us reports which identified the expense units within DNR's General Fund where the administrative expenses related to the Compliance Fund are recorded. Specifically, the Animal Agriculture Compliance expenses are recorded in Livestock Permitting Central Office (unit 7117) and Livestock Permitting Field Office (unit 7427). Expense units are sub-accounts in DNR's General Fund which allows DNR to track specific expenses by program. The expenses recorded in units 7117 and 7427 agreed in total with the transfers recorded in the Compliance Fund in the State's accounting system for the fiscal years we reviewed.

While the expenses recorded in units 7117 and 7427 are included in the State's accounting system in DNR's General Fund, the expenses are not recorded in the State's accounting system within the Assessment account, Education account, or the General account for the Animal Agriculture Compliance Act.

Using the information recorded in expense units, we were able to identify the administrative expenses related to the Compliance Fund by category. **Schedule 2** lists the expenses by category for fiscal years 2014 through 2018.

As shown by **Schedule 2**, payroll is the largest expense related to the administering the provisions of the Act followed by professional and scientific services, indirect costs, and legal services. For fiscal years 2014 through 2018, payroll averaged 68% of total expenses, professional and scientific services averaged 9%, indirect costs averaged 8%, and legal services averaged 6%. Some of these costs are described further in the following paragraphs.

- Payroll – According to DNR staff we spoke with, staff in the field offices are cross trained in order to work on multiple programs at the various field offices. This allows DNR to efficiently and effectively use staff to cover multiple programs or complaints. For example, a staff person working in Western Iowa on an air quality program may be asked to test water quality near an animal feed lot or follow-up on a complaint in the same area.

There are also 2 engineers assigned to handle all new construction and expansion permits related to AFOs. The engineers review engineering plans, construction plans, and the handle the scoring process for applications. One is located in the Mason City office and the other is located in the Spencer office.

In order to track the payroll costs for the administration of the Animal Compliance Act, staff record their time to specific activity units based on the actual number of hours spent on the activity each day. The time is recorded on an electronic timesheet which is to be completed daily. Using the hours recorded in the system, staff salaries along with the employers' share of fringe benefit costs are allocated to the correct program/fund. These codes are also used by DNR staff when they prepare the internal spreadsheet to track revenue and expenses by account within the Compliance Fund.

- Travel – Staff are required to travel in order to monitor air and water quality and to address complaints related to AFOs. Staff complete a travel claim in order to be

reimbursed for expenses paid by the staff and not paid directly by DNR or charged to a DNR issued credit card. The claim includes the location(s), the purpose of the trip, mileage costs, food, hotel, and any other incidental costs to be reimbursed to the employee. If travel is specific to the Act, the travel is directly charged to the Compliance Fund expense units in DNR's General Fund. If the travel related to multiple programs, the travel costs are allocated to the program(s) based on the hours charged to the program(s) during the period of the trip. If a DNR vehicle was used for the trip, a daily charge is assessed and is allocated to a program based on the hours charged to the program.

- Professional and scientific services – These costs include the contract with Iowa State University for creating and updating the Manure Applicator training modules on-line at “elearning-dnr.iowa.gov.”
- Indirect costs – According to DNR's indirect cost plan, these costs include expenses for the Director's Office, Communications, and Management Services, including budget and finance. Indirect costs benefit DNR as a whole and are allocated to various State and federal programs. These costs are allocated based on a negotiated rate and applied to all State and federal programs which allow indirect costs to be charged to the program.
- Legal services – These costs include legal service costs allocated based on the actual hours recorded by the legal staff to specific activity codes and to specific projects related to animal compliance. In addition, general legal expenses benefiting multiple programs are allocated based on the percentage of funding from the various programs which use legal services.

As previously stated, staff assigned to the Compliance Fund are located in 6 field offices around the State. The costs associated with running a field office, such as rent, utilities, and office supplies, are also allocated to the various programs administered by the field office. For example, building rent is allocated to the programs based on the percentage of salaries charged to the various programs compared to the total program salaries.

Because administering the provisions of the Act requires staff to review permits, monitor air and water quality, and follow-up on complaints, it is reasonable the largest expense related to administering the provisions of the Act would be payroll. As part of their duties, staff travel to monitor the AFOs, use supplies, computers, and other equipment to monitor air and water quality. These expenses are reasonable for the administering and monitoring the Act requirements and are the same expenses as many of the programs administered by DNR.

During the review, nothing came to our attention which indicates expenses were incorrectly charges to the Animal Compliance Fund. The methods used by DNR to charge expenses directly to the program and allocate expenses are reasonable and are used consistently to allocate costs to other State and federal program administered by DNR.

The State's accounting system allows DNR to record expenses directly in a fund or in accounts within the fund. It is not clear why DNR does not record the expenses directly to the appropriate account within the Compliance Fund in the accounting system. Because DNR accounting staff do not record the expenses directly to the accounts within the Compliance Fund, they maintain a separate spreadsheet to track the revenue, expenses, and balances for the 3 account in the Compliance Fund. In addition, if the information is recorded directly to the accounts within the Compliance Fund instead of an expense unit in DNR's General Fund, the information would be transparent to anyone using the State's accounting system to determine the financial activity of DNR programs.

DNR Spreadsheet - DNR officials we spoke with stated the expenses recorded in DNR's General Fund for the Animal Agriculture Compliance Act are allocated to the Assessment account, Educational account, and the General account. However, as stated previously, the expenses are

recorded in DNR's General Fund within the State's accounting system in units 7117 and 7427 rather than in a manner that aligns with the 3 accounts established with the Compliance Fund.

DNR officials we spoke with reported expenses for the Act are allocated to the 3 accounts in the following manner:

- Assessment account - includes expenses related to Manure Management Plan (MMP) reviews, program development, animal feeding operation technical assistance and inspections, compliance and enforcement, and program related support costs.
- Educational Program account – includes expenses related to the contract with Iowa State University to create and update Manure Applicator training modules for the on-line, Moodle-based manure applicator education program, “elearning-dnr.iowa.gov.”
- General account – includes expenses related to animal feeding operation construction permit application processing and review, expenses related to training and manure applicator certification processing and tracking, other program work and program related support costs.

Because these 3 accounts are not included in DNR's General Fund within the State's accounting system, DNR accounting staff prepare a spreadsheet to track expenses by account. The spreadsheet shows the amount of revenue received within the Compliance Fund for each fee and the total expenses for each of the 3 accounts within the Compliance Fund. However, the expenses recorded in the spreadsheet are not broken out by category such as payroll, travel, supplies, and equipment.

In order to determine how to allocate the expenses recorded in DNR's General Fund to a specific Compliance Fund account, DNR uses the activity codes entered by staff when they record their hours in the payroll system.

When we compared the information on DNR's spreadsheet to the amounts recorded in the accounting system, we determined the following:

- The revenue recorded in the spreadsheet for the 3 accounts agrees with the total revenue recorded for the 3 accounts within the Compliance Fund in the State's accounting system. However, it does not agree for the 3 individual accounts because all interest earned is recorded in the General account within the State's accounting system, but interest is allocated between the General and Assessment accounts within the spreadsheet prepared by DNR staff.
- The expenses recorded for the 3 accounts in the spreadsheet agree in total to the transfers out recorded in just the Educational account within the Compliance Fund in the State's accounting system, with the exception of the expenses on the spreadsheet have been rounded up to the next whole dollar by DNR staff.
- The total fund balance reported on the spreadsheet for the 3 accounts agrees with the fund balance reported in the accounting system for the Compliance Fund in total within \$2.00 at the end of each fiscal year. The accounting system does not track the balance by account within the fund. The variances of less than \$2.00 for each fiscal year is a result of DNR staff rounding the expenses in the spreadsheet up to the next dollar or by \$1.00 in total.
- The spreadsheet showed a negative balance in fiscal years 2016, 2017 and 2018 for the Assessment account. This is a result of DNR continuing to allocate expenses to the account even though revenue was not sufficient to cover the expenses.

As previously stated, the *Code* prohibits transferring funds deposited in the Assessment account within the Compliance Fund. However, it does not prohibit funds recorded in the General or Educational accounts within the Compliance Fund from being transferred if the transfer is related to administering and enforcing provisions related to air and water quality.

Also as previously stated, the State’s accounting system shows no transfers from the Assessment account. The State’s accounting system shows funds were only transferred from the Educational account within the Compliance Fund. However, based on our review of the spreadsheet prepared by DNR staff and expenses recorded in DNR’s General Fund, we determined funds deposited to the Assessment account were transferred from the Compliance Fund to DNR’s General Fund to pay expenses associated with the Animal Agriculture Compliance Act.

If expenses associated with the Act were paid from the Compliance Fund directly, rather than DNR’s General Fund, the costs would be transparent to users of the State’s accounting system. Currently, as a result of the manner in which DNR records the expenses, they are not readily determinable or transparent to anyone using the State’s accounting system.

While we were able to determine the collections deposited to the Compliance Fund were ultimately used to pay costs associated with the Animal Compliance Act, DNR did not comply with the specified restriction found in section 459.401(3) of the *Code of Iowa* which states “The department shall not transfer moneys from the compliance fund’s Assessment account to another fund or account, including but not limited to the fund’s general account.”

Fund Balance – As previously stated, the *Code* established the Compliance Fund as a non-reverting fund. As a result, any unspent funds remaining in the Compliance Fund and its accounts at the end of the fiscal year are not reverted to the State’s General Fund. Because funds do not revert from the Compliance Fund, its fund balance will increase when revenues exceed expenses during a fiscal year and will decrease when expenses exceed the revenues during a fiscal year. Since the fund is non-reverting, the fund balance carried forward at the end of the fiscal year must be used in accordance with the requirements established by the *Code of Iowa*.

The State’s accounting system tracks the fund balance at the Compliance Fund level and not at the account level. **Table 2** lists the beginning and ending fund balances of the Compliance Fund for fiscal years 2014 through 2018.

Fiscal Year	Fund Balance		Increase/ (Decrease)
	Beginning Balance	Ending Balance	
2014	\$ 1,364,121.33	1,367,735.36	3,614.03
2015	1,367,735.36	1,275,954.91	(91,780.45)
2016	1,275,954.91	1,136,017.41	(139,937.50)
2017	1,136,017.41	631,245.67	(504,771.74)
2018	631,245.67	878,966.70	247,721.03

The **Table** illustrates the Compliance Fund’s fund balance decreased in 2015, 2016, and 2017 because revenues received in the Compliance Fund were not sufficient for expenses of administering the Animal Agriculture Compliance Act during those fiscal years. As a result, DNR used a portion of the fund balance accumulated during previous years to offset the expense incurred during those fiscal years.

As previously stated, DNR maintains a spreadsheet showing the revenue, expense, and fund balance for the General, Assessment, and Educational accounts. **Schedule 3** shows the revenue, expenses, and fund balance recorded in DNR's spreadsheet for fiscal years 2014 through 2018.

The **Schedule** illustrates in fiscal year 2014 the fund balance included revenue remaining in the General and Assessment accounts. According to DNR officials, revenue received from other sources in fiscal year 2014 was used for the administrative expenses of the Animal Agriculture Compliance Act. However, in fiscal years 2015 through 2018, the **Schedule** shows the General account had a positive balance, while the Assessment account had a deficit funds balance. It is not clear why DNR recorded expenses in the Assessment account when the revenue was not sufficient to cover the expenses.

DNR officials we spoke with stated the fund balance in the Compliance Fund increased from fiscal year 2009 until 2014 as the result of several factors, including the availability of federal funds and appropriations periodically received from the Legislature. These funds allowed DNR to pay for a portion of the expenses charged to the Compliance Fund with these other sources of revenue. In addition, the growth of AFO's prior to the recession increased the fees collected while expenses remained verily stable. As a result, revenue in the Assessment account which would normally be used to cover expenses was carried forward.

According to DNR staff, the decrease in the Compliance Fund's fund balance in 2015, 2016, and 2017 was the result of the increased staffing effort and the related support costs required to comply with the federally mandated Work Plan. In addition, there was an increase in costs associated with the on-line electronic manure management plans application and training costs related to the ISU contract. The increase in the fund balance at the end of fiscal year 2018 was a result of DNR receiving federal funds for air and water quality expenses which helped reduce the expenses charged to the Compliance Fund.

Section 459.400(3) of the *Code* requires DNR to determine the balance of unencumbered and unobligated moneys in the Assessment and the Educational accounts at the end of each fiscal year. The *Code* also states, in part, based on the evaluation, if at June 30:

- “the balance of unencumbered and unobligated moneys in the assessment account is one million dollars or more, the department shall adjust the rate of the annual compliance fee for the following fiscal year. The adjusted rate for the annual compliance fee shall be based on the department's estimate of the amount required to ensure that at the end of the following fiscal year the balance of unencumbered and unobligated moneys in the assessment account is not one million dollars or more. “
- “the balance of unencumbered and unobligated moneys in the educational program account is twenty-five thousand dollars or more, the department shall adjust the rate of the commercial manure service license fee and the educational program fee for the following fiscal year. The adjusted rate for the fees shall be based on the department's estimate of the amount required to ensure that at the end of the following fiscal year the balance of unencumbered and unobligated moneys in the assessment account is not twenty-five thousand dollars or more.”

As shown by **Schedule 3**:

- the balance in the Assessment account has not exceeded \$1 million dollars and has carried a deficit balance in fiscal years 2016 through 2018. The deficit balance is the result of DNR allocating more expense to the Assessment account than the actual revenue recorded. However, the State's accounting system shows only revenue has been recorded in the Assessment account within the Compliance Fund.
- the revenues and expenses in the Educational account have always offset and the account has had a \$0.00 balance since fiscal year 2014. However, because DNR recorded all the transfers to DNR's General Fund from the Compliance Fund's Educational account in the

the State's accounting system, the balance calculated using the State's accounting system would result in a deficit balance for the Educational account.

If an outside party used the State's accounting system, it would appear DNR should increase the fees deposited to the Educational account. However, as illustrated by **Table 2**, the total fund balance of the Compliance Fund was approximately \$880,000 at the end of fiscal year 2018. The fees collected for the Animal Agriculture Compliance Act are sufficient to administer the requirements of the Act.

Conclusion

As requested, we reviewed the Animal Compliance Fund to determine if revenues deposited to the Compliance Fund were expended in accordance with section 459.401 of the *Code of Iowa* and to determine if DNR's administration of the Compliance Fund complied with requirements established by the *Code of Iowa*, Iowa Administrative Code, and DNR policies and procedures. Based on our review we determined the following:

- DNR transferred funds from the Compliance Fund to DNR's General Fund where DNR recorded the expenses related to the administration of the Animal Compliance Act. As a result, DNR did not comply with section 459.401(3) of the *Code of Iowa* prohibiting the transfer of funds from the Assessment account to another fund or account, including but not limited to the fund's general account.
- The expenses recorded in DNR's General Fund for administering the Act were reasonable and expenses allocated were done in accordance with established DNR policies and procedures. However, because the expenses are not recorded in the accounts within the Compliance Fund, other interested parties who do not know how DNR records expenses, would not be able to determine how the funds were expended for the Animal Agriculture Compliance Act.
- DNR does not use the State's accounting system to its full capabilities. The State's accounting system allows departments to record revenue and expenses directly to a fund or subaccount within the fund, which would allow transparency regarding how the funds are spent.
- Although DNR does project revenues and expenses for the Compliance Fund, DNR has not annually evaluated the annual compliance fee, commercial manure service license fee and the educational program fee to determine if the fee should be increased or decrease to cover the administrative costs, as required by section 459.400(3) of the *Code*.

Findings and Recommendations

We reviewed the financial activity in the Animal Compliance Fund (Compliance Fund) and the 3 related accounts within the fund to determine whether DNR complied with the applicable sections of the *Code of Iowa*, Iowa Administrative Rules, and DNR policies and procedures. As a result, we identified finding and recommendation regarding the Compliance Fund which should be considered by the Governor, Members of the General Assembly, Natural Resources Commission, Environmental Protection Commission, and the DNR.

FINDING A – Animal Agriculture Compliance Fund – DNR records administrative expenses for the programs they administer in its General Fund. Each month, DNR records entries in the State’s accounting system to transfer funds from the various funds/programs to DNR’s General Fund for the programs’ share of the expenses.

Section 459.401(3) of the *Code of Iowa* states, in part, “The moneys shall not be transferred, used, obligated, appropriated, or otherwise encumbered except as provided in this subsection. The department shall not transfer moneys from the compliance fund’s Assessment account to another fund or account, including but not limited to the fund’s general account.”

Because DNR transfers funds from the Compliance Fund including the Assessment account, DNR did not comply with section 459.401(3) of the *Code of Iowa* which prohibits the transfer.

Recommendation – To ensure compliance with section 459.401(3) of the *Code*, DNR officials should ensure all expenses related to the operation of the Animal Agriculture Compliance Act are recorded in the Compliance Fund by expense category such as payroll and travel. In addition, the expenses should be recorded in the correct sub-account within the fund to ensure expenses related to the program are transparent.

Response – All the funds in the Animal Agriculture Compliance Fund have been expended for the purpose of administering and enforcing the applicable rules and regulations relating to animal feeding operations.

While funds were moved from the Animal Agriculture Compliance Fund to the Department’s General Fund, this was to pay for allowable expenses and not used for unauthorized purposes.

Conclusion – Response acknowledged; however, DNR’s response does not address the finding. As stated in the report, based on our testing, we did not identify any unallowable expenses paid for from DNR’s General Fund related to the Animal Agriculture Compliance funds.

Rather, the finding addresses DNR’s lack of compliance with requirements established by the *Code of Iowa* prohibiting transferring funds from the Assessment account within the Compliance Fund. Because DNR made transfers which did not comply with requirements established by the *Code*, our recommendation remains as stated.

FINDING B – Transparency – DNR records the expenses related to the administration of the Animal Agriculture Compliance Act in the DNR’s General Fund. In order to track the revenue, expense, and balance of each of the accounts within the Compliance Fund, DNR maintains a spreadsheet and allocates the expenses recorded in DNR’s General Fund to the General, Assessment, and Educational accounts which are part of the Compliance Fund.

If DNR recorded the expenses directly to the 3 accounts within the Compliance Fund in the State’s accounting system, DNR staff would be able to prepare reports using the State’s accounting system to clearly show the revenue, expenses, and balance in each of the 3 accounts and the Compliance Fund in total at any point in time.

In addition, by using the accounting system, the activity in the Compliance Fund would be transparent to other interested parties, such as Legislators, who may use this information. Outside parties would be able to clearly see the revenue and expenses at the fund and account level within the Compliance Fund without having to rely on DNR's staff to provide the details.

Recommendation – DNR officials should ensure all revenues and expenses related to the operation of a program are recorded in the correct fund and/or account. This will allow interested parties to clearly see the financial status of a fund/program/account at any point in time and not rely on DNR to provide the information.

Response – The Department has over 250 funding sources and more than 30 funds. The Department has consistently applied this approach to all funds and programs since its inception in 1986. Recording all operational expenses in one fund presents an accurate financial picture and is transparent.

The Department will perform an analysis to determine the feasibility of recording revenues and expenses in individual funds.

Conclusion – We acknowledge DNR's response an analysis will be performed to determine the feasibility of recording revenues and expenses in individual funds. The State's accounting system provides departments the ability to record revenue and expenses directly to a fund or subaccount within the fund, which allows transparency regarding how financial resources are used. We will review DNR's progress regarding this analysis during future engagements and comment accordingly if corrective action has not been implemented.

FINDING C – Fee Analysis – Section 459.400(3) of the *Code* requires DNR to determine the balance of unencumbered and unobligated moneys in the Assessment and the Educational accounts at the end of each fiscal year and evaluate the following fees to determine if they should be adjusted.

- The annual compliance fee shall be based on the department's estimate of the amount required to ensure that at the end of the following fiscal year the balance of unencumbered and unobligated moneys in the assessment account is not one million dollars or more.
- The commercial manure service license fee and the educational program fee for the following fiscal year. The adjusted rate for the fees shall be based on the department's estimate of the amount required to ensure that at the end of the following fiscal year the balance of unencumbered and unobligated moneys in the assessment account is not twenty-five thousand dollars or more."

Information provided by DNR illustrates the balance of unencumbered and unobligated moneys in the Assessment and Education accounts did not exceed the balances established by the *Code*. However, the information provided by DNR also illustrates the Assessment account has operated with a deficit fund balance since the end of fiscal year 2015.

Although DNR projects revenues and expenses for the Compliance Fund, DNR has not annually evaluated the sufficiency of the annual compliance fee, commercial manure service license fee and the educational program fee to determine if the fees should be increased or decreased to cover the administrative costs.

Recommendation – DNR officials should evaluate the annual compliance, commercial manure service license, and educational fees annually. If the analysis shows the fees are not sufficient to cover the costs of administration, DNR should work with the Legislature to change the maximum fee allowed to be charged. Alternatively, if a significant fund balance is accumulated within the Compliance Fund, the fees should be adjusted accordingly.

Response – Iowa Code section 459.400(3) requires only that the department determine each fiscal year if the balance of unencumbered and unobligated moneys in the Assessment Account equals or exceeds one million dollars or if the balance in the Educational Program Account equals or exceeds twenty-five thousand dollars. If so, the associated fee(s) deposited into that account must be adjusted so that the balance of unencumbered and unobligated moneys in that account is below the statutory threshold by the end of the following fiscal year. As demonstrated by DNR, the balance of unencumbered and unobligated moneys in the Assessment Account never approached one million dollars nor did the balance in the Educational Program Account approach twenty-five thousand dollars. The DNR has met the requirement of Iowa Code section 459.400(3) and will continue to evaluate the fees each year to determine if they need to be adjusted.

Conclusion – Response acknowledged. Based on financial information provided to us by DNR representatives, the balance of unencumbered and unobligated moneys in the Assessment and Education accounts did not exceed the balances established by the *Code*. As a result, we determined DNR complied with requirements established by the *Code*.

However, the recommendation is not limited to what is found in the *Code*. The recommendation is proposing DNR evaluate the fees in a manner which determines if the current level of fees (as established by the *Code*) is sufficient to continue to properly administer the Animal Agriculture Compliance Act.

**Report on a Review of
the Animal Compliance Fund
Administered by the
Department of Natural Resources**

Schedules

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Revenues and Expenses by Sub-Account by Fiscal Year
For Fiscal Years 2014 through 2018

Account / Description	Fiscal Year		
	2014	2015	2016
Revenues:			
General 473A:			
Interest	\$ 3,785.63	5,261.47	6,812.78
Manure storage indemnity fee	151,149.94	176,223.00	190,669.04
Other licenses, permits or fees	344,785.76	376,846.00	344,376.00
Subtotal	<u>499,721.33</u>	<u>558,330.47</u>	<u>541,857.82</u>
Assessment 473B:			
Manure storage indemnity fee	1,310,263.13	1,344,832.58	1,429,794.18
Educational 473C:			
Other licenses, permits or fees	113,462.50	117,587.50	112,102.50
Refunds and reimbursements	506.07	-	-
Subtotal	<u>113,968.57</u>	<u>117,587.50</u>	<u>112,102.50</u>
Total revenues	<u>1,923,953.03</u>	<u>2,020,750.55</u>	<u>2,083,754.50</u>
Expenses - Transfers out:			
General 473A	-	-	-
Assessment 473B	-	-	-
Educational 473C	1,920,339.00	2,112,531.00	2,223,692.00
Revenues in excess of/(less than) expenses:	<u>\$ 3,614.03</u>	<u>(91,780.45)</u>	<u>(139,937.50)</u>

2017	2018	Total
8,882.68	9,298.09	34,040.65
197,983.94	211,218.63	927,244.55
353,424.00	356,362.00	1,775,793.76
560,290.62	576,878.72	2,737,078.96
1,451,323.24	1,516,677.31	7,052,890.44
113,649.40	109,025.00	565,826.90
-	-	506.07
113,649.40	109,025.00	566,332.97
2,125,263.26	2,202,581.03	10,356,302.37
-	-	-
-	-	-
2,630,035.00	1,954,860.00	10,841,457.00
(504,771.74)	247,721.03	(485,154.63)

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Detailed Expenses by Fiscal Year
For Fiscal Years 2014 through 2018

Description	Total Expenditures		
	FY 2014	FY 2015	FY 2016
Personal Services	\$ 1,307,540.59	1,502,916.23	1,563,961.52
In State Travel	7,654.96	15,680.45	11,354.91
State Vehicle Operation	23,363.90	24,961.60	21,642.90
State Vehicle Depreciation	39,613.00	24,409.00	39,833.08
Out Of State Travel	5,001.49	4,438.28	947.97
Office Supplies	-	182.60	22.78
Facilities Maintenance Supplies	147.31	382.80	338.98
Equipment Maintenance Supplies	5,000.00	-	-
AG., Conservation & Hort Supply	-	-	143.41
Other Supplies	176.69	293.69	144.72
Printing & Binding	3,774.42	5,600.58	5,159.23
Uniforms & Related Items	2,194.38	384.08	538.69
Postage	671.02	1,025.68	1,453.58
Communications	4,442.51	6,207.96	12,801.87
Rentals	155.00	-	67.50
Professional & Scientific Services	209,235.00	193,870.79	225,200.00
Outside Services	5,000.00	12,224.32	-
Reimbursements To Other Agencies	436.00	849.00	802.00
ITD Reimbursements	251.90	580.28	426.25
IT Outside Services	86.40	-	4,836.28
Auditor of State	-	-	-
Equipment	-	13,000.00	5,000.00
Equipment-Non Inventory	-	4,305.89	1,744.39
IT Equipment & Software	3,934.41	7,082.62	6,097.94
Other Expenses & Obligations	1,217.00	1,753.89	2,129.10
Subtotal	1,619,895.98	1,820,149.74	1,904,647.10

FY 2017	FY 18	Total	
1,708,913.50	1,229,776.50	7,313,108.34	67.5%
14,949.63	5,648.61	55,288.56	0.5%
22,716.29	31,595.06	124,279.75	1.1%
36,912.00	12,716.00	153,483.08	1.4%
3,512.53	578.84	14,479.11	0.1%
1,140.95	779.73	2,126.06	0.0%
35.82	-	904.91	0.0%
-	-	5,000.00	0.0%
-	-	143.41	0.0%
561.00	-	1,176.10	0.0%
3,661.19	4,842.67	23,038.09	0.2%
94.66	127.04	3,338.85	0.0%
1,285.11	4,274.30	8,709.69	0.1%
28,639.37	45,843.33	97,935.04	0.9%
800.00	995.00	2,017.50	0.0%
215,997.75	193,815.84	1,038,119.38	9.6%
150.00	-	17,374.32	0.2%
802.76	11,660.00	14,549.76	0.1%
13,333.73	1,872.23	16,464.39	0.2%
52,658.76	132,980.77	190,562.21	1.8%
-	1,039.50	1,039.50	0.0%
-	-	18,000.00	0.2%
2,305.69	314.00	8,669.97	0.1%
24,582.40	250.52	41,947.89	0.4%
2,313.64	2,928.73	10,342.36	0.1%
2,135,366.78	1,682,038.67	9,162,098.27	

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Detailed Expenses by Fiscal Year
For Fiscal Years 2014 through 2018

Description	Total Expenditures		
	FY 2014	FY 2015	FY 2016
Legal Services- Based on Allocation	157,481.00	161,392.00	114,167.00
GIS 7516 One time allocation	-	-	-
Indirect cost ^	161,220.00	176,593.00	204,879.00
Budget Adjustment	(18,258.26)	(45,603.74)	-
Total Expenses	\$ 1,920,338.72	2,112,531.00	2,223,693.10
Total expenses	1,920,338.72	2,112,531.00	2,223,693.10
Transfer from 473	1,920,339.00	2,112,531.00	2,223,692.00
Variance	(0.28)	-	1.10

^ - Indirect cost is calculated based on a percentage of salaries. The percentage changes each fiscal year.

FY 2017	FY 18	Total	
		-	0.0%
103,052.00	118,115.00	654,207.00	6.0%
20,000.00	-	20,000.00	0.2%
207,120.00	154,706.00	904,518.00	8.3%
164,496.00	-	100,634.00	0.9%
<u>2,630,034.78</u>	<u>1,954,859.67</u>	<u>10,841,457.27</u>	
2,630,034.78	1,954,859.67	10,841,457.27	
<u>2,630,035.00</u>	<u>1,954,860.00</u>	<u>10,841,457.00</u>	
<u>(0.22)</u>	<u>(0.33)</u>	<u>0.27</u>	

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Schedule of Revenue, Expense, and Account Balance
For Fiscal Years 2014 through 2018

Description	FY14	FY15	FY16
Beginning Fund Balance:			
GENERAL ACCT 473A	\$ 1,073,694.62	1,200,034.67	1,346,894.60
ASSESSMENT ACCT 473B	290,426.71	167,701.44	(70,938.45)
EDUCATION ACCT 473C	-	-	-
Total Fund Balance	<u>1,364,121.33</u>	<u>1,367,736.11</u>	<u>1,275,956.15</u>
Revenue[^]:			
GENERAL ACCT 473A w/int	496,975.14	554,602.25	536,900.23
ASSESSMENT ACCT 473B w/int	1,313,009.32	1,348,560.80	1,434,751.77
EDUCATION ACCT 473C	113,968.57	117,587.50	112,102.50
Total revenue	<u>1,923,953.03</u>	<u>2,020,750.55</u>	<u>2,083,754.50</u>
Expenses (Allocated)*:			
GENERAL ACCT 473A	370,635.09	407,742.32	501,172.74
ASSESSMENT ACCT 473B	1,435,734.59	1,587,200.69	1,610,417.76
EDUCATION ACCT 473C	113,968.57	117,587.50	112,102.50
Total Expenditures	<u>1,920,338.25</u>	<u>2,112,530.51</u>	<u>2,223,693.00</u>
Ending Fund Balance~:			
GENERAL ACCT 473A	1,200,034.67	1,346,894.60	1,382,622.09
ASSESSMENT ACCT 473B	167,701.44	(70,938.45)	(246,604.44)
EDUCATION ACCT 473C	-	-	-
Total Ending Fund Balance	<u>\$ 1,367,736.11</u>	<u>1,275,956.15</u>	<u>1,136,017.65</u>

Source: DNR personnel

[^] - Agrees in total with **Schedule 1** for the 3 accounts. DNR staff allocate interest the General and Assessment accounts on the spreadsheet, but all interest is recorded in the General account within the State's accounting system.

* - Agrees in total with **Schedule 1** for the 3 accounts, except for the rounding up of expenses done by DNR staff for the transfer in the accounting system. (DNR staff only rounded expenses; they did not round revenues recorded on the spreadsheet.)

~ - Agrees in total with the fund balance recorded in the State's accounting system within \$2.00 due to rounding of expenses.

FY17	FY18
1,382,622.09	1,251,951.53
(246,604.44)	(620,705.62)
-	-
<u>1,136,017.65</u>	<u>631,245.91</u>
553,853.59	570,112.87
1,457,760.27	1,523,443.16
113,649.40	109,025.00
<u>2,125,263.26</u>	<u>2,202,581.03</u>
684,524.15	599,086.97
1,831,861.45	1,246,723.65
113,649.40	109,050.00
<u>2,630,035.00</u>	<u>1,954,860.62</u>
1,251,951.53	1,222,977.43
(620,705.62)	(343,986.11)
-	(25.00)
<u>631,245.91</u>	<u>878,966.32</u>

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Manager
Matt Hickenbottom, Senior Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Copy of Letter Requesting Review

DAVID JOHNSON
STATE SENATOR
First District
Statehouse: (515) 281-3371
david.johnson@legis.iowa.gov

HOME ADDRESS
PO Box 279
Ocheyedan, Iowa 51354
C: (712) 348-2953

13 October 2017

The Honorable Mary Mosiman
Auditor of State
State Capitol Building, Room 111
Des Moines, Iowa

Auditor Mosiman:

Over the past year, many lowans have expressed their concerns to me regarding enforcement of our laws and regulations for confined animal feeding operations (CAFOs). More recently, attention has been put on Iowa Code Chapter 459.401, which provides for an Animal Agriculture Compliance Fund.

More specifically I point to Chapter 459.401.3, which reads:

3. Moneys in the compliance fund are appropriated to the department exclusively to pay the expenses of the department in administering and enforcing the provisions of subchapters II and III as necessary to ensure that animal feeding operations comply with all applicable requirements of those provisions, including rules adopted or orders issued by the department pursuant to those provisions. The moneys shall not be transferred, used, obligated, appropriated, or otherwise encumbered except as provided in this subsection. **The department shall not transfer moneys from the compliance fund's assessment account to another fund or account, including but not limited to the fund's general account.**

I am making a formal request for an audit of the animal agriculture compliance fund's assessment account.



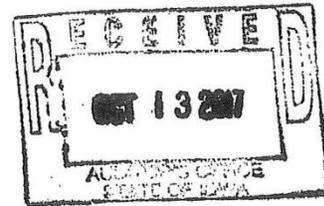
The Senate
State of Iowa
Eighty-seventh General Assembly
STATEHOUSE
Des Moines, Iowa 50319

COMMITTEE

Natural Resources and Environment

*"Whether we and our politicians know it or not,
nature is party to all our deals and decisions.
And she has more votes, a longer memory, and
a sterner sense of justice, than we do."*

Wendell Berry



Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Copy of Letter Requesting Review

Enclosed are three spreadsheets provided by the Legislative Services Agency Fiscal Division.

Also enclosed is a relevant Associated Press story posted today.

As this is my first request for a formal audit from the Auditor of State, perhaps you need additional information. If that is the case, do not hesitate to contact me.

Thank you for your timely response to my request.

Sincerely,

A handwritten signature in black ink, appearing to read "David Johnson", with a long, sweeping flourish extending to the right.

David Johnson, State Senator

**Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources**

Report on a Review of the Animal Compliance Fund
Administered by the Department of Natural Resources

Copy of DNR Compliance Fee Summary

Description	Fee
Construction Permit Application Fee <i>Iowa Code 459.400(1)a</i>	\$250.00
Manure Management Plan (MMP) Filing Fee <i>Iowa Code 459.400(1)b</i>	\$250.00
Manure Applicator Certification Fees <i>Iowa Code 459.315, 459.400, 567 IAC 65.19(2)</i> <ul style="list-style-type: none"> • Commercial manure service fee • Commercial manure service representative fee • Confinement site manure applicator fee • Educational fee • Renewal application late fee • Duplicate certificate fee 	\$200 per year \$75 per year \$100 every 3 years \$25.00 per year \$12.50 for applications received after March 1 \$15
Annual Compliance Fee <i>Iowa Code 459.400</i>	\$0.15 per animal unit (AU) based on AU capacity of the confinement feeding operation covered by the MMP