



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE February 25, 2020

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2018.

The Department administers and coordinates the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state. The Department consists of the following divisions: Banking, Professional Licensing Bureau, Credit Union, Utilities, Insurance and Alcoholic Beverages.

Sand recommended certain Divisions within the Department increase controls over inventory, receipts, payroll and financial reporting. The Divisions responded favorably to these recommendations.

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

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF COMMERCE**

JUNE 30, 2018

Iowa Department of Commerce



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January 10, 2020

Iowa Department of Commerce
Des Moines, Iowa

To Katie Averill, Director of the Iowa Department of Commerce:

I am pleased to submit to you the financial and compliance audit report for the Iowa Department of Commerce for the year ended June 30, 2018. The report includes findings pertaining to the Department's internal control and compliance which resulted from the fiscal year 2018 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Department of Commerce throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand
Auditor of State

Iowa Department of Commerce



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January 10, 2020

To Katie Averill, Director of the Iowa Department of Commerce:

The Iowa Department of Commerce 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, 2018.

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 findings pertaining to the Department's internal control, statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Commerce's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Commerce, citizens of the State of Iowa and other parties to whom the Department 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 13 and they are available to discuss these matters with you.

A handwritten signature in black ink that reads "Marlys K. Gaston".

Marlys K. Gaston, CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2018

Findings Reported in the State's Single Audit Report:

No matters were reported.

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

No matters were reported.

Other Findings Related to Internal Control:

(A) Alcoholic Beverages Division

- (1) Capital Assets - A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Chapter 7A.30 of the Code of Iowa requires each department of the State to maintain a written, detailed and up-to-date inventory of property under its charge and control.

The following conditions were noted:

- a) Intangible assets were overstated by \$307,221 for governmental capital assets and \$1,228,883 for business type capital assets.
- b) Construction in progress was understated by \$35,415 for business type capital assets.
- c) Accumulated depreciation was overstated by \$37,125 for governmental capital assets and by \$1,261 for business type capital assets.

Recommendation – The Division should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring all capital asset additions are reconciled to I/3 asset purchases. The reconciliation should also be reviewed by a person independent of the record keeping process. The independent reviewer should sign and date the reconciliation as evidence of review. In addition, the Division should ensure capital assets are capitalized in the correct amounts.

Response – The Division has recognized the need to update procedures and has made personnel changes within the accounting department to create greater efficiencies and accountability. The Division's current asset listing is managed on an excel workbook and will be reviewed on a yearly basis by the Bureau Chief, Comptroller and the Accountant II. Should revisions need to be made to the asset listing, the Comptroller will review the asset listing and make the necessary adjustments with a final review done by the Accountant II to ensure accuracy. The Division has also begun exploring using the I/3 asset listing system. At the time of this audit, the Division was still exploring the use of I/3 and recognizes the need to have a better asset management system. The use of the I/3 tool will provide the Division with a consolidated listing, as well as the ability to reconcile all assets back to the I/3 system and have greater systematic control over capitalization.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2018

- (2) Inventory System – The Division utilizes a warehouse management system to manage and segregate duties for all areas of distribution including inventory management. In the event discrepancies exist between an actual inventory count and the recorded count reported in the system, the Division has established procedures for the count and recounts to be performed by two separate employees. However, the system has not been updated to make this a mandatory feature and therefore does not prevent the same person from entering the count twice.

Recommendation – To ensure the warehouse management system contains accurate information, the Division should develop procedures to ensure an independent review of counts are performed when inventory discrepancies exist. Evidence of the independent review (recount) should be documented and retained.

Response – The Division implemented a new warehouse management system, Microsoft Dynamics AX, on August 26, 2016. This new system has the ability to manage and segregate duties for all areas of distribution including inventory management; however, counts and recounts were not systematically controlled. When the Division received the fiscal year 2017 audit report regarding inventory, the warehouse supervisor implemented procedures to ensure counts and recounts were performed by separate personnel, but the system was not updated.

During fiscal year 2018, the Division was in the process of executing an RFP for a public private partnership for warehousing and fleet services. This new partnership would allow for an entity other than the Division to operate a secondary integrated warehouse management system and so no additional changes to the current Microsoft Dynamics system were executed. The Division is currently working in partnership with Ruan Transport Corporation and their warehouse management system does not allow for the same users to count and recount inventory.

Conclusion – Response accepted.

(B) Division of Banking

- (1) Capital Assets – One person is responsible for both recording and reconciling capital assets. The Division does not maintain documentation of the reconciliation between the Integrated Information for Iowa (I/3) system and the Division's capital asset listing. In addition, the Division does not require documentation of supervisory approval before an asset is removed from the capital asset listing.

Recommendation – The responsibilities for recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the capital asset listing should be supported by documentation indicating supervisory approval. Also, the deletion of a capital asset from the capital asset listing should be supported by supervisory approval.

Response – Starting in fiscal year 2019 (7/1/2018), we reconciled the capital asset list by having the accountant review and print the listing and the COO review, approve and sign the list. The signed copy is then stored for auditor's review.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2018

(2) Financial Reporting – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. The following findings were noted:

- a) The Division understated accumulated depreciation by \$27,405. In addition, the Division did not include certain asset purchases on their capital asset listing resulting in an understatement of capital assets by \$30,821 and a further understatement of accumulated depreciation by \$5,137. Also, the Iowa Division of Banking reported a vehicle valued at \$16,539 as a Division of Banking capital asset in the GAAP package; however, the vehicle was purchased by the Professional Licensing Board.
- b) The Division understated future minimum rental payments for operating leases by approximately \$66,897.

Recommendation – The Division should ensure the GAAP package information reported is complete and accurate.

Response –

- a) In the fiscal year 2017 GAAP report, we followed the question format and combined the vehicles from both Banking and Professional Licensing Bureau into one list (one set of columns). Later we were told to expand the table of the “Changes in Capital Assets” to split the list into two separate sets of columns. We did so in the fiscal year 2019 GAAP report. We will update capital assets to include the servers and appropriate assets in the future GAAP reports.
- b) In fiscal year 2017 GAAP report, we only estimated and reported the first five years of the rental payments based on the GAAP report format. Later in the fiscal year 2017 exit, we were told to add the next five years rental payments projection and we did on the fiscal year 2019 report.

Conclusion – Response accepted.

(C) Insurance Division

(1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over the collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared by the mail opener, at least on a test basis.

Recommendation – The Division should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2018

Response – In our exit conference for the fiscal year 2017 audit, the auditor indicated the key for the finding was to focus on the receipts. Beginning January 1, 2019, the mail opener creates a listing of each check received and enters the basic information about each check - timestamp, date on check, check number, from whom received, amount, and to which bureau it was delivered. This spreadsheet will be provided to Accounting who, as least on a test basis, reconciles that information against what is ultimately posted in the I/3 system.

Conclusion – Response acknowledged. In addition to establishing an independent (non-accounting) mail opener to prepare a listing of mail receipts, the Division should establish policies and procedures requiring the independent mail opener to reconcile the listing of mail receipts to what is posted to the I/3 system.

- (2) Securities Bureau Receipts – The Securities Bureau receives funds which are recorded in separate databases maintained within the Bureau and are then sent to accounting to be deposited and recorded in the Integrated Information for Iowa (I/3) system. The receipts recorded in the databases are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the Securities Bureau databases should be periodically reconciled to the deposits recorded in the I/3 system.

Response – The funds received by the Securities Bureau by check are first stamped and logged by the mail clerk. The process in finding #1 is followed for those receipts. A clerk specialist has the job responsibility to maintain the data base. In 2019, due to a move, that person resigned creating a vacancy. Subsequently, the duties have been performed by 5 other persons (her back-up, who has also left, a new hire who was not retained at the end of probation, two back up staff from the Administration support staff and a temporary employee). It has been a huge challenge to stay current with the existing duties of the position. If following the format from finding #1 is not sufficient, when fully staffed, we will work to implement the recommendation.

Conclusion – Response accepted.

(D) Iowa Utilities Board

- (1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over the collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared, at least on a test basis.

Recommendation – The Board should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2018

Response – The Iowa Utilities Board is committed to internal controls and proper practices associated with segregation of duties. To that end, our protocols have been updated to have one individual (not in the Accounting Department and with no access to accounting files or the accounts receivable journal) who is responsible for opening the mail (correspondence, receipts, and invoices), date stamping all items and logging them into a file that can only be edited by either that person or another person as designated by the Customer Service Team Manager, with the understanding that other designees must be outside of the Accounting Section and not have access to either the accounting files or the accounts receivable journal. All items are then delivered to the Accounting Department for processing.

The second step is to have an Accounting Technician then take the receipts and prepare them for deposit. This process includes verifying the sender, the reason for the payment, and that the payment is consistent with our billing information. These deposits are kept in date received order for the purpose of future reconciliation.

Conclusion – Response acknowledged. Proper segregation of duties should also address segregating the responsibilities for maintaining the receivable record as well as the responsibilities for reconciling the initial receipts listing to the amounts posted to I/3.

- (2) Receipt Reconciliation – The Board receives funds which are recorded in a separate receivables journal maintained by the Accounting Team and then deposited and recorded in the I/3 system. The receipts recorded in the receivables journal are not independently reconciled to deposits recorded in the 1/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the receivables journal should be periodically reconciled to the deposits recorded in the I/3 system by an independent person.

Response – The Iowa Utilities Board has established a protocol that will address the concern of this finding. Beginning on November 27th, 2019, the Iowa Utilities Board created a mail log, and payment registry. The purpose is to record all mailed payments that are received by the Iowa Utilities Board at the time of their receipt. This will allow for future reconciliation to confirm that payments received could be tracked through the system and verify that they were deposited. This third information source can be compared to the accounts receivable journal or the information in I/3 to verify all mailed receipts are reconciled.

To ensure further segregation of duties, the Iowa Utilities Board has updated this process (effective 01/01/2020) to have the initial opening and recording of mailed receipts by a third party that does not have access to either the Accounting Files or the Accounts Receivable Journal. The receipts log will have attributes that include check number, name on the check and the amount of the check. Since the receipts are kept in and processed in date received order, this log/registry will allow for a more complete and efficient reconciliation from date of receipt to entry into I/3.

Conclusion – Response accepted.

June 30, 2018

(E) Professional Licensing Bureau

Payroll – The Bureau processes and records payroll and personnel information on the Human Resource Information System (HRIS). Three employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets. In addition, for the period July 1, 2017 through February 27, 2018, one P-1 document was initiated and received department level approval by the same person.

Recommendation – To strengthen controls, the Bureau should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – Typically, the Human Resources Associate (HRA) creates the P-1. Another staff member approves the P-1 changes.

Conclusion – Response acknowledged. The Bureau should develop and implement procedures to ensure the segregation of duties of the Human Resources Associates from the duties of payroll.

Findings Related to Statutory Requirements and Other Matters:

(A) Professional Licensing Bureau

(1) Board Members

Per section 543B.8 of the Code of Iowa, the Real Estate Commission is to be comprised of five licensed members and two members who are not licensed to represent the general public. The Commission consisted of only six members throughout fiscal year 2018 as a member representing the public was vacant. As of May 2, 2019, the Commission is in compliance.

Per section 544C.2(1) of the Code of Iowa, the Interior Design Examining Board is to be comprised of five members who are registered interior designers and two members who are not registered and who shall represent the general public. The Board consisted of only four registered interior designers throughout fiscal year 2018. As of February 25, 2019, the Board is in compliance.

Recommendation – The Professional Licensing Bureau should ensure the Board/Commission members are in compliance with the Code of Iowa.

Response – The Professional Licensing Bureau (PLB) reports to the Governor's office any shortcomings in composition of the boards with follow-up on a regular basis. PLB has done everything in its power to see that Boards are properly comprised pursuant to Iowa law.

Conclusion – Response accepted.

June 30, 2018

(B) Alcoholic Beverages Division (ABD)

(1) Warehousing and Transportation Contract –

As a result of specific concerns presented to the Auditor of State's Office, extended procedures were performed over ABD's bidding and contracting process for the public-private partnership warehousing and transportation contract signed on December 5, 2018 with Ruan Transport Corporation. The extended procedures were performed to ensure the procurement process was conducted appropriately and in the best interest of the taxpayers.

One specific item of concern focused on the provision of fuel costs in the final contract. The initial Request for Proposal (RFP) as well as subsequent addendums, required the contractor to fund all fuel costs. However, based on the final signed contract with Ruan, the responsibility for the funding of fuel costs was given to ABD. The specific concern raised was whether the criteria included in the initial RFP and subsequent addendums was adjusted inappropriately prior to awarding the contract giving the awarded bidder an inappropriate advantage.

In addition, subsequent to audit inquiry, ABD requested the Auditor of State, in the interest of transparency, to perform a formal examination of the bidding and contracting process used by ABD with the intent of addressing all questions identified by the Auditor of State. Results of the extended procedures are as follows:

Background: On May 8, 2017, ABD released a RFP for a public-private partnership warehousing and transportation contract. ABD received three bids in response to the RFP. From those bids, an evaluation committee consisting of 12 individuals with legal, technological, accounting, transportation, distribution and other relevant skills sets evaluated and scored the bids based on a points system. Of the three bids received, one bid was eliminated due to the bid not meeting the technical points necessary. Of the remaining two bids, one bid was primarily eliminated due to the bid only addressing the trucking operations and excluding the warehousing operations. Upon completion of the evaluation process over the remaining bid, the committee presented their final recommendation for an intent to award the contract to Ruan Transport Corporation on February 15, 2018. On December 5, 2018, the final contract with Ruan Transport Corporation was signed with service to begin on April 15, 2019.

Findings: The following items were noted during our review of the public-private partnership warehousing and transportation contract and the related bid information:

- Based on a review of the original RFP and subsequent addendums, the contractor was to acquire fuel for use in vehicles used to distribute ABD's alcoholic supplies throughout 68 delivery routes.
- A review of the evaluation workbook pertaining to the three bids received confirmed one bid response did not meet the minimum score required in the RFP and the other bid response only included the distribution portion of the RFP. The support for this bid showed a total higher cost for the distribution service than for the distribution service presented by the third bidder, Ruan Transport Corporation.
- The September 22, 2017 cost proposal prepared by Ruan Transport Corporation included a provision for Ruan Transport Corporation to provide fuel, as stated in the RFP, at an estimated 1st year cost of \$253,712. The fuel cost was identified in the proposal as a pass-through expense. The estimated fuel cost was

June 30, 2018

calculated by Ruan Transport Corporation using an estimate of 601,214 miles for the contract year at a rate of 6.5 miles per gallon and a fuel price of \$2.743 per gallon.

- On February 15, 2018, ABD announced its intent to award the public-private partnership warehousing and transportation contract to Ruan Transport Corporation. At that point, ABD began the process to further evaluate Ruan Transport Corporation's costs, review the system coordination, confirm the assumptions used in the development of future costs, clarify information submitted by Ruan Transport Corporation, determine the credibility and validity of the bid and determine if there would be a cost benefit to the State in hiring Ruan Transport Corporation to provide warehousing and transportation services.
- This further evaluation consisted of multiple cost analyses, including 5-year financial forecast (see Appendix A) of the fuel cost per gallon for ABD to provide fuel compared with the fuel cost per gallon for Ruan Transport Corporation to provide the fuel. The cost comparisons showed that if ABD procured and managed the fuel inventory, a cost savings could be realized each year ranging from approximately \$65,700 for fiscal year 2020 to approximately \$74,000 for fiscal year 2024. This cost savings could be realized if ABD were able to supply red-dyed diesel fuel (untaxed diesel fuel) for use by the contractor versus paying the contractor for providing green diesel fuel (taxable diesel). Based on the estimates in the financial forecast, using the untaxed fuel would reduce the fuel cost by approximately \$.569 per gallon.
- ABD reached out to the Iowa Department of Revenue (IDR) to inquire as to the legality of ABD providing red-dyed fuel for use in privately owned trucks. In April 2019, the IDR, after consultation with the Internal Revenue Service, concluded ABD was allowed to provide the red-dyed diesel fuel under certain conditions, including the requirements the fuel be purchased by ABD and the trucks using this fuel must be used exclusively in the fulfillment of the ABD contract. Upon receiving this approval, ABD established control procedures to ensure the Ruan Transport Corporation trucks met the requirements, including ensuring the trucks using red-dyed diesel fuel were used exclusively for the ABD contract. Based on our review, these control procedures have been implemented.
- Based on the above, the December 5, 2018 final signed contract with Ruan Transport Corporation included the provision that fuel used in Ruan Transport Corporation's fleet equipment was to be procured by ABD.

Conclusion: Based on the additional procedures performed over the bidding and contracting process used by ABD, it appears Ruan Transport Corporation was awarded the contract based on standards applied to all bidders. Based on ABD calculations, the estimated cost savings for ABD providing the fuel versus Ruan Transport Corporation providing the fuel is approximately \$349,000 over a five-year period ending June 30, 2024. No additional findings were identified as a result of these extended procedures.

Report of Recommendations to the Iowa Department of Commerce

Fuel Savings Analysis

June 30, 2018

Fuel Savings Estimate	FY2020		FY2021	
	7/1/2019-6/30/2020	7/1/2020-6/30/2021	7/1/2020-6/30/2021	7/1/2020-6/30/2021
	Projected	Forecast	Projected	Forecast
Total Miles Driven		750,892		773,418
Avg DOE Diesel Rate for Fiscal Year*	1) \$	3.18		3.18
Less Iowa Diesel Tax	2) \$	0.325		0.33
Less Federal Diesel Tax	3) \$	0.244		0.24
ABD Fuel Cost Gallon	\$	2.61		2.61
Gallons at 6.5 MPG		115,521.79		118,987.44
Estimated ABD Fuel Cost	\$	301,627.39		310,676.21
Ruan Fuel Estimation	\$	367,359.29		378,380.07
Difference in Fuel Cost	\$	65,731.90		67,703.86

* Based on current market value at that time

Assumptions

Growth at the same percentage as FY2017 to FY2018 (3%)

Diesel fuel cost modeled at current cost per gallon average

Added 3% per year to total miles

- 1) Traced to Dept of Energy Midwest Diesel Retail Price as of May 2018 (3.179)
- 2) Traced to Iowa Fuel Tax as of July 1, 2018 through July 1, 2019
- 3) Traced to Federal Diesel Tax per U.S Energy Information Administration as of July 1, 2019

FY2022	FY2023	FY2024	
7/1/2021-6/30/2022	7/1/2022-6/30/2023	7/1/2023-6/30/2024	
Projected Forecast	Projected Forecast	Projected Forecast	
796,621	820,520	845,135	
3.18	3.18	3.18	
0.33	0.33	0.33	
0.24	0.24	0.24	
2.61	2.61	2.61	
122,557.07	126,233.78	130,020.79	
319,996.50	329,596.39	339,484.29	
389,731.47	401,423.41	413,466.12	
<u>69,734.97</u>	<u>71,827.02</u>	<u>73,981.83</u>	<u>\$ 348,979.57</u> Total 5 year savings

Report of Recommendations to the Iowa Department of Commerce

Staff

Staff:

Questions or requests for further assistance should be directed to:

Marlys K. Gaston, CPA, Deputy
Suzanne R. Dahlstrom, CPA, Manager
Emma L. McGrane, Senior Auditor

Other individuals who participated in the audits include:

Premnarayan Gobin, Senior Auditor
Mallory A. Peters, Senior Auditor
Nicholas J. Gassman, Staff Auditor
Molly N. Kalkwarf, Staff Auditor
Drake J. Caple, Assistant Auditor
Maria R. Collins, Assistant Auditor
Adrian T. Duer, Assistant Auditor