

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0006

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NEWS RELEASE

FOR RELEASE

September 16, 2020

Contact: Marlys Gaston
515/281-5834

The Office of Auditor of State today released a report on the Iowa Economic Development Authority for the year ended June 30, 2019.

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

AUDIT FINDINGS:

Sand reported four findings related to the receipt and expenditure of taxpayer funds. The findings are found on pages 3 through 6 of this report. Sand recommended the Authority establish procedures to ensure information reported in the GAAP package is accurate, review controls over Foundation investments to obtain the maximum internal control possible and establish procedures to ensure Foundation bank accounts are reconciled timely. In addition, the Authority should establish policies and procedures to ensure Targeted Small Business quarterly reports are filed with the agency, as required.

Two of the findings discussed above are repeated from the prior year. Management of the Iowa Economic Development Authority have a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

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 ECONOMIC DEVELOPMENT AUTHORITY**

JUNE 30, 2019

Iowa Economic Development Authority



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

August 24, 2020

Iowa Economic Development Authority
Des Moines, Iowa

To the Members of the Iowa Economic Development Authority:

I am pleased to submit to you the Report of Recommendations for Iowa Economic Development Authority for the year ended June 30, 2019. The report includes findings pertaining to the Department's internal control which resulted from the fiscal year 2019 audit.

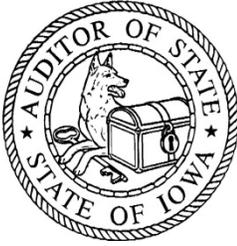
I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Economic Development Authority throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Iowa Economic Development Authority



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August 24, 2020

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

The Iowa Economic Development Authority is a discretely presented component unit of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2019.

In conducting our audits, we became aware of certain aspects concerning the Authority's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Report on Internal Control as well as other recommendations pertaining to the Authority's internal control, statutory requirements and other matters. These recommendations have been discussed with Authority personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Authority's responses, we did not audit the Iowa Economic Development Authority's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Economic Development Authority, citizens of the State of Iowa and other parties to whom the Iowa Economic Development Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Authority during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Authority are listed on page 7 and they are available to discuss these matters with you.


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, 2019

Findings Reported in the State's Single Audit Report:

No matters were reported.

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

Financial Reporting

Criteria – 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.

Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including 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.

Condition – The Authority overstated contractual commitments related to infrastructure by \$336,678 and understated other contractual commitments by \$230,990. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures are in place to review GAAP package information, the review did not identify the contractual commitment misstatements.

Effect – The amounts reported as contractual commitments by the Authority were misstated.

Recommendation – The Authority should develop and implement additional procedures to ensure information reported to DAS-SAE in the GAAP package is accurate.

Response – In early fiscal year 2020, the Authority's financial management section consolidated the tracking of contractual commitments with one newly hired individual. This will allow the Authority to provide more current updates during the fiscal year and will also allow additional time for a thorough review prior to inclusion in the financial statements.

Conclusion – Response accepted.

June 30, 2019

Other Finding Related to Internal Control:

Foundation Segregation of Duties

- (1) Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Foundation's financial statements.

Condition – Generally, one individual has control over the following areas for which no compensating controls exist:

The individual responsible for the detailed record keeping of investments is not independent of the custodian. The investment records are not periodically inspected by individuals having no responsibility for custody or record keeping of investments. Also, more than one individual is not always required to be present during the inspection of the investments.

The individual responsible for the reconciliation process does not receive the original bank statement unopened or have access to the online bank statement the front/back of checks for reconciliation/review purposes. Both the person who reconciles and the person who reviews the reconciliation should have view access to the bank statement including the fronts and backs of checks.

Cause – Procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes. In addition, the Iowa Department of Economic Development failed to properly review online access to statements or ensure the original bank statements are delivered unopened to the reconciler.

Effect – Inadequate segregation of duties could adversely affect the Foundation's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by individuals in the normal course of performing their assigned functions. In addition, the lack of online access or ensuring original statements are delivered to the reconciler unopened may allow for alterations and misappropriation of assets.

Recommendation – Portions of this finding have been repeated from the prior year. Control activities should be reviewed to obtain the maximum internal control possible under the circumstances. The Foundation should develop procedures to segregate duties of the custodian from the individual responsible for keeping detailed records. In addition, both the person who reconciles and the person who reviews the reconciliation should have view access to the bank statements including the fronts and backs of checks.

Report of Recommendations to the Iowa Economic Development Authority

June 30, 2019

Response – IEDA is currently working with the Foundation’s financial institution to grant online view/print only access to the individual responsible for bank reconciliations. In addition, another staff member will be charged with providing hard copies of the bank statements to the staff member responsible for bank reconciliations after this access request has been formalized. In addition, the investments will be reviewed at least annually by an IEDA senior position who is not affiliated with the foundation.

Conclusion – Response accepted.

Foundation Timely Bank Reconciliations

- (2) Criteria – The Iowa Department of Economic Development Foundation maintains a separate account for receiving and disbursing funds obtained from public and private sources to be used to further the overall development and well-being of the State. Proper internal control procedures require bank account balances to be reconciled to the Foundation’s accounting records in a timely manner.

Condition – The bank reconciliation for June 30, 2019 was not completed until December 2019.

Cause – The Iowa Department of Economic Development Foundation has a limited number of individuals and procedures have not been designed to ensure timely reconciliations of the Foundation bank account.

Effect – Since reconciliations of the Foundation’s bank account balances, including investments, were not performed timely, misstatements or errors may not have been prevented or detected and corrected on a timely basis in the normal course of operations.

Recommendation – Monthly bank reconciliations, including all bank account balances and investments, should be reconciled to the Foundation’s book balance and independently reviewed before the end of the following month.

Response – The steps outlined in finding (1) above will lead to more timely performance in the bank reconciliation process. One individual will provide hard copy to another individual who is responsible for the reconciliations. This will eliminate the custodian as the main staff member for this process and change it to a review only step.

Conclusion – Response accepted.

June 30, 2019

Finding Related to Statutory Requirements and Other Matters:

Targeted Small Business Reporting

Section 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the TSB Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The Director of an agency or department of state government that has established a procurement goal shall provide a report within fifteen business days following the end of each calendar quarter to the TSB Marketing and Compliance Manager of the IDEA, providing the total dollar amount of certified purchases from certified targeted small businesses during the previous calendar quarter. The procurement goal shall include the procurement of goods and services, including construction but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from certified targeted small businesses during the previous fiscal year.

Chapter 11.26 of the Code of Iowa requires the Auditor of State to annually conduct a review of whether state agencies are meeting their goal for procurement activities conducted pursuant to sections 73.15 through 73.21 of the Code of Iowa and file a written report with the Governor and the General Assembly, including findings from the review. During our review for procurement activities for the months of October and November of 2019, there were approximately twenty agencies that did not have a 4th quarter TSB report on file with IEDA. Subsequent to our review, the IDEA searched information maintained by a former employee and found many of the reports. The IDEA requested the reports from the remaining eleven agencies and promptly received them.

Recommendation – The IDEA should establish procedures to obtain and record the quarterly TSB reports from state agencies and follow up with agencies who do not report the required information within fifteen days following the quarter end, as required.

Response – With the departure of the lead staff position just before June 30, 2019, it left a communication gap for the other department TSB spending report submissions. The IEDA has now assigned and solidified a new position responsible for collecting these spending reports along with follow up to any department who might not have submitted or might not have submitted in a timely manner.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Economic Development Authority

Staff

Staff:

Questions or requests for further assistance should be directed to:

Marlys K. Gaston, CPA, Deputy
Deborah J. Moser, CPA, Manager
Karen J. Kibbe, Senior Auditor II

Other individuals who participated in the audits include:

Ethan M. Snedigar, Staff Auditor
Jon G. Hanson, Staff Auditor
Ronica H. Drury, Staff Auditor
Steven D. Rater, Staff Auditor
Drew H. Carter, Staff Auditor
Bianca M. Cleary, Staff Auditor
Noelle M. Johnson, Assistant Auditor
Alyson J. Logel, Assistant Auditor