

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

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Auditor of State

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NEWS RELEASE

FOR RELEASE

April 21, 2022

Contact: Ernest Ruben
515/281-5834

The Office of Auditor of State today released a report on the Iowa Department of Natural Resources for the year ended June 30, 2020.

The Department has the primary responsibility for state parks and forests, protecting the environment and managing energy, fish, wildlife, land and water resources in the state.

Sand reported five findings related to the receipt and expenditure of taxpayer funds. The findings are found on pages 3 through 8 of this report. Sand recommended the Department review controls over field offices, comply with certain statutory requirements pertaining to its operations or, where applicable, seek to have the provisions changed or repealed and to evaluate the process the Commission uses to report Lake Restoration and State Park Improvement Projects to the Legislature and Governor.

Two of the findings discussed above are repeated from the prior year Report of Recommendations. Management of the Iowa Department of Natural Resources 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 website at <https://auditor.iowa.gov/reports/audit-reports/>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF NATURAL RESOURCES**

JUNE 30, 2020

Iowa Department of Natural Resources



OFFICE OF AUDITOR OF STATE
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Rob Sand
Auditor of State

April 12, 2022

Iowa Department of Natural Resources
Des Moines, Iowa

To the Members of the Iowa Department of Natural Resources:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Natural Resources for the year ended June 30, 2020. The report includes findings pertaining to the Department's internal control and statutory compliance which resulted from the fiscal year 2020 audit.

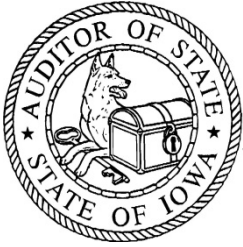
I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Department of Natural Resources throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

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

Rob Sand
Auditor of State

Iowa Department of Natural Resources



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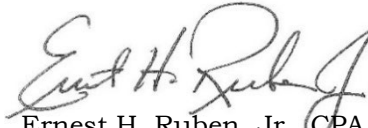
To the Members of the Iowa Environmental Protection and Natural Resource Commissions:

The Iowa Department of Natural Resources 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, 2020.

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 pertaining to the Department's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Natural Resources' 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 Natural Resources, citizens of the State of Iowa and other parties to whom the Iowa Department of Natural Resources 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 9 and they are available to discuss these matters with you.


Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Interim Director, Department of Management
Tim McDermott, Interim Director, Legislative Services Agency

Report of Recommendations to the
Iowa Department of Natural Resources
June 30, 2020

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings 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 Department overstated federal revenues related to FEMA (Federal Emergency Management Agency) funds by \$356,300 and understated unearned revenues.

Cause – Although policies and procedures are in place to review GAAP package information, the review did not identify the unearned revenues misstatement.

Effect – The amounts reported as unearned revenues by the Department were misstated.

Recommendation – The Department should implement procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Response – The Department will work to adequately adjust policies and procedures to ensure unearned revenues are properly reported in the future.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

Field Offices – The Department has various sites throughout the state including parks, environmental offices, law enforcement offices, wildlife offices, management offices, fish hatchery/rearing stations and research stations.

During fiscal year 2019, fourteen sites were selected for on-site review, including six state parks, one environmental office, two law enforcement offices, one wildlife unit, two management offices, one fish hatchery/rearing station and one research station. During the on-site visits, internal controls were reviewed and certain revenues and capital assets were tested. Five sites lacked segregation of duties related to responsibilities for the collection, deposit and reconciliation of receipts.

Report of Recommendations to the
Iowa Department of Natural Resources

June 30, 2020

During the year ended June 30, 2020, we were unable to perform field office visits due to the pandemic. As a result, we were not able to determine the status of certain portions of the prior year finding.

However, through review of internal control procedures and discussion with central office staff, certain field offices continue to lack segregation of duties related to responsibilities for collection and deposit of receipts.

Recommendation – The Department should review policies and procedures to ensure adequate controls are in place, policies and procedures are communicated to field office personnel and the policies and procedures are enforced.

Response – The Department has policies and procedures in place for receipt collection, segregation of duties, and the reconciliation of receipts to the initial listing where staffing allows. However, due to the vast number of geographic locations, some field locations do not have multiple field staff. The Department makes every effort to ensure segregation of duties during peak seasons utilizing temporary staff and seasonal employees.

Conclusion – Response acknowledged. The Department should ensure adequate controls are in place at all times and should establish procedures to ensure policies and procedures requiring those controls are enforced.

Report of Recommendations to the
Iowa Department of Natural Resources
June 30, 2020

Findings Related to Statutory Requirements and Other Matters:

(1) Iowa Code Compliance – The Department was not in compliance with the following provisions of the Code of Iowa during the year ended June 30, 2020:

- (a) Agricultural Easement Program – Chapter 456B.11 states the Department shall develop and implement a program for the acquisition of wetlands and conservation easements on and around wetlands which result from the closure or change in the use of agricultural drainage wells.

The Department has not implemented this program.

- (b) Inventory of Protected Wetlands – Chapter 456B.12 states the Department shall inventory the wetlands and marshes of each county and make preliminary designation as to which constitutes protected wetlands. Also, the Director shall issue an order designating the protected wetlands in the county within sixty days following the completion of the hearing or the issuance of a mediation release.

The Department has not complied with this provision

- (c) Compliance Advisory Panel – Chapter 455B.150 states the Department shall make appointments to the compliance advisory panel as created pursuant to the federal Clean Air Act Amendments of 1990. The panel shall consist of two persons appointed by the governor, four persons appointed by the leadership of the general assembly and the Department Director or Director's designee.

The Department has not complied with this provision.

Recommendation – The Department should comply with the Code of Iowa or, where applicable, seek to have the provisions changed or repealed.

Responses –

- (a) The Department is always interested in working with willing landowners to restore wetlands. However, the Department has not developed a specific program for the acquisition of wetlands and conservation easements resulting from the closure of agricultural drainage wells. Two reasons have prevented the Department from developing a program:

The Department has a strong interest in restoring wetlands. However, acquiring highly productive farmland, either by easement or fee simple, is very expensive. Additional sources of funding would be necessary for the successful implementation of this program. The Department has relied on federal programs to accomplish this work.

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The Department has worked closely with the Iowa Department of Agriculture and Land Stewardship (IDALS) in our mutual efforts to reduce the negative impacts of agricultural drainage wells. The IDALS agricultural drainage well closure program has had adequate funding and good landowner participation in its effort to close wells by cost-sharing alternative drainage systems. Although Iowa Code section 460.304 allows IDALS to use agricultural drainage well closure funding for alternatives such as restoration of wetlands, landowners have historically been interested in continuing to farm the land. History has shown that farmers prefer assistance with alternative drainage more than wetland restoration. To date, IDALS has found little landowner interest in the alternative to restore wetlands.

- (b) This program was never established because the current Federal regulations exceed the protection this Code requirement would offer. Current Federal regulations (Section 404 and State 401 Certification under the Clean Water Act) accomplish the same or more than this Code section, as this section regulates only pothole type wetlands classified as “Type 3, 4, or 5.” This wetland classification is outdated and fails to recognize other wetland types such as forested wetlands, fens, and sedge meadows. It also exempts wetlands located in drainage or levee districts. See Iowa Code section 456B.1.
- (c) This section creates the Compliance Advisory Panel and requires that the panel consist of 2 persons appointed by the Governor, 4 persons appointed by the leadership of the General Assembly, and the Department’s Director, or designee. These appointments remain unfilled. The Panel has never been fully appointed since the requirements were established in the 1990 federal Clean Air Act amendments. The Department will continue to work with the representatives of the Iowa Waste Reduction Center and representatives of small businesses to address the needs of small businesses until the Panel is fully appointed. The Department will convene the Panel once the panel is fully appointed.

Conclusion – Response accepted.

- (2) Lake Restoration Program Reporting – 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 conducted a review of the Department’s monitoring and reporting of the Lake Restoration Program (LRP) for the period July 1, 2012 through June 30, 2017. A report was issued on October 16, 2018, which included findings. During the year ended June 30, 2020, we performed additional procedures to determine the status of the findings.

We reviewed the Natural Resource Commission’s (NRC) 2019 and 2020 annual reports for compliance with the Department’s annual reporting requirement and to determine if the reported information is sufficiently supported. While the 2019 and 2020 annual reports reported a dollar amount and number of contracts, the basis of reporting was not consistent between years. The NRC requests information from Department’s staff to include in the annual reports to the Governor and Legislature. The information is provided based on the requests, however the information requested is not consistent from year to year.

Report of Recommendations to the
Iowa Department of Natural Resources
June 30, 2020

Recommendation – The Legislature appropriates a significant amount of funds for the LRP to the Department each year. To enhance transparency and accountability, it is important for the Department to provide to the NRC the cumulative amounts correlating to the reported number of approved project contracts for consideration in reporting to the Governor and the Legislature. In addition, the NRC should work with the Department to develop a consistent method to report both the number of contracts and the total dollar amount of the projects.

Response – The Department will work with the Commission to develop a consistent reporting strategy.

Conclusion – Response accepted.

- (3) State Park Improvement Projects Reporting – 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 conducted a review of the Department’s monitoring and reporting of the State Park Improvement Projects for the period July 1, 2012 through June 30, 2017. A report was issued on July 31, 2018, which included findings. During the year ended June 30, 2020, we performed additional procedures to determine the status of the findings.

We reviewed the Natural Resource Commission’s (NRC) 2019 and 2020 annual reports for compliance with the Department’s annual reporting requirement and to determine if the reported information is sufficiently supported. While the 2019 and 2020 annual reports reported a dollar amount and number of contracts, the basis of reporting was not consistent between years. The NRC requests information from Department’s staff to include in the annual reports to the Governor and Legislature. The information is provided based on the requests, however the information requested is not consistent from year to year.

Recommendation – The Legislature appropriates a significant amount of funds for the State Park Improvement Projects to the Department each year. To enhance transparency and accountability, it is important for the Department to provide to the NRC the cumulative amounts correlating to the reported number of approved project contracts for consideration in reporting to the Governor and the Legislature. In addition, the NRC should work with the Department to develop a consistent method to report both the number of contracts and the total dollar amount of the projects.

Response – The Department will work with the Commission to develop a consistent reporting strategy.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Natural Resources

June 30, 2020

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Deputy
Lesley R. Geary, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II

Other individuals who participated in the audits include:

Nicholas Gassmann, Senior Auditor
Brett S. Gillen, CPA, Senior Auditor
Mason R. Brown, Staff Auditor
Nathan A. DeWit, Staff Auditor
Adrian T. Duer, Staff Auditor
Charles P. Duff, Staff Auditor
Andrew J. Dunne, Staff Auditor
Vivian J. Hustad, Staff Auditor
Molly N. Kalkwarf, Staff Auditor
Silvester K. Rutto, Staff Auditor
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Conner G. McMurphy, Assistant Auditor
Kari L. Middleton, Assistant Auditor
John J. Jameson, Intern Auditor