



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

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NEWS RELEASE

FOR RELEASE _____

July 25, 2007

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Agriculture and Land Stewardship for the year ended June 30, 2006.

The Department has the primary responsibility to encourage, promote and advance agriculture in this State.

Vaudt recommended the Department implement procedures to comply with certain provisions of the Code of Iowa. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Agriculture and Land Stewardship, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF AGRICULTURE AND LAND
STEWARDSHIP**

JUNE 30, 2006

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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July 18, 2007

To the Honorable Bill Northey,
Secretary of Agriculture:

The Iowa Department of Agriculture and Land Stewardship 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, 2006.

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 pertain to the Department's compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Agriculture and Land Stewardship, 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 any of 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 10 and they are available to discuss these matters with you.

Handwritten signature of David A. Vaudt in cursive.

DAVID A. VAUDT, CPA
Auditor of State

Handwritten signature of Warren G. Jenkins in cursive.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2006

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Code Compliance – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2006:

- (a) Report on ICN Savings – Chapter 8D.10 requires a state agency which is part of the Iowa Communication Network to annually provide a report to the General Assembly regarding the savings associated with the agency's use of the network.

The Department did not make the required report.

- (b) Agricultural Products Advisory Council – Chapter 15.203(1) requires both the Director of the Iowa Department of Economic Development and the Secretary of Agriculture to appoint five members each to the Council.

The Council currently has only eight members since two positions have not been appointed by the Secretary of Agriculture.

- (c) Office of Renewable Fuels and Co-Products – Chapter 15E.111(8) requires the Department of Economic Development (IDED) and the Office of Renewable Fuels and Co-Products to prepare a report each six months detailing the progress made in value-added agricultural products and processes. The report is to be made to key legislative positions.

The Department did not complete the required report.

- (d) Board Member Attendance – Chapter 69.15 provides a person appointed to a board is deemed to have submitted a resignation from the position if they do not attend three or more consecutive meetings or if they attend less than one-half of the regular meetings within twelve calendar months beginning on July 1.

The State Soil Conservation Committee had one member who did not comply with the attendance requirements of Chapter 69.15 of the Code of Iowa.

- (e) Office of Renewable Fuels and Co-Products – Chapter 159A.3 creates the Office of Renewable Fuels and Co-Products within the Department. The Office's chief purpose is to further the production and consumption of ethanol fuel in the state.

Due to lack of funding during fiscal year 2006, the program has become non-operational.

Report of Recommendations to the Iowa Department of Agriculture and Land Stewardship

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- (f) State Apiarist – Chapter 160.1 requires the Secretary of Agriculture to appoint a State Apiarist. The apiarist is to give lectures and demonstrations on the production of honey, the care of the apiary, the marketing of honey and other kindred subjects relative to the care of bees and the marketing of honey.

The position of State Apiarist was eliminated in December 2001. Therefore, the duties described in Chapter 160.2 have not been performed and the annual report described in Chapter 160.13 has not been completed.

- (g) Organic Nutrient Management – Chapter 161.C(5) and (6) establish an organic nutrient management program and fund, which shall provide financial incentives to establish livestock manure management systems to facilitate the proper utilization of livestock manure as a nutrient source.

The Department has not established either an organic nutrient management program or fund.

- (h) Civil Penalties – Chapter 165B.2 requires the Department to establish civil penalties relating to the control of pathogenic viruses in poultry and authorizes the Department to retain money from these penalties. The Department is to report to the chairpersons of the joint appropriations subcommittee on agriculture and natural resources by January 5 of each year on the amount of money collected and how it was expended.

The Department has not established the required civil penalties and, therefore, no report has been made on money collected and how the funds were expended.

- (i) Examinations – Chapter 200A.10 requires the Department to maintain a laboratory with the equipment and employees necessary to conduct examinations of bulk dry animal nutrient products distributed in the state.

The Department does not maintain a laboratory to conduct the required examinations.

- (j) Licensed Grain Dealer and Warehouse Inspections – Chapter 203.9 requires the Department to inspect the business premises and books, accounts, records and papers of every grain dealer at least once each eighteen month period. Chapter 203C.2 requires the Department to inspect every licensed warehouse and its contents once every twelve month period.

Twenty-five of the 230 licensed grain dealers and 8 of 216 warehouses were not inspected as required during fiscal year 2006.

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

Response –

- (a) Comment accepted. The Department will review the reporting requirements and submit this report in the future.

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- (b) The Department has a new Secretary of Agriculture as of January 1, 2007. The new Secretary is currently working on filling these positions and may have this complete during fiscal year 2007.
- (c) The Department did not receive an appropriation or pass through funds from the Iowa Department of Economic Development. There is nothing to report as programs and activities cannot be continued without funding. The Department is hopeful the Legislature will appropriate funds in the future and continues to make that request.
- (d) The members of the State Soil Conservation Committee are appointed by the Governor. The Department has no control over individual members' schedules. Committee members are encouraged to attend each committee meeting in accordance with the provisions of Chapter 69.15.
- (e) The Department did not receive an appropriation. The Department is hopeful the Legislature will appropriate funds in the future and continues to make that request.
- (f) The Legislature appropriated \$40,000 in fiscal year 2008 to be used to fund a State Apiarist. The Department will be filling this position and will submit the required report in future years.
- (g) The Department did not receive an appropriation to fund this program. Work will be done to repeal language as deemed appropriate.
- (h) Adequate civil penalties are established in Code of Iowa Chapter 165B.4 and 165B.5. Required reports will be completed in future years.
- (i) The Department does not have the required lab and personnel to conduct examinations of bulk dry animal nutrient products. Analyses are conducted on a complaint basis.
- (j) Due to continued consolidation of facilities, examinations continue to be more complicated and lengthy. This will be an ongoing problem.

Conclusion – Response acknowledged. In addition to the civil penalties established in Code of Iowa Chapter 165B.4, as noted in (h) above, the Department should establish penalties to comply with Chapter 156B.4(2). The Department should comply with the Code of Iowa or seek to repeal certain Code sections. The status and/or progress will be reviewed at the time of the next audit

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each Department of the state to keep a written, detailed, up-to-date inventory of all real and personal property belonging to the state. Two assets tested for existence were disposed of during either fiscal year 2005 or 2006 but were not deleted from the listing.

Recommendation – The Department should develop procedures to ensure an accurate inventory of all real and personal property belonging to the state is maintained. In addition, the Department should ensure procedures are in accordance with state policies.

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Response – The Department follows the state’s capital asset policies. These errors are due to a breakdown in communication between employees who disposed of assets and the employee who is responsible for maintaining the inventory listing. Communication will be shared with Department employees to remind them of Department capital asset procedures, which should lessen this type of error in the future. Additionally, the Department will be conducting its physical inventory of capital assets in fiscal year 2007. This will identify any additional problems that may need to be addressed.

Conclusion – Response accepted.

- (3) Monitoring of Surety Bonds – Chapters 207 and 208 of the Code of Iowa require operators who file an application to mine coal or other minerals within the state to file a bond equal to the estimated cost of reclamation of the site if performed by the Department.

The Department maintains a database of the surety bonds to track the name and address of each operator and the corporate surety, the bond identification number and the amount of the bond. However, the database of surety bonds was not updated to reflect the current, most recent activity/bonds.

Recommendation – The Department should maintain the database of surety bonds on a current basis to ensure bond coverage has not lapsed or decreased in amount.

Response – Comment accepted.

Conclusion – Response acknowledged. The data base should be maintained on a current basis to ensure the required bond coverage has not elapsed or decreased in amount.

- (4) Soil Conservation Notes Receivable – The Department issues loans for the installation of permanent soil and water conservation practices. The loans are interest free and have terms of 10 years. During fiscal year 2006, the Iowa Finance Authority began handling the collections and maintenance of the loans while the Department continued to administer and distribute the loans. The following items were noted:

- (a) The notes receivable balance obtained from the Iowa Finance Authority did not agree to the amount reported by the Department on the GAAP Package.
- (b) The allowance for doubtful accounts was not calculated correctly.
- (c) The current and non-current portions of notes receivable were not calculated correctly.

Recommendation – The Department should continue to work with the Iowa Finance Authority (IFA) to ensure the information received is complete and accurate. The Department should ensure the allowance for doubtful accounts and current and non-current portion of the notes receivable are calculated correctly.

Response – The Department reported verifiable amounts on the GAAP Package which can be traced to the state’s accounting system. Iowa Finance Authority spreadsheets were inaccurate and did not reconcile with the accounting system. The Department will continue to work with IFA to identify the discrepancies and correct IFA’s spreadsheets to ensure they reconcile to the state’s accounting system.

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The Department will calculate doubtful accounts and notes receivable (current and non-current portions) as recommended by the auditor.

Conclusion – Response accepted.

- (5) Animal and Plant Health Inspection Service (APHIS) Program – Based on review of the Animal and Plant Health Inspection Service program the following items were noted:

- (a) A formal policy does not exist to address the re-allocation of mileage when the mileage reported on an employee's timesheet does not agree with the mileage reported on the ending odometer readings.
- (b) A formal policy does not exist to address the use of cell phones, including appropriate usage, rules regarding usage, roaming charges and maximum minutes.
- (c) A formal policy does not exist to address the allocation of cell phone charges.

Recommendation – The Department should develop and implement formal policies for the use and allocation of cell phone charges and the re-allocation of mileage.

Response – The Department does have an informal policy for the allocation of these charges and we will work to formulate a written policy for these types of charges.

Conclusion – Response accepted.

- (6) Service Contracting – Iowa Department of Administrative Services (DAS) Policy 240.102 provides general guidelines to be used by departments when entering into personal service contracts. The required procedures include determination, prior to signing the contract, as to whether the contractor has an employer/employee relationship with the State. To make this determination, departments are to submit copies of the pre-contract questionnaire, Internal Revenue Service (IRS) form SS-8 and the proposed contract to the State Accounting Enterprise at DAS. The procedures also require that service contracts equal to or greater than \$50,000 must follow a formal competitive selection process to procure the service.

For one of the five contracts tested with the Iowa Agriculture Innovation Center (IAIC), the following items were noted:

- (a) The required pre-contract questionnaire was not on file.
- (b) The Department employee who obtained the three informal bids on the contract is also the Executive Director of IAIC, the vendor which was awarded the contract, which may represent a conflict of interest.

Recommendation – The Department should ensure contracts comply with the policies and procedures for contracts established by the Iowa Department of Administrative Services. The Department should also ensure contracts entered into avoid any conflicts of interest.

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Response – The pre-contract questionnaire was not filled out because of confusion over the IAIC's status as a non-governmental entity. Any future contracts with the IAIC will include the pre-contract questionnaire. To date, services in the amount of only \$4,650 have been paid on this contract.

The Department will ensure there is no appearance of conflict of interest in the future.

Conclusion – Response accepted.

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Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated on the audits include:

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