



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE _____ November 15, 2007

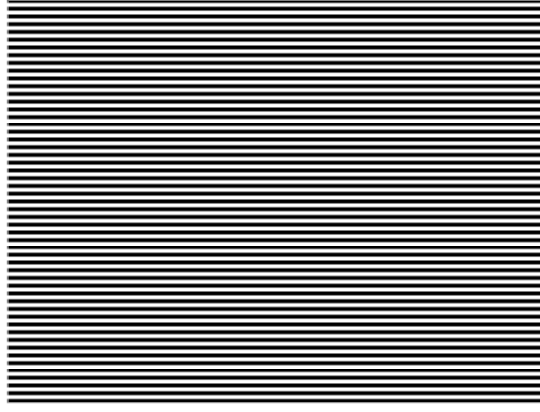
Auditor of State David A. Vaudt today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2006.

The Department coordinates and administers the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state.

Vaudt recommended certain Divisions within the Department increase controls over receipts and accounts receivable, deposit receipts in a timely manner and ensure documentation of time worked is maintained. Vaudt also recommended the Department enhance the system to track the manufacture and distribution of native wines. The Divisions responded favorably to these recommendations.

A copy of the report is available for review in each of the six divisions of the Iowa Department of Commerce, 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 COMMERCE**

JUNE 30, 2006

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



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November 7, 2007

To Thomas B. Gronstal, 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, 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 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.

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 Iowa Department of Commerce 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 8 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

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

Iowa Department of Commerce

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2006

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Related to Internal Control:

Utilities Division

- (1) Utilities Receipts – During our review of internal control, we noted checks were not restrictively endorsed upon receipt.

Recommendation – Checks should be restrictively endorsed immediately upon receipt to help provide protection against theft or loss.

Response – The current endorsement process has been working for the Iowa Utilities Bureau (IUB). The checks are opened in Records Center and immediately brought to Accounting & Assessments (A&A). Checks have not been lost, taken, or delayed for deposit.

IUB mail is received by Department of Administrative Services (DAS) staff from the U.S. Post Office and delivered to the loading dock at Maple Street. The IUB mail person picks up all IUB mail directly from the loading dock when delivered by DAS staff. The mail person takes all the mail back to the locked Records Center area. Envelopes are slit open to confirm the contents. Checks are not removed from the envelopes, and they are delivered to A&A staff the same day that the checks are received. All checks are in a locked area from the time they are received at the dock until they are delivered to A&A for deposit. The A&A cashier endorses all checks.

Most checks received by IUB are payment for invoices issued by IUB and are accompanied by vendor coupons clipped from the invoices and returned by the payers. Delivery of the checks to A&A without removing them from the envelopes increases the likelihood that the returned coupons and checks arrive at A&A without becoming separated.

Conclusion – Response accepted.

- (2) Accounts Receivable – The accounts receivable listing is not reviewed on a regular basis to verify delinquent accounts are followed up on.

Recommendation – The accounts receivable listing should be periodically reviewed and delinquent accounts followed up on.

Response – The aging of accounts receivable will be prepared by the end of August for fiscal year 2007 invoices/receivables. The procedures will be written for the A&A procedure manual. An aging report will be created monthly for fiscal year 2008 and forward.

Conclusion – Response accepted. In addition, the Division should ensure the procedures include the periodic review of the aging report.

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2006

Credit Union Division

GAAP Package Receivables – The Division understated receivables reported to the Iowa Department of Administrative Services on the GAAP Package for inclusion in the Statewide Comprehensive Annual Financial Report (CAFR) by \$724,518.

Recommendation – The GAAP Package should accurately report the division’s receivables.

Response – This will be corrected in the Division’s 2007 GAAP Package reporting.

Conclusion – Response accepted.

Insurance Division

- (1) Security Division Receipts – The Securities Bureau receives funds which are recorded in a database within the Bureau and sent to accounting to be deposited and recorded in the state’s I/3 financial system. The database does not have the ability to track receipts by check number. In addition, the receipts reported in the database are not reconciled to deposits.

Recommendation – To improve controls over the receipt process, a field should be added to the database to allow tracking of receipts by check number. Also, a reconciliation should be performed periodically to ensure all receipts are properly deposited.

Response – We acknowledge that there is currently no method for the above tracking system. This is especially true in the Securities Bureau of the Division. However, we are in the process of requiring electronic filing of reports and payments that will, hopefully alleviate paper checks. This change in filing requirements should be completed by the end of 2008. In the meantime, we are reviewing the providing of an additional field to the database as well as other methods of more efficiently depositing funds in the state general fund including a check reader.

Conclusion – Response accepted.

- (2) Timeliness of Deposits – Collections are received by various Bureaus within the Insurance Division. Certain receipts were not deposited timely. Some checks were identified as being held over 90 days.

Recommendation – To strengthen internal control, all receipts should be deposited timely.

Response – We have been working with our accounting liaison to increase the efficiency of our processes.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2006

Alcoholic Beverages Division

Timecards – Timecards are used by warehouse employees to document hours worked. Four timecards could not be located to support time worked and supervisory approval.

Recommendation – Timecards or timesheets should be maintained for all employees to support time worked and supervisor approval.

Response – The Division has reviewed the policy and processes involved for timecard maintenance. The Division has implemented controls to prevent missing timecards and will not process payroll without a timecard for an employee.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

Alcoholic Beverages Division

Native Wine – Iowa Code section 123.56 defines a manufacturer of native wines to include “only those persons who process in Iowa the fruit, vegetables, dandelions, clover, honey, or any combination of these ingredients by fermentation into wines.” Iowa Code section 123.56 has granted certain privileges to manufacturers who qualify as “manufacturers” of wines within the state not offered to other wine manufacturers. In addition, native wine sold at retail by the winery is not subject to the \$1.75 gallonage tax.

The monthly “Native Wine Gallonage Report” submitted by the manufacturers includes wine purchased from other manufacturers. However, the reports did not always identify if the wine purchased was from an Iowa manufacturer or purchased from an out of state manufacturer. Wines manufactured within Iowa blended with wine produced outside the state are not considered native wines and, therefore, are not afforded the privileges granted to native wines, including the exemption from the \$1.75 gallonage tax on wine sold at retail by the manufacturer. Since the current reporting system does not adequately track the manufacture and distribution of native wines, the amount of tax not collected is unknown.

Recommendation – The Division should enhance the reporting system to track the manufacture and distribution of native wines to ensure only native wines receive the privileges granted by the Iowa Code.

Response – The Division is reviewing the reporting and tracking policies currently in place. Corrective action is being developed from policy research to enhance the reporting of Native Wine manufacturing and distribution.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2006

Staff:

Questions or requests for further assistance should be directed to:

Michelle Meyer, CPA, Manager
Karen R. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Daniel L. Durbin, Staff Auditor
Jennifer L. Wall, CPA, Staff Auditor
Delyne M. Kroeger, Assistant Auditor
Matthew R. Ritchey, Assistant Auditor
Brett M. Zeller, Assistant Auditor