



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

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**NEWS RELEASE**

Contact: Andy Nielsen  
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FOR RELEASE \_\_\_\_\_ December 22, 2008

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, 2007.

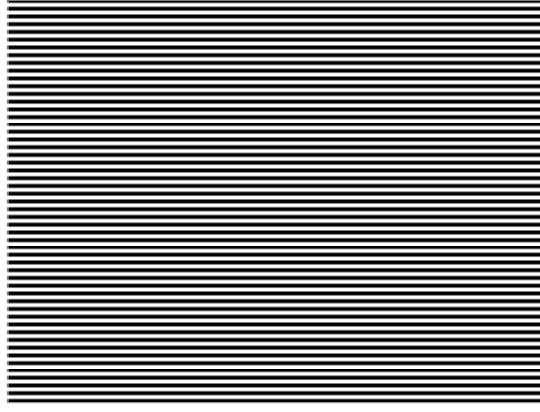
The Department coordinates and administers the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state.

Vaudt recommended certain Divisions within the Department increase controls over receipts and accounts receivable, accounts payable and payroll. Vaudt also recommended the Department enhance the system used 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, 2007**

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



**David A. Vaudt, CPA**  
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November 26, 2008

To James E. Forney, 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, 2007.

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 those reported in the State's Report of Internal Control, as well as other recommendations pertaining to the Department's internal control, 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 9 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

**Iowa Department of Commerce**

Report of Recommendations to the  
Iowa Department of Commerce

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**Findings Reported in the State's Single Audit Report:**

No matters were noted.

**Findings Reported in the State's Report on Internal Control:**

- (1) Financial Reporting – The Iowa Department of Commerce records receipts and disbursements on the I/3 financial accounting system throughout the year, including the accrual period. Activity not recorded on the I/3 accounting system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. Findings are as follows:
- (a) The Alcoholic Beverages Division (ABD) records revenues on I/3 and identifies the applicable fiscal year. Certain liquor sales and other revenues of \$1,169,288 collected in June 2007 were inadvertently entered into I/3 as revenues for fiscal year 2008. This item was properly adjusted for reporting purposes.
  - (b) The GAAP package completed by ABD included accounts payable of \$1,982,105 for liquor purchases. However, the amount should have been \$653,183, which resulted in an overstatement of accounts payable and expenses of \$1,328,922.

Recommendation – The GAAP package and financial statements should be accurately completed and reviewed by management prior to submission.

Response – ABD now has a manager dedicated to the Accounting section. Internal controls are now in place for management review of all financial statements. All financial statements will be more thoroughly reviewed for content and accuracy prior to release by the Accounting Manager.

Conclusion – Response accepted.

**Other Findings Related to Internal Control:**

Insurance Division

- (1) Securities Bureau 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 I/3 financial accounting 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.

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June 30, 2007

Response - We have purchased technology to trace the receipt date and deposit dates for all Security Bureau receipts to ensure they are deposited timely. We are in the process of installing the equipment.

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 held over 90 days.

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

Response - The Division is in the process of obtaining technology to track the receipt date and deposit date of all deposits for timeliness. An automated endorsement/date machine has been purchased and will be used to track the timeliness of the deposits.

Conclusion - Response accepted.

- (3) Payroll - The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates 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.

Recommendation - To strengthen controls, the Division should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Response - The Division has been training additional staff to provide assistance in the area of payroll review and approval. Segregation of these duties is already occurring. The Division will continue this practice and ensure personnel and financial review in the office has additional oversight and procedural controls in place.

Conclusion - Response accepted

**Findings Related to Statutory Requirements and Other Matters:**

Alcoholic Beverages Division

- (A) Native Wine - Chapter 123.56 of the Code of Iowa 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." Chapter 123.56 of the Code of Iowa 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.



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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 – A new Native Wine Tax form has been developed and a copy has been provided to the auditors.

Conclusion – Response accepted.

- (B) Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
SAT-COM LLC	Liquor Cabinet Display Case	\$ 13,975

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Division should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Division should establish written policies and procedures, including requirements for proper documentation.

Response – The liquor display cabinet, located within the main lobby of the Iowa Alcoholic Beverages Division's Ankeny office facility, is intended as a public display, presenting the top 100 brands sold through the state liquor distribution system. The cabinet in question replaced an old cabinet that had previously occupied the same location.

Such displays are common in the beverage alcohol industry as suppliers typically highlight and feature the brands they distribute in similar displays. Moreover, other state agencies also display aspects of their operations in public areas. For example, the Iowa Department of Natural Resources features a large fish tank in the entry to the Wallace State Office Building, the Iowa Department of Cultural Affairs displays historical artifacts of Iowa's past in the lobby of the Iowa State Historical Building and the Iowa Department of Public Safety features agency memorabilia in the reception area of the new Public Safety building.

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The display cabinet was built as part of the Division's Charter Agency initiative to enhance state revenues. One of the goals under the initiative was to promote premium brands to increase state revenues without a corresponding increase in consumption. Based on the state's 50 percent mark-up on spirits, the state collects more revenue from top-shelf liquor than from the same volume of value brands. Overall, the ABD Charter Agency efforts, during the five-year tenure of the program, enhanced state revenues by an additional \$77 million over the FY 2003 base year. Past fiscal year fund transfers can be viewed at [www.iowaabd.com/alcobol/misc/fundstransferred.jsp](http://www.iowaabd.com/alcobol/misc/fundstransferred.jsp).

With specific reference to the 1979 Iowa Attorney General's opinion, 1979 Iowa Op. Att'y Gen. 102, public monies spent on the cabinet were for a "public purpose." Unlike the examples set forth in the opinion, the cabinet did not involve payment "for social functions, parties or other forms of entertainment for employees of the agency making or proposing to make such an expenditure." Id. And, according to the opinion, the "judicial intent [is] to permit the concept [sic] of 'public purpose' to have that flexibility and expansive scope required to meet the challenges of increasingly complex social, economic, and technological conditions." The project in question, as previously discussed, is "promotive of the public welfare" and, therefore, a valid "expenditure of public monies." Id.

Conclusion – Response accepted. In the future, the public purpose, as documented above, should be included with the supporting information for the payment of the claim.

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Iowa Department of Commerce

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**Staff:**

Questions or requests for further assistance should be directed to:

K. David Voy, CPA, Manager  
Steven O. Fuqua, CPA, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Tiffany Amber Berkland, Staff Auditor  
Delynne M. Kroeger, Staff Auditor  
Michael L. Castagnoli, Assistant Auditor  
Kurt D. Goldsmith, Assistant Auditor