



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

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NEWS RELEASE

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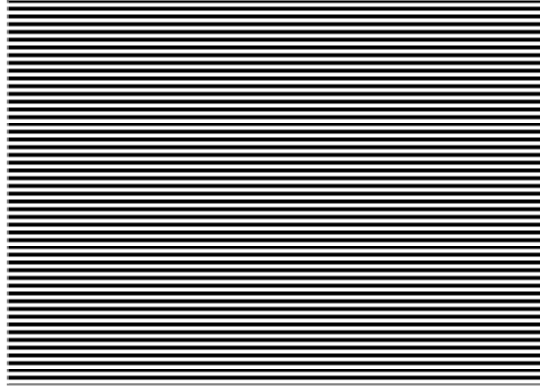
Auditor of State David A. Vaudt today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2008.

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 payroll. Vaudt also recommended the Alcoholic Beverage Division follow purchasing procedures required by the Iowa Administration Code and document the public purpose served for questionable disbursements. 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/index.html>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF COMMERCE**

JUNE 30, 2008

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



David A. Vaudt, CPA
Auditor of State





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June 30, 2010

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, 2008.

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 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 Commerce's responses, and, accordingly, we express no opinion on them.

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 18 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
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

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:

No matters were noted.

Other Findings Related to Internal Control:

Utilities Board

- (1) Minutes – Minutes of the Iowa Utilities Board (IUB) were not signed.

Recommendation – Minutes should be signed to verify the accuracy of Board meetings.

Response – It is the IUB's understanding signing of minutes is not statutorily required, but recommended by the Auditor of State as another level of approval. This will be discussed with support staff and Board members. The minutes of the IUB Board meetings will be signed in the future.

Conclusion – Response accepted.

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 receipts reported in the database are not reconciled to deposits.

Recommendation – To improve controls over the receipt process, a reconciliation should be performed periodically to ensure all receipts are properly deposited.

Response – We could have someone randomly review the deposit and the database to make sure the amounts are correct.

Conclusion – Response accepted.

- (2) 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.

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Response – There are checks and balances between HRIS approvals and central payroll accounts which would preclude unauthorized timesheets being created. Currently, the Human Resource Associate’s “back-up” reviews and signs for the payroll. The Human Resource Associate would only be involved when the back-up is out of the office. As a small agency, we do not have many options. Payroll and HR information is highly sensitive and we try to have as few people with access as possible.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

Alcoholic Beverages Division

- (A) Annual report – The Alcoholic Beverages Division is required by Chapter 123.55 of the Code of Iowa to prepare an annual report to the Governor. The annual report for fiscal year 2008 was not filed timely.

Recommendation – The Division should comply with the Code of Iowa and prepare the required annual report timely.

Response – The Division posted the fiscal year 2008 annual report on the agency’s website, Iowaabd.com, on May 18, 2009. Moreover, the Division has established a procedure to timely prepare and post future annual reports in the future.

Conclusion – Response accepted.

- (B) Purchasing – As a result of citizen concerns regarding extensive remodeling at the Alcoholic Beverages Division (ABD) and whether purchases were properly bid, we reviewed transactions, primarily during the time period April 2007 through November 2008, to determine if ABD followed the procurement policies addressed in Iowa Administrative Code (IAC) Sections 11-105 and 11-106. Section 11-105.3 of the IAC requires a competitive selection process which is fair, open and objective be used when state agencies obtain goods and services from the private sector. Section 11-105.4 of the IAC allows exceptions to competitive procurement requirements when purchases are made in emergency situations, from a targeted small business or from Iowa Prison Industries. All procurements exempt from the competitive process are to be recorded as such and appropriate justification is to be maintained by the agency.

We reviewed contracts established by ABD for the procurement of services and identified non-compliance with certain requirements of the IAC and other concerns. Our findings are summarized in the following paragraphs by the type of non-compliance identified. As discussed in the following paragraphs, more than one type of non-compliance was identified for certain contracts.

- (1) Contracts not competitively bid – In accordance with Section 11-106.5 of the IAC, agencies are required to use competitive selection to acquire services when the estimated annual value of the service contract is \$5,000 or more. Either a formal or informal process may be used for a competitive selection when the purchase is less than \$50,000. However, when the estimated annual value of the service contract is \$50,000 or more, the agency is required to use a formal competitive

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selection process to procure the service. ABD did not provide documentation a competitive bid process was completed for the seven vendors listed in **Table 1**.

In accordance with Section 11-105.13 of the IAC, agencies may purchase goods or services using an existing master agreement entered into by the Department of Administrative Services (DAS) Procurement Services. The agency must comply with the terms and conditions of the master agreement. A master agreement includes rates used for specific services provided, such as hourly rates for electricians, plumbers, construction services to be charged in accordance with local union agreements or other applicable rate tables, and construction materials at the contractor's cost plus 15%. Although ABD representatives stated they used the State's master agreement for the Siemens contracts, four of ABD's six contracts with Siemens specified a single set rate for the entire project. These four Siemens contracts did not identify work performed by specific categories and hourly rates in accordance with the existing master agreement and should have been competitively bid.

Table 1

| Vendor | | |
|---|---------------|----|
| Description of project | Amount | |
| | Paid | |
| Siemens | | |
| Controls package, including the building's heating, ventilation and cooling system, audio controls, video controls and building access controls | \$ 230,649 | M |
| Deduction from controls package (change in software system for cameras) | (52,094) | |
| On-site apogee server package, workstation, software house server | 186,312 | M |
| Install strikes in doors, card readers and switches | 6,778 | M |
| Install additional two bay racking system | 8,292 | M |
| Provide card access with intrusion control to four doors and add new card reader for time clock function. | 11,068 | MA |
| Add four new mounted IP POE cameras to warehouse area | 7,003 | MA |
| | 398,008 | |
| Bergstrom | | |
| Remodel break room | 45,863 | 1 |
| Remodel accounting office | 11,778 | 2 |
| Second floor office remodeling | 8,564 | 2 |
| Install skylights | 6,209 | * |
| Install doors in warehouse hallway | 5,524 | * |
| Install two drinking fountains in warehouse | 5,314 | * |
| | 83,252 | |

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Table 1

| Vendor | Amount |
|--|---------------|
| Description of project | Paid |
| Stroh | |
| Install radiant heat panels on first floor | 13,760 * |
| Install radiant heat panels on second floor | 2,270 * |
| Install radiant heat panels on first floor | 11,250 * |
| Install radiant heat panels on second floor | 8,500 * |
| Extra work for additional 7 new heaters on first floor | 14,298 * |
| Extra work for 12 additional heaters on second floor | 10,633 * |
| | 60,711 |
| Clark Glass | |
| Recaulk and replace missing glass stops | 7,100 * 2 |
| 1st Interiors | |
| Painting | 6,664 |
| Wright Tree Care | |
| Removal of brush and trees north of building | 7,560 * 2 |
| Carpenter Erosion Control | |
| Hydromulch and landscaping | 6,774 * 2 |
| Total | \$ 570,069 |

* - Supported by quote or invoice.

M – Quote does not reference the State of Iowa Master Agreement and does not identify work performed by specific categories and hourly rates in accordance with the existing Master Agreement. Quote for the project specified a single rate set for the entire project.

MA – Quote properly references the State of Iowa Master Agreement and identifies work performed by specific categories and hourly rates in accordance with the existing Master Agreement.

1 – Invoice obtained refers to a quote, but it has additional charges above the quoted amount.

2 – ABD indicated project was competitively bid but supporting documentation could not be located.

- (2) Original contracts less than \$5,000 – We identified three projects for which the original quote or invoice totaled less than \$5,000. Because the total cost of each project was to be less than \$5,000, ABD did not competitively bid the projects. However, change orders increased each project's cost to more than \$5,000. Each of the three projects listed in **Table 2** were completed by Bergstrom Construction and are described in detail in the paragraphs following **Table 2**.

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Table 2

| Description of project | Original Quote | Amount Paid | Percentage Increase |
|---|-----------------------|--------------------|----------------------------|
| Create electrical room | \$ 2,995 | 7,436 | 148% |
| Remodel north office on second floor | 3,758 | 6,919 | 84% |
| Create telephone closet on second floor | 3,975 | 5,026 | 26% |
| Total | \$ 10,728 | 19,381 | |

- The original quote for the creation of an electrical room totaled \$2,995 for a 14'8" long room. The size of the room was increased to 38' to include changes in the electrical switch gear and the addition of an uninterruptible power source (UPS) system.
- The original quote of \$3,758 for the north office remodeling was revised as a result of remodeling work on the restrooms. The quote was increased to paint the north office area, install new vinyl wall base and for electrical and duct rework as a result of moving walls and relocating doors for the bathrooms.
- The original quote of \$3,975 was to create the telephone closet to house phone wiring and fixtures. The changes to the project included painting four more doors and two additional rooms.

As illustrated by **Table 2**, the increases to the original quote or invoice ranged from 26% to 148%. Documentation was not available to support the significant changes between the quotes and final invoices for the projects.

- (3) Increased contracts and/or quotes - We identified three projects for which an amended contract significantly changed the size and scope of the project. For each project, ABD paid significantly more than the project cost specified in the original contract or quote/invoice.

The projects are listed in **Table 3**. As illustrated by **Table 3**, the amendments to the contracts increased the cost of the projects a total of \$355,845. The increase ranged from 73% to 279% for each project. Each project is described in detail in the paragraphs following the **Table**.

Table 3

| Vendor | Description of project | Amount Paid | Original Amount | Dollar Increase | Percentage Increase |
|---------------|-------------------------------|--------------------|------------------------|------------------------|----------------------------|
| Siemens | Controls package | \$ 398,008 | 230,649 | 167,359 | 73% |
| Bergstrom | Restroom improvements | 288,805 | 145,000 | 143,805 | 99% |
| Stroh | Radiant heat panels | 60,711 | 16,030* | 44,681 | 279% |
| Total | | \$ 747,524 | 391,679 | 355,845 | |

* - Quote or invoice. The other two projects had a contract.

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- Siemens – The scope change of the project has been identified in **Table 1**.
- Bergstrom – Three change orders increased the total contract by \$143,805.
 - The first change order for \$2,178, dated February 1, 2008, was for ceramic change.
 - The second change order, dated March 6, 2008, increased costs \$58,410. The change added a new electrical service, a variable air volume box and changed light fixtures.
 - The third change order, dated September 17, 2008, increased costs \$83,217 to add a locker room. Additional information was not available to show what was included in the change order. Based on our observations, the locker room provided employees a secure locker to keep coats and personal belongings.
- Stroh – The original quote on April 3, 2007 was \$13,760 to install 48 radiant heat panels on the first floor and \$2,270 to install 11 radiant heat panels on the second floor. An additional quote on June 1, 2007 added 45 radiant heat panels to the first floor and 34 radiant heat panels to the second floor for increase at a cost of \$11,250 and \$8,500, respectively. The final invoice for payment reflects \$14,298 and \$10,633 incurred for extra work to install an additional 7 heaters on the first floor and an additional 12 heaters on the second floor, respectively.

Based on available documentation, it is not clear if the additional work performed was required to complete the job or if the additional work was requested as a preference to improve the facilities. Documentation should support why additional work was considered necessary.

- (4) Emergency Procurements - In accordance with Section 11-106.8(1) of the IAC, an emergency procurement is to be limited in scope and duration to meet an emergency and the agency is to attempt to acquire services with as much competition as practicable under the circumstances.

Section 11-106.3 of the IAC specifies an emergency procurement is justifiable when it meets one of the following conditions: threats to public health, welfare or safety in which there is a need to protect the health, welfare or safety of persons occupying or visiting a public improvement or property located next to a public improvement, when the department must act to preserve critical services or programs or when the need is a result of events or circumstances not reasonably foreseeable.

Justification for the emergency purchase must be documented and submitted to the Director of DAS for approval as required by Section 11-105.4 of the IAC. When we spoke with ABD representatives about the purchases listed in **Table 4**, the purchases were described as emergency purchases. However, ABD did not maintain appropriate documentation to justify the purchase as an emergency purchase and documentation was not submitted to the Director of DAS. Based on

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the duration of the projects, they do not appear to qualify as an emergency purchase.

ABD representatives stated the contracts identified in **Table 4** were with vendors selected from an existing Master Agreement. However, these three contracts specified a single set rate for the entire project. The contracts did not identify work performed by specific categories and hourly rates in accordance with the existing Master Agreements. ABD did not comply with procurement rules identified in the IAC.

Table 4

| Vendor | Description of project | Amount Paid | Duration of project |
|---------------|-------------------------------|---------------------|--|
| Waldinger | HVAC | \$ 2,148,250 | November 12, 2007 to November 10, 2008 |
| Bergstrom | Boiler room | 30,274 | November 20, 2007 to April 25, 2008 |
| Bergstrom | Warehouse deck | 9,928 | February 20, 2008 to March 17, 2008 |
| Total | | <u>\$ 2,188,452</u> | |

During our review of the documentation related to the heating, ventilation, air conditioning (HVAC) project, we determined ABD paid the contractor \$1,057,795 two days after the Waldinger contract was signed. ABD representatives we spoke with stated the payment was made to purchase equipment needed for the renovations. It appears the payment was made prior to completion of the work.

- (5) Payments exceeded amended contract amounts – ABD entered into a contract with Waldinger Corporation on November 12, 2007 for an HVAC system to be installed in the warehouse for \$1,897,795. We reviewed invoices for the HVAC system which totaled \$1,900,546. We also identified an additional \$247,704 of payments made to the vendor for additional work requested on the warehouse. Total payments to the vendor were \$2,148,250, which exceeded the original contract amount of \$1,897,795 by \$250,455, or approximately 13.2%. The invoices for the project are summarized in **Table 5**.

Based on available documentation, it is not clear if the additional work performed was required to complete the job or if the additional work was requested as a preference to improve the facility. Significant change orders change the overall scope of the project and should have been competitively bid.

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Table 5

| Date | Description | Payment on contract | Additions to contract | Total |
|--------------------|--|------------------------|--------------------------|-----------|
| November 14, 2007 | HVAC system | \$ 1,057,795 | - | 1,057,795 |
| January 30, 2008 | Electrical power and mechanical/electrical systems | 390,000 | - | 390,000 |
| February 15, 2008 | Mechanical/electrical systems and warehouse lighting | 240,000 | - | 240,000 |
| February 15, 2008 | Exterior work | - | 5,236 | 5,236 |
| February 15, 2008 | Patch work | - | 8,592 | 8,592 |
| March 5, 2008 | Electrical power and mechanical/electrical systems | 120,000 | - | 120,000 |
| March 5, 2008 | Cable tray | - | 12,587 | 12,587 |
| March 5, 2008 | 5 parking lot lights | - | 2,783 | 2,783 |
| March 5, 2008 | 75 KVA UPS | - | 43,000 | 43,000 |
| March 5, 2008 | Fire alarm/security | - | 44,722 | 44,722 |
| March 27, 2008 | HVAC system and warehouse lighting | 37,751 | - | 37,751 |
| March 27, 2008 | 75 KVA UPS | - | 47,505 | 47,505 |
| April 30, 2008 | Warehouse lighting | 40,000 | - | 40,000 |
| May 27, 2008 | Warehouse lighting | 15,000 | - | 15,000 |
| May 27, 2008 | Fire alarm/security | - | 38,078 | 38,078 |
| June 30, 2008 | Fire alarm/security | - | 9,200 | 9,200 |
| September 12, 2008 | Ductsox replacement | - | 1,100 | 1,100 |
| November 10, 2008 | Install and repair conduits, reroute wire | - | 6,202 | 6,202 |
| November 10, 2008 | Added security changes in break area | - | 6,391 | 6,391 |
| November 10, 2008 | Install new lights in front parking lot | - | 11,880 | 11,880 |
| November 10, 2008 | Add security to garage locker, relocate cameras to garage/turnstile | - | 10,428 | 10,428 |
| Total | | \$ 1,900,546 | 247,704 | 2,148,250 |

- (6) **Iowa Prison Industries** – Chapter 904.808 of the *Code of Iowa* requires state departments or agencies purchase products from Iowa Prison Industries (IPI). In the event IPI is unable to meet the specifications of the purchase or furnish needed products comparable in both quality and price to those available from alternative sources, the Director of IPI may release the agency from this requirement in a written waiver.

Between August 1, 2006 and July 31, 2008, ABD purchased \$170,903 of furniture from vendors other than IPI. According to ABD representatives we spoke with, IPI was unable to meet the specifications of the products purchased. ABD representatives also stated they obtained a waiver from the Director of IPI, but were unable to locate the waiver for our review. According to IPI representatives we spoke with, there were no waivers issued to ABD between August 2006 and July 2008.

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The purchases are listed in **Table 6**. As illustrated by **Table 6**, the purchases consist primarily of office furnishings. We were unable to determine the comparability of the products purchased from outside vendors to products available from Iowa Prison Industries.

Table 6

| Date | Vendor | Description | Amount |
|--------------------|---------------|---|------------|
| August 22, 2006 | Teknion LLC | 29 Contessa chairs, 16 lateral files | \$ 23,538 |
| September 21, 2006 | Teknion LLC | 37 Contessa chairs | 23,892 |
| November 3, 2006 | Teknion LLC | 20 desks, overhead cabinets | 20,556 |
| November 8, 2006 | Teknion LLC | 8 lateral files, pedestals | 3,959 |
| November 28, 2006 | Teknion LLC | 3 lateral files, overhead cabinets, desks, work surfaces | 7,331 |
| January 25, 2007 | Koch Brothers | 85 Welcome chairs | 26,582 |
| February 15, 2007 | Koch Brothers | Signs with desktop mounts | 1,151 |
| March 8, 2007 | Koch Brothers | Grommets | 90 |
| August 17, 2007 | Teknion LLC | Overhead cabinets, tables, desks, 14 Contessa chairs, lateral files | 20,782 |
| September 19, 2007 | Koch Brothers | Lateral file | 553 |
| September 19, 2007 | Teknion LLC | 2 Vasari chairs, 1 desk | 2,374 |
| October 16, 2007 | Koch Brothers | 4 binder holders, 12 diagonal letter organizers, 4 in/out trays | 2,821 |
| October 16, 2007 | Teknion LLC | 2 AV carts, focus board, tack boards | 3,922 |
| March 7, 2008 | Koch Brothers | 7 name plates | 152 |
| March 21, 2008 | Koch Brothers | 18 Welcome chairs | 7,775 |
| April 30, 2008 | Koch Brothers | 4 restroom signs | 208 |
| May 1, 2008 | Koch Brothers | Employee name plate | 27 |
| May 21, 2008 | Teknion LLC | Storage cabinets, pencil drawers, lateral files | 21,771 |
| June 25, 2008 | Teknion LLC | Combination storage cabinet | 1,685 |
| June 30, 2008 | Koch Brothers | 75 signs | 1,734 |
| Total | | | \$ 170,903 |

Recommendation – ABD should follow the procurement policies addressed in IAC Sections 11-105 and 11-106.

Response – Internal controls have been implemented by the new Division administrator, Stephen Larson, to ensure strict adherence to all procurement policies including, but not limited to competitively bid contracts, emergency procurements, Iowa Prison Industries and revising contracts, quotes and payments. Furthermore, the Division will partner with the Department of Administrative Services regarding training opportunities for all employees involved with procurement. Division staff will follow the policies outlined in IAC 11-105 and 11-106.

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Through the end of FY2008, the Division was a charter agency and had the flexibility to operate without certain controls on expenditures and procurement practices. Concerned about the lack of such controls, Governor Culver did not recommend extension and specifically sought to terminate the Charter Agency Program.

Conclusion – Response accepted.

(C) Questionable Disbursements – We identified certain disbursements which may not be an appropriate and necessary use of public funds.

- A Bosch® dishwasher was purchased from Nebraska Furniture Mart for \$1,149 in May 2008. The industrial strength dishwasher is located in the employee break room. Based on our observations, the dishwasher is not used on a frequent basis and appears to only be used by employees for cleaning personal lunch dishes. We were unable to identify events held at ABD which would require the use of the dishwasher. In addition, the dishwasher purchased is a higher-end model than most dishwashers purchased for daily use in homes.
- A Coachman® camper was purchased in July 2007 for \$7,813 to be used by ABD truck drivers as a place to stay according to the former administrator. The 2005 model trailer was purchased from IPI and was formerly used by FEMA. ABD is not required to provide lodging accommodations for drivers.

ABD transferred ownership of the trailer to the Iowa Department of Cultural Affairs because it had not been used on a consistent basis. ABD did not charge the Iowa Department of Cultural Affairs for the trailer. We requested documentation relating to the trailer, but it was not provided.

- Three Great Divide 18 speed bicycles and an Elite 21 speed bicycle were observed in the warehouse. We were unable to identify work which would require the use of these bicycles. In addition, a framed world map was observed in a conference room. ABD was not able to locate documentation related to these purchases in fiscal years 2009, 2008 or 2007.
- ABD received a grant from the National Alcohol Beverage Control Association (NABCA) to purchase three HDTVs for ABD's training room. Two of the HDTVs are located in the training room. The other HDTV is located in a warehouse storage area in its original packaging and is not being used.
- ABD contracted with Bergstrom Construction for restroom and locker room improvements for \$205,588 and \$83,217, respectively, from January through November 2008.

Citizen concerns included the tile installed in the restroom may have been imported. When we asked the Director of ABD about the tile, we were told it was not imported. We observed the improvements and requested documentation related to the improvements, including a detailed description of materials used in the restroom renovations. The documentation was not provided.

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- Chapter 304A.9 of the *Code of Iowa* encourages fine arts projects in state buildings. ABD purchased \$23,513 of artwork between August 2007 and January 2009. While these purchases may be allowable per the *Code of Iowa*, the need for ABD to develop an art collection is not clear. These purchases reduced the amount of funds which could have been credited to the State's General Fund.

Also, the Iowa Department of Administrative Services, State Accounting Policy and Procedures Manual Procedure No. 230.200 states it is permissible for agencies to purchase art objects for use in public reception or waiting areas for the department and the department is responsible for maintaining justification. ABD does not display its artwork in public reception or waiting areas and did not document justification.

Table 7

| Date | Amount | Vendor | Description |
|-------------------|-----------|-----------------|-------------|
| August 28, 2007 | \$ 3,061 | Marlene Olson * | Artwork |
| November 14, 2007 | 5,000 | Marlene Olson * | Artwork |
| March 31, 2008 | 1,483 | Marlene Olson * | Artwork |
| April 3, 2008 | 2,900 | Marlene Olson * | Artwork |
| April 18, 2008 | 1,905 | Marlene Olson * | Artwork |
| April 28, 2008 | 1,075 | Marlene Olson * | Artwork |
| June 10, 2008 | 4,600 | Marlene Olson * | Artwork |
| October 20, 2008 | 3,300 | Maverick Grill | Artwork |
| January 7, 2009 | 189 | Marlene Olson * | Frame |
| Total | \$ 23,513 | | |

* The vendor, Marlene Olson, is reportedly a friend of the former director's wife.

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

Also, art objects are required to be displayed in public reception or waiting areas of the department and the department is responsible for maintaining justification. In addition, the Iowa Arts Council should be contacted for possible assistance in locating pictures and art objects.

Response – At Governor Culver's request, the Department of Management reviewed Division expenditures made during late 2008. The evaluation led to the Department of Management imposing greater controls on spending and heightened scrutiny over personnel decisions made by former administrator Lynn Walding.

Under the new director, the Division has implemented internal controls to document and justify non-routine purchases. All documentation must be affixed to invoices submitted to accounting for payment. Purchases will be conducted in accordance with the Iowa Administrative Code and will meet an appropriate and necessary use of public funds. Whenever possible, procurements will be made through master purchasing agreements in order to save money.

In regards to the art displayed at the Division's offices, pieces have been placed in areas accessible for public viewing. The Division will be contacting the Iowa Arts Council for further assistance with the collection.

Conclusion – Response accepted.

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(D) Promotions – Citizen concerns included the rapid promotion of Nicole Watson-Gehl. According to the State’s Human Resource Information System (HRIS), Ms. Watson-Gehl began employment at ABD as an Administrative Intern on May 12, 2000. She was hired full time as an Administrative Assistant 2 on February 16, 2001 and was promoted to Public Service Executive 3 (PSE-3) on August 12, 2005. Upon this promotion, she received the title Operations Manager.

Table 8 summarizes the positions held by Ms. Watson-Gehl at ABD, her annual salary, the percentage increases to her salary and the allowable pay range for each position she has held.

Table 8

| Date | Position | Annual Salary | Percentage Increase | Allowable Pay Range | |
|-------------------|---|---------------|---------------------|---------------------|--------------|
| | | | | Minimum | Maximum |
| May 12, 2000 | Administrative Intern | \$ 27,248.00 | | \$ 21,486.40 | \$ 27,747.20 |
| June 23, 2000 | Across the board pay increase | 28,059.20 | 3.0% | 22,131.20 | 28,059.20 |
| February 16, 2001 | Administrative Assistant 2 | 34,944.00 | 24.5% | 30,368.00 | 38,355.20 |
| June 22, 2001 | Across the board pay increase | 35,984.00 | 3.7% | 31,283.20 | 39,499.20 |
| February 15, 2002 | Step increase contract | 37,148.80 | 3.2% | 31,283.20 | 39,499.20 |
| October 25, 2002 | Across the board pay increase | 38,272.00 | 3.0% | 32,115.20 | 43,472.00 |
| February 14, 2003 | Step increase contract | 39,811.20 | 4.0% | 32,115.20 | 45,219.20 |
| June 20, 2003 | Across the board pay increase | 40,601.60 | 2.0% | 32,760.00 | 46,113.60 |
| February 13, 2004 | Step increase contract | 42,432.00 | 4.5% | 32,760.00 | 46,113.60 |
| May 21, 2004 | Executive Officer 2 | 45,635.20 | 7.5% | 45,635.20 | 67,516.80 |
| November 19, 2004 | Step increase contract | 47,694.40 | 4.5% | 45,635.20 | 67,516.80 |
| December 31, 2004 | Across the board pay increase | 48,651.20 | 2.0% | 46,550.40 | 70,220.80 |
| August 12, 2005 | Public Service Executive 3 | 65,000.00 | 33.6% | 53,892.80 | 80,870.40 |
| June 16, 2006 | Step increase contract including a retroactive pay increase to March 24, 2006 | 82,888.00 | 27.5% | 53,892.80 | 82,888.00 |
| June 30, 2006 | Across the board pay increase | 84,552.00 | 2.0% | 54,974.40 | 84,552.00 |
| June 29, 2007 | Across the board pay increase | 87,089.60 | 3.0% | 56,617.60 | 87,089.60 |
| June 27, 2008 | Across the board pay increase | 89,710.40 | 3.0% | 58,323.20 | 89,710.40 |

As illustrated by **Table 8**, the minimum allowable annual pay for an Administrative Intern was \$21,486.40 when Ms. Watson-Gehl was hired in May 2000 and the maximum allowable annual pay was \$27,747.20. Ms. Watson-Gehl’s initial annual pay was established at \$27,248.00, which is approximately \$500.00 less than the maximum allowed. Also as illustrated by **Table 8**, Ms. Watson-Gehl’s pay was increased to the maximum allowable amount when she received an across-the-board pay increase, effective June 23, 2000.

Table 8 also illustrates Ms. Watson-Gehl’s salary was increased to the maximum amount allowed for a PSE-3 when she received a retroactive pay increase on June 16, 2006. Her pay has remained at the maximum amount allowed for a PSE-3 since that date with each across-the-board pay increase she has received. In a two year period from May 21, 2004 to June 16, 2006, Ms. Watson-Gehl’s annual salary increased 81.6%, or \$37,252.80.

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Prior to Ms. Watson-Gehl's promotion to PSE-3, ABD had only one Operations Manager. A second Operations Manager position was created when Ms. Watson-Gehl was promoted. Although ABD has two Operations Managers, only Ms. Watson-Gehl has her own office. The other Operations Manager's work space is a cubicle.

Recommendation – ABD should maintain documentation of the reasons for rapid promotions and salary increases.

Response – The promotions and salary increases identified were given by former administrator Walding and only he can answer for them.

Going forward, all non-contract promotions and salary increases will require the administrator's approval and signature. Additionally, any salary increase greater than 5 percent will require written justification to be placed in the employee's personnel file.

Conclusion – Response accepted.

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Staff:

Questions or requests for further assistance should be directed to:

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