



**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**

FOR RELEASE \_\_\_\_\_ September 13, 2010

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2009.

The Department's purpose is to enhance the economic development of Iowa and provide for job creation and increased prosperity and opportunities for citizens.

A copy of the report is available for review in the Iowa Department of Economic Development, in the Office of Auditor of State and on the Auditor of State's web site at:

<http://auditor.iowa.gov/reports/1060-2690-0R00.pdf>

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**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF ECONOMIC DEVELOPMENT**

**JUNE 30, 2009**

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



**David A. Vaudt, CPA**  
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September 7, 2010

To Bret Mills, Director of the  
Iowa Department of Economic Development:

The Iowa Department of Economic Development 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, 2009.

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 Single Audit Report and the State's Report on Internal Control, as well as other 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 Economic Development's 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 Economic Development, citizens of the State of Iowa and other parties to whom the Iowa Department of Economic Development 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 14 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 A. Culver, Governor  
Richard C. Oshlo, Jr., Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2009

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

**CFDA Number: 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-07-DC-19-0001, B-08-DC-19-0001, B-09-DC-19-0001**

**Federal Award Year: 2007, 2008, 2009**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-1**

- (1) Subrecipient Monitoring – Under the Community Development Block Grant (CDBG) program, housing rehabilitation grants may only be awarded to local governments. A local government may administer the program or may enter into a subrecipient agreement with an administrative entity, such as a Council of Governments, to administer the program. When a local government enters into such an agreement, the government effectively passes down all federal requirements of the program to the administrative entity, except for approving final reports and requesting funds. The agreement may not identify the administrative entity as a subrecipient when, in fact, the administrative entity becomes a subrecipient and must comply with CDBG program and OMB Circular A-133 requirements upon entering into the agreement. In addition, upon entering into the agreement, the local government is responsible for monitoring the administrative entity for compliance with CDBG program and OMB Circular A-133 requirements.

The Department has not appropriately identified the relationship between the local governments and Council of Governments administering the program as a subrecipient relationship. The Department defined activities performed relating to general administration and technical services activities as a vendor relationship. However, the guidelines adopted for general administration and technical services include activities of a subrecipient.

In addition, adequate monitoring of the Council of Governments is not performed when the Council of Governments is a subrecipient.

Recommendation – The Department should adopt or revise policies and procedures to reflect subrecipient monitoring procedures required under OMB Circular A-133. Also, the Department should establish procedures to evaluate the relationship between local governments and Council of Governments to properly identify subrecipient versus vendor relationships.

Response and Corrective Action Planned – The Department funds a substantial number of projects under the Community Development Block Grant (CDBG) program each year. These projects are managed and administered by a number of parties and in a variety of ways.

In the cases where a Council of Governments (COG) is utilized by a Unit of Local Government, one of three instances can occur:

- The COG performs only general administration functions.
- The COG performs both general administration and technical services functions.
- The COG administers the grant on behalf of the Unit of Local Government.

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When the COG performs only a general administration function, the Department classifies this relationship as a vendor relationship. In instances where general administration and technical services functions are being performed, the classification of the relationship is dependent on the substance of the decision making being provided under the technical services. When the COG administers the grant on behalf of the Unit of Local Government, the Department classifies this relationship as a subrecipient.

In instances where the COG is providing both general administration and technical services the Department will work with the COGs and Units of Local Government to determine and define the level of involvement being provided and implement appropriate measures such as new subrecipient agreements, monitoring and review to ensure all parties are in compliance with OMB Circular A-133.

Conclusion – Response accepted.

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-08-DF-19-0001**

**Federal Award Year: 2008**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-2**

- (2) Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

No on-site monitoring has been performed on the Jumpstart Small Business program. Since monitoring has not been performed, eligibility requirements may not have been met for the Jumpstart Small Business program, along with other compliance requirements under OMB Circular A-133.

Recommendation – The Department should ensure adequate monitoring of subrecipients is completed as required by OMB Circular A-133.

Response and Corrective Action Planned – The Department performed on-site monitoring of the Jumpstart Small Business Program during February 2010 to determine if requirements under OMB Circular A-133, including eligibility requirements, were met. The findings of the monitoring visit are currently being reviewed by the Department and any necessary corrective action will be reviewed with the City of Cedar Rapids.

Conclusion – Response accepted.

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**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and  
Non-Entitlement Grants in Hawaii**

**Agency Number: B-08-DF-19-0001**

**Federal Award Year: 2008**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-3**

- (3) Allowable Costs – OMB Circular A-87 requires all charges to a federal grant represent eligible activities under Section 105(a) of the Housing and Community Development Act of 1974, including administrative costs.

One transaction tested included a purchase which did not meet the guidelines for allowable costs for the program.

Recommendation – The Department should review administrative expenditures to ensure the expenditures are allowable under federal guidelines.

Response and Corrective Action Planned – The Department feels the purchase in question falls under the “Employee, Morale, Health, and Welfare” section of allowable costs per Circular A-87. However, in the future, the Department will review guidelines and consult with both the Department of Administrative Services – State Accounting Enterprise and the Office of Auditor of State regarding such purchases.

Conclusion – Response accepted.

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and  
Non-Entitlement Grants in Hawaii**

**Agency Number: B-08-DF-19-0001**

**Federal Award Year: 2008**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-4**

- (4) Duplication of Benefits – Section 312 of the Robert T. Stafford Disaster Assistance and Emergency Relief Act “prohibits any person, business concern or other entity from receiving financial assistance with respect to any part of a loss resulting from a major disaster as to which he has received financial assistance under any other program or from insurance or any other source.” The Act also stipulates “funds may not be used for activities reimbursable by or for which funds have been made available by the Federal Emergency Management Agency or by the Army Corps of Engineers.” The Supplemental Appropriations Act of 2008 requires procedures be established to prevent recipients from receiving any duplication of benefits to prevent fraud or abuse of funds.

The Department did not establish the Duplication of Benefits system until January 11, 2010 for the Jumpstart Small Business program. Since the Duplication of Benefits system had not been established, the Department was unable to correctly monitor and determine whether recipients were receiving any duplication of benefits to prevent fraud or abuse of funds.

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Recommendation – In order to prevent fraud, waste, abuse and duplication of benefits, the Department should establish a system monitoring duplication of benefits for the Jumpstart Small Business program. The Department should ensure the award calculations and duplication of benefits review are correct and verify other awards with the awarding recipient.

Response and Corrective Action Planned – The Department has developed a system to monitor the duplication of benefits for businesses receiving awards prior to establishing the Duplication of Benefits system on January 11, 2010. It is anticipated most businesses receiving Jumpstart Small Business funding will be eligible for funding under one of the new business programs. As applications are received for the new business programs, a Duplication of Benefits check will be conducted for each business not previously reviewed.

Conclusion – Response accepted.

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-08-DF-19-0001**

**Federal Award Year: 2008**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-5**

- (5) Eligibility – Under the Jumpstart Small Business program, eligible recipients include businesses located within a presidentially declared disaster area which sustained economic damage resulting from the 2008 disasters. The maximum loan which may be awarded is 25% of the approved loan amount by an accredited institution, which is not to exceed \$50,000. An additional \$5,000 may also be awarded to the business for energy efficiency purchases.

Two instances were noted in which a loan was made without having a proper loan approval agreement uploaded to the Department’s Service Point Database. Four instances were noted where the loan exceeded the approved loan amount. In addition, two instances were noted where awards for energy efficiency did not include the proper documentation in the Service Point Database. Also, one instance was noted in which the energy efficiency funds were given to an unallowable recipient.

Recommendation – The Department should establish procedures to monitor the Jumpstart Small Business program to ensure funds are properly awarded.

Response and Corrective Action Planned – The Department agrees in two instances Service Point does not contain proper documentation to support the additional payments. However, during the on-site monitoring visit of the Jumpstart Small Business program it was determined in both instances documentation of additional loan information was retained in the file maintained by the City of Cedar Rapids. The Department requested the City upload this information to the Service Point Database at their earliest convenience.

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The Department agrees in four instances disbursements exceeded the eligible amount of award. The Department reviewed these instances during the on-site monitoring visit of the Jumpstart Small Business program and based on the information retained in the file maintained by the City, the Department has requested the City follow up with these businesses to determine the best course of action. The Department hopes to have this issue resolved by June 30, 2010.

Energy Efficiency award documentation will be reviewed by Department personnel before the end of March 2010. At that time, the Department will determine if excessive or unallowable expenditures were made and will determine, with the City of Cedar Rapids how to recapture any funds necessary.

Conclusion – Response accepted.

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii**

**Agency Number: B-07-DC-19-0001, B-08-DC-19-0001, B-09-DC-19-0001**

**Federal Award Year: 2007, 2008, 2009**

**CFDA Number: 14.239 – HOME Investment Partnerships Program**

**Agency Number: M-07-SG-19-0001, M-08-SG-19-0001, M-09-SG-19-0001**

**Federal Award Year: 2007, 2008, 2009**

**State of Iowa Single Audit Report Comment: 09-III-HUD-269-6**

- (6) Performance and Evaluation Report (OMB No. 2506-0085) – An annual Performance and Evaluation Report is due from each federal grantee within 90 days of the close of its program year in a format suggested by the U.S. Department of Housing and Urban Development (HUD). Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee’s use for the priorities and objectives identified in its plan.

The Department’s 2008 Annual Performance and Evaluation Report initially submitted to HUD included a section for Non-Housing Community Development which was not updated from the prior year with 2008 data.

Recommendation – The Department should review the Annual Performance and Evaluation Report prior to submission to ensure accurate reporting of the Department’s performance measures.

Response and Corrective Action Planned – The Department reviews the Annual Performance and Evaluation Report prior to submission and will continue to do so in the future. However, during review of the 2008 report this error was not corrected. The Department will strive to ensure all errors are noted and corrected during the review process in the future.

Conclusion – Response accepted.

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

Financial Reporting – The Department records receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS–SAE) on a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The Department reported the receipt of certain loans as investment income on the GAAP package. However, these receipts were coded as refunds and reimbursements revenue on the I/3 system. This information in the GAAP package is used to prepare journal entries for the financial statements. As a result, investment income was understated and refunds and reimbursements were overstated by approximately \$364,000. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package information reported is accurate.

Response – In the future, the Department will ensure the GAAP Package information reported in accurate.

Conclusion – Response accepted.

**Other Findings Related to Internal Control:**

- (1) Loan Receivables – The Department provides loans and forgivable loans through various programs. A review of the loan receivable activity identified the following:
  - (a) Each forgivable loan included on the ITRAC database has an “End Date”, which is the date the Department is to make a decision as to whether the loan should be forgiven. For the CEBA, VAAP, PIAP, ARC and FES loan programs, numerous instances were noted where the “End Date” listed on the loan repayment database (LRD) was prior to June 30, 2009. However, decisions had not been made and/or documented by the Department as to whether the loans had been forgiven. As a result, the loan receivable balances and the related allowance for doubtful accounts could be overstated at June 30, 2009.
  - (b) Principal and interest on a loan are to be applied in accordance with the amortization schedule included in the loan contract. Two of 50 payments tested for the HOME loan program were not applied to principal and interest according to contract terms. In addition, 3 of 50 items tested did not match the amortization schedule due to the LRD incorrectly calculating payment information. The errors were due to the Department converting to the LRD system in 2003 and many HOME loan program balances were carried forward incorrectly.
  - (c) One VAAP loan was re-negotiated in August 2005. However, the LRD is tracking the receivable balance based on the original payment. As a result, the VAAP current receivable is overstated by approximately \$41,800.

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- (d) Various ARC, EVAP, FES and IVF loans were renegotiated and re-settled. However, new contracts and repayment schedules were not drafted in accordance with the Department's procedures. In addition, 2 checks were being held in a locked cabinet for payments on the renegotiated loans which were received but had not been posted to the LRD system.

Recommendation –

- (a) The Department should develop and implement procedures to ensure forgivable loans are analyzed by the "End Date", a decision is made and documented as to whether the loan is forgiven and the LRD system is updated accordingly.
- (b) The Department should develop policies and procedures to ensure principal and interest are applied properly when repayments are received.
- (c) The Department should ensure corrections are made to the LRD database to reflect the correct payments, as well as the receivable balance in the database.
- (d) The Department should ensure new contracts and repayment schedules are completed for renegotiated loans. In addition, checks should be posted to the LRD system in a timely manner.

Response –

- (a) The Auditor of State noted 31 instances where the end date noted on the LRD was prior to June 30, 2009.
- In 8 instances, the contract was turned over to in-house collections, outside legal counsel or the company was in bankruptcy prior to June 30, 2009. All contracts in collections or bankruptcy proceedings remain on LRD until an outcome is reached. In 5 of these 8 instances, an outcome has been reached and the project closed or converted. This information was available in the LRD.
  - In 8 instances, the contract was closed out between July 1, 2009 and January 31, 2010. This information was available in the LRD.
  - For the remaining 15 instances, the Department will start the close-out process as soon as possible and strive to have all close-outs completed by June 30, 2010.
- (b) The Department is currently in the process of researching possible new systems for loan tracking, including grants.gov. However, a suitable upgrade has not been found. The Department hopes to have a new loan system implemented by July 1, 2011.
- (c) An adjustment will be made in the future on the GAAP package to correct this overstatement. In addition, Accounting will work with the IT department to determine if a correction can be made to the LRD.
- (d) The Department will draft new contracts and repayment schedules for renegotiated loans, in addition to new promissory notes. Also, the checks being held will be posted to the LRD as soon as possible.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

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- (2) Foundation Segregation of Duties – The Iowa Department of Economic Development Foundation is a separate, nonprofit corporation incorporated under Iowa Code Chapter 504A. The purpose of the Iowa Department of Economic Development Foundation is “receiving and disbursing funds from public or private sources to be used to further the overall development and well-being of the State.” One individual is responsible for the following:
- (a) Petty Cash – The petty cash custodian is not prohibited from handling more than one fund or other cash receipts.
  - (b) Investments – The individual responsible for the detailed record keeping of investments is not independent of the custodian. Additionally, investment records are not periodically inspected by an individual having no responsibility for the custody or record keeping of investments.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, control activities should be reviewed to obtain the maximum internal control possible under the circumstances. Reviews should be performed by independent persons to the extent possible and should be evidenced by the reviewer’s initials or signature and the date of review.

Response – Effective May 1, 2010, the Administrative Services Division Administrator will review and initial the foundation cash receipts, not the petty cash custodian. Any future transactions involving foundation investments will be handled by the custodian but reviewed and initialed by the Deputy Director. This will provide requisite segregation on both the petty cash fund and investments.

Conclusion – Response accepted.

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

- (1) Iowa Code Compliance – The Department was not in compliance with Chapter 15.203 of the Code of Iowa during the year ended June 30, 2009. This Code section created the Agricultural Products Advisory Council. The Council is to consist of five members appointed by the Secretary of Agriculture and five members appointed by the Director of the Iowa Department of Economic Development. The Director has only appointed four members.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa.

Response – The Department will initiate the proper steps to appoint the fifth member of the Agricultural Products Advisory Council. It should be noted that this council was eliminated during the 2010 Legislative Session in Senate File 2088.

Conclusion – Response accepted.

- (2) Targeted Small Business (TSB) – Section 11.46 of the Code of Iowa requires the Auditor of State to annually conduct a review of whether state agencies are meeting the goal for procurement activities and compliance with the forty-eight hour notice provision included in sections 73.15 through 73.21 of the Code of Iowa.

State agencies utilize the TSB Purchases of Goods and Services report, Report ID: FR194, from the Iowa Integrated Information System (I/3) data warehouse to determine TSB spending to be reported on the quarterly report. The TSB Purchases of Goods and Services report details TSB spending by vendor and identifies the vendor as TSB Women, TSB Minority or TSB Disabled.

Vendors identified as a TSB with multiple TSB designations may be included in the TSB Purchases of Goods and Services report under each designation. Three of the six state agency TSB Purchases of Goods and Services reports reviewed included duplicate expenses. Two of the agencies had already corrected the quarterly reports to eliminate duplicate expenses.

Recommendation – The Department, along with the other state agencies, should ensure accurate information is reported, as well as correcting the problem with the I/3 report used to submit quarterly reports.

Response – The Department will work with all state agencies and the I/3 team to ensure accurate information is submitted for the TSB reports.

Conclusion – Response accepted.

- (3) Economic Development Foundation – For 40 cash receipts tested, 18 were not deposited timely and 2 did not have supporting documentation.

Recommendation – Cash receipts should be deposited in a timely manner and should be properly supported.

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Response – The Department will work to improve the timeliness and supporting documentation required on Foundation deposits.

Conclusion – Response accepted.

- (4) Iowa Film Office - A special investigation is being performed relating to the Iowa Film Office.

Report of Recommendations to the Iowa Department of Economic Development

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**Staff:**

Questions or requests for further assistance should be directed to:

Michelle B. Meyer, CPA, Manager  
Tracy L. Daugherty, CPA, Senior Auditor  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Tiffany M. Ainger, Staff Auditor  
Daniel L. Durbin, CPA, Staff Auditor  
Tracey L. Gerrish, Staff Auditor  
Jessica N. Meierotto, Staff Auditor  
Samantha J. Brinks, CPA, Assistant Auditor  
Clinton J. Krapfl, Assistant Auditor