



OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

FOR RELEASE _____

June 27, 2003

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2002.

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

Vaudt recommended that the Department develop and implement procedures to ensure that federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive or negative daily balances.

A copy of the report is available for review in the Iowa Department of Economic Development or the office of Auditor of State.

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

JUNE 30, 2002

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



**David A. Vaudt, CPA
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0360-2690-0000



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June 16, 2003

To Michael T. Blouin, 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, 2002.

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. The recommendations include those which have been reported within the State's Single Audit Report, as well as other recommendations pertaining to the Department's compliance with statutory requirements and other matters which we believe you should be aware of. 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 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 any 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 6 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2002

Findings Reported in the State's Single Audit Report:

CFDA Number: 14.228 – Community Development Block Grants/State's Program

Agency Number: B-00-DC-19-0001, B-01-DC-19-0001, B-02-DC-19-0001

Federal Award Year: 2000, 2001, 2002

CFDA Number: 14.239 – HOME Investment Partnerships Program

Agency Number: M-00-SG-19-0001, M-01-SG-19-0001, M-02-SG-19-0001

Federal Award Year: 2000, 2001, 2002

State of Iowa Single Audit Report Comment: 02-III-HUD-269-1

Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. As stated in the Cash Management Improvement Act (CMIA) Agreement, the CDBG and HOME programs are funded on a pre-issuance basis. This means that federal draws are not deposited more than two days prior to the date of disbursement.

A review of the Department's ledgers and cash management system identified the following:

- (a) In nine instances, the Department drew CDBG funds, but the corresponding disbursements were not made until three to sixteen working days later. The draw amounts ranged from \$3,270 to \$984,096.
- (b) In three instances, the Department drew HOME funds, but the corresponding disbursements were not made until three to six working days later. The draw amounts ranged from \$47,149 to \$413,710.
- (c) During certain periods of time, the Department had excessive cash balances on hand for the HOME program.
- (d) Six of twenty-six payroll draws for CDBG and eight of twenty-six payroll draws for HOME were not drawn within the proper time period.

Recommendation – The Department should develop and implement procedures to ensure that federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive or negative daily balances.

Response and Corrective Action Planned – While these findings again represented an improvement from FY 2001, the Department will undertake a number of procedures to ensure compliance. The CDBG/HOME program accountant will develop and implement a more thorough tracking system for cash management on these accounts. This will involve a more "hands-on" approach where the accountant will physically track the drawdown/expenditure/cash balance process at all times. The receipt of the funds into the state block grant clearinghouse account will be more closely monitored and the claims for payment of these funds, along with the proper document to move the funds from the state block grant clearinghouse account, will be sent to the Department of Revenue and Finance's Daily Processing section on the same day. Program income is already being monitored at a much more detailed level than in past years to reduce balances being carried in the fund and a system has been implemented where payroll draws are made either one day before or one day after payroll is run to ensure that payroll funds are received and expended within the guidelines.

Conclusion – Response accepted.

June 30, 2002

Findings Related to Internal Control:

No matters were reported.

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Economic Development Board – Board Member Attendance – Per Section 15.103 of the Code of Iowa, the Iowa Economic Development Board consists of eleven voting members. Ten are appointed by the governor and the eleventh is the Secretary of Agriculture. The main duties of the board are to develop and coordinate the implementation of a twenty-year comprehensive economic development plan; prepare a five-year strategic plan for state economic growth; approve the budget of the department; establish guidelines, procedures, and policies for awarding grants or contracts; review grants or contracts awarded by the department; and adopt all necessary rules recommended by the director or administrators of divisions prior to their adoption.

As documented by the board minutes, a non-voting designee representing the Secretary of Agriculture attended seven of the monthly board meetings held during state fiscal year 2002. Because this individual does not have voting rights, it takes away the potential tie breaking vote on the board.

Recommendation – The Department should encourage the Secretary of Agriculture to attend the meetings or work with the legislature to allow the Secretary of Agriculture to send a designee with voting rights to the meetings.

Response – The Department will encourage the Secretary of Agriculture to attend the meetings while also working with the legislature to allow the Secretary of Agriculture to send a designee with voting rights to the meetings.

Conclusion – Response accepted.

- (2) Code of Iowa Required Reports – Section 8.62 of the Code of Iowa states, in part, that funds from the prior fiscal year can be encumbered for employee training, technology enhancement, or purchases of goods and services from Iowa Prison Industries. Any agency encumbering funds under this section shall report to the joint appropriations subcommittee which recommends funding for the agency, the Legislative Fiscal Bureau, the Department of Management, and the Legislative Fiscal Committee of the Legislative Council detailing how the money was expended on or before June 30 of the current fiscal year.

The Department did not complete or submit this report as required by the Code of Iowa.

Recommendation – The Department should complete and submit all reports as required by the Code of Iowa.

Response – The Department did submit the report to the appropriate committees and to the Department of Management later during calendar year 2002. In the future, the Department will submit the report by the required deadline.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2002

Staff:

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager
Brian R. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Kelly V. Rea, CPA, Staff Auditor
Jodi L. Simon, Staff Auditor
Cory A. Warmuth, CPA, Staff Auditor
Elvir Alicic, Assistant Auditor