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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 Natural Resources for the year ended June 30, 2002.

The Department has the primary responsibility for state parks and forests, protecting the environment, as well as managing energy, fish, wildlife, and land and water resources in this state.

Vaudt recommended that the Department improve internal control procedures over capital assets and receipts collected at outlying locations and develop written policies and procedures to improve controls over electronic data processing.

In addition, Vaudt reported that the Department had not complied with certain statutory requirements concerning its operations during the year ended June 30, 2002. The Department believes that resource constraints have not allowed the Department to meet certain requirements and is considering seeking legislative repeal of some existing requirements during the next legislative session or reallocating resources to meet existing requirements.

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

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF NATURAL RESOURCES**

JUNE 30, 2002

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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June 20, 2003

To the Members of the Iowa Environmental Protection
and Natural Resource Commissions:

The Iowa Department of Natural Resources 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 pertain to the Department's internal control, 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 Department, citizens of the State of Iowa and other parties to whom the Department 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 any of 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 16 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

Finding Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

- (A) Electronic Data Processing Systems – The Department maintains systems for processing information regarding receipts collected, licenses/permits issued and capital asset activity. The Department does not have adequate written policies for the clear identification of ownership of in-house developed software.

Recommendation – The Department should develop a written policy for ownership of in-house developed software.

Response – Identification of ownership of in-house developed software has been achieved for the software developed by DNR Information Technology Bureau staff. User developed software ownership is outside the scope of the Information Technology Bureau's authority. However, recently the IT Bureau has done an inventory of software maintained by the Iowa City Office on the SQL and Web Server. As part of the strategic plan for IT, an action step is to identify user developed software and the ownership during the next 12 months.

Conclusion – Response acknowledged. The Department should develop a written policy for ownership of in-house developed software.

- (B) Internal Control – During visits to parks, fisheries, forests, and regional offices, we reviewed internal controls over capital assets, receipt collections, and procurement cards. Eight parks were unaware of any written procedures regarding the handling of camping receipts. Two parks did not have written procedures regarding equipment. An initial listing of camping receipts was not prepared at three parks. Five parks did not utilize a restrictive endorsement for endorsing checks for camping fees. Thirteen parks lacked segregation of duties, which resulted in individuals performing incompatible functions in the receipt cycle.

Recommendation – While we recognize the difficulty in maintaining outlying offices and locations, policies and procedures regarding internal controls should be in writing and effectively communicated to any and all outlying location employees. To the extent possible, duties within the receipt cycle should be segregated among different individuals at all locations.

Response – The Department does regularly communicate the established policies and procedures to the parks outlying offices, however, due to the wide-spread locations and the large number of parks it is difficult to ensure they are following all established internal control procedures 100 percent of the time. This audit finding was discussed with the DNR parks district supervisors at their district supervisors meeting on April 9, 2003. Procedures regarding capital assets, receipt collections and procurement cards were handed out and discussed and the supervisors were asked to make the corrections necessary to comply with the auditors' recommendation. It should be noted that many parks have only one full-time employee, therefore it is impossible to have segregation of duties at these parks.

Conclusion – Response accepted.

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(C) Equipment and Building Listings – The Department is responsible for maintaining an up-to-date and accurate capital asset inventory. When capital assets are purchased they are to be tagged and added to inventory immediately. When they are transferred to different areas or disposed of, the assets are to be promptly removed from the capital asset listing. Buildings are to be added when built and deleted when destroyed or demolished. Additions or deletions of assets at outlying offices or locations are to be documented on equipment or building change forms and forwarded to the central office to update the inventory listings. During visits to parks, fisheries, forests, and regional offices, we noted the following conditions at the various locations:

- Ten buildings were not on the inventory listing.
- Fifteen buildings have been destroyed or demolished. These items should have been removed from the listing.
- One park transferred ownership to the County. The buildings and equipment items should have been removed from the listing.
- Nine items were being repaired, replaced, or were on loan to other state agencies, parks, fisheries, or other public entities. A record of these items was not kept at the off-site location or at the central office.
- Forty-one equipment items were not on the inventory listing.
- Fifty-nine items were no longer in the possession of the outlying location for which they were listed. These items should have been removed from the listing when the item was transferred to another location or disposed of.
- Seven equipment items could not be located.
- Six equipment items did not have an inventory tag or serial number or had the wrong serial number recorded on the listing. It is particularly important to have accurate serial numbers on the outlying location inventory listings because the nature of the use of many of the items is such that inventory tag numbers may become unreadable or inventory tags may be lost. It is also harder to ensure that inventory tags are attached to items if they are not near the central office location and not readily accessible to inspection by the employee with overall responsibility for fixed assets.

Recommendation – While we recognize the difficulty in maintaining outlying offices and locations, it is important to maintain accurate and up-to-date listings of buildings and equipment. Whenever equipment is received at an outlying location, an equipment inventory form should be sent to the central office immediately. Tags should be issued and attached to equipment as soon as feasible after receipt. All equipment received or buildings erected should be added to the inventory listing in a reasonable amount of time and recorded in the proper fiscal period. All equipment disposed of or buildings destroyed or dismantled should be promptly deleted from the inventory listing. Any equipment transferred between outlying locations should be reported to the central office when the transfer takes place and inventory records should be updated accordingly.

Response – The inventory listings are updated on an on-going basis as often as practicable throughout the year, but there will always be timing issues between when inventory items are purchased, disposed of or transferred out in the outlying DNR locations versus

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when the inventory listing is updated. The Department does not have the resources available to keep the inventory up-to-date on a daily basis.

The primary reason for these findings is the timing between the auditors' field visits versus the timing of the DNR's annual inventory confirmation and related update of the inventory listing. Each fiscal year (typically March), the Department conducts a fixed asset confirmation and all equipment and building items are accounted for by the responsible supervisors and confirmed or corrected on the inventory listing. The results of the confirmation are typically not completely entered into the inventory system until a month or more after the inventory confirmation is conducted due to the workload of the inventory personnel. All inventory items, however, are updated and corrected by the end of the fiscal year in time for the annual financial report (GAAP Package) preparation.

Unfortunately, the auditors also choose this time of the year to conduct their annual field visits and are typically working from an inventory listing that has not yet been updated with the results of the Department's annual confirmation. This obviously creates a number of variances. The items noted in this finding were reviewed and were found to have been mostly corrected during the fiscal year 2002 annual confirmation process.

Conclusion – Response accepted.

(D) Miscellaneous Receipts – The Department has procedures for issuing and tracking receipt books, including keeping a record of to whom they have been issued. The receipt procedures for parks also require that receipt books be returned to the central office after they are finished.

- Receipt books were not always used in numerical sequence by the central office cashier.
- Receipt books at outlying parks were not returned to central office prior to receiving additional receipt books.

Recommendation – The Department should ensure compliance with existing procedures. Receipt books should be used in numerical sequence and returned to central office when finished.

Response – According to our procedures and tracking spreadsheet, receipt books are to be issued in numerical sequence and must be returned to the central office in a reasonable amount of time after they are finished. Due to the large volume of receipts handled, receipt books are issued to the cashier's office one box at a time. While they make every effort to use the books in numerical sequence, it is possible that a book could be accidentally used out of the numerical sequence. As long as all books are being tracked, accounted for and returned when finished, we do not see this to be a concern. We have reminded cashier's office personnel to use the books in numerical order.

The receipt books used in the parks cannot be returned to central office immediately when they are finished because parks personnel frequently have to issue refunds for cabin rentals, etc. and must keep the books on hand for a period of time to serve as documentation for any such refunds they may have to issue. We believe this issue will be resolved by ordering 4-part receipt books (rather than the 3-part books currently used) the next time we re-order these books. This will provide for an additional copy of

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the receipt for the parks personnel to keep on hand for future refunds. The books could then be returned to central office immediately after they are finished. It should also be pointed out that due to the low volume of receipts in certain field locations, it may take more than a year for a receipt book to be completely used up. We plan to send out reminders to those parks who have still not returned outstanding books after a reasonable amount of time.

Conclusion – Response accepted.

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Findings Related to Statutory Requirements:

- (1) Iowa Code Compliance – The Department was not in compliance with the following sections of the Code of Iowa during fiscal year 2002:

- (a) Comprehensive Plans and Programs for the State for the Management of Hazardous Waste – Section 455B.412(1) states that the Department shall develop comprehensive plans and programs for the state for the management of hazardous wastes.

The Department has not developed comprehensive plans and programs for the state for the management of hazardous wastes.

- (b) Registry of Hazardous Waste or Hazardous Substance Disposal Sites – Section 455B.426(2) states that the Director shall investigate all known or suspected hazardous waste or hazardous disposal sites and determine whether each site should be included in the registry.

The Department has not investigated all known or suspected abandoned/uncontrolled hazardous waste disposal sites.

- (c) Iowa Communications Network Report – Section 8D.10 states that an annual written report certifying the identified savings associated with using the Iowa Communications Network should be submitted to the General Assembly, on or before January 15 for the previous fiscal year.

The Department submitted the annual report on February 14, 2003.

- (d) Refuse-Derived Fuel – Calculation as Portion of Waste Reduction Goal – Section 455D.20 states, in part, that the commission shall adopt rules which provide for the inclusion of reduction attributable to refuse-derived fuel in the calculation of a city or county in meeting the waste reduction goal of the state.

The Environmental Protection Commission has not adopted applicable rules.

- (e) Comprehensive Groundwater Monitoring Network – Section 455E.8 states, in part, that the Director in cooperation with soil and water conservation district commissioners and with other state and local agencies shall develop and administer a comprehensive groundwater monitoring network, including point of use, point of contamination, and problem assessment monitoring sites across the state, and the assessment of ambient groundwater quality; and shall report any data concerning the contamination of groundwater by a contaminant not regulated under the federal Safe Drinking Water Act to the United States Environmental Protection Agency along with a request to establish a maximum contaminant level and to conduct a risk assessment for the contaminant.

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The comprehensive groundwater monitoring network has not been developed and the Department does not report data concerning the contamination of groundwater by contaminants not regulated under the federal Safe Drinking Water Act to the United States Environmental Protection Agency.

- (f) Funds and Accounts – Sewage Treatment and Drinking Water Financing Programs – Section 455B.295 states that four separate funds are to be established in the state treasury, to be known as the sewage treatment works revolving loan fund, the sewage treatment works administration fund, the drinking water treatment revolving loan fund, and the drinking water facilities administration fund.

The Department did not establish these four separate funds in the state treasury.

- (g) Regulating Use of Recycled Oil – Section 455B.412(5) states, in part, that the Department shall adopt rules regulating the use of recycled oil for the purpose of road oiling, dust control, or weed control necessary to protect public health and the environment.

The Department has not adopted rules regulating the use of recycled oil for the purpose of road oiling, dust control, or weed control.

- (h) Statewide Building Energy Efficiency Rating System – Section 473.40 states, in part, that the Department shall adopt rules establishing a statewide building energy efficiency rating system. The rating system shall apply to all new and existing public, commercial, industrial, and residential buildings in the state.

The Department has not developed rules establishing a statewide building energy efficiency rating system.

- (i) Submission of Report – Section 455A.4(1) states, in part, that the Director shall submit a report to the Natural Resource Commission before January 15, 1992, and every five years thereafter, which shall include but not be limited to information on the following topics:

- (1) The classification of the state's parks, recreation areas, and preserves and recommendations for their reclassification based upon present and future use.
- (2) Methods for maintaining the diversity of animal and plant life in state parks, recreation areas, and preserves.
- (3) Options to achieve controlled deer hunting in order to prevent overpopulation of deer.
- (4) Prevention of economic damage to private property which is located adjacent to state parks, recreation areas, and preserves.

The Department did not submit the report by the January 15, 2002 deadline.

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- (j) Proposals for Hazardous Waste Research and Development and Implementation of Hazardous Waste Management Practices – Section 455B.484(11) states, in part, that the division shall solicit proposals from public and private agencies to conduct hazardous waste research, and to develop and implement storage, treatment, and other hazardous waste management practices including, but not limited to, source reduction, recycling, compaction, incineration, fuel recovery, and other alternatives to land disposal of hazardous waste.

The Department has not solicited proposals from public and private agencies for the activities listed above.

- (k) Classification and Prioritization of Contaminated Sites – Section 455B.601(1) states, in part, that the Commission shall adopt rules to establish criteria for the classification and prioritization of sites upon which contamination has been discovered.

The Commission has not adopted rules to establish the criteria for the classification and prioritization of contaminated sites.

- (l) Compliance Advisory Panel – Section 455B.150 states, in part, that the Department shall create a compliance advisory panel pursuant to Title V, section 507(e) of the federal Clean Air Act Amendments of 1990, to review and report on the effectiveness of the small business technical assistance program.

A compliance advisory panel has not been created.

- (m) Hazardous Waste Sites and Facilities – Section 455B.443(2) states, in part, that the owners and operators of a facility with hazardous waste sites shall submit an application to the Director requesting that a site license be issued.

The Department does not ensure facilities submit an application to the Director requesting that a site license be issued.

- (n) Hazardous Waste Listing – Section 455B.464 states, in part, that the Director shall annually compile a list of additional hazardous wastes for adoption by the commission pursuant to the rulemaking procedures. The list should include wastes which may be a significant environmental burden if disposed of at a land disposal facility.

The Department does not compile a listing of additional hazardous wastes.

- (o) Oil and Gas Market Demand – Section 458A.6 states, in part, that the Department shall determine market demand for each marketing district and regulate the amount of production of oil and gas within each district to that amount which can be produced without waste, and which does not exceed the reasonable market demand.

The Department does not determine the market demand.

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- (p) Toxics Pollution Prevention Program – Section 455B.517(1) states that the Department shall establish criteria for development of the toxics pollution prevention program.

The Department has not established criteria for the toxics pollution prevention program.

- (q) Public Water Supply Systems and Water Pollution – The Department did not provide support to demonstrate compliance with Section 455B.174(2) which requires periodic surveys and inspections of the construction, operation, self-monitoring, record keeping and reporting of all public water supply systems and all disposal systems; and Section 455B.173(1) which requires the Department to develop comprehension plans and programs for the prevention, control, and abatement of water pollution.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa or the Department should seek the repeal of outdated Code sections or Code sections that are contrary to federal regulations.

Response –

- (a) Comprehensive Plans and Programs for the State for the Management of Hazardous Waste – The management of hazardous wastes is administered at the Federal level through the Resource Conservation and Recovery Act (RCRA) part C program. The federal government has not delegated responsibility for RCRA to the state of Iowa. As a result, comprehensive plans and programs for the state for the management of hazardous waste are the responsibility of the federal government. It would take legislative action to reassign these responsibilities from the U.S. EPA to the department. The elimination of this code section will be considered when the Department develops next year's legislative package.
- (b) Registry of Hazardous Waste or Hazardous Substance Disposal Sites – The Department has not investigated all known or suspected abandoned and uncontrolled disposal sites due to resource constraints. The list of these sites is constantly changing and over 300 potential sites may be on the listing at any given time. The Department continues to investigate sites as we become aware of contamination concerns and will list sites that have contamination characteristics that allow for listing.
- (c) Iowa Communications Network Report – The Department will take steps in the future to ensure that these reports are submitted on time.
- (d) Refuse-derived Fuel – Calculation as Portion of Waste Reduction Goal – Due to limited staffing resources and higher priority rule making being conducted in compliance with the Governor's Executive No. 8, these rules have not been developed. The subject of the proposed rules is not a priority to stakeholders and adoption of such rules would not provide any significant benefit to cities or counties in meeting the state's waste reduction goals. It is the Department's intent to draft rules no earlier than January 2005.

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- (e) Comprehensive Groundwater Monitoring Network – While the Department has not implemented a complete groundwater monitoring program, we have developed a plan identifying program needs and are in the process of implementing the network. The Department has constructed and is sampling several permanent monitoring wells, and has in place an expanded network of public water supply wells that are being monitored in conjunction with the U.S. Geological Survey. The Department also supports testing of private wells, an important component of a groundwater monitoring plan. We expect to continue seeking increased funding for groundwater monitoring from the legislature.
- (f) Funds and Accounts – Sewage Treatment and Drinking Water Financing Programs – The Department has not set up four separate SRF funds in the state treasury as allowed by 455B.295 because it was not necessary to do so. The legislation provided for the establishment of these funds in the event they were needed. When it was decided to bond for the state match (and for many years leverage the federal capitalization grant to provide additional funding) we partnered with Iowa Finance Authority to issue bonds and the Authority entered into a trust agreement with Wells Fargo to maintain and account for the SRF funds. The State Treasurer was consulted in all transactions. The elimination of this code section will be considered when the Department develops next year’s legislative package.
- (g) Regulating Use of Recycled Oil – IAC 567-143 had been developed by the Department. However, on March 8, 1993 Federal regulations went into effect that specifically prohibited the use of recycled oil for dust control, road oiling and any other use related to applying it on land. This regulation was promulgated under the Resource Conservation and Recovery Act (RCRA) part C that addresses hazardous waste. Iowa has elected not be authorized for administering hazardous waste regulations under RCRA. Accordingly, the chapter was rescinded. The elimination of this code section will be considered when the Department develops next year’s legislative package.
- (h) Statewide Building Energy Efficiency Rating System – Due to lack of funding appropriated for this purpose, the Department has not developed rules. The elimination of this code section will be considered when the Department develops next year’s legislative package.
- (i) Submission of Report – The need for the report required by this Code section has diminished due to actions that have taken place since the requirement was established over ten years ago. During the 1997 Legislative session, an amendment to the Iowa Code was passed removing the statutory restriction on firearms in state parks. This was discussed in the original 1992 report as a key management option to control whitetail deer populations. Removal of this blanket restriction allows the Department to establish population-control hunts in state parks without first seeking reclassification of that park as a state recreation area. This code modification has been received favorably by all concerned and has greatly simplified the process for planning and conducting controlled hunts for antlerless deer in areas where biologists and park managers have identified a need to reduce deer populations.

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Controlled hunts continue to be utilized as the preferred means of reducing deer populations in and around several Iowa state parks. These controlled hunts offer a means of addressing economic damage to adjoining landowners, reducing deer/vehicle collisions, and maintenance of plant and animal diversity and ecosystem health within state parks and recreation areas. Additionally, an advisory committee has been formed to provide an effective means of communicating between stake holders (nursery operators, tree farmers, Iowa Farm Bureau, Iowa sportsmen, and others). DNR biologists have always monitored deer populations and the complex array of public attitudes toward desirable levels of deer numbers. The elimination of this code section will be considered when the Department develops next year's legislative package.

- (j) Proposals for Hazardous Waste Research and Development and Implementation of Hazardous Waste Management Practices – The management of hazardous wastes is administered at the Federal level as part of the Resource Conservation and Recovery Act (RCRA) part C program. Therefore, at this time, the Department has not solicited proposals from the public and private sectors for the activities described in the statute. The elimination of this code section will be considered when the Department develops next year's legislative package.
- (k) Classification and Prioritization of Contaminated Sites – A bill was introduced during the 1999 legislative session to make the pesticide and fertilizer contaminated sites cleanup program the responsibility of the Iowa Department of Agriculture and Land Stewardship (IDALS). This bill (Senate File 466) was passed by the Senate during the 1999 session and was passed by the House and signed by the governor during the 2000 legislative session. It became effective July 1, 2000. The bill provides an alternative voluntary program that is managed by IDALS, but DNR is still involved in technical aspects such as cleanup standards. It appears there are now two conflicting Code sections regarding classification and prioritization of contaminated sites (161.6(1) and 455B.601(1)). The elimination of code section noted by the auditors will be considered when the Department develops next year's legislative package.
- (l) Compliance Advisory Panel – The Minority Leader and Majority Leader in the Legislature have not made appropriate assignments to this advisory panel despite numerous requests by DNR and DED. The Department will continue its efforts to pursue creation of this panel.
- (m) Hazardous Waste Sites and Facilities – The Department reviews applications submitted and issues permits in response. If the Department has reason to believe that an owner and operator of a facility has hazardous waste sites we would require that an application be submitted to the Director requesting that a site license be issued.
- (n) Hazardous Waste Listing – The Department monitors changes in EPA listings of hazardous wastes, and makes recommendations to the commission for adoption as needed. It should be noted that the management of hazardous wastes (including maintaining a list of hazardous wastes) is administered at the Federal level as part of the Resource Conservation and Recovery Act

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(RCRA) part C program. As a result, the federal hazardous waste listing supercedes any state listing that might be prepared. The elimination of this code section will be considered when the Department develops next year's legislative package.

- (o) Oil and Gas Market Demand – The Department does not presently undertake this activity as there are no production wells in the state.
- (p) Toxic Pollution Program – The Department has applied for and was awarded federal grant monies that, in part, will be used to develop this criteria.
- (q) Public Water Supply Systems and Water Pollution – DNR rules (567 IAC Chapters 41 and 63) contain extensive self-monitoring and reporting requirements. Staff routinely analyze reported data to determine compliance with permit requirements. The Department conducts periodic inspections of facilities.

The Department does not have an ongoing, formal comprehensive pollution planning process, but has implemented many water pollution control programs (i.e., NPDES (National Pollutant Discharge Elimination System permits). TMDLs (Total Maximum Daily Load) constitute watershed-based pollution plans and the nonpoint source pollution management plan addresses the Department's approach to nonsource pollutants.

In addition, the Department will be revising its Comprehensive Planning Process (CPP) in the coming years in response to EPA comments and directives. The CPP basically establishes a framework for water pollution planning and is required under the federal Clean Water Act.

Conclusion – Responses acknowledged. For those programs administered at the Federal level, the Department may wish to seek legislative language to further clarify the Department's responsibilities. The status and/or progress will be reviewed at the time of the next audit.

- (2) Laws of the General Assembly Chapter 183 - FY02 Appropriation Bill – The Department was not in compliance with the following section of the Fiscal Year 2002 Appropriation Bill:

- Division Full Time Equivalents – Sections 3.1 through 3.7 provide the Department with a General Fund appropriation and specify the maximum number of full time equivalents (FTE's) for specific divisions.

The Department exceeded the FTE limit of 53.71 for the Forests and Forestry Division.

Recommendation – The Department should take the necessary steps to ensure compliance with upcoming appropriation bills.

Response – The Department did exceed the FTE requirement for the Forests and Forestry Division for fiscal year 2002. This was a result of the Department hiring additional extra help at the state forest nursery to produce and deliver additional tree stock. This additional extra help was paid for from a portion of the additional income generated by

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the increased tree stock orders. This will not be a concern in the future as the FTE ceiling for the Department is now department-wide.

Conclusion – Response accepted.

- (3) Solid Waste Alternatives Program – Chapter 455E.11(2)(1)(c) of the Code of Iowa states that any remaining groundwater protection funds shall be used by the Department to develop and implement demonstration projects for landfill alternatives to solid waste disposal including recycling programs. Iowa Administrative Code chapter 567, section 209.7 states, in part, that the type of financial assistance offered to an applicant may be a forgivable loan, zero interest loan, or low interest loan. The method used to calculate total interest to be collected on the low interest loans does not allow the Department to collect the majority of the interest in the earlier years of the loan. On one loan, the interest was calculated based on the full amount of the loan although the recipient did not receive the full amount of the loan. Also, the interest rate was only applied to the initial loan balance for a period of one year to determine the interest amount to be collected rather than applying the interest rate to the unpaid balance of the loan over the life of the loan.

Recommendation – The Department should develop written procedures for computing interest on low interest loans. These procedures would permit the Department to charge interest to the loan recipients in a consistent manner.

Response – The Solid Waste Alternatives Program is a venture capital program. As such, most funding is provided in the form of grants and no interest loans. The point of charging interest on some loans is not to make money off the loans. Rather, the low interest rate was considered to be an administrative loan fee and the methods used for computing the interest were done primarily with simplicity in mind. Currently interest is compounded and spread equally over the life of the loan for all low interest loans. The Department will prepare a written policy to this effect.

Conclusion – Response accepted.

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Staff:

Questions or requests for further assistance should be directed to:

Joe T. Marturello, CIA, Manager
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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

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