OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE October 9, 2014

Auditor of State Mary Mosiman today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2013.

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

Mosiman recommended certain Divisions within the Department increase controls over receipts, payroll and financial reporting. 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/1460-2110-BR00.pdf.

# # #

REPORT OF RECOMMENDATIONS TO THE IOWA DEPARTMENT OF COMMERCE

JUNE 30, 2013

Office of

AUDITOR OF STATE

State Capitol Building • Des Moines, Iowa

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Mary Mosiman, CPA
Auditor of State

October 6, 2014

To JoAnn Johnson, 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, 2013.

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. 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.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Commerce, citizens of the State of Iowa and other parties to whom the 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 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 17 and they are available to discuss these matters with you.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins
WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa Department of Commerce

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:

(A) Credit Union Division

(1) Travel Reimbursement – Per the Department of Administrative Services Procedure 210.102, "a meal is defined as food and drink consumed at one sitting." "Multiple beverages, candy bars, bags of chips, etc are not allowed." For two travel reimbursements, receipts for multiple drinks were reimbursed.

Recommendation – Travel reimbursements should be in compliance with Department of Administrative Services Procedures on travel.

Response – The Department will send out a memo to all field staff clarifying the Department of Administrative Services procedure on travel.

Conclusion – Response accepted.

(B) Insurance Division

(1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over the collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared by the mail opener, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Division should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Response – We continue to increase the percentage of filings and fees received electronically via ACH transfer. We do not accept cash in any instance. But, the Division still receives a high volume of paper checks. These are immediately endorsed to the Insurance Division by the mail opener. We simply lack sufficient staff to further segregate duties.

Conclusion – Response acknowledged.

(2) Securities Bureau Receipts – The Securities Bureau receives funds which are recorded in separate databases maintained within the Bureau and are then sent to accounting to be deposited and recorded in the Integrated Information for Iowa (I/3) system. The receipts recorded in the databases are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the Securities Bureau databases should be periodically reconciled to the deposits recorded in the I/3 system.

Response – The corporate finance unit in the Securities Bureau has seen a reduction in staff in the past years and has challenges in staying current with processing registrations. Depending on future staffing levels, we could have someone randomly review the deposit and the database to make sure the amounts are correct.

Conclusion – Response accepted.

(3) Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). One employee may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. This individual also has the ability to initiate and approve timesheets. In addition, for the period July 1, 2012 through March 18, 2013, four P-1 documents were initiated and received department level approval by the same person.

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

Response – The Division Budget Director reviews and signs the payroll journal. The Budget Director reviews the payroll information randomly by retrieving the table of authorized positions from the I/3 Data Warehouse to check current pay and roster of employees is accurate. During the fiscal year ending 2014, the Budget Director began doing departmental approvals of P-1's which are initiated by the human resource associate. In those instances where time exigencies (the need to make sure an employee is properly paid) necessitate the human resource associate both initiate and approve a P-1, the policy is for the Budget Director to review those P-1s and print a screen shot and initial them. The Division has insufficient staff to further segregate these duties.

Conclusion – Response accepted.

(4) Capital Asset Reconciliations, Deletions and Depreciation – One person is responsible for both the recording and reconciling of capital assets. The Division does not maintain documentation of the reconciliation between the Integrated Information for Iowa (I/3) system and the Division's capital asset listing. In addition, the Division does not require supporting documentation before an asset is removed from the capital asset listing.

Recommendation – The responsibilities of recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the deletion of a capital asset from the capital asset listing should be supported by documentation indicating supervisory approval.

Response – We had a similar audit comment for the fiscal year 2012. The Accountant for the Division tracks all capital assets on a spreadsheet. In October 2013, we adopted a process whereby additions and deletions to capital assets would be documented including a signature by the Division's Budget Director or Technology Security Director.

Conclusion – Response acknowledged. The reconciliation of capital assets should be documented.

(5) Computer Systems – During our review of internal control, the existing control activities in the Division's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The follow deficiencies in the Division's computer systems were noted:

The Division does not have written policies for:

- Information system security, including password privacy and confidentiality.
- Ensuring software not licensed to the Division is not installed on Division computers.

Recommendation- The Division should develop written policies addressing the above items in order to improve the Division's control over its computer systems.

Response – Both of those items have been the unwritten policy of the Division. New Work Rules have been circulated internally for comment. The anticipated changes to be adopted in October 2014 include both of these as written policy.

Conclusion – Response accepted.

(C) Banking Division

(1) Capital Assets – One person is responsible for both the recording and reconciling of capital assets. The Division does not maintain documentation of the reconciliation between the Integrated Information for Iowa (I/3) system and the Division's capital asset listing. Also, several variances between amounts report on the GAAP package and the Division's capital asset listing were noted.

Recommendation – The responsibility for recording and reconciling capital assets should be segregated. In addition, the reconciliation of capital assets should be documented and the capital asset listing should be supported by documentation indicating supervisory approval.

Response – Being a small Division, the Banking Division only has twenty-one vehicles and two printers/copiers on our asset list. The list of our capital assets only had minor changes over the years. Our accountant records the change in the asset list and compiles a month report for our Chief Operating Officer to review and reconcile. We believe we meet the requirement or recommendation of segregation of duties of recording and reconciling capital assets, as well as the supervisory approval. The variances between the amounts reported on the GAAP package and the Division's asset list was due to the timing of recording updates across a fiscal year. Records and amounts had been discussed and verified during the onsite audit.

Conclusion – Response acknowledged. The Chief Operating Officer's review should be initialed and dated for documentation.

(2) Payroll Allocation – The Division of Banking and the Professional Licensing Divisions share management staff in an effort to reduce costs. A reallocation of the payroll expenditures is periodically recorded on I/3. Appropriate supporting documentation to determine how the allocation was determined was not maintained. Also, no written policies and procedures have been developed to document how the procedure should be recorded and which Division is responsible for making the determination.

Recommendation – The Divisions should work together to develop policies and procedures to document the process for allocating payroll expenditures. In addition, adequate documentation should be maintained to support the allocation of payroll expenditures between the Divisions.

Response – The allocation of payroll costs between the bureaus in the Division of Banking (IDOB), the Banking Bureau, Finance Bureau, and Professional Licensing Bureau (PLB) is relatively new. The Banking and Finance Bureau are Department 213 and PLB is Department 217 in the I/3 system. We will develop written procedures to determine the allocation and we will maintain adequate supporting documentation for the amounts recorded in I/3. At the end of the fiscal year, the Bureau Chief of PLB and Chief Operating Officer of IDOB, will review the final version of the payroll allocation data and will make a recommendation to the Superintendent of Banking for his final approval.

Conclusion – Response accepted.

(D) Iowa Utilities Board

(1) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one individual may have control over collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Response – The Iowa Utilities Board (IUB) has developed specific internal control procedures to segregate the duties of cash receipts and the receivable journal, within the constraints of the limited number of staff employed in the Accounting and Assessment section. As of August of 2013, the Accounting team has three members, allowing for segregation of tasks.

An initial listing of receipts is not considered a top priority task because the list of receipts is prepared when the deposit is made. Having a different section, the Records Center, make a list of the receipts which come in the mail would delay the deposit of the checks and increase the possibility of a check being separated from the invoice/payment coupon it was mailed with. The checks we receive are for invoices we have mailed to the companies. The invoices are listed on our receivable file and are accounting for through the deposit. Delinquent accounts are currently being following up on a timely manner.

The IUB participated in a Kaizen Lean Event in February of 2014. One of the goals of the event is to implement ACH transfer of payments to the IUB.

Conclusion – Response acknowledged. The Board should review its operating procedures to obtain the maximum internal control policy.

(2) Receipts – Checks were not restrictively endorsed upon receipt by the mail opener.

Recommendation – A restrictive endorsement (for deposit only) should be placed on all checks when received.

Response – The IUB mail person takes the mail back to the Records Center area. Envelopes are slit open to confirm contents. Checks are not removed from the envelopes; they are delivered to Accounting and Assessments staff the same day they are received. The Accounting and Assessment team endorses all checks. This process has worked for the IUB. Checks have not been lost, taken or delayed for deposit. The risk of having a check separated from the invoice/payment coupon increases if two sections handle each check. We believe it is best to have Accounting handle the financial tasks and the Records Center team handle their specific tasks.

The IUB is working with the Office of Treasurer of State on ACH payment and is moving in that direction. This would reduce the number of checks received.

Conclusion – Response acknowledged.

(3) Receipt Reconciliation – The Board receives funds which are recorded in a separate receivables journal maintained by accounting and then deposited and recorded in the I/3 system. The receipts recorded in the receivables journal are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the receivables journal should be periodically reconciled to the deposits recorded in the I/3 system.

Response – During fiscal year 2013, the team commenced preparation of a detailed list for every deposit. Every I/3 System Cash Receipt (CR) the IUB deposits has detailed list attached, including invoice number, company name and the date of the deposit.

Going forward, every quarter, a non-cashier member of the Accounting team will match one month's deposit to the deposit amount in the I/3 System.

Conclusion – Response accepted.

(4) Financial Reporting – The Board records receipts and disbursements in the I/3 system throughout the year, including the accrual period. Activity not recorded in 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 following were noted:

(a) Federal receipts exceeded expenditures for four grants. The Board did not record the differences as unearned revenue in the GAAP package. These errors resulted in an understatement of unearned revenues of $75,474, in the GAAP package.

(b) The Board did not record a $71,289 receivable in its GAAP package for reimbursable federal expenditures for fiscal year 2013.

(c) The Board had several misstatements in its capital asset listing resulting in an overstatement of capital assets, depreciation expense and accumulated depreciation of $8,100, $7,648 and $3,147, respectively.

Recommendation – The Board should ensure the GAAP package information reported is complete and accurate.

Response – The IUB does its best to complete the GAAP package timely and correctly. Discussion with the Office of Auditor of State staff on GAAP reporting during the audit exit conference was helpful.

Three of the grants referenced in (a) are pass through grants. This is a mismatch of time periods for the State Damage Prevention Grant (SDPG), One Call Grant 1 (OCG1) and One Call Grant 2 (OCG2) grants due to the state fiscal year ending June 30 and the federal grants being administered on a calendar year basis. The money for these three pass-through grants may be received in one fiscal year but distributed wholly or partially in the next.

The Pipeline and Hazardous Materials Safety Administration (PHMSA) Grant, mentioned in (b), reimburses costs of our Safety and Engineering Section, Cost Center SE08. There is also a mismatch of time periods for this grant. For example, as of September 9, 2014, PHMSA is not yet accepting applications for mid-year reimbursement. Thus, the IUB cannot request the last reimbursement from PHMSA for the fiscal year ending June 30, 2014. We cannot estimate a number we have not yet computed.

In our last audit report response, the IUB suggested the Office of Auditor of State work collaboratively with the GAAP Team to offer a course on completing the GAAP Report. We continue to believe a more robust training, perhaps using a department's actual data to complete a sample GAAP report, would be enlightening as we work to educate our backup staff about the GAAP package information which needs to be reported.

Conclusion – Response acknowledged.

(5) Capital Assets – One person is responsible for recording and reconciling of capital assets. This Division does not maintain documentation of the reconciliation between the I/3 system and the Division's capital asset listing. In addition, the Board does not require supporting documentation before an asset is removed from the capital asset listing.

Recommendation – The responsibilities of recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the deletion of a capital asset from the capital asset listing should be supported by supervisory approval.

Response – A staff member assigned to assist the accounting team has begun review of the capital assets as we prepare the fiscal year 2014 GAAP Report. This will allow an extra person to separate duties in the future. The IUB did not dispose of any office equipment in fiscal year 2013.

Conclusion – Response accepted.

(6) National Deaf-Blind Equipment Distribution Program (NDBEDP) Reporting – Quarterly reimbursement request reports are completed and submitted to Rokla Loube Saltzer Associates, the entity certified by the Federal Communications Commission to distribute funds. These reports were not reviewed and approved by an independent person for propriety prior to submission.

Recommendation – The Division should establish procedures to ensure the quarterly reports are reviewed and approved by an independent person who is knowledgeable of the requirements of the program. This independent review should be evidenced by the reviewer's signature or initials and the date of review.

Response – Acknowledged, however, as of July 1, 2014, the Iowa Utilities Board no longer operates the program. Thus, it would be a moot point to establish such review and approval at this time.

Conclusion – Response accepted.

(E) Alcoholic Beverages Division

(1) Leave Requests on Computer Software – The Division records vacation and sick leave requests on computer software. Upon entering the leave on the software calendar, the request is routed to the appropriate supervisor for approval. Once approved by the supervisor, the hours recorded should not be modified. Approval, edit and delete functions can be performed by seven employees. There are no restrictions in the software to prevent these employees from accessing and modifying the recorded leave hours after approval. Also, management approval of leave requests is not documented on Outlook.

Recommendation – The Division should strengthen controls over the computer software to prevent modification by employees after supervisor approval has been documented.

Response – The Division acknowledges the finding. Procedures and policies regarding leave requests have been adopted effective January 1, 2013. Approval, edit and delete functions are limited to management only. Effective February 1, 2014, the Division has implemented the State of Iowa eLeave and Overtime Enterprise system for all staff except warehouse and fleet. However, plans to incorporate warehouse and fleet staff into eLeave are being formulated. As to access to the Alcoholic Beverage Division (ABD) leave calendar, warehouse and fleet staff do not have access to the ABD Leave calendar. In closing, only management has the ability to work with this calendar and employees requesting leave have no access to the calendar.

Conclusion – Response accepted.

(2) Penalty Fee – Chapter 123.137 of the Code of Iowa requires a Class "A" permit holder to submit a report of the prior month's barrel sales to the Division by the 10th of the month with the amount of tax due. Reports not submitted prior to the 10th will incur a 10% penalty fee. For two of the items tested, the Division did not change a late fee to distributors who paid late.

Recommendation – The Division should develop a formal procedure to consistently enforce the 10% penalty for those reports not received within the specified timeframe.

Response – As of July 1, 2012, the Division has implemented a new online beer and wine tax reporting program. The program tracks receipt date of the Class "A" permit holders' barrel sales report and the program automatically assesses a 10 percent penalty fee to the tax due on any reports submitted after the 10th of the month. The two exceptions noted are both the same distributor that accrues the expense at their corporate location in Texas and always has the remittance to the Division timely. The reporting while matching the remittance is always late as it is generated from another location and they do not use the online reporting method which will be addressed, in the near future.

Conclusion – Response accepted.

(3) Inventory System – The Division implemented a new warehouse and inventory system on July 1, 2011. Because of issues encountered during the implementation of the new system, inventory was not being accurately reported. The Division began developing written procedures in fiscal year 2013 for the different components of the inventory process.

The Division's year-end inventory count was done by warehouse staff. During the year-end inventory count, 8 of 40 items selected for testing had a variance between the Division's inventory listing and the Office of Auditor of State's physical count.

Breakage happens frequently as large volumes of orders are being filled and transported each day. The Division incurs the cost of any breakage occurring in their warehouse or during delivery. For one month tested, supplier defects, where the supplier is responsible for the cost, were charged to warehouse breakage.

In addition, the following were identified:

- The inventory system allows the Division to purchase more product than the amount held in bailment in the warehouse.

- The Division will not deliver less than one case of special orders to customers. However, the inventory system allows for less than one case to be ordered. This leads to pickers zeroing out inventory. This is necessary for pickers to move on with filling their orders. Pickers should not have the ability to zero out inventory. When inventory is zeroed out, this causes a count and recount of the inventory zeroed out to get it back in the system. The count and recount policy is for two different employees to investigate variances but there is nothing in the system to prevent the same person from entering the count twice.

Recommendation – The Division should develop written procedures for future implementation as well as identifying procedures to be performed over the inventory system. The Division should strengthen controls over the inventory cycle including inventory purchasing, inventory maintenance, inventory sales and inventory counts.

Response – The Division acknowledges findings concerning inventory and ABD has continually implemented, reviewed and revised procedures and policies to maintain proper controls. Steps taken by the Division include, but are not limited to the following:

- Product purchased by the Division is reviewed and authorized by management prior to bailment payments. The bailment program does not allow for payment in excess of the on hand at any time.

- Effective July 10, 2014, all adjustments to inventory for any reason whatsoever are reviewed either daily or weekly dependent on the amount and nature. Breakage is initialed by management personnel and traced to the inventory adjustment and cost to the Division. Defectives are traced back to the supplier chargeback. Customer returns to stock are traced back to the physical restocking point.

Conclusion – Response accepted.

(4) Procurement Cards – The Division issues procurement cards to designated employees for use in purchasing office supplies, facility maintenance supplies and other supplies, as necessary.

The rules governing the use of these cards are outlined in the Iowa Department of Administrative Services – State Accounting Enterprise (DAS - SAE) Purchasing Card Program Procedures Manual. Section 4.6 of the Purchasing Card Program Procedures Manual states each and every purchase must be supported by the vendor's original receipt. Also, section 4.5 notes all purchases to the program are to be sales tax exempt. In addition, section 4.8 requires the cardholder to send all supporting documentation to their agency accountant on a timely basis to ensure costs can be properly reconciled and processed on a timely basis to avoid late fees.

The following were noted:

- During fiscal year 2013, purchases made were returned to the vendor, therefore resulting in a credit balance. As a result, not all expenditures were processed through I/3. Payment was made through a previously created credit balance.

- One of the twelve transactions tested did not have a clear public purpose documented.

- Three of twelve transactions tested did not have proper supporting documentation for the transaction.

Recommendation – The Division should ensure all purchases made with procurement cards are properly supported and comply with the Purchasing Card Program Procedures Manual. In addition, the Division should develop procedures to ensure all purchases are approved and meet the test of public purpose.

Response – The Division acknowledges the finding and starting October 1, 2013 the number of issued procurement cards was limited to two and those employees involved in the procurement card program have completed the required training. Management is responsible for reviewing all procurement card purchases and ensuring staff utilizing procurement cards are retaining receipts, providing these receipts to accounting, and adhering to all State of Iowa procurement card rules.

Conclusion – Response accepted.

(5) Capital Asset Reconciliations and Deletions – One person is responsible for both the recording and reconciling of capital assets. The Division does not maintain documentation of the reconciliation between the Integrated Information for Iowa (I/3) system and the Division's capital asset listing. In addition, the Division does not require supporting documentation before an asset is removed from the capital asset listing.

Recommendation – The responsibilities of recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the deletion of a capital asset from the capital asset listing should be supported by documentation indicating supervisory approval.

Response – The Division acknowledges the finding and is working to further develop control of both depreciable and non-depreciable assets. This includes both an "Addition" and "Disposal" of capital assets form which will be implemented on or before September 1, 2014. A complete inventory and physical assessment, along with photographs was conducted between June 1, 2013 and August 10, 2013.

Conclusion – Response accepted.

(6) Segregation of Duties - Receipts – The Division collects licensing fees from licensees for the right to distribute, produce or sell liquor within the State of Iowa. Licensee's submit an application and pay for the license predominantly through an on-line system. Licensees may also pay by check. The Division also collects tax from beer and wine producers in the State of Iowa based upon gallons produced. The tax is due by the 10th of each month. Beginning in fiscal year 2013, producers could submit monthly reports tax on the same on-line system as licensees. However, many producers paid for taxes by check during fiscal year 2013. In addition, the Division sells liquor to liquor stores throughout the state. A significant majority of the vendors pay for liquor sales by Electronic Funds Transfer. However, vendors who have bounced EFT's to the state are required to pay for orders in advance through certified check.

The following were noted:

a) A reconciliation of the receipts from the Licensing and Tax program to I/3 is not performed by an independent person.

b) For beer and wine tax receipts, the collection, deposit preparation, and reconciliation functions are not separated from the recording and accounting for receipts. The same individual opens the mail, prepares the deposit and records receipts to I/3.

c) The responsibilities of maintaining detail accounts receivable records are not segregated from collections and recording of receipts.

Recommendation – The Division should review its controls procedures over revenues to ensure adequate segregation of duties is in place to prevent the same individual from performing incompatible functions.

Response – The Division continues to monitor procedures and makes every effort to support separation of duties. The following procedures have been implemented to improve segregation of duties:

- The reconciliation of receipts from the eLicensing system begins with licensing staff. The resulting reports and transaction detail is then handed off to accounting staff for review and retention.
- Effective July 1, 2013 all payments received by mail are handled separately. These are grouped by receipt category and totaled by the Accounting Tech II. Then they are passed along to the Accounting Tech III for processing.
- Separation of duties exists between the Accounting Tech III which executes the invoicing and EFT and the Accounting Tech III which balances the transactions and creates the CR entry in I/3.

Conclusion – Response accepted.

(7) Procurement Practices – Per Department of Administrative Services procurement guidelines, all goods and services over $5,000 should be bid out or associated with a Master Agreement. Documentation of bids received, vendor selection and notifications to Targeted Small Businesses (TSB) should be maintained. Contracts should have specific end dates and not self-renew, should be signed by both parties, should give preference to Iowa based businesses and include all appropriate clauses, including a payment clause and a monitoring clause.

The following were noted:

- In three instances the contract did not have adequate monitoring and review clauses to ensure performance of the contracts as required by Iowa Administrative Code rule 107.4.
- In two instances, evidence bidding was performed, documentation the lowest competent bidder was awarded the contract, sole source or emergency procurement justification (if applicable) and notice to Targeted Small Business (TSB) was not retained.
- In one instance, the contract was not signed by a Division representative.
- In one instance, the contract was over six years old.
- In two instances, the contract did not specify a start or end date. In addition, one other contract did not include an end date.

Recommendation – The Division should review its procurement practices to ensure compliance with the Code of Iowa and the Department of Administrative Services purchasing policies.

Response – The Division acknowledges the finding and has compiled a contract binder which summarizes the term, authorization, purpose, related actionable dates, etc. Management review of procurement practices is ongoing to ensure Code of Iowa procurement rules are followed. Effective October 1, 2013, the Division has limited the number of personnel involved in procurement processes to increase compliance and related accountability.

Conclusion – Response accepted.

(F) Professional Licensing Division

(1) Payroll Allocation – The Division of Banking and the Professional Licensing Divisions share management staff in an effort to reduce costs. A reallocation of the payroll expenditures is periodically recorded on I/3. Appropriate supporting documentation to determine how the allocation was determined was not maintained. Also, no written policies and procedures have been developed to document how the procedure should be recorded and which Division is responsible for making the determination.

Recommendation – The Divisions should work together to develop policies and procedures to document the process for allocating payroll expenditures. In addition, adequate supporting documentation should be maintained to support the allocation of payroll expenditures between the Divisions.

Response – The allocation of payroll costs between the bureaus in the Division of Banking (IDOB), the Banking Bureau, Finance Bureau, and Professional Licensing Bureau (PLB) is relatively new. The Banking and Finance Bureau are Department 213 and PLB is Department 217 in the I/3 system. We will develop written procedures to determine the allocation and we will maintain adequate supporting documentation for the amounts recorded in I/3. At the end of the fiscal year, the Bureau Chief of PLB and Chief Operating Officer of IDOB, will review the final version of the payroll allocation data and will make a recommendation to the Superintendent of Banking for his final approval.

Conclusion – Response accepted.

Finding Related to Statutory Requirements and Other Matters:

No matters were noted.

Staff:

Questions or requests for further assistance should be directed to:

Deborah J. Moser, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Jessica L. Barloon, Staff Auditor
Elissa R. Olson, Staff Auditor
Tiffany N. Aliprandi, Assistant Auditor
Leslie M. Downing, Assistant Auditor
Anthony M. Heibult, Assistant Auditor
James P. Moriarty, Assistant Auditor
Elizabeth A. Shaw, Assistant Auditor
Brandon A. Soda, Assistant Auditor
Tyler L. Bishop, Audit Intern