



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

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NEWS RELEASE

FOR RELEASE _____ July 18, 2017

Contact: Andy Nielsen
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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, 2015.

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

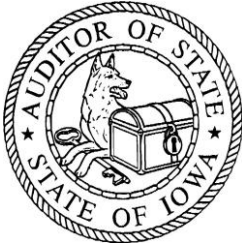
Mosiman recommended certain Divisions within the Department increase controls over receipts, payroll and financial reporting. The Divisions responded favorably to these recommendations.

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 <https://auditor.iowa.gov/reports/1660-2110-BR00>.

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

JUNE 30, 2015



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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July 7, 2017

To Katie Averill, 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, 2015.

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, statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Commerce's responses and, accordingly, we express no opinion on them.

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 15 and they are available to discuss these matters with you.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa Department of Commerce

June 30, 2015

Findings Reported in the State's Single Audit Report:

No matters were noted.

Findings Reported in the State's Report on Internal Control:

(A) Alcoholic Beverages Division

- (1) Financial Reporting – The Department records receipts and disbursements in the Integrated Information for Iowa (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) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. The following findings were noted:
- a) The Department's construction obligations included in the GAAP package were overstated by \$1,812,712. This was properly adjusted for reporting purposes.
 - b) The Department overstated future minimum rental payments for operating leases by \$500,112. This was properly adjusted for reporting purposes.

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

Response – The Comptroller and Accountant II received advice from DAS-SAE regarding the appropriate way to account for obligated costs incurred by the Division for construction contracts and improvements within the fiscal year 2015 GAAP package. The GAAP package submitted by the Division was reviewed by DAS-SAE and was later reviewed by staff of the Office of Auditor of State (AOS). In September 2015, the Division was notified by the auditors that revisions were to be made to the GAAP package. These revisions have been completed in accordance with the auditor's findings. The Division will work with DAS-SAE and the AOS on future GAAP reporting issues and questions to ensure accurate and complete data is submitted.

Conclusion – Response accepted.

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. The following findings were noted:
- a) The Division did not complete a reconciliation between the I/3 system and the Division's capital asset listing. In addition, the capital asset listing was not updated throughout the year, causing capital assets to be understated by \$69,653 and accumulated depreciation to be overstated by \$7,601.
 - b) Construction in progress was overstated by \$2,436,347. This was properly adjusted for reporting purposes.
 - c) Intangible assets were overstated by \$738,721. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained. Capital assets and accumulated depreciation should be properly calculated and recorded.

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Response – The Division’s current asset listing will be reviewed on a yearly basis by the Chief Operating Officer, Comptroller and the Accountant II. Should revisions need to be made to the asset listing, the Comptroller will review the asset listing and make the necessary adjustments. The Division will also explore the application of the I/3 asset listing to the Division’s operations. Should the I/3 asset listing module prove sufficient for the needs of the Division, the current asset listing will be migrated into the I/3 system. This will provide the Division with a consolidated listing, as well as the ability to reconcile all assets within the I/3 system.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

(A) Alcoholic Beverages Division

- (1) 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, 20 of the items selected for testing had a variance between the Division’s inventory listing and the Office of Auditor of State’s physical count.

In addition, 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 when inventory is on hand. 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 on hand. 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 the system does not 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 has implemented a new warehouse management system, Microsoft Dynamics AX. This new system has the ability to manage and segregate duties for all areas of distribution including inventory management. The Division has implemented Dynamics AX as of September 26, 2016. The Division is currently in the management stage of the implementation. The project includes scripts and procedures to ensure staff follow procedures accurately and efficiently. The Division is currently working to improve inventory controls in the new system and will continue to make systematic changes and adjustments to achieve the best overall product for inventory control and warehouse management.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

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- (2) Segregation of Duties - Receipts – The Division collects licensing fees from licensees for the right to distribute, produce or sell liquor within the state. Licensees 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 based upon the gallons produced. The tax is due by the 10th of each month. Beginning in fiscal year 2013, producers could submit monthly tax reports on the same on-line system as licensees. However, many producers paid their tax by check during fiscal year 2015. 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 EFTs to the State are required to pay for orders in advance through certified check.

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

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

Response – The segregation of duties in relation to the Accounting Team was recognized and addressed as roles were reassigned. Due to increased positions held by the accounting staff, the duties outlined above have been addressed and proper segregations have been put in place. The following changes are currently being used by the Division.

- Beer and wine receipts are processed by the Accounting Tech III and are systematically balanced the next morning via the WSI E-Licensing system. The EFT or ACH payment is processed by the Accounting Tech III and then given to the Accounting Tech II for entry into the I/3 system for cash receipts. The deposit is then given to a different Accounting Tech II or the Accountant II for deposit via check scanner.
- The segregation of duties now in place are designed to eliminate any one person from handling the mail, recording of receipts in I/3 and the deposit of funds via the check scanner. The mail duties for all areas of the Division are now being handled by front desk personnel then distributed to each section.
- With the additions of several positions in accounting, the segregation of duties has been structured so that each position has one primary backup and a separate secondary backup to ensure segregation at all levels.

Conclusion – Response accepted.

- (3) Procurement Practices – Per the 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.

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The following were noted:

- In three instances, the contracts did not have adequate monitoring and review clauses to ensure performance of the contracts as required by Iowa Administrative Code rule 119.4.
- In one instance, 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 retained; however the bidding process was completed in during 2007.
- In three instances, the contract was not signed by a vendor representative, of which one was not signed by the Division.
- In one instance, the contract was self-renewing.

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

Response – The Division will review any current contracts is has with vendors for accuracy and compliance. Specific contracts cited will not be renewed, have a Master Agreement with the State or have been rebid for the current fiscal year with another vendor. The management and responsibilities pertaining to contracts and procurement will be under the direction of the Comptroller. The Comptroller will ensure procurement practices and policies set by the State are followed.

Conclusion – Response accepted.

(B) Banking Division

- (1) Capital Assets – One person is responsible for both recording and reconciling 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.

Recommendation – The responsibilities for recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented.

Response – The Division has procedures in place to segregate the duties of recording and reconciling our capital assets. The supervisory review and approval had been completed in an electronic format. In the future, we will provide a hard copy of documentation indicating the supervisory review and approval of the reconciliation and deletion of the capital assets from our records.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

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(2) Financial Reporting – The Division records receipts and disbursements in the Integrated Information for Iowa (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) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. The following findings were noted:

- a) The Division’s capital asset additions were understated by \$44,238 and capital asset deletions were overstated by \$88,107.
- b) The Division’s capital assets accumulated depreciation was understated by \$87,881.
- c) Operating lease expense for the year was understated by \$32,012.

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

Response – The Division has worked with the auditors and the GAAP Team on the GAAP package for the adjustments that needed to be made to ensure it is accurate and complete.

Conclusion – Response accepted.

(C) 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 that are received electronically via ACH transfer. We do not accept cash in any instance. However, 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.

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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 past years and has challenges in staying current with processing transactions. 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 acknowledged.

- (3) Payroll – The Division processes and records payroll and personnel information in 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, 2014 through June 30, 2015, five 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 the current pay and roster of employees is accurate. During fiscal year 2014, the Budget Director began doing departmental approvals of P-1's initiated by the Human Resources Associate. In those instances where time exigencies (the need to make sure an employee is properly paid) necessitate the Human Resources Associate both initiate and approve a P-1, the policy going forward is for the Human Resources employee creating the P-1 to email the Budget Director in the rare cases where she also does departmental approvals. Subsequently, the Budget Director is to review those P-1's, print a screen shot and initial it as approved. The division goal is for 100% of the department approvals to be done by the Budget Director instead of the Human Resources Associate. The Division has insufficient staff to further segregate these duties.

Conclusion – Response accepted.

- (4) Financial Reporting – The Division records receipts and disbursements in the Integrated Information for Iowa (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) in a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. The following was noted, total future minimum rental payments required for leases with terms in excess of one year as of June 30, 2015 was overstated by \$75,017.

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

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Response – The Budget Director has the best working knowledge of the Division lease but was on vacation during the preparation of the GAAP package. We acknowledge that an amendment to the lease added rental payments for July and August 2020 in the amount of \$75,017. The Division will make sure it is accurately reported in future GAAP packages.

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 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, 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 has developed specific internal control procedures to segregate the duties of cash, receipts and the receivable journal, within the constraints. Beginning in fiscal year 2017, a new practice was commenced that directed all utility companies mailing in payment to direct the envelope to the attention of the Accounting Team. In this manner, the Customer Service Center does not open the envelopes, but brings them directly to Accounting for endorsement and deposit.

The checks we receive are for invoices we have mailed to the utility companies. The invoices are listed on our receivable file and are accounted for through the deposit. Delinquent accounts are being followed up on in a timely manner. The company contacts for delinquent accounts are sent an email and/or called and asked when the invoice will be paid.

The Board is following the current State Enterprise e-payment initiative. The plan is to establish a cost effective interface for accepting ACH transfers for amounts due to the Board.

Conclusion – Response accepted.

- (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 – Beginning in fiscal year 2017, the Board established a procedure to ensure there is a restrictive endorsement on every check received. In addition, the implementation of ACH payments will greatly reduce the number of checks remitted to the Iowa Utilities Board.

Conclusion – Response accepted.

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- (3) Payroll – The Division processes and records payroll and personnel information in the Human Resource Information System (HRIS). Five employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets. In addition, for the period July 1, 2014 through April 9, 2015, two 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 two incidents identified were for new hires. These individuals had a signed offer letter that included both the new hire and the Iowa Utility Board Chair's signatures.

The payroll staff has attended Human Resource Associate training classes sponsored by the Department of Administrative Services. The Iowa Utility Board understands that one individual is not to apply both levels of approval in HRIS. We further note that adding comments in the remarks column in HRIS would help to explain why the same individual may have applied both levels. We acknowledge the importance of an audit trail and understand that an email or printed document with a manager's signature will be maintained in the future in the unlikely event that only one person is available to apply both approval levels.

Conclusion – Response accepted.

- (4) Receipt Reconciliation – The Board receives funds which are recorded in a separate receivables journal maintained by the Accounting Team 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 1/3 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 2015, the Accounting Team continued preparation of an invoiced, detailed list of every deposit. Every I/3 system cash receipt the Iowa Utilities Board deposits has a detailed list attached, which includes the invoice number, company name and the date of the deposit. Going forward, a non-cashier member of the Accounting Team will match each month's deposit to the deposit amount in the I/3 system.

Conclusion – Response accepted.

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Findings Related to Statutory Requirements and Other Matters:

(A) Alcoholic Beverages Division

- (1) Targeted Small Business Procurement Goals – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from targeted small businesses during the previous fiscal year.

The TSB procurement goal for the Department of Commerce, Alcoholic Beverages Division, for fiscal year 2015 was not set at a level greater than fiscal year 2014 actual TSB spending.

Recommendation – The Department should establish a goal which exceeds the 2014 actual TSB spending, as required.

Response – Payment deadline reminders have been put on the Accounting calendar stating the TSB quarterly report due dates. The reminders are set on the Accounting inbox as well as the calendar for the Accountant II. The reminder includes verbiage regarding Chapter 73.16 outlining the statute to update the fiscal year goals for TSB procurement. The Accountant II and the Comptroller will be responsible for updating the procurement goals for the next fiscal year.

Conclusion – Response accepted.

(B) Banking Division and Professional Licensing Bureau

- (1) Targeted Small Business Procurement Goals – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from targeted small businesses during the previous fiscal year.

The TSB procurement goal for the Department of Commerce, Banking Division and Professional Licensing Bureau, for fiscal year 2015 was not set at a level greater than fiscal year 2014 actual TSB spending.

Recommendation – The Department should establish a goal which exceeds the 2014 actual TSB spending, as required.

Response – In fiscal year 2016 we spent \$89,863 for targeted small business purchases and will be changing the combined purchase goal for fiscal year 2017 to \$90,000.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

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(C) Credit Union Division

- (1) Targeted Small Business (TSB) Quarterly Report – Per Chapter 73.16 of the Code of Iowa, agencies are required to submit a report within 15 days following the end of each calendar quarter to the Iowa Economic Development Authority providing the total dollar amount of certified purchases from certified targeted small businesses during the previous calendar quarter. The Division's fourth quarter TSB report was due July 22, 2015. However, it was not submitted until October 23, 2015.

Recommendation – The Division should ensure quarterly reports are submitted timely as required by the Code of Iowa.

Response – The Division does not usually spend TSB dollars until the fourth quarter, though we try to check the I/3 report each quarter. We have been building a dialogue with our contact at the Iowa Economic Development Authority, who initially tried to remind us to file quarterly, even if we haven't spent anything. Our first contact was in October 2015. We completed the first quarter report this year on time and filed delayed reports for the remaining two quarters. The fourth quarter should be on time. We currently don't spend many TSB dollars annually, which is a change from the past. We are endeavoring to make sure the reports are filed, however.

Conclusion – Response accepted.

(D) Insurance Division

- (1) Targeted Small Business Procurement Goals – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from targeted small businesses during the previous fiscal year.

The TSB procurement goal for the Department of Commerce, Insurance Division, for fiscal year 2015 was not set at a level greater than fiscal year 2014 actual TSB spending.

Recommendation – The Department should establish a goal which exceeds the 2014 actual TSB spending, as required.

Response – The Division has construed the Code of Iowa to mean that we had to set our fiscal year 2015 goal at a higher level than we set for fiscal year 2014. The Code of Iowa states it must be at higher "procurement levels" than the previous year. It does not say it must be higher than the previous year's "expenditures". Perhaps more importantly, the recent Iowa Economic Development Authority (IEDA) email regarding the setting of our goals states, "All FY17 TSB procurement goals must be higher than FY16 goals". Our fiscal year 2014 goal was \$20,000. Our fiscal year 2015 goal was \$21,000, which was higher than the previous year, so the Division believed that it was in compliance with this requirement, based upon the communication with IEDA and our reading of the Code of Iowa.

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Conclusion – Response acknowledged. The procurement goal for the current year should be set at a level exceeding the procurement levels from targeted small businesses during the previous fiscal year.

- (2) Certification of Self-Insurance Plans – Per Chapter 509A.15 of the Code of Iowa, the governing body of a self-insurance plan of a political subdivision or a school corporation shall file a certificate of compliance, actuarial opinion and an annual financial report with the Insurance Commissioner. Political subdivisions of the state or school corporations maintaining self-insured plans with yearly claims which do not exceed 2% of each entity's General Fund budget are exempt from the requirements of this Code section when the plan insures employees for all or part of a deductible, co-insurance payments, drug costs, short-term disability benefits, vision benefits, or dental benefits. The exemption shall not apply for the year following a year in which yearly claims are determined to exceed 2% of the political subdivision's or school corporation's General Fund budget.

In order for a governing body to be considered exempt from the requirements of this Code section, it submits its calculation documenting the yearly claims did not exceed 2% of the General Fund budget to the Division for approval. A review of a local entity's calculation was performed and it was determined the calculation was done incorrectly and an exemption was issued in error. The Division has not developed a formal process for reviewing and approving the waiver requests to ensure exemptions are appropriately issued.

Recommendation – The Division should ensure it is receiving accurate information and the governing body qualifies for the exemption.

Response – The Division respectfully disagrees with this finding. Based on our review of the Code of Iowa, it does not require self-insurance plans to be filed with the Insurance Division, and as such there is no requirement that the 2% waiver requests are to be reviewed by the Division. These are fully insurance plans with a small amount of self-funding (of the deductible) and given our mission and resources, we are limited as to how much time and effort we can devote into the regulation of “mini self-funded” plans. The Division lacks expertise in the field of public body finances and auditing, so we are not in a position of authority to create a form.

Conclusion – Response acknowledged. The Division should ensure it is receiving accurate information and the governing body qualifies for the exemption, as required by the Code of Iowa.

Report of Recommendations to the Iowa Department of Commerce

Staff

Staff:

Questions or requests for further assistance should be directed to:

Tammy A. Hollingsworth, CIA, Manager
Brandon J. Vogel, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Trent M. Mussman, Senior Auditor
Joshua W. Ostrander, Senior Auditor
Kyle C. Smith, CPA, Senior Auditor
Adjoa S. Adanledji, Staff Auditor
Premnarayan Gobin, Staff Auditor
Melissa A. Hastert, Staff Auditor
Cole L. Hocker, Staff Auditor
Michael Holowinski, Staff Auditor
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