



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

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**NEWS RELEASE**

FOR RELEASE

May 19, 2021

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2019.

The Department administers and coordinates the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state. The Department consists of the following divisions: Banking, Professional Licensing Bureau, Credit Union, Utilities, Insurance and Alcoholic Beverages.

**AUDIT FINDINGS:**

Sand reported eleven findings pertaining to the six division of the Department. The findings are on pages 3 through 11 of this report. Sand recommended the divisions implement procedures to improve controls over inventory, capital assets, receipts, payroll, credit cards and the reporting of capital assets. Division responses to the recommendations are included in the report.

Nine of the eleven findings discussed above are repeated from the prior year. Management of the Iowa Department of Commerce has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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

**JUNE 30, 2019**

**Iowa Department of Commerce**



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April 2, 2021

Iowa Department of Commerce  
Des Moines, Iowa

To Katie Averill, Director of the Iowa Department of Commerce:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Commerce for the year ended June 30, 2019. The report includes findings pertaining to the Department's internal control and compliance which resulted from the fiscal year 2019 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Department of Commerce throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand  
Auditor of State

**Iowa Department of Commerce**



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April 2, 2021

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, 2019.

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 findings 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 12 and they are available to discuss these matters with you.

Marlys K. Gaston, CPA  
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor  
Michael Bousselot, Director, Department of Management  
Tim McDermott, Interim Director, Legislative Services Agency

June 30, 2019

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

No matters were reported.

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

Alcoholic Beverages Division

Capital Assets

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

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.

Condition – The following conditions were noted:

- (1) Intangible asset additions and adjustments were overstated by \$455,156 for governmental activities capital assets and \$1,168,782 for business type activities capital assets. The business type activities capital assets were properly adjusted for reporting purposes.
- (2) Construction in progress additions, adjustments and reclassifications were overstated by \$1,015,943 for business type activities capital assets. This was materially adjusted for reporting purposes.
- (3) Business-type land activities land improvement reclassifications were overstated by \$1,205,900, buildings and building improvement reclassifications were understated by \$3,167,265 and machinery, equipment and vehicles deletions were overstated by \$40,280. Governmental capital asset machinery, equipment and vehicles deductions were understated by \$40,280. The business-type activities capital assets were properly adjusted for reporting purposes.
- (4) Business type activities accumulated depreciation additions were understated by \$78,138 and accumulated deductions were overstated by \$40,280. Governmental activities capital assets accumulated depreciation additions were understated by \$5,306 and accumulated depreciation deletions were understated by \$40,280. The business type activities capital assets were properly adjusted for reporting purposes.

Cause – Policies have not been established and procedures have not been implemented to require a timely reconciliation of capital assets additions to 1/3 expenditures and an independent review of capital asset additions, deletions, adjustments, reclassifications and depreciation to ensure they are properly recorded and reported.

Effect – Lack of policies and procedures resulted in Division employees not detecting the errors in the normal course of performing their assigned functions.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

Recommendation – The Division should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring all capital asset additions, adjustments, and reclassifications are reconciled to I/3 asset purchases and other supporting documents, if applicable. The reconciliation should also be reviewed by a person independent to ensure capital asset additions, deletions, adjustments and reclassifications and any related depreciation are identified and properly recorded and reported. The independent reviewer should sign and date the reconciliation as evidence of review.

Response – The Division has recognized the need to update procedures and has made personnel changes within the accounting department to create greater efficiencies and accountability. The Division's current asset listing is managed on an excel workbook and will be reviewed on a yearly basis by the Bureau Chief, 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 with a final review done by the Accountant II to ensure accuracy. The Division has also begun exploring using the I/3 asset listing system. At the time of this audit, the Division was still exploring the use of I/3 and recognizes the need to have a better asset management system. The use of the I/3 tool will provide the Division with a consolidated listing, as well as the ability to reconcile all assets back to the I/3 system and have greater systematic control over capitalization.

Conclusion - Response accepted.

**Other Findings Related to Internal Control:**

(A) Alcoholic Beverages Division

(1) Inventory System

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. The Division utilizes a warehouse management system to manage and segregate duties for all areas of distribution including inventory management. In the event discrepancies exist between an actual inventory count and the recorded count reported in the system, the Division has established procedures for the count and recounts to be performed by two separate employees.

Condition – The warehouse management system has not been updated to prevent the same person from entering the inventory count twice.

Cause – The Division has not implemented safeguards in the warehouse system to ensure the same individual is not entering an inventory count twice.

Effect – Reconciliations could be inaccurate. One person could count the inventory twice and count the wrong number twice.



## Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

Recommendation – To ensure the warehouse management system contains accurate information, the Division should develop procedures to ensure an independent review of counts are performed when inventory discrepancies exist. Evidence of the independent review (recount) should be documented and retained.

Response – The Division implemented a new warehouse management system, Microsoft Dynamics AX on August 26, 2016. This new system had the ability to manage and segregate duties for all areas of distribution including inventory management but counts and recounts were not systematically controlled. When the Division received the fiscal year 2017 audit report regarding inventory, the warehouse supervisor implemented procedures to ensure counts and recounts were performed by separate personnel, but the system was not updated.

During fiscal year 2018, the Division was in the process of executing an RFP for a public private partnership for warehousing and fleet services. This new partnership would allow for an entity other than Alcoholic Beverage Division to operate a secondary integrated warehouse management system and so no additional changes to the current Microsoft Dynamics system were executed. The Division finalized this partnership with Ruan Transport Corporation in April 2019 and began the process of integrating the 2 warehouse management systems. Ruan officially started using their system, JDA, in October 2019. This JDA system does not allow the same employee to do counts and recounts and has other internal controls to manage inventory movement. All inventory movement is communicated back to the AX system for reconciliation.

Conclusion – Response accepted.

### (2) Segregation of Duties over Payroll

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregations of duties so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty.

Condition – The Division contracts with the Department of Administrative Services for their payroll processing. Payroll journals are then provided to management at the Division. These payroll journals are not reviewed and approved by someone in authority at the Division.

Cause – The Division does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over payroll could adversely affect the Division's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Division should review the control activities to obtain the maximum internal control possible. A Division employee should review and approve payroll journals. Such reviews should be performed by an independent person and the review should be documented by the signature or initials of the reviewer and the date of the review.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

Response – The Comptroller in conjunction with the Accountant II will produce and communicate the payroll distribution report to the management team at the end of the pay period. This journal can then be reviewed by the supervisors for each of their units. The supervisors will sign and date the document for their approval and then send the document back to the financial management team for final review and storage.

Conclusion – Response accepted.

(B) Division of Banking

(1) Capital Assets

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State’s financial statements.

Condition – One person is responsible for both recording and reconciling capital assets. In addition, 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

Cause – Policies have not been established and procedures have not been implemented to require a timely reconciliation of capital assets additions to I/3 expenditures and an independent review of capital asset additions, deletions, adjustments, reclassifications and depreciation to ensure they are properly recorded and reported

Effect – When the recording and reconciling of capital assets is not segregated, the opportunity for misappropriation and undetected errors can result.

Recommendation – The responsibilities 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 – On October 1, 2018, AOS told us we can just print the email signature as the proof of capital asset verification. We immediately implemented that procedure as instructed. The accountant who prepares the asset list and reconciles to I/3 follows this by sending the excel file to the Chief Operating Officer (COO) who reviews and prints off the excel asset list. It is then filed for subsequent auditor review. We will print and sign the asset list based on the GAAP format in future.

Conclusion – Response accepted.

(2) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State’s financial statements.

Report of Recommendations to the Iowa Department of Commerce

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Condition – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during 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 did not include certain asset purchases from FY18 on their capital asset listing for FY19 resulting in an understatement of capital assets by \$30,821 and a further understatement of accumulated depreciation by \$5,137.
- b) The Division understated future minimum rental payments for operating leases by \$26,341.

Cause – Division policies do not require and procedures have not been established to require independent review of GAAP package reporting to ensure the information reported in the Division’s GAAP package is accurate and reliable.

Effect – Lack of policies and procedures resulted in Division employees not detecting the errors in the normal course of performing their assigned functions.

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

Response – Four servers that were purchased were overlooked and were not put on the fiscal year 2019 asset list. It was discovered they should have been on the list after the GAAP package was already turned in. It has now been corrected. We completed and submitted the fiscal year 2019 GAAP package before we even had a chance to receive the fiscal year 2018 audit finding recommendations. There was a misunderstanding of the requirement of the data that needed to be included. We made corrections as soon as we were notified of such an error. DAS-SAE helped us correct the fiscal year 2019 GAAP package.

Conclusion – Response accepted.

(C) Insurance Division

(1) Segregation of Duties

Criteria - 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.

Condition – Two individuals who have access to credit cards are also responsible for the approval and payment function for which no compensating controls exist.

Cause – The Division does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over payment and approval of credit card transactions could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

Recommendation – 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 – The Division will reassign procurement cards and our travel card so that in the future the holders have no I/3 approval functions. At the time of the audit, the Executive Officer and Chief Examiner held Pcards. The Executive Officer did I/3 (level 3) approvals and the Chief Examiner served as one of the preaudit (level 4) backups. The Program Planner who has no I/3 approval authority held our travel card. The Chief Examiner used the Pcard for technology related purchases. In the future, that card will be assigned to the Division Information Tech Specialist. The Program Planner will hold the other Pcard and the travel card. Neither the Division Information Tech Specialist nor the Program Planner will have any I/3 approval authority.

Conclusion – Response accepted.

(2) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Condition – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during 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 Division understated accumulated depreciation by \$14,590.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of capital asset activity to ensure information reported is accurate and reliable.

Effect – Lack of policies and procedures resulted in Division employees not detecting the error in the normal course of performing their assigned functions.

Recommendation – The Division should establish procedures to ensure all capital asset activities and calculations are accurate and properly reported in the GAAP package.

Response – After reviewing the findings report with the Auditor and the additional information provided, we are aware that there was an issue with the calculations as submitted. The capital asset depreciation, reflecting the period of time an asset has been in service, was originally miscalculated in fiscal year 2018. Since the ending balance of one year is the beginning balance of the next, the error was not detected until it was tested and determined as part of the fiscal year 2019 annual audit.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

We are developing a new reconciliation tool to be used as part of the GAAP Package preparation to ensure that proper capital asset depreciation is calculated going forward to avoid a similar situation.

Conclusion – Response accepted.

(D) Iowa Utilities Board

(1) Segregation of Duties

Criteria – 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.

Condition – Generally, one individual may have control over the collection, deposit preparation and the reconciliation of receivable records for which no compensating controls exist.

Cause – The Board does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over receipts could result in unauthorized and unsupported transactions and the opportunity for misappropriation

Recommendation – 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 was made aware of this issue and has reviewed the entire process from payments received through accounts receivable journal updates. In the interest of establishing proper controls, the Accounting Team has developed a system that provides segregation of duties throughout the process from receipt/collection to accounts receivable reconciliation.

Conclusion – Response accepted.

(2) Receipt Reconciliation

Criteria – An effective internal control system provides for internal controls related to reconciling amounts collected and recorded to the accounting system to amounts recorded in the receivables journal to ensure the accuracy of the receivable balances.

Condition – The receipts recorded in the receivables journal are not independently reconciled to deposits recorded in the 1/3 system.

Cause – Policies have not been established and procedures have not been implemented to reconcile receipt deposits to the receivable journal to ensure the accuracy of the receivable balances.

## Report of Recommendations to the Iowa Department of Commerce

June 30, 2019

Effect – Since reconciliations were not performed, misstatements of receivables may not have been prevented or detected and corrected on a timely basis in the normal course of operation.

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 by an independent person.

Response – The Accounting Team of the Iowa Utilities Board is developing an A/R Journal Reconciliation process that meets the recommendation as outlined above. The team will use our Accountant 2, who is independent of the cash receipts process of deposit preparation and I3 entry. The reconciliation will include a review of the accounts receivable journal against deposit records and amounts provided by I/3 System Reports.

Conclusion – Response accepted.

### (3) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements

Condition – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during 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 Division understated accumulated depreciation by \$5,137.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of capital asset activity to ensure information reported is accurate and reliable.

Effect – Lack of policies and procedures resulted in Division employees not detecting the error in the normal course of performing their assigned functions

Recommendation – The Board should establish procedures to ensure all capital asset activities and calculations are accurate and properly reported in the GAAP package.

Response – The Iowa Utilities Board received and reviewed the work papers and calculations and agree with the finding that there was a calculation error to capital asset depreciation. The Accounting Team of the Iowa Utilities Board is developing a tool to use while completing the annual GAAP Package that will act as a check verifying that the proper amount has been calculated and reported.

Conclusion – Response accepted.

June 30, 2019

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

(A) Professional Licensing Bureau

Board Members

Per section 543B.8 of the Code of Iowa, the Real Estate Commission is to be comprised of five licensed members and two members who are not licensed to represent the general public. The Commission consisted of only six members throughout fiscal year 2019 as a member representing the public was vacant. As of May 2, 2019, the Commission is in compliance.

Per section 544C.2(1) of the Code of Iowa, the Interior Design Examining Board is to be comprised of five members who are registered interior designers and two members who are not registered and who shall represent the general public. The Board consisted of only four registered interior designers throughout fiscal year 2019. As of February 25, 2019, the Board is in compliance.

Recommendation – The Professional Licensing Bureau should ensure the Board/Commission members are in compliance with the Code of Iowa.

Response – The Professional Licensing Bureau (PLB) reports to the Governor’s office any shortcomings in composition of the boards with follow-up on a regular basis. PLB has done everything in its power to see that Boards are properly comprised pursuant to Iowa law.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

Staff

**Staff:**

Questions or requests for further assistance should be directed to:

Marlys K. Gaston, CPA, Deputy  
Suzanne R. Dahlstrom, CPA, Manager  
Karen L. Brustkern, CPA, Senior Auditor II  
Luke M. Bormann, Senior Auditor  
Molly N. Kalkwarf, Staff Auditor

Other individuals who participated in the audits include:

Emma L. McGrane, Senior Auditor  
Maria R. Collins, Staff Auditor  
Jon G. Hanson, Staff Auditor  
Craig S. Miller, Staff Auditor  
Jason J. Miller, Staff Auditor  
Ethan M. Snedigar, Staff Auditor  
Adam J. Sverak, Staff Auditor  
Megan A. Waldbillig, Staff Auditor  
Emina Ceric-Omar, Assistant Auditor  
Mark W. Hart, Assistant Auditor  
Joseph G. Timmons, Assistant Auditor