



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE

July 13, 2006

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Economic Development for the year ended June 30, 2005.

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

Vaudt recommended the Department develop and implement procedures to ensure loan receivable activity is accurately reported and supported and federal funds are drawn in amounts sufficient to cover current needs and are disbursed timely.

A copy of the report is available for review in the Iowa Department of Economic Development, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

**JUNE 30, 2005**

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



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July 5, 2006

To Mary Lawyer, Director of the  
Iowa Department of Economic Development:

The Iowa Department of Economic Development is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2005.

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 reported in the State's Single Audit Report, as well as other recommendations pertaining to the Department's internal control, compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Economic Development, citizens of the State of Iowa and other parties to whom the Iowa Department of Economic Development may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have 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 10 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor  
Michael L. Tramontina, Director, Department of Management  
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2005

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

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

**Agency Number: B-03-DC-19-0001, B-04-DC-19-0001, B-05-DC-19-0001**

**Federal Award Year: 2003, 2004, 2005**

**State of Iowa Single Audit Report Comment: 05-III-HUD-269-1**

Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes and in compliance with laws, regulations and provisions of the contract or grant.

The Department has established policies and procedures for subrecipient monitoring. One of the procedures requires Department personnel to issue a determination letter to a subrecipient upon completion of an on-site monitoring visit.

In eight of twenty-five subrecipient files reviewed, the Department did not issue determination letters upon completion of on-site monitoring visits. For seven of these instances in which monitoring files were still open, the on-site monitoring visits had been performed seven to seventeen months earlier. For the remaining instance, the file was considered closed without the issuance of this letter.

Recommendation – The Department should implement procedures to ensure determination letters are issued to subrecipients in a timely manner upon completion of on-site monitoring visits.

Response and Corrective Action Planned – The Department will strengthen its procedures and oversight to ensure determination letters and subsequent close-out of projects are completed in a more timely manner. This will involve having team leaders follow-up more closely with project managers, including the use of weekly/monthly reports indicating the projects monitored and the status of the determination letter on the project.

Conclusion – Response accepted.

June 30, 2005

**CFDA Number: 14.228 – Community Development Block Grants/State’s Program**  
**Agency Number: B-03-DC-19-0001, B-04-DC-19-0001, B-05-DC-19-0001**  
**Federal Award Year: 2003, 2004, 2005**

**CFDA Number: 14.239 – HOME Investment Partnerships Program**  
**Agency Number: M-03-SG-19-0001, M-04-SG-19-0001, M-05-SG-19-0001**  
**Federal Award Year: 2003, 2004, 2005**

**State of Iowa Single Audit Report Comment: 05-III-HUD-269-2**

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

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

- (a) In five instances, the Department drew CDBG funds, but the corresponding disbursements were not made until four to thirteen working days later. The draw amounts ranged from \$8,188 to \$874,128.
- (b) In seven instances, the Department drew HOME funds, but the corresponding disbursements were not made until four to eight working days later. The draw amounts ranged from \$39,623 to \$409,720.

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

Response and Corrective Action Planned – The Department will increase its efforts to eliminate this finding from future audit reports. During fiscal year 2006, we made an addition to the fiscal staff to assist the Department to further refine the drawdown process. However, a new accounting system hindered this process during the first quarter and into the second quarter of state fiscal year 2005. These were system wide slowdowns that affected all agencies. Despite this, the accounting department will more closely monitor draw frequency when received from program staff and try to ensure the federal funds are disbursed within the three day timeframe.

Conclusion – Response accepted.

June 30, 2005

**Findings Related to Internal Control:**

Loan Receivables – The Department provides loans and forgivable loans through various programs. A review of the loan receivable activity identified the following:

- (a) Each forgivable loan included on the Loan Repayment Database (LRD) has an “End Date” which is the date the Department makes a decision as to whether the loan should be forgiven or not. For the CEBA, VAAP, PIAP, EVAP and ARC loan programs, numerous instances were noted where the “End Date” listed on the LRD was prior to June 30, 2005. However, decisions were not made and/or documented by the Department as to whether the loans had been forgiven or not. As a result, the loan receivable balances and the related allowance for doubtful accounts could be overstated at June 30, 2005.
- (b) The Department utilizes the LRD to track loans issued under various economic development loan programs. The LRD system contains company names, contract numbers, contact information and financial information.

The information used to prepare annual loan confirmations is obtained from the LRD system. Several confirmations were returned with change of address, incorrect address or undeliverable. These problems indicate a lack of monitoring/tracking of loan recipients which may limit the Department’s ability to follow-up on the projects and/or collect on loans.

- (c) Warrants for certain loan programs were requested and held by the Department until all of the necessary paperwork was received from the loan applicant. For seven of ten warrants tested, the warrants were held seven or more days before the paperwork was received/finalized and the warrant was either mailed to the loan applicant or cancelled by the Department. The warrants held ranged from \$10,000 to \$500,000.
- (d) The Department uses the specific write off method when calculating the allowance for doubtful accounts for non-forgivable loans. The Department should estimate the allowance for doubtful accounts using historical trends or other analyses.

Recommendation – The Department should develop and implement procedures to ensure:

- (a) forgivable loans are analyzed by the “End Date”, a decision is made and documented as to whether the loan is forgiven or not and the LRD is updated accordingly.
- (b) the data maintained in the LRD system is accurate and up-to-date.
- (c) warrants are not requested until all of the required paperwork has been received from the loan applicant and approved by the Department.
- (d) the estimate for allowance for doubtful accounts is based on historical trends or other analyses.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2005

Response –

- (a) Since late fall 2005, the accounting department and members of the business finance staff have made this a priority. They have focused on forgivable loans with a completion date of December 31, 2005 and earlier. Loan servicing staff is contacting companies as this is being written, regarding any shortfalls in performance and amounts due the Department. We anticipate these loans will be brought to current by the end of FY 2006. In the future, action on forgivable loans will be more timely since the business services team is collecting project updates on a semi-annual basis.
- (b) The IT section will develop a report to compare contact names and addresses between the loan database (LRD) and the project award/monitoring database (ITrack). ITrack is updated annually (or as addresses change). Accounting will compare the listings and make appropriate verifications and changes, as needed.
- (c) Effective upon acceptance, requests for disbursements on state financial assistance programs will be accompanied by a signed checklist that the company has met all conditions for disbursement. If warrants need to be held, they will be placed in the accounting safe for seven days at which time they will be cancelled unless there is a document for the file which explains the extraordinary circumstances.
- (d) The accounting section currently maintains historical write-off data for the CEBA and VAAP funds. We will develop this for all major financial assistance loan programs, including PIAP, ARC, TSB, SELP, HOME, IVF and Brownfields. Once this data is established, we will use it to assist the Department in determining the proper accounting for doubtful accounts on the loan programs.

Conclusion – Response accepted.



June 30, 2005

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

(1) Iowa Code Compliance – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2005:

- (a) Chapter 496B.16 – The Department has not received reports on the condition of the State's development corporations at least annually and, accordingly, the reports were not passed on to the Commissioner of Insurance and the Superintendent of Banking as required.
- (b) Chapter 15.203 of the Code of Iowa created the Agricultural Products Advisory Board which consists of five members appointed by the Secretary of Agriculture and five members appointed by the Director. The Secretary of Agriculture has only appointed three members.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa and/or seek to repeal outdated Code sections.

Response –

- (a) The Department will introduce legislation for the 2007 session that will seek to remove this requirement. Only one corporation was formed and it is currently not active.
- (b) The Department will work with the Secretary of Agriculture to ensure the remaining appointments are made.

Conclusion – Response accepted.

(2) Economic Development Foundation –

- (a) The bank signature cards for several Foundation accounts contained the names of two former employees.
- (b) For 61 cash receipts tested, 6 were not deposited timely and 10 did not have supporting documentation.
- (c) Eight of 44 expenditures tested were not properly authorized.

Recommendation –

- (a) The Department should ensure all signature cards on Foundation bank accounts contain only the names of current employees.
- (b) Cash receipts should be deposited in a timely manner and should be properly supported.
- (c) The Department should implement procedures to ensure disbursements are properly authorized.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2005

Response –

- (a) On June 16, 2005, the Department notified all Foundation financial institutions of the current approved signators. With the resignation of Director Blouin on July 8, 2005, another update was necessary. Most of the updates have been completed and the remainder will be done by June 30, 2006.
- (b) Foundation receipts will be completed every Friday. In addition, the fiscal staff will increase scrutiny on supporting documentation which accompanies these receipts.
- (c) These expenditures occurred while the Division Administrator was out of the office. The Department will alleviate this by granting approval authority to the Administration Team Leader (in the DA's absence).

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Economic Development

June 30, 2005

**Staff:**

Questions or requests for further assistance should be directed to:

Cynthia L. Weber, CPA, Manager  
James S. Cunningham, CPA, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Jennifer R. Edgar, CPA, Staff Auditor  
Tracy L. Haronick, Assistant Auditor  
Jennifer L. Wall, Assistant Auditor