



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

June 4, 2024

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, 2022.

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 six findings pertaining to the six divisions of the Department. The findings are on pages 3 through 8 of this report. Sand recommended the divisions implement procedures to improve controls over financial reporting, segregation of duties and receipts. In addition, Sand recommended the division implement procedures to ensure compliance with Chapter 73.16 related to targeted small businesses and Chapter 542.4(1) and 543B.8 related to the composition of board members. Division responses to the recommendations are included in the report.

Two of the 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 website at [Audit Reports – Auditor of State](#).

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

JUNE 30, 2022

Iowa Department of Commerce



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May 28, 2024

Iowa Department of Commerce
Des Moines, Iowa

To: Mary Mosiman, Director of the Iowa Department of Revenue (Commerce – Alcoholic Beverages Division):
Doug Ommen, Insurance Commissioner of the Iowa Department of Insurance and Financial Services (Commerce – Banking, Credit Union and Insurance Divisions):
Louis Vander Streek, Chief Operating Officer of the Iowa Utilities Board (Commerce – Utilities Division):
Larry Johnson, Director of the Iowa Department of Inspections, Appeals and Licensing (Commerce – Professional Licensing Division):

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Commerce for the year ended June 30, 2022. The report includes findings pertaining to the Department's internal control and compliance which resulted from the fiscal year 2022 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". The signature is stylized and cursive.

Rob Sand
Auditor of State

Iowa Department of Commerce



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May 28, 2024

To: Mary Mosiman, Director of the Iowa Department of Revenue (Commerce – Alcoholic Beverages Division);
Doug Ommen, Insurance Commissioner of the Iowa Department of Insurance and Financial Services (Commerce – Banking, Credit Union and Insurance Divisions);
Louis Vander Streek, Chief Operating Officer of the Iowa Utilities Board (Commerce – Utilities Division);
Larry Johnson, Director of the Iowa Department of Inspections, Appeals and Licensing (Commerce – Professional Licensing Division):

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 Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2022.

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

A handwritten signature in black ink, appearing to read "Brian R. Brustkern".

Brian R. Brustkern, CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Director, Department of Management
Tim McDermott, Director, Legislative Services Agency

June 30, 2022

Findings Reported in the State's Single Audit Report:

No matters were reported.

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

No matters were reported.

Other Findings Related to Internal Control:

(A) Insurance Division

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.

Departments record 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. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

Condition – The following conditions were noted:

- (a) The Division did not report receivables and related deferred inflows of \$966,569.
- (b) The Division did not report a lease liability and related right to use lease asset of \$2,633,594.

Cause – Although policies and procedures exist to require review of the I/3 system and activity reported in the GAAP packages, the review did not identify the misstatements.

Effect – For the Annual Comprehensive Financial Report (ACFR), the amounts reported as, right to use lease asset and lease liability and related footnote disclosures were misstated requiring adjustments to the financial statements.

The amounts reported as receivables by the Division were misstated.

Recommendation – Additional policies and procedures should be implemented to ensure accurate financial statements. The Department should implement additional procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Response – IID and IUB terminated their contract at the end of FY2022 and brought the accounting functions in house. During the transition, there were some turnovers as well as lack of documentation, misunderstanding, and inconsistencies, etc. that misstatement were not caught until well into FY2023.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2022

(B) Utilities 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 – 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 – As a result of the findings of the FY20 audit, the Iowa Utilities Board implemented a series of changes to its internal controls, including a heightened emphasis on separation of duties. When payments are received, the process of documenting the receipt of payment, entering the information into the state accounting system (I/3), the confirmation of the payment being entered into the system, and recording payment into the accounts receivable journal are all handled by separate individuals or no person doing more than one consecutive step in the process to provide a compensating control.

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 – A reconciliation is performed between receipts collected and receipts posted, however, the reconciliation is not performed by an independent person.

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.

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.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2022

Response – As a result of this finding, the Accounting Team of the Iowa Utilities Board has developed an A/R Journal Reconciliation process that meets the recommendation as outlined above. The team utilizes our Accountant 2, who is independent of the cash receipts process of deposit preparation and I/3 entry. The reconciliation includes 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.

Departments record 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. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

Condition – The following conditions were noted:

- (a) Accumulated depreciation overstated \$15,240.
- (b) Accounts receivable understated \$48,931.

Cause – Although policies and procedures exist to require review of the I/3 system and activity reported in the GAAP packages, the review did not identify the misstatements.

Effect – For the Annual Comprehensive Financial Report (ACFR), the amounts reported as, accumulated depreciation and related footnote disclosures were misstated requiring adjustments to the financial statements.

The amounts reported as receivables by the Division were misstated.

Recommendation – Additional policies and procedures should be implemented to ensure accurate financial statements. The Department should implement additional procedures to ensure information reported to DAS-SAE on the GAAP package is accurate.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2022

Response – When the GAAP package information was being assembled, the straight-line method was used to calculate the depreciation for the vehicles for the year. The information was reviewed but then not independently compared to the state accounting system (I/3) report FR032 – Monthly Depreciation Expense. Because the depreciation module of the I/3 system uses the number of days, rather than another form, the accounting team should have used the report for reconciliation and to verify that the correct number was being used. The other aspect of the depreciation account balance is the result of our funding the purchase of a replacement for one of our fleet vehicles. After we submitted the necessary order form and transferred the funds necessary to purchase the vehicle, we were told that the vehicle was no longer available. Due to the unpredictable nature of vehicle availability, it was impossible for us to know that the vehicle would not be available or when the next similarly equipped vehicle would be available for us to order and purchase. We often fund them months to a year in advance, particularly during the COVID-19 period when production was dramatically delayed.

IUB's GAAP package includes estimates, compiled at a time when federal grants application and receipt process is not yet complete, the remainder calculation is not yet complete (another estimation) and still within the hold open period (where adjustments to receivables are still in process).

Conclusion – Response acknowledged. The GAAP package did not include estimated or actual receivables related to the 2021 One Call Grant, which was awarded September 29, 2021. The Department should implement additional procedures to ensure information reported to DAS-SAE on the GAAP package is complete and accurate.

(C) Alcoholic Beverages Division

No matters were reported.

(D) Banking Division

No matters were reported.

(E) Credit Union Division

No matters were reported.

(F) Professional Licensing Division

No matters were reported.

June 30, 2022

Findings Related to Statutory Requirements and Other Matters:

(1) Insurance Division

Targeted Small Businesses – 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 certified targeted small businesses during the previous fiscal year.

Departments with an established TSB procurement goal are required to report the dollar amount of purchases from certified targeted small businesses to the TSB Marketing and Compliance Manager of the IEDA within 15 business days following the end of each calendar quarter.

The Division did not provide one of the four required quarterly reports to the TSB Marketing and Compliance Manager of the IEDA within 15 business days as required.

Recommendation – The Department should ensure quarterly reports are submitted to the TSB Marketing and Compliance Manager of the IEDA within 15 business days, as required.

Response – IID and IUB terminated their contract at the end of FY2022 and brought the accounting functions in house. During the transition, there were some turnovers as well as lack of documentation, misunderstanding, and inconsistencies, etc. which led to not filing of TSB report in time.

Conclusion – Response accepted.

(2) Professional Licensing Bureau

Board Members – Chapter 542.4(1)a of the Code of Iowa requires the Accountancy Examining Board to be comprised of five members who are certified public accountants, one member who is a licensed accounting practitioner, and two members who are not certified public accountants or licensed accounting practitioners and represents the general public. Beginning April 1, 2022, the Board consisted of only three Certified Public Accountants. As of October 1, 2022, the Board is in compliance.

Chapter 543B.8 of the Code of Iowa requires the Real Estate Sales and Brokers Examining Board to be comprised of five members licensed and two members not licensed who will represent the general public. During the fiscal year, the Board consisted of only one non-licensed member. As of October 27, 2022, the Board is in compliance.

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

Response – The Professional Licensing Bureau reports to the Governor’s office any shortcomings in composition of the Boards with follow-up on a regular basis. Professional Licensing Bureau 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

June 30, 2022

(3) Alcoholic Beverages Division

No matters were reported.

(4) Banking Division

No matters were reported.

(5) Credit Union Division

No matters were reported.

(6) Utilities Division

No matters were reported.

Report of Recommendations to the Iowa Department of Commerce

Staff

Staff:

Questions or requests for further assistance should be directed to:

Brian R. Brustkern, CPA, Deputy
Deborah J. Moser, CPA, Manager
Anthony M. Heibult, Senior Auditor II
Maria L. Collins, Staff Auditor

Other individuals who participated in the audits include:

Tristan J. Swiggum, Senior Auditor
Miranda L. Hoch-deGuzman, Staff Auditor
Laurel P. Hoogensen, Staff Auditor
Mackenzie L. Johnson, Staff Auditor
Kimberly L. Behrens, Assistant Auditor
Jacob A. Blaskey, Intern Auditor