



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

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_

June 14, 2007

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, 2006.

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, 2006**

Office of  
**AUDITOR  
OF STATE**

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June 11, 2007

To Michael Tramontina, 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, 2006.

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 7 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 Chester J. Culver, Governor  
Charles J. Krogmeier, Director, Department of Management  
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2006

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

**CFDA Number: 14.228 – Community Development Block Grants/State's Program**  
**Agency Number: B-04-DC-19-0001, B-05-DC-19-0001, B-06-DC-19-0001**  
**Federal Award Year: 2004, 2005, 2006**

**CFDA Number: 14.239 – HOME Investment Partnerships Program**  
**Agency Number: M-04-SG-19-0001, M-05-SG-19-0001, M-06-SG-19-0001**  
**Federal Award Year: 2004, 2005, 2006**

**State of Iowa Single Audit Report Comment: 06-III-HUD-269-1**

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 five to seven working days later. The draw amounts ranged from \$164 to \$130,233.
- (b) In two instances, the Department drew HOME funds, but the corresponding disbursements were not made until five to eight working days later. The draw amounts ranged from \$23,413 to \$553,953.
- (c) Two of fifteen payroll draws for CDBG and four of twenty-six payroll draws for HOME were not drawn within the proper time period.

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 – While this represents another significant improvement over past fiscal years, the Department will continue to step up its efforts to eliminate this finding. The Department will continue to work with program staff to improve the scheduling of drawdown requests and ensure there is adequate back-up and coverage of workflow during absences.

Conclusion – Response accepted.

June 30, 2006

**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, Brownfield and ARC loan programs, numerous instances were noted where the “End Date” listed on the LRD was prior to June 30, 2006. However, decisions had not been 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, 2006.
- (b) The Department uses the specific write off method when calculating the allowance for doubtful accounts for non-forgivable loans.

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 system is updated accordingly.
- (b) the estimate for the allowance for doubtful accounts is based on historical trends or other analyses.

Response –

- (a) Considerable progress was made during fiscal year 2006 (the number of outstanding forgivable loans on CEBA and VAAP were reduced by more than 50%). The Department will continue the efforts initiated in fiscal year 2006 during fiscal year 2007 to further reduce the number of forgivable loans which have not been closed out. This will include loans made prior to and during fiscal year 2003 for the CEBA, VAAP, PIAP, Brownfield and ARC programs.
- (b) The accounting staff will complete historical comparisons on the TSB and SELP programs (comparisons on the other major loan programs are already done). The Department will apply the historical average to the outstanding loan balance for each program, and where necessary, adjust the allowance amount when knowledge of a specific write-off exists.

Conclusion – Response accepted.

June 30, 2006

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

- (1) Iowa Code Compliance – The Department was not in compliance with Chapter 15.203 of the Code of Iowa during the year ended June 30, 2006. This code section created the Agricultural Products Advisory Board within the Department, with the Board to consist 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.

Response – The Department is in the process of compiling names of individuals for appointment to the Agricultural Products Advisory Council. When this process is complete, the Department will forward the information to the Secretary of Agriculture so that he may designate his appointees.

Conclusion – Response accepted.

- (2) Economic Development Foundation –

- (a) The bank signature cards for several Foundation accounts contained the names of former employees.
- (b) For 65 cash receipts tested, 4 were not deposited timely and 12 did not have supporting documentation.

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.

Response –

- (a) With the recent change in leadership, the Department has begun the process of updating all foundation bank signature cards. Persons authorized to sign will include the Director, Deputy Director, Legal Counsel and the Administrative Services Division Administrator.
- (b) The Department will ensure all foundation receipts are deposited timely with supporting documentation attached.

Conclusion – Response accepted.



Report of Recommendations to the Iowa Department of Economic Development

June 30, 2006

**Staff:**

Questions or requests for further assistance should be directed to:

Joe T. Marturello, CIA, Manager  
Jennifer R. Edgar, CPA, Senior Auditor  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Carey L. Fraise, Staff Auditor  
Tiffany A. Gossweiler, Staff Auditor  
Tracy L. Haronik, Staff Auditor  
Michael R. Field, Assistant Auditor