



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 23, 2003

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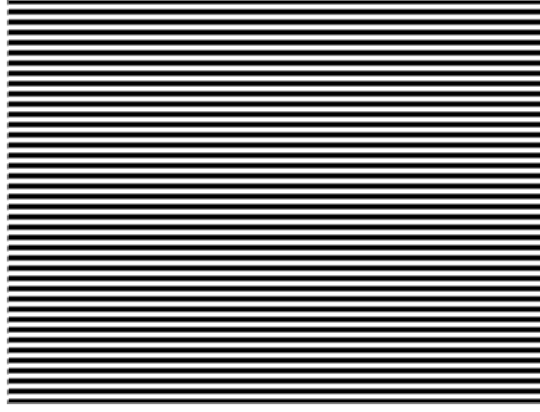
Auditor of State David A. Vaudt today released a report on the Iowa Department of Commerce for the year ended June 30, 2002.

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

Vaudt recommended that the Department segregate certain electronic data processing duties and develop and implement written policies and procedures for certain aspects of its computer based systems. Vaudt also recommended the Department review the real estate broker trust account as required by the Code of Iowa. The Department's responses are included.

A copy of the report is available for review at the Iowa Department of Commerce or Office of Auditor of State.

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

JUNE 30, 2002

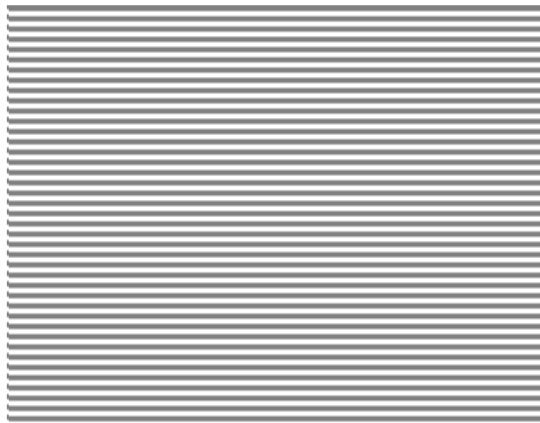
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June 30, 2003

To Thomas B. Gronstal, Director,
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, 2002.

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. These recommendations pertain to the Department's internal control, and compliance with statutory requirements and other matters which we believe you should be aware of. 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 Commerce, citizens of the State of Iowa and other parties to whom the Iowa Department of Commerce 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 any questions concerning any of 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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2002

Findings Reported in the State's Single Audit Report:

No matters were reported.

Findings Related to Internal Control:

(1) Information Systems Controls – We reviewed the Department's general and application controls, and identified the following conditions:

- The Information Technology (IT) Specialists perform duties that overlap responsibilities for the development, implementation and approval of system changes and modifications. The job performance plans do not clearly identify separate assignments of responsibility.
- IT staff are allowed to access and modify user input.

In addition, the Department does not have adequate written policies for:

- Acceptance testing of new programs purchased from a vendor or a uniform system change policy for all changes that are made to existing programs.
- Requirements regarding written confirmation from suppliers related to the replacement of hardware and supplies in a timely fashion in order to limit significant disruption of daily operations.
- Ensuring that only software licensed to the Department is installed on Department computers.
- Clear identification of ownership of software developed in-house.

Recommendation – The Department should develop and implement policies and procedures and update the information systems standard manual to improve the segregation of duties, including an independent approval of program modifications prior to use and policies preventing access to user input by IT staff. In addition, the Department should develop written policies addressing the items above in order to improve the Department's control over computer based systems.

Response –

Alcoholic Beverage:

In fiscal year 2002, the Administrative Services Division had three Information Technology Specialist 4's and one Information Technology Specialist 5. Therefore, their functional responsibilities were required to be very similar. However, each of them had main areas of expertise and normally performed functions associated with those areas. Unless there were absences, there was little, if any, crossover of duties. Effective with fiscal year 2003, there is one less Information Technology Specialist 4, causing even greater need for those individuals remaining to be able to perform functions of their co-workers when they are not available to do them themselves.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2002

The IT staff were allowed to correct user input, due to the safeguards that were placed into operation in order to increase internal controls and to prohibit potential misuse on the user end. These safeguards prevent users from making certain changes to files without causing other errors to occur. It is felt that this actually strengthens internal controls, rather than weaken them. These requests for corrections are documented to show that they are made and for what reason. That said, in fiscal year 2002, most, if not all, of the user input corrections were done for the Professional Licensing Division. In fiscal year 2003, this staff no longer works with the Professional Licensing Division, which should reduce, if not eliminate, the need for correction of user input.

Your recommendations contained several comments regarding the inadequacy of written policies in the IT area. Listed below are the comments with our responses:

- We do not recall purchasing any new programs from vendors that would affect existing programs. However, we will insure there are written polices in place for acceptance testing prior to acquiring any programs in the future.
- We will insure there are written polices in place for acceptance testing prior to acquiring any programs in the future.
- It is the intention of the Alcoholic Beverages Division that only licensed software is installed on Division computers. We will develop written policies on this in the near future.
- All software developed in-house is the property of the Alcoholic Beverages. We will develop written policies on this in the near future.

Professional Licensing:

Beginning July 1, 2002, we no longer have an Administrative Service Bureau. Our computers are handled by the Information Technology Department.

Conclusion – Responses acknowledged. We concur with the response concerning improving written policies in the IT area. However, written policies should also include a requirement to obtain written confirmation from suppliers relating to the replacement of hardware and supplies in a timely manner. In addition, division administrators at the Department should review internal control regarding the IT area to ensure controls are adequate and duties are segregated.

- (2) Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty, and therefore maximizes the accuracy of the Department's financial statements. For eighteen of sixty timesheets tested, an employee initiated and approved the timesheet on the automated Human Resource Information System (HRIS) in the Professional Licensing, Insurance, Banking, and Credit Union Divisions.

Recommendation – Duties should be segregated so that the same person does not initiate and approve the same transaction.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2002

Response –

Professional Licensing: We have now an additional person who can enter and approve timesheets.

Insurance: We have reassigned the payroll duties to other personnel to reduce the conflict.

Banking: The Division of Banking has always relied upon the information provided in routing sheets completed by the field examiners that detail their hours for each day (number of hours at specific banks, hours spent working on reports and other administrative duties, hours of vacation, sick leave, etc.) The division plans on modifying the current electronic route sheet to include a check-off place for each of the four Regional Managers to indicate that they have reviewed the hours of each of the field examiners and that they agree with the report per pay period. These electronic reports will be retained so that they are available for review at any time by senior management and/or during a state audit. Des Moines office employees will be responsible for sending to their supervisor on a bi-weekly basis an e-mail detailing any hours used for vacation, sick leave, family care, etc. The supervisor will review these hours and upon their agreement with the report, will then send it via e-mail to the administrative assistant with their approval. These e-mails will also be retained electronically for the required period of time for senior management review and/or state audit review. These procedures will be implemented prior to July 1, 2003, the start of the fiscal year 2004.

Credit Union: Duties have been segregated for the Credit Union Division.

Conclusion – Responses accepted.

- (3) Utilities Division Board Assessment Billings – The Utilities Division determines Direct Assessment quarterly bills to be imposed upon utility companies on a yearly basis. In accordance with Chapters 475A.6 and 476.10 of the Code of Iowa, “Not more than 90 days following the close of the fiscal year the Utilities Division is required to conform the amount of prior year’s assessments.” Once this has been completed, the remainder assessment for each individual utility company should be completed. If a remaining assessment is due to the Utilities Division, an additional billing is sent to the utility company to be collected. When the final assessment is determined to be in favor of the utility company, a credit memo is reflected on the following quarter’s direct assessment. The Utilities Division has established a tracking system to account for the accounts receivable and status of the billings.

As of May 7, 2003, the Utilities Division had not finalized the remaining assessment applicable to each utility company by performing the year end reconciliation comparing total expenses to billings.

In addition, the amounts collected for direct/remainder assessments have not been reconciled to IFAS to ensure proper accountability for the year ended June 30, 2002.

Recommendation – The Utilities Division should perform the remainder assessment reconciliation to ensure each individual company is accurately billed for their portion of the expenses. In addition, the Division should develop and implement procedures which provide for timely reconciliation of total collections to IFAS revenues.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2002

Response – The remainder assessment reconciliation, the accounts receivable reconciliation, and accounts receivable journal are prepared by the Accounting and Assessments staff of the Department of Commerce Iowa Utilities Board as authorized by Chapter 476.10 of the Code of Iowa. Organizational changes in the Department of Commerce effective with the beginning of fiscal year 2003 moved the Accounting and Assessments staff from the Administrative Services Division to the Iowa Utilities Board. The Iowa Utilities Board of the Department of Commerce has made staffing reassignments and issued new procedures to reduce the backlog of work that existed at the beginning of fiscal year 2003 and to bring all assignments current by the close of 2003.

A final reconciliation of the fiscal 2002 remainder assessment will be completed by the close of fiscal 2003. The 2003 remainder assessment will be completed by October 31, 2003. Effective with fiscal year 2003, the following procedure for the remainder reconciliation will be completed: the reconciliation of remainder assessment charges will be completed annually by October 31 for the fiscal year ending August 31. The reconciliation has been added as a performance measure in the Iowa Utilities Board of the Department of Commerce budget.

The accounts receivable journal has been revised during the fiscal year 2003 billing cycle and is still being updated. Accounting personnel enter the billing and payment information into the journal for the Iowa Utilities Board. The accounts receivable journal is a complete record of the numbered company invoices that have been issued and a complete record of the payment data.

A reconciliation of the receivable balances will be made for the fiscal year 2003 journal by June 30, 2003. The revised procedure beginning with fiscal year 2004 will be added to the procedures for the accounts receivable journal effective July 1, 2003. The procedure is as follows:

A monthly printout of the deposits recorded in the receivable journal will be prepared by sorting the receipt records for the month in the journal. That printout will be compared with IFAS monthly and reconciled by accounting personnel.

Conclusion – Response accepted.

June 30, 2002

Findings Related to Statutory Requirements and Other Matters:

- (1) Real Estate Broker Trust Account – Each real estate broker is required to maintain a common trust account in a financial institution for the deposit of all down payments, earnest money deposits or other trust funds received by the broker. The interest on the account is to be transferred quarterly to the Iowa Department of Economic Development for deposit in the local housing assistance program fund, unless there is a written agreement between the buyer and the seller to the contrary. Chapter 543B.46(6) of the Code of Iowa requires the real estate commission, or the commission's authorized representative, to examine a random sampling of the real estate broker trust accounts for compliance. During fiscal year 2002, documentation supporting this review was not provided.

Recommendation – The Department should establish procedures to properly document the compliance reviews required by the Code of Iowa.

Response – When the last trust account auditor retired, replacing him was postponed due to budget constraints. The division now has sufficient funds to hire a person for that position. The job description has been written and will be posted on March 10, 2003.

Conclusion – Response accepted.

- (2) Board Attendance – Professional Licensing – Per Chapter 69.15 of the Code of Iowa, any person who has been appointed by the governor to any board shall be considered to have submitted a resignation if the person does not attend 3 or more consecutive regular meetings or the person attends less than one-half of the regular meetings within any period of twelve calendar months beginning on July 1 or January 1.

The attendance of two members of the Real Estate Appraiser Examining Board were not in compliance. One member was not in compliance as a result of the board member not attending three consecutive meetings between July 1 and June 30 and less than one-half of the regular meetings within the 12 month period beginning July 1, 2001. Another member was not in compliance as a result of the board member not attending three consecutive meetings between January 1 and December 31 and less than one-half of the regular meetings within the 12 month period beginning January 1, 2002

Recommendation – The Division Administrator should review attendance of appointed board members for compliance with requirements and determine necessary actions to be taken.

Response – Board attendance will be closely monitored and the statute will be complied with.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2002

Staff:

Questions or requests for further assistance should be directed to:

Michelle B. Meyer, CPA, Manager
Timothy D. Houlette, CPA, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Cory A. Warmuth, CPA, , Staff Auditor
Jeffrey M. Evans, Assistant Auditor
Kristen E. Harang, CPA, Assistant Auditor