



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 _____ August 10, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2009.

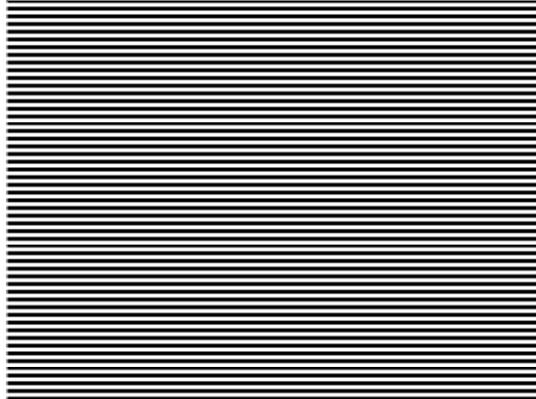
The Department coordinates and administers the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state.

Vaudt recommended certain Divisions within the Department increase controls over receipts, payroll and financial reporting. The Divisions responded favorably to these recommendations.

A copy of the report is available for review in each of the six divisions of the Iowa Department of Commerce, in the Office of Auditor of State and on the Auditor of State's web site at:

<http://auditor.iowa.gov/reports/1060-2110-BR00.pdf>

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

JUNE 30, 2009

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



David A. Vaudt, CPA
Auditor of State





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August 5, 2010

To James E. Forney, 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, 2009.

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 pertaining to the Department's internal control and 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. 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.

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 Chester J. Culver, Governor
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Iowa Department of Commerce

Report of Recommendations to the
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Findings Reported in the State's Single Audit Report:

No matters were noted.

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

No matters were noted.

Other Findings Related to Internal Control:

(A) Professional Licensing Division

Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services–State Accounting Enterprise (DAS–SAE) on a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. The Division understated the amount of accounts receivable by \$681,032.

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

Response – The GAAP package will report any revenues rolled forward from one year to the next in the future.

Conclusion – Response accepted.

(B) Insurance Division

- (1) Securities Bureau Receipts – The Securities Bureau receives funds which are recorded in a database within the Bureau and sent to accounting to be deposited and recorded in the I/3 financial accounting system. The daily database postings serve as an initial listing. The receipts reported in the database are not reconciled to deposits.

Recommendation – To improve controls over the receipt process, a reconciliation should be performed periodically to ensure all receipts are properly deposited.

Response – The Division will work to create a more detailed printout that can be used in reconciling.

Conclusion – Response accepted.

Report of Recommendations to the
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- (2) Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). Three employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Division should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – One employee's access to personnel actions has been removed. The budget director will sign off on payroll journals. The Division will continue to seek other opportunities to segregate duties.

Conclusion – Response accepted.

- (3) Allowable Costs – Senior Health Insurance Information Program, (SHIIP), is a federal program providing assistance to Medicare beneficiaries to enhance their understanding of available programs and plans. OMB Circular A-87 requires all charges to a federal grant represent eligible activities. One transaction tested included a \$60 purchase of decorations and flowers for a SHIIP conference, which did not meet the guidelines for allowable costs for the program.

Recommendation – The Division should review expenditures to ensure they are allowable under federal guidelines.

Response – Money was specifically named and allocated in the budget when presented and the budget was approved by Centers for Medicare and Medicaid Services. We will review the program guidelines when the next budget is prepared.

Conclusion – Response accepted.

(C) Banking Division

Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). Two employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Division should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – As a regulatory body, the Iowa Division of Banking recognizes the need for the segregation of duties and follows prescribed guidelines by having the original entries submitted by our HR associate and our part-time administrative assistant, with departmental approval supplied by our comptroller. However, only having three HRIS authorized people is a control on one hand but a challenge on the other hand, relative to vacations and unexpected leave due to illness. During these times, it is essential to have these approval levels in order to get the job done.

Conclusion – Response acknowledged. To strengthen controls, the Division should implement procedures to segregate approvals or have an independent person review an exception report of instances where this occurs.

Report of Recommendations to the
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(D) Utilities Board

Payroll – The Board processes and records payroll and personnel information on the Human Resource Information System (HRIS). Three employees may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. These individuals also have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Board should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

Response – The Iowa Utilities Board (IUB) has two personnel assistants who are authorized to create and approve P-1 documents. A P-1 document is not created in the HRIS system without a management signed authorization to do so. Our general practice is to have separate individuals approve the different levels. On the date of one of the authorizations in question, the manager who would normally approve the P-1 created by the personnel assistant was on vacation. While it can be more efficient to have one staff member process the P-1 throughout the HRIS system, the IUB will take the extra step and time to have separate individuals create the P-1 and apply various approvals in the future.

Conclusion – Response accepted.

(E) Alcoholic Beverages Division

- (1) Cancellation of Invoices – Invoices and supporting documentation for claims are not cancelled at the time of payment to help prevent reuse.

Recommendation – To strengthen controls, the Division should develop and implement procedures to properly cancel invoices and supporting documentation at the time of payment to help prevent reuse.

Response – The Division has implemented an invoice cancellation process to help ensure proper payments are made.

Conclusion – Response accepted.

- (2) Leave Requests on Computer Software – The Division records vacation and sick leave requests on computer software. Upon entering the leave on the software calendar, the request is routed to the appropriate supervisor for approval. Once approved by the supervisor, the hours recorded should not be modified. Approval, edit and delete functions can only be performed by four employees. There are no restrictions in the software to prevent these employees from accessing and modifying the recorded leave hours after approval.

Concerns identified by a citizen included the approval and recording of vacation and sick leave hours for an employee. The allegations state the employee's calendar had been altered to remove vacation used. For seven pay periods tested, vacation requested was not approved by a supervisor. For one pay period tested, the vacation leave originally requested on the computer software had been incorrectly reported in HRIS at a lesser amount.

Recommendation – The Division should strengthen controls over the computer software to prevent modification by employees after supervisor approval.

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Response – Internal controls have been enacted to strengthen the accuracy of employee time reporting. Authority levels have been changed to reduce edit access to the minimum amount of personnel.

Conclusion – Response accepted.

- (3) Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. During the accrual period ending September 2008, \$476,413 of liquor taxes were recorded incorrectly to fiscal year 2009. A correction was made to properly move \$476,413 to fiscal year 2008. However, the Division posted two corrections, doubling the taxes moved to fiscal year 2008. The Division understated the amount of liquor tax receipts in fiscal year 2009 by \$476,413.

Recommendation – The Division should ensure receipts are recorded in the proper fiscal year.

Response – The Division has implemented internal audit controls to address transactions for fiscal year accuracy during the 60 day hold open period.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

(A) Credit Union Division

Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Directv	Cable television	\$ 506

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Division should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Division should establish written policies and procedures, including requirements for proper documentation.

Response – The Division’s position is it is meeting the homeland security recommendations of monitoring news during any state or national crisis to determine from all available sources if any new information or threats are leveled at financial institutions.

Conclusion – Response acknowledged. However, there may be more cost effective ways to monitor the news.

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(B) Alcoholic Beverages Division

The Report of Recommendations to the Iowa Department of Commerce for the year ended June 30, 2008 included findings and recommendations to the Alcoholic Beverages Division to follow purchasing procedures required by the Iowa Administrative Code and to document the public purpose served for questionable disbursements. Certain transactions pertaining to the year ended June 30, 2009 were included in those findings and recommendations.

Report of Recommendations to the
Iowa Department of Commerce

June 30, 2009

Staff:

Questions or requests for further assistance should be directed to:

K. David Voy, CPA, Manager
Selina V. Johnson, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Daniel L. Durbin, CPA, Staff Auditor
Tracey L. Gerrish, Staff Auditor
Joshua B. Ludwig, Staff Auditor
Brian P. Schenkelberg, CPA, Staff Auditor
Alison P. Baker, Assistant Auditor
Joshua A. Pronk, Assistant Auditor