



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

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ September 14, 2011

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, 2010.

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/1160-2110-BR00.pdf>.

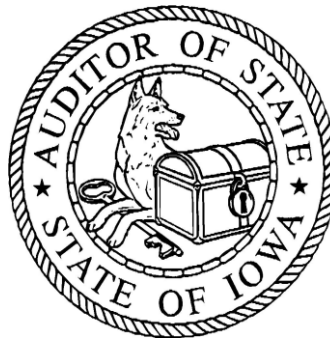
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**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF COMMERCE**

**JUNE 30, 2010**

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



**David A. Vaudt, CPA**  
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September 9, 2011

To JoAnn Johnson, 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, 2010.

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.

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

A handwritten signature in black ink that reads "David A. Vaudt".

DAVID A. VAUDT, CPA  
Auditor of State

A handwritten signature in black ink that reads "Warren G. Jenkins".

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor  
David Roederer, Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

**Iowa Department of Commerce**

Report of Recommendations to the  
Iowa Department of Commerce

June 30, 2010

**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 – The Division records 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. Although the Division properly reported \$773,056 of receivables on the GAAP package, the receivables were incorrectly reported as unearned revenue. The Division understated the amount of revenue by \$773,056.

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

Response – The Professional Licensing Bureau will ensure the GAAP package is complete and accurate in the future.

Conclusion – Response accepted.

(B) Insurance Division

- (1) Segregation of Duties – 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. Generally, one individual may have control over the collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared by the mail opener, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Division should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We have pushed to have more fees received via ACH as opposed to paper checks. However, the Division still receives a high volume of paper checks. The Division simply lacks sufficient staff to further segregate duties.

Conclusion – Response acknowledged.

Report of Recommendations to the  
Iowa Department of Commerce

June 30, 2010

- (2) Securities Bureau Receipts – The Securities Bureau receives funds which are recorded in separate databases maintained within the Bureau and are then sent to accounting to be deposited and recorded in the I/3 financial accounting system. The receipts recorded in the databases are not reconciled to deposits recorded in the I/3 system.

Recommendation – To improve controls over the receipt process, receipts posted in the Securities Bureau databases should be periodically reconciled to the deposits recorded in the I/3 system.

Response – We will consider having someone randomly review the deposit and the database to make sure the amounts are correct.

Conclusion – Response accepted.

- (3) 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. In addition, for the period July 1, 2009 through March 18, 2010, one P-1 document was initiated and received department level approval by the same person.

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 – The Division has changed its process so the Budget Director reviews and signs for payroll. The Budget Director reviews the payroll information randomly to check current pay.

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, having only 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.



Report of Recommendations to the  
Iowa Department of Commerce

June 30, 2010

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.

(D) Utilities Board

- (1) Segregation of Duties – 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. Generally, one individual may have control over collection, deposit preparation, posting, maintaining receivable records, reconciliation, recording and accounting for cash receipts for which no compensating controls exist. A listing of mail receipts is not prepared, at least on a test basis.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Iowa Utilities Board (IUB) has developed specific internal control procedures to segregate the duties of cash receipts and the receivable journal, within the constraints of the limited number of staff employed in the Accounting and Assessments section. We are in the process of hiring a third team member, which will assist in setting appropriate segregation of duties.

The IUB has two accountants which are shared with three agencies. We have to prioritize the work that is completed. An initial listing of receipts is not a top priority task.

Conclusion – Response acknowledged. However, the Board should review its operating procedures to obtain the maximum internal control possible under the circumstances.

- (2) Receipts – Checks were not restrictively endorsed upon receipt by the mail opener.

Recommendation – A restrictive endorsement (for deposit only) should be placed on all checks when received.

Response – IUB mail person takes the mail back to the secure Records Center area. Envelopes are slit open to confirm contents. Checks are not removed from the envelopes, and they are delivered to Accounting and Assessments staff the same day the checks are received. The Accounting and Assessments cashier endorses all checks.

Conclusion – Response acknowledged. However, a restrictive endorsement (for deposit only) should be placed on all checks when received to ensure they are deposited properly.

- (3) Receipt Reconciliation – The Board receives funds which are recorded in a separate receivables journal maintained by accounting and then deposited and recorded in the I/3 financial accounting system. The receipts recorded in the receivables journal are not reconciled to deposits recorded in the I/3 system.

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.

Response – When the Accounting and Assessment team has three fully trained team members, this task can be added to the team's expected responsibilities.

Conclusion – Response accepted.

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- (4) Financial Reporting – The Board records 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 following were noted:

- (a) The Board moved \$496,590 of revenues forward to the next fiscal year on the I/3 system but did not report these revenues on the GAAP package as required. As a result, IUB understated the amount of accounts receivable and deferred revenue by \$496,590.
- (b) The Board received a \$221,856 receivable on September 24, 2010 which was not reported on the GAAP package as required. As a result, the IUB understated the amount of accounts receivable and deferred revenue by \$221,856.

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

Response – The IUB will follow the requested GAAP reporting now that it has been brought to our attention.

Conclusion – Response accepted.

(E) Alcoholic Beverages Division

- (1) Contracts – In accordance with Section 11-106.5 of the Iowa Administrative Code, agencies are required to use competitive selection to acquire services when the estimated annual value of the service contract is \$5,000 or more. Either a formal or informal process may be used for a competitive selection when the purchase is less than \$50,000. ABD did not provide documentation a competitive bid process was completed for four vendors tested.

Recommendation – ABD should follow the procurement policies addressed in IAC section 11-106.

Response – The Division concurs with the audit findings. The vendors tested related to actions under the prior administrator's term. Effective May 1, 2010, the start of Administrator Larson's term, effective internal controls concerning procurement were implemented.

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 be performed by nine employees. There are no restrictions in the software to prevent these employees from accessing and modifying the recorded leave hours after approval.

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

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Response – Currently, only management personnel and personnel staff have the authority level to change the leave calendar. The Division is in the process to transition to the web-based reporting tool offered through the Department of Administrative Services.

Conclusion – Response accepted.

- (3) Unrecorded Liability and Late Fee Paid - The Division recorded an expenditure of \$32,477 in fiscal year 2011. The description on the invoice stated the work was performed in June and July of 2010. However, the services were not allocated between the two fiscal years. In addition, \$1,547 of late fees were paid.

Recommendation – The Division should record expenditures to the proper fiscal year and pay invoices in a timely manner to avoid late fees.

Response – The Division will comply with an allocation plan which is appropriate for each situation incurred across fiscal years.

Conclusion – Response acknowledged. The Division should also pay invoices timely to avoid late fees.

- (4) Financial Reporting – The Division records revenues and expenditures 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 and revenue by \$144,537.

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

Response – The Division acknowledges the audit finding and will comply with this interpretation for carry forward funds as it relates to the GAAP package.

Conclusion – Response accepted.

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

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:

Paid to	Purpose	Amount
Directv	Cable television	\$ 504

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 terminated this service after the last audit.

Conclusion – Response accepted.

Report of Recommendations to the  
Iowa Department of Commerce

June 30, 2010

**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:

Brian P. Schenkelberg, CPA, Senior Auditor  
Daniel W. Henaman, Staff Auditor  
Gelu Sherpa, Staff Auditor  
Marta M. Sobieskoda, Staff Auditor  
Marijke J. Hodgson, Assistant Auditor