



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ August 21, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Office of Energy Independence for the year ended June 30, 2011.

The Iowa Office of Energy Independence is to set the strategic direction for Iowa's clean energy future by identifying goals to achieve desired results. The Office is also to align state government efforts for achieving energy independence through partnerships with business and industry, community leaders, government and public agencies and other stakeholders.

A copy of the report is available for review at the Iowa Office of Energy Independence, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1260-3010-BR00.pdf>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA OFFICE OF ENERGY INDEPENDENCE**

JUNE 30, 2011

— Office of —
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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August 16, 2012

To Debi Durham, Director of the
Iowa Office of Energy Independence:

The Iowa Office of Energy Independence 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, 2011.

In conducting our audits, we became aware of certain aspects concerning the Office'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 Office's internal control and compliance with statutory requirements and other matters. These recommendations have been discussed with Office personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Office's responses, we did not audit the Iowa Office of Energy Independence'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 Office of Energy Independence, citizens of the State of Iowa and other parties to whom the Office 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 Office during the course of our audit. 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 Office are listed on page 8 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 Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2011

Findings Reported in the State's Single Audit Report:

CFDA Number: 81.041 – State Energy Program and ARRA – State Energy Program

Agency Number: DE-FG26-07NT43164, DE-EE0000162

Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 11-III-DOE-301-1

- (1) Payroll Distribution – OMB Circular A-87 states employees who work on multiple programs will distribute their time based on actual activity. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support. Several employees of the Office work on one or more state and federal programs so their time is allocated to the various programs. Our review of the payroll allocation process identified the following:
- (a) For the first four pay periods of fiscal year 2011, the Office used budgeted hours instead of actual hours worked.
 - (b) Once time reporting started, leave taken by an employee was included on the timesheet under the primary organization code associated with their position. This leave time was part of the total hours for payroll allocation when it should have been excluded.
 - (c) For the fourth quarter allocation adjustment tested, the Office included the entire year's hours worked for three individuals rather than just those hours worked during the quarter.

We are unable to determine whether the amount of payroll allocated to the program was proper.

Recommendation – The Office should develop policies and procedures to ensure payroll is properly allocated to federal programs in compliance with OMB Circular A-87.

Response and Corrective Action Planned – For fiscal year 2011, the Iowa Office of Energy Independence implemented a procedure to assure personal services costs are appropriately allocated to federal contracts and awards. The procedure was implemented beginning with the fifth payroll period of fiscal year 2011 and has been followed from its inception. For those employees who work on multiple activities or cost objectives, the distribution of their salaries or wages are supported by personnel activity reports which are generated by the State's Human Resource Information Payroll reporting system. Each employee, on a bi-weekly period, completes their Human Resource Payroll report for submittal and approval by their supervisor for verification.

On a quarterly basis, the time allocation reports are used to allocate payroll costs to the appropriate cost centers.

The use of the Human Resource Information Payroll reporting system and allocation of payroll costs to the appropriate cost center are allowed according to OMB Circular A-87 section (8) compensation for personal services.

Conclusion – Response accepted.

June 30, 2011

CFDA Number: 81.041 – State Energy Program and ARRA – State Energy Program
Agency Number: DE-FG26-07NT43164, DE-EE0000162
Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 11-III-DOE-301-2

- (2) Cash Management – The Office periodically requested reimbursement for expenditures incurred for the State Energy Program. The amount requested was determined by the Office’s budget analyst. However, there was no supervisory review to ensure the amount requested had been properly calculated.

Recommendation – The Office should develop policies and procedures to ensure reimbursement requests are subject to supervisory review and approval.

Response and Corrective Action Planned – The procedures for requesting cost reimbursement from the Federal Governments Automated Standard Application for Payment (ASAP) system is as follows: The administrative assistant will provide a completed Iowa Economic Development Authority (IEDA) cash receipt document to the IEDA Budget and Accounting Director. The cash receipt document will be compared to a current State of Iowa Financial Status program report (FMR331C). The IEDA Budget and Accounting Director will review and concur with the cash receipt document request by initialing his approval. After approval of the cash receipt document, the transfer of funds from the federal ASAP system will be made by the administrative assistant. The cash receipt document, the financial status report and the ASAP fund transfer confirmation document will be provided to the accounting technician for data entry to the State of Iowa I/3 accounting system. The accounting technician will file the documentation for future reference and review.

Conclusion – Response accepted.

CFDA Number: 81.041 – State Energy Program and ARRA – State Energy Program
Agency Number: DE-FG26-07NT43164, DE-EE0000162
Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 11-III-DOE-301-3

- (3) Subrecipient Monitoring – The Office periodically performs on-site monitoring visits of its subrecipients. The visits are performed by various staff and are reviewed and approved by their supervisor. For three of the fifteen on site visits tested, the visit was performed by the supervisor and there was no evidence of independent review and approval. In addition the Office did not send a notification to the subrecipient of the results of the on-site monitoring visit.

Recommendation – The Office should develop policies and procedures to ensure all on-site monitoring visits are subject to supervisory review and approval and each subrecipient should receive a notification of the result of the visit.

Report of Recommendations to the Iowa Office of Energy Independence

June 30, 2011

Response and Corrective Action Planned – Site visits are reviewed on a weekly basis during staff meetings. Visits which were conducted are briefed to the supervisor, and upcoming site visits are approved. The supervisor also reviews all site visit reports in the IowaGrants prior to approval of invoice payments.

Subrecipients are briefed at the end of each visit. If a finding is identified during the visit which requires corrective action, an email will be sent to the subrecipient outlining the finding and what needs to be completed to correct it. The site visit form in the IowaGrants is an internal document.

Conclusion – Response accepted.

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

No matters were noted.

Other Findings Related to Internal Control:

- (1) Financial Reporting – The Office received an appropriation of \$2,000,000 from the State’s Cash Reserve Fund for the Iowa Power Fund. Since both funds are components of the State’s General Fund, the movement of funds should be coded as a transfer out from the Cash Reserve Fund and a transfer in to the Iowa Power Fund. However, when the document was prepared, the transaction was coded as vehicle depreciation payments in the Cash Reserve Fund and miscellaneous revenue in the Iowa Power Fund. This coding error was corrected after it was brought to the Office’s attention.

Recommendation – The Office should ensure transactions moving funds between components of the State’s General Fund are appropriately recorded as transfers.

Response – The Office (Iowa Economic Development Authority) will provide a more thorough review and pre-audit of transfers to ensure they are appropriately recorded.

Conclusion – Response accepted.

- (2) Financial Reporting GAAP Package – The Office 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.

Since the Office was transferred to the Iowa Economic Development Authority (IEDA) effective July 1, 2011, IEDA prepared the GAAP package for the Office. The amount reported as contractual commitments was overstated by approximately \$16,000,000.

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

Response – The Office (Iowa Economic Development Authority) will more closely monitor the outstanding contractual obligations of the Iowa Power Fund and other former Office of Energy Independence grant programs to achieve more accurate reporting.

Conclusion – Response accepted.

June 30, 2011

- (3) Iowa Power Fund (IPF) Project Monitoring – The Office has developed an “Iowa Power Fund Compliance Policy” which includes various monitoring procedures and policies on IPF funded projects. Each project is tracked separately and individual project files are maintained.

The policies do not include specific fiscal monitoring and standard monitoring procedures for each visit or requirements as to where documentation is to be maintained for each site visit. In addition, no documentation for on-site monitoring visits was maintained for four of five projects tested.

Recommendation – The Office should develop and implement specific and standard monitoring procedures for each site visit and maintain documentation of on-site monitoring visits.

Response – The Office (Iowa Economic Development Authority) will blend the monitoring procedures established for the Business Incentive Compliance Team and the Community Development Block Grant Community Investment Team and apply them to Iowa Power Fund and other former Office of Energy Independence programs. This will ensure better documentation of visits and begin to implement a fiscal review as part of the overall monitoring.

Conclusion – Response accepted.

Finding Related to Statutory Requirements and Other Matters:

Employee Performance Evaluations – Iowa Department of Administrative Services (DAS) Administrative Rule 11-62.2(2) requires each employee to receive a performance evaluation every 12 months and Administrative Rule 11-53.7(2)a requires non-contract employees to have a current evaluation prior to a pay raise. In addition, the State of Iowa Employee Handbook, pages 2 and 4, requires probationary employees receive one or more performance reviews prior to the end of their first six months of employment and permanent employees are to receive job performance reviews at least once per year.

During our review, we noted:

- For one of three employees tested who received pay raises during the year, a current evaluation prior to the pay raise could not be located.
- For two of three permanent employees tested, a performance evaluation completed within the last year could not be located and the signed evaluation for the third did not have any of the ratings completed.

Recommendation – The Office should develop policies and procedures to ensure probationary employees receive at least one performance evaluation within their first six months of employment and permanent employees receive a performance evaluation every 12 months as required by DAS Administrative Rules and the State of Iowa Employee Handbook.

Response – With some of the former Office of Energy Independence staff now part of the Iowa Economic Development Authority, we will ensure evaluations are completed and filed in a timely manner.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Office of Energy Independence

June 30, 2011

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated in the audits include:

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