



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

December 13, 2022

Auditor of State Rob Sand today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2020.

The Department administers and coordinates the various regulatory, service and licensing functions relating to the conduct of business or commerce in the state. The Department consists of the following divisions: Banking, Professional Licensing Bureau, Credit Union, Utilities, Insurance and Alcoholic Beverages.

AUDIT FINDINGS:

Sand reported eight findings pertaining to the six divisions of the Department. The findings are on pages 3 through 7 of this report. Sand recommended the divisions implement procedures to improve controls over inventory, capital assets, receipts, payroll, credit cards and the reporting of capital assets. Division responses to the recommendations are included in the report.

Seven of the eight findings discussed above are repeated from the prior year. Management of the Iowa Department of Commerce has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

A copy of the report is available for review on the Auditor of State's web site at [Audit Reports – Auditor of State](#).

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

JUNE 30, 2020

Iowa Department of Commerce



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November 17, 2022

Iowa Department of Commerce
Des Moines, Iowa

To Katie Averill, Director of the Iowa Department of Commerce:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Commerce for the year ended June 30, 2020. The report includes findings pertaining to the Department's internal control and compliance which resulted from the fiscal year 2020 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Department of Commerce throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand", written in a cursive style.

Rob Sand
Auditor of State

Iowa Department of Commerce



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November 17, 2022

To Katie Averill, 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 Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2020.

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 findings pertaining to the Department's internal control, 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 8 and they are available to discuss these matters with you.

A handwritten signature in black ink, appearing to read "Ernest H. Ruben, Jr.", is written over a light blue horizontal line.

Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Director, Department of Management
Tim McDermott, Director, Legislative Services Agency

June 30, 2020

Findings Reported in the State's Single Audit Report:

No matters were reported.

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

No matters were reported.

Other Findings Related to Internal Control:

(A) Alcoholic Beverages Division

Segregation of Duties over Payroll

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty.

Condition – The Division contracts with the Department of Administrative Services for payroll processing. Payroll journals are provided to management at the Division. These payroll journals are not reviewed and approved by someone in authority at the Division.

Cause – The Division does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over payroll could adversely affect the Division's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Division should review the control activities to obtain the maximum internal control possible. A Division employee should review and approve payroll journals. Such reviews should be documented by the signature or initials of the reviewer and the date of the review.

Response – ABD updated and changed this procedure starting in FY21. The Comptroller now downloads the bi-weekly payroll report and sends it to the Chief Operations Officer for review and signature. This is completed after the pay period has been finalized in the payroll system. This report contains the payroll information on all staff and for all areas within ABD. This report is then saved in a file for reference or auditing purposes.

Conclusion – Response accepted.

(B) Division of Banking

Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2020

Condition – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The Division did not include certain capital asset purchases from FY18 on their capital asset listing for FY20 resulting in an understatement of capital assets by \$30,821 and a further understatement of accumulated depreciation by \$15,410.

Cause – Division policies do not require and procedures have not been established to require independent review of GAAP package reporting to ensure the information in the Division's GAAP package is accurate and reliable.

Effect – Lack of policies and procedures resulted in Division employees not detecting the errors in the normal course of performing their assigned functions.

Recommendation – The Division should establish an independent review of the GAAP package to help ensure the GAAP package information reported is complete and accurate.

Response – The servers were missed on the initial FY GAAP due to oversight by mistake, it was discovered but not added in time of the GAAP turned in for FY20. Servers are on the FY21 assets list and will be on there going forward.

Conclusion – Response acknowledged. An independent review of the GAAP package should be completed and documented to help ensure the information is complete and accurate.

(C) Insurance Division

Segregation of Duties

Criteria – 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.

Condition – One individual who has access to credit cards is also responsible for the approval and payment function for which no compensating controls exist.

Cause – The Division does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over payment and approval of credit card transactions could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The Division should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2020

Response – The Division will reassign procurement and travel cards so that in the future the holders have no I/3 approval functions. At the time of the audit, the HR Executive and an Assistant Chief Examiner held procurement cards. As part of the HR Executive role, office manager duties included I/3 (level 3) approvals and the Assistant Chief Examiner served as one of the preaudit (level 4) backups. Administrative Assistant to the Commissioner, who has no I/3 approval authority held our travel card. The Assistant Chief Examiner used the procurement card for technology and related purchases. In the future that card will be assigned to the Division Info Tech Specialist. Administrative Assistant will hold the other procurement and the travel cards. Neither the Info Tech Specialist, nor the Administrative Assistant will have any I/3 approval authority.

Conclusion – Response accepted.

(D) Iowa Utilities Board

(1) Segregation of Duties

Criteria – 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.

Condition – Generally, one individual may have control over the collection, deposit preparation and the reconciliation of receivable records for which no compensating controls exist.

Cause – The Board does not have procedures in place to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties over receipts could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – The Board should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including employees of other Divisions.

Response – The Iowa Utilities Board was made aware of this issue and has reviewed the entire process from payments received through accounts receivable journal updates. In the interest of establishing proper controls, the Accounting Team has developed a system that provides segregation of duties throughout the process from receipt/collection to Accounts Receivable reconciliation.

Conclusion – Response accepted.

(2) Receipt Reconciliation

Criteria – An effective internal control system provides for internal controls related to reconciling amounts collected and recorded to the accounting system to amounts recorded in the receivables journal to ensure the accuracy of the receivable balances.

Condition – A reconciliation is performed between receipts collected and receipts posted, however, the reconciliation is not performed by an independent person.

Report of Recommendations to the Iowa Department of Commerce

June 30, 2020

Cause – Policies have not been established and procedures have not been implemented to reconcile receipt deposits to the receivable journal to ensure the accuracy of the receivable balances.

Effect – Since reconciliations were not performed, misstatements of receivables may not have been prevented or detected and corrected on a timely basis in the normal course of operation.

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 by an independent person.

Response – The Accounting Team of the Iowa Utilities Board is developing an A/R Journal Reconciliation process that meets the recommendation as outlined above. The team will use our Accountant 2, who is independent of the cash receipts process of deposit preparation and I3 entry. The reconciliation will include a review of the accounts receivable journal against deposit records and amounts provided by I/3 System Reports.

Conclusion – Response accepted.

(3) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Condition – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including during the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The Division understated accumulated depreciation by \$15,240.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of capital asset activity to ensure information reported is accurate and reliable.

Effect – Lack of policies and procedures resulted in Division employees not detecting the error in the normal course of performing their assigned functions.

Recommendation – The Board should establish procedures to ensure all capital asset activities and calculations are accurate and properly reported in the GAAP package.

Response – The Iowa Utilities Board received and reviewed the workpapers and calculations and agree with the finding that there was a calculation error to capital asset depreciation. The accounting team of the Iowa Utilities Board is developing a tool to use while completing the annual GAAP package that will act as a check verifying that the proper amount has been calculated and reported.

Conclusion – Response accepted.

June 30, 2020

Findings Related to Statutory Requirements and Other Matters:

(A) Alcoholic Beverages Division

Commission Member Attendance

Chapter 69.15 of the Code of Iowa provides a person appointed by the Governor to a board is deemed to have submitted a resignation if they do not attend three or more consecutive meetings or if they attend less than one-half of the regular meetings within twelve calendar months beginning on July 1 or January 1.

One member of the Iowa Alcoholic Beverages Commission, Rachel Eubank, did not comply with the attendance requirements of Chapter 69.15 of the Code of Iowa, however, she is currently listed as a member of the Iowa Alcoholic Beverages Commission.

Recommendation – The Division should work with the Office of the Governor and the Code of Iowa designated members to encourage attendance at future meetings.

Response – The ABD Board member Rachel Eubank did not intend to submit her resignation to the Governor’s office by her absence from board meetings. ABD will keep a comprehensive record of Board member attendance and notify Board members should they miss two consecutive meetings or if they have attended less than one-half of the meetings within twelve calendar months. The Executive Secretary to the Administrator will facilitate this conversation with the Board members to ensure intention regarding resignation and adherence to this code section.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Commerce

Staff

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Deputy
Deborah J. Moser, CPA, Manager
Anthony M. Heibult, Senior Auditor II
Maria L. Collins, Staff Auditor

Other individuals who participated in the audits include:

Taylor I. Cook, Senior Auditor
April R. Davenport, Senior Auditor
Kathryn A Blumer, Staff Auditor
Allison L. Carlon, Staff Auditor
Corey D. Hauptmann, Staff Auditor
Ridge G. Nennig, Staff Auditor
Cody J. Pifer, Staff Auditor
Steve D. Rater, Staff Auditor
Sarah B. Roemer, Staff Auditor
Tristan J. Swiggum, Staff Auditor