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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE October 10, 2013

Auditor of State Mary Mosiman today released a report on the six divisions of the Iowa Department of Commerce for the year ended June 30, 2012.

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

Mosiman recommended certain Divisions within the Department increase controls over inventory, 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/1360-2110-BR00.pdf.

# # #

REPORT OF RECOMMENDATIONS TO THE IOWA DEPARTMENT OF COMMERCE

JUNE 30, 2012

Office of

AUDITOR OF STATE

State Capitol Building • Des Moines, Iowa

Mary Mosiman, CPA
Auditor of State

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October 7, 2013

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, 2012.

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

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren 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

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) 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, reconciling, 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 utilizing currently available staff, including employees of other Divisions.

Response – For several years we have steadily increased the percentage of filings and fees received electronically via ACH transfer. But, the Division still receives a high volume of paper checks. These are immediately endorsed to the Insurance Division by the mail opener. We simply lack sufficient staff to further segregate duties.

Conclusion – Response acknowledged.

(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 Integrated Information for Iowa (I/3) 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 – This unit has seen reduction in staff in the past year. Depending on future staffing levels, we could have someone randomly review the deposit and the database to make sure the amounts are correct.

Conclusion – Response acknowledged.

(3) Payroll – The Division processes and records payroll and personnel information on the Human Resource Information System (HRIS). One employee may utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. This individual also has the ability to initiate and approve timesheets. For the period July 1, 2011 through February 29, 2012, five P-1 documents were 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 Resource Associates from the duties of payroll utilizing currently available staff, including employees of other Divisions.

Response – The Division Budget Director reviews and signs the payroll journal. The Budget Director reviews the payroll information randomly to check current pay is accurate. The Division has insufficient staff to further segregate these duties.

Conclusion – Response acknowledged.

(4) Capital Asset Reconciliations and Deletions – One person is responsible for both the recording and reconciling of capital assets. The Division does not maintain documentation of the reconciliation between the Integrated Information for Iowa (I/3) system and the Division's capital asset listing. In addition, the Division does not require supporting documentation before an asset is removed from the capital asset listing.

Recommendation – The responsibilities of recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the deletion of a capital asset from the capital asset listing should be supported by documentation indicating supervisory approval.

Response – The Division will review and continue to strive toward maximum internal control. We have reviewed the procedure for recording both additions and deletions to the capital asset inventory. A form is being created to add/delete equipment to the inventory which will have an Insurance Division approval signature required for the addition to and deletion from the capital asset inventory.

Conclusion – Response accepted.

(5) Employee Timesheet and Travel Claim – On five travel claims tested for one employee, the mileage reimbursement did not appear reasonable based on review of the distance between locations noted on the travel claim. Also, for this employee, two of five timesheets tested were approved by the Human Resource Associate rather than the employee's immediate supervisor.

Recommendation – Reimbursements for mileage should be reviewed to ensure the number of miles being claimed is reasonable. Also, timesheets should be reviewed and approved by an employee's supervisor to ensure hours are being accurately reported.

Responses – The Division will adopt a policy and practice under which employees will be instructed to estimate mileage using Mapquest or a similar method prior to submitting their travel reimbursement claim and ensure reasons for any material variance between the estimated mileage and their actual mileage are identified on the claim, with separation of mileage as needed. Reasons for a variance might include, but are not limited to, the unavailability of lodging in the audit location, interim locations visited in route to an audit and local vicinity mileage.

The Division's policy and practice is to have timesheets approved by an employee's supervisor, unless the supervisor is not in the office. The Division will adopt a policy of having the employee's supervisor review any employee timesheet approved by the Human Resource Associate to ensure hours are being accurately reported.

Conclusion – Response accepted.

(B) Iowa 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, reconciling, 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 utilizing currently available staff, including employees of other Divisions.

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. In fiscal year 2012, the Accounting and Assessments Team had two members for just over two months, one of whom was relatively new/going through training. A third team member was hired in mid-September and began training. With only two staff people segregation of duties is not always possible. An initial listing of receipts is not considered a top priority task because the list of receipts is prepared when the deposit is made. Having a different section, the Records Center, make a list of the receipts which come through the mail would delay the deposit of the checks and increase the possibility of a check being separated from the invoice/payment coupon it was mailed with. The checks we receive are for invoices we have mailed to the companies. The invoices are listed on our receivable file and are accounted for through the deposit.

Conclusion – Response acknowledged. The Board should review its operating procedures to obtain the maximum internal control policy.

(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 – The Iowa Utilities Board (IUB) mail person takes the mail back to the Records Center area. Envelopes are slit open to confirm contents. Checks are not removed from the envelopes; they are delivered to Accounting and Assessments staff the same day they are received. The Accounting and Assessments team endorses all checks upon receipt. This process has worked for the IUB. Checks have not been lost, taken or delayed for deposit. The risk of having a check separated from the invoice/payment coupon increases if two sections handle each check. We believe it is best to have Accounting handle the financial tasks and Records Center staff handle their specific tasks.

The IUB is reviewing a contract with an electronic payment vendor. This would reduce the number of checks received.

Conclusion – Response acknowledged.

(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 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 – During fiscal year 2012, as the Accounting and Assessments team was fully staffed, a new process commenced to provide an invoiced, detailed list for every deposit. This process is now in place and being utilized. Once our team is fully staffed and basic training done, completing a quarterly reconciliation to the I/3 System will be a team goal.

Conclusion – Response accepted.

(4) Financial Reporting – The Board records receipts and disbursements in I/3 system throughout the year, including 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) 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 recorded $65,000 as accounts receivable for revenue received in the first quarter of fiscal year 2013 in the Division's GAAP package in error. As a result, accounts receivable was overstated.

(b) The Board recorded $3,018,607 as the receivable due rather than the $3,074,554 estimated by the Department. This variance resulted in a $55,947 understatement of accounts receivable.

(c) The Board did not record a $400,905 receivable in its GAAP package for reimbursable federal expenditures for fiscal year 2012.

(d) Federal receipts exceeded expenditures for the One Call Program and the State Damage Prevention Program Grants. The Board did not record the differences as unearned revenue in the GAAP package. This error resulted in understatements of unearned revenues of $23,167 and $50,000, respectively, in the GAAP package.

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

Response – The IUB does its best to complete the GAAP package timely and correctly. We note item (b) will always be an estimate.

In our last audit report response, the IUB suggested the State Auditor work collaboratively with the GAAP Team to offer a course on completing the GAAP package. A member of the GAAP Team did come to the IUB and briefly walk through the pages of the report. We continue to believe a more robust training, perhaps using a department's actual data to complete a sample GAAP package, would be enlightening as we work to educate our backup staff about the GAAP package information which needs to be reported.

Conclusion – Response acknowledged. IUB should ensure the estimate determined by the Board is the amount reported in its GAAP package.

(5) Capital Assets – One person is responsible for recording and reconciling of capital assets. The Division does not maintain documentation of the reconciliation between the I/3 system and the Division's capital asset listing. In addition, the Board does not require supporting documentation before an asset is removed from the capital asset listing.

Recommendation – The responsibilities of recording and reconciling capital assets should be segregated. The reconciliation of capital assets should be documented and the deletion of a capital asset from the capital asset listing should be supported by supervisory approval.

Response – It would be helpful to have an example of what the AOS requests regarding performance of a capital asset reconciliation. The IUB did remove two copy machines from our inventory in fiscal year 2012. Both of these were identified by serial number and authorized/approved for pickup in an email sent by the Deputy Executive Secretary to the vendor delivering the new equipment.

Conclusion – Response acknowledged.

(6) Duplicate Revenue Correction Entry – The Board recorded $139,515 of fiscal year 2013 revenue in fiscal year 2012. Upon discovering the error, the Board corrected the transaction. However, the Board performed the same correcting entry again several days later. This resulted in fiscal year 2012 revenues being understated and fiscal year 2013 revenues being overstated by $139,515.

Recommendation – The Board should implement procedures to ensure revenue is coded to the correct fiscal year and transactions are not recorded more than once.

Response – While the Accounting Team takes great care to avoid duplication of entries, this was a mistake.

Conclusion – Response acknowledged.

(7) Missing Documentation – The Board could not locate supporting documentation for four of the 40 revenue transactions tested.

Recommendation – The Board should maintain adequate supporting documentation for all financial transactions.

Response – A concerted effort has been made to get caught up on filing and to keep the file room organized. With a full team, re-filing can be done more timely. The IUB would also like to discuss with the auditors the concept of a basic process for checking audit files in and out during the in-house audit.

Conclusion – Response acknowledged. We will work with the Board during the fiscal year 2013 audit in checking audit files in and out.

(8) Telecommunications Access Iowa – The Board has contracted with Deaf Services Unlimited, Inc. to administer the Telecommunications Access Iowa program (TAI). TAI helps offset the cost of specialized telecommunications equipment for qualified individuals who are deaf or hard-of-hearing. The program provides vouchers to eligible applicants to pay for approximately 95% of the average cost of specialized equipment. To qualify for the program, an individual must meet the following requirements:

- Live in Iowa,
- be older than 5 years of age, or know how to use telephone equipment,
- have, or will have, a telephone line hooked up in their home,
- meet income guidelines based on family size and
- have an appropriate licensed professional, including, but not limited to, a licensed physician, certified teacher in the fields of hearing, speech or visual impairment, speech pathologist, audiologist or an appropriate state of federal agency representative, sign the application verifying a need for specialized phone equipment.

Applications are submitted to TAI, where they are reviewed and approved, if appropriate. The review process includes ensuring all fields on the application are complete and the applicant answered yes to all the qualification questions. As part of the verification process, program staff verifies the name, address and phone number of the individual applying for the program. Applications must be signed by the applicant certifying all information regarding qualifications and income is true. There is no requirement for the applicant to submit support for income verification.

Staff also verifies the credentials of the professional signing the application by comparing it to a licensure database and requiring a state license number. Once the application is approved, a voucher is issued to the individual, who can then use the voucher to purchase equipment from an authorized vendor who participates in the program. A vendor becomes authorized by signing a written agreement which lists requirements for vendors participating in the program and contains the vendor's agreement to follow the expectations of the program. Once the equipment is purchased, the recipient signs the voucher certifying the equipment has been received. The vendor also signs the voucher certifying the equipment was delivered. The vendor then submits the voucher to TAI, which forwards the request for payment to the Board, which issues a state warrant to the vendor.

In October 2012, the Division of Criminal Investigation (DCI) was notified by law enforcement agents in Nebraska an individual living in Council Bluffs had submitted false applications under a similar program in Nebraska to provide equipment to individuals who are deaf or hard-of-hearing. As a result, the DCI began an investigation in Iowa to determine if the same individual had submitted false claims to the TAI program in Iowa.

According to a representative from DCI, Janet Killam, a dealer of telecommunications equipment, submitted 20 vouchers to the TAI program from June 2004 through August 2012 and was paid $10,777.26 for equipment which was not delivered to eligible individuals. The final check for $2,993.76 issued to Ms. Killam on October 26, 2012 was returned by Ms. Killam at the request of the Board after being informed of the on-going investigation. The check covered vouchers which were issued on August 24 and 31, 2012 and submitted by Ms. Killam for payment on September 27 and 28, 2012.

Ms. Killam was employed by the State of Nebraska in a similar program. Because of her employment in Nebraska, TAI accepted her credentials as a professional serving people who are deaf or hard-of-hearing. As a result, Ms. Killam was allowed to submit the required applications and sign as an appropriate professional. Based on this, the applications appeared to be complete and were approved.

Ms. Killam also operated a business as an authorized vendor selling the types of telecommunications equipment used for the Iowa program. Once the vouchers were issued to applicants by TAI, she apparently obtained those vouchers. As an authorized vendor, Ms. Killam signed the vouchers certifying the equipment had been purchased and delivered to the user.

When TAI program staff receive the voucher, they verify the voucher is signed, complete and the type of equipment and cost is included on the voucher. Once approved by TAI staff, the voucher is then submitted to the Board and a state warrant for the amount of the voucher is issued.

The voucher includes sections where equipment purchase and delivery verification are documented by the recipient and the vendor. Approximately 30 days after the voucher has been processed, TAI sends a follow-up survey to the individual listed on the account as the recipient of the equipment. Any concerns identified in the survey are addressed. TAI does not perform any follow-up if a survey is not returned.

On March 6, 2013, the DCI filed a criminal complaint against Ms. Killam. Ms. Killam has been charged with Fraudulent Practices – 2nd degree by the Polk County Attorney's Office.

Recommendation – The Board should implement policies and procedures requiring Telecommunications Access Iowa to:

- Ensure individuals applying for the program are eligible by verifying information provided on the application, including income and family size.
- Require verification the equipment has been received, installed and is operational prior to paying the voucher.

In addition, the Board should also periodically monitor the program to ensure the program is operating as intended and all required applications and support is maintained.

Response – The Iowa Utilities Board received documents from the Iowa District Court for Polk County on August 8, 2013, showing Ms. Killam was ordered to make restitution in the amount of $7,783.50. The IUB received a check in the amount of $7,783.50 from the Polk County Clerk of Court on August 12, 2013. As a result, the equipment distribution program fund has been made whole.

The IUB will review our policies and procedures with respect to authorized vendors (dealers) in the Equipment Distribution Program. The dealer agreement has been modified to include a clause which states dealers will be subject to audit and verification. We will also review our policies and procedures regarding verification of eligibility and determine the best methods to verify applicants meet eligibility requirements, including income and equipment has been received by recipients. The IUB will continue to review our policies and procedures and implement improvements as other information becomes available.

Conclusion – Response accepted.

(C) Alcoholic Beverages Division

(1) 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 six 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.

Response – The Division acknowledges the finding. Procedures and policies regarding leave requests have been adopted effective January 1, 2013. Approval, edit and delete functions are limited to management only.

Conclusion – Response accepted.

(2) Unrecorded Receipts – Departments record revenues and expenditures in the I/3 system throughout the year, including the accrual period. Receipts collected after June 30, 2012 relating to goods and services provided prior to June 30, 2012 should be coded to the prior fiscal year. One of the 18 items tested was improperly coded to fiscal year 2013 for licenses issued in fiscal year 2012. This error understated revenue by $22,470.

Recommendation – The Division should implement cutoff procedures to ensure all transactions are coded to the proper fiscal year and receipts are accrued accurately.

Response – The Division has made a concerted effort to ensure revenues and expenses are coded to the correct fiscal year. Returned item cash receipts are tracked separately to ensure they are coded to the correct fiscal year. An independent member of the accounting team is designated to review all revenues recorded in the accrual period.

Conclusion – Response accepted.

(3) Penalty Fee – Chapter 123.137 of the Code of Iowa requires a Class “A” permit holder to submit a report of the prior month’s barrel sales to the Division by the 10th of the month with the amount of tax due. Reports not submitted by the 10th will incur a 10% penalty fee. For three of the ten items tested, the Division did not track the receipt date of the barrel sales reports.

Recommendation – The Division should develop a procedure to document the date barrel sales reports are received. Implementation of a dating procedure would allow the Division to enforce the 10% penalty for reports not received within the specified timeframe.

Response – As of July 1, 2012, the Division has implemented a new online beer and wine tax reporting program. The program tracks the receipt date of the Class “A” permit holders’ barrel sales report. The program also automatically assesses a 10 percent penalty fee to the tax due on any reports not submitted by the 10th of the month.

Conclusion – Response accepted.

(4) Inventory System – The Division implemented a new warehouse and inventory system on July 1, 2011. Because of issues encountered during the implementation of the new system, inventory was not being accurately reported. The Division did not develop written procedures for the implementation of vendor purchased software and did not utilize a testing environment prior to implementation of the inventory software. In addition, the Division has not developed written procedures over the inventory system and the controls in place.

The Division’s year end inventory count was performed by warehouse staff, who are also responsible for handling inventory. No independent review or recount was performed. Within the warehouse, some of the inventory is owned by the Division while a majority of the inventory is owned by suppliers. The Division could not separately identify inventory it owned on the inventory system. Also during the year end inventory count, 11 of 40 items selected for testing had a variance between the Divisions inventory listing and the auditor’s physical count.

Departments record receipts and disbursements on the 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) in a GAAP package. The GAAP package is to be submitted to DAS–SAE by the first week of September each year. Because of problems with the inventory system, the Division estimated an additional payable of $1,056,898 for the purchase of liquor. However, after the inventory was properly adjusted, the Division should have reported a receivable of $61,765, a difference of $1,118,663.

A reconciliation of liquor sales to I/3 financial information was not performed during fiscal year 2012. In addition, adjustments to electronic funds transfers (EFTs) are not reviewed and approved.

Breakage happens frequently as large volumes of orders are filled and transported each day. The Division incurs the cost of any breakage occurring in its warehouse or during delivery. The Division did not monitor breakage totals. Warehouse and transportation breakage reports were not reviewed and approved. Also, for one month tested, supplier defects, where the supplier is responsible for the cost, were charged to warehouse breakage.

In addition, the following were identified:

a) The Division has not implemented controls to confirm the counts performed by warehouse staff during the receipt of product from suppliers.
b) Bills of lading are received when product is delivered to the warehouse by suppliers. The bills of lading were not signed by a warehouse employee and the driver delivering the product and were not maintained. In addition, at times, the suppliers will request a product be returned from the Division's warehouse. The pickup driver brings a bill of lading listing what is to be picked up. The bills of lading should be signed by a warehouse employee and the driver responsible for picking up returns to the suppliers. Bills of lading were not kept, so there was no record of products the Division returned to suppliers.
c) The inventory system allows the Division to purchase more product from its bailment inventory than what is located in the warehouse.
d) The Division will not deliver less than one case of special orders to customers. However, the inventory system allows for less than one case to be ordered. This leads to pickers zeroing out inventory. This is necessary for pickers to move on with filling their orders. Pickers should not have the ability to zero out inventory. When inventory is zeroed out, this causes a count and recount of the inventory zeroed out to get it back into the system. The count and recount policy is for two different employees to investigate variances, but there is nothing in the system to prevent the same person from entering the count twice.
e) Drivers transport product throughout the state. When a product is delivered, the driver provides a customer invoice to the customer and brings one back to the Division. The Division does not have procedures in place to ensure delivery drivers break down deliveries to ensure accuracy of the delivery prior to signing customer invoices. No second check occurs on orders once they are picked from the warehouse. The Division relies on customers to report wrong orders. The customer does not have an incentive to report receiving more product than ordered.

Recommendation – The Division should develop written procedures for future implementation, as well as defining control procedures to be performed over the inventory system. The Division should strengthen controls over the inventory cycle, including inventory purchasing, inventory maintenance, inventory sales and inventory counts. In addition, the Division should retain appropriate documentation.

Response – The Division acknowledges the findings concerning inventory. Due to the complexity of the warehouse system, coupled with the requirement to continue warehouse functions, a testing environment was not available to the Division. Since the inception of the warehouse management system, the Division has continually implemented, reviewed and revised procedures and policies to maintain proper controls. Steps taken by the Division include the following:

- Establishing a policy and procedure work group with the sole purpose of reviewing and analyzing inventory processes and procedures. Testing and implementation of warehouse management system functions is also a major responsibility of the workgroup.
- Effective February 7, 2013, management reviews all inventory adjustments, including inventory counts, to ensure adjustments to inventory levels are proper.
- The Division did not have the ability to verify correct inventory balances at fiscal year-end, resulting in the need for an accounts payable estimate on the Division's GAAP package. The estimate used by the Division was the best available calculation at the time the GAAP package was due.
- Effective October 8, 2012, procedures have been developed to ensure liquor sales reconcile to I/3 financial information. EFTs and related adjustments are also reviewed and approved for accuracy and completeness.
- Effective November 1, 2012, procedures have been developed to ensure management reviews warehouse breakage. Accounting staff is also responsible for reconciling the breakage report to bailment payments.
- Management is required to verify discrepancies between POs and bills of ladings; verification is evidenced by management's initials.
- Procedures are in place requiring the retention of paperwork concerning all products shipped back to suppliers.
- Product purchased by the Division is reviewed and authorized by management prior to bailment payments.
- The Division has strengthened procedures regarding the correct shipment of product. The Division has employed improved pallet stacking techniques to allow greater visibility of product. Warehouse and loading staff are required to count product as it is being picked and loaded. Drivers are to count product at delivery and to document discrepancies.

Conclusion – Response accepted.

(5) Driver Time Reporting – The Division currently has 23 truck drivers. Truck drivers are required to complete a driver's daily log documenting the time worked. According to a Division representative, truck drivers submit the driver's daily logs to the Warehouse Supervisor after each shift or each week. The Warehouse Supervisor completes a timesheet at the end of the two week period for each driver based on the driver's daily logs completed by the truck drivers. The personnel assistant receives these timesheets and verifies the information.

Three of five timesheets did not include an immediate supervisor's signature to approve the timesheets. In addition, one of five drive logs tested was not signed by the driver.

Recommendation – Truck driver timesheets should be approved by a supervisor and driver logs should be signed.

Response – The Division acknowledges the finding. Management is required to sign all driver logs and ensure they are signed by the driver. Management also summarizes a drivers time worked in a driver report. This summary implies management review. New technology has been procured by the Division to streamline the process and allow electronic driver time reporting.

Conclusion – Response accepted.

(6) Procurement Cards – The Division issues procurement cards to designated employees for use in purchasing office supplies, facility maintenance supplies and other supplies, as necessary.

The rules governing the use of these cards are outlined in the Department of Administrative Services – State Accounting Enterprise (DAS–SAE) Purchasing Card Program Procedures Manual. Section 4.6 of the Purchasing Card Program Procedures Manual states each and every purchase must be supported by the vendor's original receipt. The following were noted:

- Three of 15 transactions did not have proper supporting documentation for the transaction.
- In June 2011, the Division erroneously paid an invoice to a vendor twice, resulting in a $10,315 credit balance. The Division had effectively paid in advance for goods and services.

Recommendation – The Division should ensure all purchases made with procurement cards are properly supported and comply with the Purchasing Card Program Procedures Manual. In addition, the Division should develop procedures to ensure invoices are only paid once.

Response – Accounting staff assigned with the responsibility to pay procurement cards have received procurement card training. An independent member of the accounting team also reviews payments made to U.S. Bank to avoid duplicate payments. Management is responsible for reviewing all procurement card purchases and ensuring staff utilizing procurement cards are retaining receipts and are following State of Iowa procurement card rules.

Conclusion – Response accepted.

(7) Procurement Practices – Per Department of Administrative Services procurement guidelines, all goods and services over $5,000 should be bid out or associated with a Master Agreement. Documentation of bids received, vendor selection and notice to Targeted Small Business (TSB) should be maintained. Contracts should have specific end dates and not self-renew, should be signed by both parties, should give preference to Iowa based businesses and include all appropriate clauses, including a payment clause and a monitoring clause. The following were noted:

- In five instances, contracts were self-renewing with no termination date. Two of these five contracts were over six years old.
- In three instances, the contract did not have an adequate monitoring and review clause to ensure performance of the contract as required by Iowa Administrative Code rule 107.4.
- In six instances, evidence bidding was performed, documentation the lowest competent bidder was awarded the contract, sole source or emergency procurement justification (if applicable) and notice to Targeted Small Business (TSB) was not retained.
- In one instance, the contract was not signed by a Division representative until three and a half years after the contract was initiated.
- In two instances, the contract was not signed by a Division representative.
- In three instances, the purchase of goods or services exceeding $5,000 was not bid as required by the Code of Iowa.

Recommendation – The Division should review its procurement practices to ensure compliance with the Code of Iowa and the Department of Administrative Services purchasing policies.

Response – The Division is in the process of conducting a full review of all vendors paid by the Division during fiscal year 2012 and 2013. Accounting staff will review each vendor to ensure a contract is in place, and if bid is required, proper bidding procedures are followed. New and existing contracts will include a monitoring clause for performance, ensure contracts aren't self renewing, ensure contracts are signed by appropriate personnel, and Code of Iowa procurement rules are followed.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Staff:

Questions or requests for further assistance should be directed to:

Deborah J. Moser, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Brian P. Schenkelberg, CPA, Senior Auditor II
Robert W. Endriss, CPA, Staff Auditor
Brooke A. Robb, Staff Auditor
Ryan D. Baker, Assistant Auditor
Jessica L. Barloon, Assistant Auditor
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Jason R. Ropte, Assistant Auditor
Kaylynn D. Short, Assistant Auditor