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NEWS RELEASE

FOR RELEASE _____

June 27, 2003

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2002.

The Iowa Department of Workforce Development is comprised of six divisions: Workers Compensation Services, Labor Services, Administrative Services, Policy and Information, Unemployment Insurance Services and Workforce Development Center Administration. The Department is responsible for administration of the statutes and regulations relating to unemployment compensation insurance, job placement and training, employment safety, labor standards, and workers' compensation.

Vaudt recommended the Department develop procedures:

- (1) To ensure all required reports are submitted timely.
- (2) To ensure that the percentages used and the cost centers charged in the cost allocation system have adequate documentation.
- (3) To ensure the accuracy of the report submitted to the Iowa Department of Revenue and Finance which documents payroll expenditures and related federal drawdowns.
- (4) To ensure a supervisory review of reports is performed to verify the accuracy and completeness of data and information reported.
- (5) To ensure that specific program needs are determined prior to each draw down.

A copy of the report is available for review in the Iowa Department of Workforce Development or the office of Auditor of State.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF WORKFORCE DEVELOPMENT**

JUNE 30, 2002

Office of

**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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June 18, 2003

To Richard V. Running, Director of the Iowa Department of
Workforce Development:

The Iowa Department of Workforce Development 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, 2002.

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. The recommendations pertain to the Department's internal control and compliance with federal regulations and have been reported within the State's Single Audit Report. These recommendations have been discussed with Department personnel, and their responses to these recommendations are included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Department, 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 any questions concerning any of 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 9 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2002

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.207 – Employment Service
Agency Number: F48764DE, G48764CR, M48764BK
Federal Award Year: 2001

State of Iowa Single Audit Report Comment: 02-III-DOL-309-1

- (1) Federal Reports – Iowa Workforce Development is required to submit SF-269, Financial Status Reports for the Employment Service programs on a quarterly basis.

Iowa Workforce Development did not submit reports in fiscal year 2002 for the Employment Services Revitalization funds.

Recommendation – The Department should develop policies and procedures to ensure all required reports are submitted on a timely basis.

Response and Corrective Action Planned – The agency does have policies to ensure that federal quarterly reports are submitted in a timely manner. This particular report did not appear in our review. The Employment Services Revitalization grant has been in operation since 1994 and has had different staff assigned over the time. The report was missed during a staff transition. The agency submits over 75 reports a quarter and the U.S. Department of Labor also did not notify the agency of the missing report.

The reports have been completed for SFY 2002 and submitted as of February 26, 2003. The report will be included in a tickler file to ensure timely submittal.

Conclusion – Response accepted.

CFDA Number: 17.207 – Employment Service
Agency Number: 20599, ES10672EV, ES11529HF, ES10672FV, ES11529IH,
WI11031EZ, F48764DE, G48764CR, M48764BK
Federal Award Year: 1999, 2000, 2001, 2002

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: 21099, 2102K, UI10935FM, UI11819HY
Federal Award Year: 1999, 2000, 2001, 2002

CFDA Number: 17.253 – Welfare-to-Work Grants to States and Localities
Agency Number: Y67568AV, Y74169BX
Federal Award Year: 1998, 1999

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA10591FA, AA10591FC, AA11251GQ
Federal Award Year: 2000, 2001

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA11251GJ
Federal Award Year: 2001

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CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: AA10591FB, AA10591FD, AA11251GR, EM10882EF,
EM10882FF, EM10882IT
Federal Award Year: 2000, 2001

CFDA Number: 17.801 – Disabled Veterans’ Outreach Program (DVOP)
Agency Number: DVOP01, DVOP02
Federal Award Year: 2001, 2002

CFDA Number: 17.804 – Local Veterans’ Employment Representative Program
Agency Number: LVER01, LVER02
Federal Award Year: 2001, 2002

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2002, PJ2002PA
Federal Award Year: 2002

State of Iowa Single Audit Report Comment: 02-III-DOL-309-2; 02-III-HHS-309-1

- (2) Cost Allocation – The Department utilizes a cost allocation system to distribute certain costs among federal and state programs. Allocations are made on a daily basis and may change at various times throughout the year. Several methods are used to allocate costs including, but not limited to, square footage, full-time equivalent (FTE’s) positions and hours charged to various programs.

A review of the cost allocation system identified the following:

- (a) Documentation to support certain changes made to the cost allocation system during the year was not available for the allocation of Premises Expense at 1000 East Grand and Data Processing Chargebacks.
- (b) Allocation of the Premises Expense at 150 Des Moines Street was based upon FTE’s using the work reports for a specified pay period. Several of the FTE’s were not able to be traced to work reports or other supporting documentation.

Recommendation – The Department should develop procedures to ensure that the percentages used and the cost centers charged in the cost allocation system reconcile to supporting documentation. In addition, documentation to support changes made to the cost allocation system should be maintained.

Response and Corrective Action Planned –

- (a) The documentation to support certain changes to the cost allocation system for Premises Expense at 1000 East Grand and Data Processing Chargebacks was available, but it took some time to put it together in a form acceptable to the audit staff. This problem was recognized at the exit conference for the state fiscal year ’01 audit. We believe that since that time, documentation of changes to cost allocation is being recorded in a manner acceptable to the audit staff.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2002

- (b) The data used to arrive at cost allocation for Premises at 150 Des Moines St. were determined based on Full Time Equivalents (FTEs) in that facility each quarter of the fiscal year. The documentation was from the State's Human Resource Information System (HRIS) payroll report, which is updated each pay period and identifies the programs being charged for salaries. The fact that this information would not be available, on line, a year after the fact was not taken into consideration. Updates to the system override previous data without leaving an audit trail of the total staff that were on each individual biweekly payroll. All Iowa Workforce Development can see at this time, is the staff currently on payroll in each program.

Therefore, and effective July 1, 2002, we began doing print screens of this information at the end of each quarter. One copy of that back-up is maintained by the individual that calculates the quarterly percentages and one copy by the individual that updates the cost allocation tables on the State's accounting system.

This should eliminate this problem for future audits. It should be noted that because of the stable nature of the FTEs in that office, we can determine, based on the September and December, 2002 back-up data, that only very minor variances occurred between the allocations used in state fiscal year 2002 and the percentages that we can document for the current state fiscal year 2003.

Conclusion – Response accepted.

CFDA Number: 17.207 – Employment Service

**Agency Number: 20599, ES10672EV, ES11529HF, ES10672FV, ES11529IH,
WI11031EZ, F48764DE, G48764CR, M48764BK**

Federal Award Year: 1999, 2000, 2001, 2002

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: 21099, 2102K, UI10935FM, UI11819HY

Federal Award Year: 1999, 2000, 2001, 2002

CFDA Number: 17.258 – WIA Adult Program

Agency Number: AA10591FA, AA10591FC, AA11251GQ

Federal Award Year: 2000, 2001

CFDA Number: 17.259 – WIA Youth Activities

Agency Number: AA11251GJ

Federal Award Year: 2001

CFDA Number: 17.260 – WIA Dislocated Workers

**Agency Number: AA10591FB, AA10591FD, AA11251GR, EM10882EF,
EM10882FF, EM10882IT**

Federal Award Year: 2000, 2001

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2002, PJ2002PA

Federal Award Year: 2002

June 30, 2002

State of Iowa Single Audit Report Comment: 02-III-DOL-309-3; 02-III-HHS-309-2

- (3) CMIA Agreement - Payroll – As stated in the Cash Management Improvement Act (CMIA) Agreement, the state utilizes a bi-weekly payroll system with a payday every other Friday. Consistent with the state's pre-issuance requirements, the departments must have funds on hand by Tuesday preceding the payday to cover net pay, employer contributions, and employee deductions. Due to these administrative constraints, the state is required to pay interest on direct payroll costs for 4.60 days, which is the dollar weighted average clearance of payroll related costs for mandatory and discretionary deductions held by the Centralized Payroll Trustee.

The Department is required to submit a spreadsheet to the Iowa Department of Revenue and Finance which documents payroll expenditures and related federal drawdowns by pay period. The spreadsheet for fiscal year 2002 for the cost pool included allocation percentages to distribute the costs to various cost centers. The percentages used did not correspond with the percentages actually used in the Iowa Financial Accounting System (IFAS). In addition, several instances were noted in which federal drawdowns for payroll were not in compliance with the terms of the CMIA Agreement.

Recommendation – The Department should ensure that the payroll spreadsheet submitted to the Iowa Department of Revenue and Finance is accurate and that federal drawdowns for payroll comply with the terms of the CMIA Agreement.

Response and Corrective Action Planned – The percentages used to draw funds were not materially different from those that were used to actually distribute costs. No expenditures were ever inaccurately recorded or reported to the U.S. Department of Labor. The impact this had was to cause variances between each individual federal program's drawdown and the actual expenses charged. It would not result in any excessive federal drawdowns, when all federal programs are combined. The variance would be between the various DOL programs within the cost pool.

Corrective action has been taken to ensure that the individual drawing funds is kept informed about any changes to the cost pool percentages, which are updated after staff time studies are completed. An electronic Excel spreadsheet of the new percentages is sent to the accountant drawing funds, by the individual that maintains and updates the cost pool.

Conclusion – Response accepted.

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: 21099, 2102K, UI10935FM, UI11819HY
Federal Award Year: 1999, 2000, 2001, 2002

State of Iowa Single Audit Report Comment: 02-III-DOL-309-4

- (4) Federal Reports – Federal financial and special reports are prepared from the Department's computer system and other supporting documentation.

Reports ETA 581 – *Contribution Operations*, ETA 2208A – *Quarterly UI Contingency Report* and ETA 227 – *Overpayment Detection and Collection Activities* are being prepared, but there is no supervisory review of the reports performed.

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Recommendation – Procedures should be developed to ensure a supervisory review of reports is performed to verify the accuracy and completeness of data and information reported.

Response and Corrective Action Planned – Since the transition to electronic federal reports, the supervisory review of the data submitted has not been documented in writing. Immediate action is being taken to ensure supervisory review and approval in writing prior to report submission.

Conclusion – Response accepted.

CFDA Number: 17.253 – Welfare-to-Work Grants to States and Localities
Agency Number: Y67568AV, Y74169BX
Federal Award Year: 1998, 1999

State of Iowa Single Audit Report Comment: 02-III-DOL-309-5

- (5) Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. They also minimize the amount of state funds that must be used to operate the program until the federal funds are received.

For the period October 30, 2001 through December 17, 2001 the Iowa Workforce Development carried an excessive cash balance of federal funds.

Recommendation – The Department should develop procedures to ensure that specific federal program needs are determined prior to each draw down.

Response and Corrective Action Planned – The excessive cash was caused by an error being made in the funds necessary during one week in late October. Because it was almost 6 weeks later, before this error was discovered, it caused each subsequent week's cash balance to appear excessive.

IWD has developed a system to detect errors such as this, in a more timely manner. Cash analysis reports are maintained which will detect under or over requested funds and take corrective action promptly.

Conclusion – Response accepted.

Finding Related to Internal Control:

No matters were reported.

Finding Related to Other Matters:

No matters were reported.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2002

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated on this audit include:

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