



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA  
Auditor of State

## NEWS RELEASE

FOR RELEASE

August 28, 2012

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2011.

The Iowa Department of Workforce Development is comprised of six divisions: Workers Compensation, Labor Services, Administrative Services, Labor Market and Workforce Information, Unemployment Insurance and Workforce Services. 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 compliance with the IRS 940 match requirement and certify the amounts contributed annually.
- (2) To ensure information generated for financial reporting is properly tested and reviewed for accuracy.
- (3) To ensure the GAAP package is accurately completed.
- (4) To review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained.
- (5) To identify sensitive positions and ensure background investigations are performed as part of the hiring process.
- (6) To develop and document a reasonable estimate of unemployment insurance benefits payable based on the method of payment and ensure the correct fiscal year column of the estimate is reported on the GAAP package.
- (7) To ensure compliance with Iowa Department of Administrative Services Policy 240.102 for personal service contracts.
- (8) To ensure necessary steps are taken to comply with the Code of Iowa or seek the repeal of outdated Code sections.

The report also includes the Department's responses to the recommendations.

A copy of the report is available for review at the Iowa Department of Workforce Development, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1260-3090-BR00.pdf>.

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

**JUNE 30, 2011**

— Office of —  
**AUDITOR  
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA  
Auditor of State**





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August 23, 2012

To Teresa Wahlert, 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, 2011.

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 reported in the State's Single Audit Report and the State's Report on Internal Control, as well as other recommendations 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 Workforce Development'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 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 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 11 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: 17.225 – Unemployment Insurance and ARRA – Unemployment Insurance**

**Agency Number: REEDACT03-13-2002, UI80205I, UI195829R0, UI21099EW0, UI180208C0, UI195828W0, UI19582CR0, UI195829Y0, UI21099DV0, UI19582DV0, UI195829S0, UI19582ER0, UI21099ER0**

**Federal Award Year: 2002, 2009, 2010, 2011**

**State of Iowa Single Audit Report Comment: 11-III-DOL-309-1**

- (1) IRS 940 Match – OMB Circular A-133 compliance supplement states, “States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the Federal Unemployment Tax Act (FUTA) tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer’s IRS 940 FUTA tax form.” The Department did not perform this match of the 940 file, so it did not certify the amounts contributed by each taxpayer for the calendar year 2010.

Recommendation – The Department should develop policies and procedures to ensure compliance with the IRS 940 match requirement and certify the amounts contributed annually.

Response and Corrective Action Planned – In July 2010, the previous administration placed the Department in a position to implement a system with limited functionality, a decision current administration would not have made. The Department sees this activity as critical and has ensured full implementation of the functionality for the 2012 IRS 940 Match. All work to finish the implementation will be completed by September 30, 2012.

Conclusion – Response accepted.

June 30, 2011

**CFDA Number: 17.225 – Unemployment Insurance**

**Agency Number: UI80205I, UI1195828W0, UI21099EW0, UI19582DV0, UI121099EDO**

**Federal Award Year: 2009, 2010, 2011**

**CFDA Number: 17.258 – WIA Adult Program**

**Agency Number: AA20194CX0**

**Federal Award Year: 2011**

**CFDA Number: 17.259 – WIA Youth Activities and ARRA – WIA Youth Activities**

**Agency Number: AA171215L0, AA20194AF0**

**Federal Award Year: 2009, 2010**

**CFDA Number: 17.260 – WIA Dislocated Workers**

**Agency Number: MI17526, EM206607S1**

**Federal Award Year: 2008, 2009**

**CFDA Number: 17.277 – Workforce Investment Act (WIA) National Emergency Grants**

**Agency Number: EM20821BX0**

**Federal Award Year: 2010**

**CFDA Number: 17.278 – WIA Dislocated Worker Formula Grants**

**Agency Number: AA20194AU0, AA20194CZO**

**Federal Award Year: 2010, 2011**

**State of Iowa Single Audit Report Comment: 11-III-DOL-309-2**

- (2) 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 and other federal funds used to supplant programs until federal funds are received.

In anticipation of a potential federal government shutdown, the Department drew down approximately \$2.7 million in excess of current needs for the Unemployment Insurance program and \$1.4 million in excess of current needs for the Workforce Investment Act programs. It took 17 and 21 business days, respectively, to expend the excess funds.

Recommendation – In the future, the Department should obtain formal written guidance from the applicable federal agencies and develop and implement procedures to ensure compliance with the federal agency guidance.

Response and Corrective Action Planned – Iowa Workforce Development (IWD) followed the instructions provided to us via an email from John Scott at Employment and Training Administration (ETA), dated April 6, 2011, which stated, “States are encouraged to consider whether they have drawn down or requested funds to enable them to function for several weeks in the event of a shutdown.” After much internal discussion, it was decided the funds should be requested in order to ensure uninterrupted services to the citizens of Iowa due to the federal government’s inability to pass a budget bill for federal fiscal year 2011. Unfortunately the federal government does not have a means of returning funds immediately, when it was determined a federal shutdown would be avoided. The Payment Management System (PMS) only works one way. Funds may be drawn down, but the system doesn’t allow for the return of funds. Therefore IWD’s resolution was to not draw any further funds on those programs until the amounts drawn in case of government shutdown were expended.

Report of Recommendations to the Iowa Department of Workforce Development

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If any similar situations develop again in the future IWD will attempt to receive signed notification from the federal government. It was our opinion that given the technology of today, email communications, widely accepted as formal notifications, would suffice. This email communication from ETA is on file with IWD and a copy is also maintained by the state auditor's office.

Conclusion – Response accepted.

**Findings Reported in the State's Report on Internal Control:**

(1) Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has developed the MYIOWAUI system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the running balance of employer contributions receivable and delinquent accounts, including penalty and interest calculations, for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services-State Accounting Enterprise (DAS-SAE) on a GAAP package. The following issues were noted for the year ended June 30, 2011:

(a) The MYIOWAUI system initially included previously written off employer accounts receivable, which resulted in incorrect accounts receivable and penalty and interest amounts reported to DAS-SAE, as follows:

- (1) The employer delinquent accounts receivable was overstated by \$5,994,211.
- (2) The penalty and interest receivable for delinquent accounts was overstated by \$19,400,971.

These amounts were properly adjusted for financial reporting purposes.

- (b) The system is unable to process and track return items (NSF checks).
- (c) The system is unable to run an aging report, which has been used in the past by IWD staff to develop the allowance for doubtful accounts. For fiscal year 2011, IWD applied the fiscal year 2010 allowance percentage, which was based on the prior year aging report, to the fiscal year 2011 accounts receivable balance. This was determined to be reasonable for reporting purposes.

In addition, the following findings relating to the Washington Trust financial information in the GAAP package submitted to DAS-SAE were noted:

- (a) The amount owed to the Integrated Information for Iowa (I/3) system fund 0691 from the Washington Trust Fund was overstated by \$16,041,525. This was properly adjusted for reporting purposes.
- (b) The Combined Wage Claims Payable to Other States and corresponding receivable were understated by \$251,631.
- (c) Washington Trust Fund deferred revenue-employer credit memos were understated by \$3,920,282. This was properly adjusted for reporting purposes.



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Recommendation – The Department should ensure financial information generated for the GAAP Package is properly reviewed for accuracy. In addition, the Department should continue to modify the MYIOWAUI system to ensure the data is accurate and timely.

Response – State fiscal year 2011 was the implementation year for the new Unemployment Insurance Tax system. Many of the system functions are still being developed and implemented. There have also been several scheduled system deployments and corrections to our production systems. This unfortunately has created a backlog of work and constant checking and rework for much of the data necessary for financial reporting. During fiscal year 2012, many more system functions will become available. As this happens, more accurate and timely data will become available. An aging report for accounts receivable is now functioning and more accurate methods of determining accounts receivable data are in process. Errors in the reporting of credit memos have been identified and are being corrected. Every effort to report accurate data will be made in the future and as the MYIOWAUI system functionality improves the data will be readily verifiable.

Conclusion – Response accepted.

(2) Financial Reporting – The Department 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 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 unearned revenue page of the GAAP package captures information on unearned revenues carried forward on the State accounting system to the next fiscal year, unearned revenue not carried forward and revenue carried forward which did not meet the definition of unearned revenue. Journal entries are prepared for each section reported.

(1) Unearned revenues carried forward were understated by \$118,005.

(2) Revenues carried forward not meeting the definition of unearned revenue were understated by \$7,985,591.

These were properly adjusted for reporting purposes.

(b) Other GAAP package pages included immaterial errors.

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

Response – Due to the timing of when the GAAP package is due for submission as well as the need to make revenue transfers for enterprise funds between State fiscal years to maintain cash flow during the accounting hold open period, it is extremely difficult to determine estimated unearned revenues. Unearned revenues are not finalized until the very last day of the hold open period which is usually ten calendar days past the required date of the GAAP package submission.

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During the course of the fiscal year 2011 GAAP package reconciliation with the DAS-SAE GAAP team, a report has been developed for use in future years to capture those entries posted during the hold open period which transfer revenues between fiscal years. Where estimation of unearned revenues is necessary due to the required date of submission occurring prior to the finalization of unearned revenues, IWD will attempt to estimate unearned revenues and revise the GAAP package when the finalization of unearned revenues has transpired.

Conclusion – Response accepted.

- (3) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. The following were noted:
- (a) Thirteen of twenty five capital assets selected from the listing could not be located.
  - (b) One of the fifteen capital assets observed did not have a State property tag affixed to it.
  - (c) Three of ten capital assets randomly selected for observation could not be traced to the capital asset listing.
  - (d) Seven expenditures for items with a value of over \$5,000 each, totaling \$78,912, could not be traced to the capital asset listing.
  - (e) In the prior year, twenty-one items with a value of over \$5,000 each, totaling \$185,618, could not be traced to the capital asset listing. These items still have not been included in the capital asset list.
  - (f) In the prior year, eleven items included in the capital asset listing were determined to have been disposed of in prior years. These items still are included in the capital asset list.
  - (g) Three of fifteen capital asset deletions tested were not properly approved.
  - (h) Intangible assets of \$883,660 for the Global 360 software were not initially reported on the GAAP package. This was properly adjusted for reporting purposes.

Recommendation – The Department should review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained. This includes ensuring all assets are properly accounted for, included on the capital asset listing and tagged with a State property tag. In addition, approval prior to the deletion of items from the capital asset listing should be obtained and retained.

Response – Staff assignments are being modified to move this function from our Accountant 3 to an Accountant 2. We have attempted to do this in the past, however, staffing turnover from early retirements has made it difficult to accomplish this task. Financial Management is finally at a full staffing level now and this function is being moved. The main problem has always been having sufficient time to properly administer the inventory. Improvement should be seen with the final inventory for fiscal year 2012.

Conclusion – Response accepted.

June 30, 2011

**Other Findings Related to Internal Control:**

- (1) Background Investigations – The Department hires employees for various positions, including positions which are sensitive in nature, such as information technology staff, individuals with access to cash, etc. Background investigations are not done as part of the employee hiring process.

Recommendation – The Department should develop procedures to identify sensitive positions and ensure background investigations are performed as part of the hiring process.

Response – IWD is working with the Iowa Department of Administrative Services to arrive at a standard policy that can be used by all state agencies. It is our hope a new policy will be put into place during the current fiscal year which can be used consistently throughout state government.

Conclusion – Response accepted.

- (2) Unemployment Insurance Benefits Payable Estimate – The Department calculates an estimate of benefits payable as of June 30 each fiscal year for inclusion on the GAAP package. The estimate is based on the payment of benefits each week. Payments made in the first few weeks of July need to be allocated to each applicable fiscal year. The Department originally included the fiscal year 2012 portion of the calculation instead of the 2011 portion of the calculation on the June 30, 2011 GAAP package.

Upon additional testing of the estimate, the Department did not properly allocate the payments to fiscal years 2011 and 2012. The estimate was not based on the type of method used to pay the benefits. Benefits paid by warrant are for a two week period while benefits paid by debit card and direct deposit are for a one week period. After recalculating the estimate related to fiscal year 2011 and comparing it to the amount included on the GAAP package, the balance reported was understated by approximately \$1.9 million.

Recommendation – The Department should develop and document a reasonable estimate of unemployment insurance benefits payable based on the method of payment and ensure the correct fiscal year column of the estimate is reported on the GAAP package.

Response – Beginning with the fiscal year 2012 GAAP package, IWD will begin allocating benefits payable between fiscal years based on the most recent percentages for the method of payment of unemployment benefits. This will be a change from past years when we allocated benefits payable based on the days of the week for each fiscal year for warrants.

Conclusion – Response accepted.

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

- (1) Personal Service Contracts – Iowa Department of Administrative Services Policy 240.102 provides general guidelines to be used by departments when entering into personal service contracts. The required procedures include obtaining a signed contract prior to the performance of the contracted services. Twenty of the twenty-five contracts tested were not signed by all parties prior to the contracted service starting date.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2011

Recommendation – The Department should ensure compliance with policies and procedures for service contracts established by the Department of Administrative Services.

Response – The timing on when federal funds are actually received dictates when many of these contracts can be written and signed. In many cases, the funding does not arrive until after the beginning date for their usage and the grant documents are made retroactive. In other cases and especially with National Emergency Grants, the work must begin immediately upon receipt of the Notice of Obligation as citizens of Iowa who have lost their job due to plant layoffs and closing need immediate assistance. The contract review process, which is required for internal control purposes, cannot be completed as quickly as start-up activities can happen. Therefore, the work begins before a contract could possibly be signed. IWD understands this does not fit every situation noted by the auditors and will continue to work towards shrinking up the delay in contract completion and the effective date of those agreements. We believe improvements have been made and will appear during the audit for fiscal year 2012.

Conclusion – Response accepted.

(2) Iowa Code Compliance – The following were noted:

- (a) Iowa Conservation Corps – Chapter 84A.7 of the Code of Iowa establishes the Iowa conservation corps to provide meaningful and productive public service jobs for youth, unemployed persons, persons with disabilities, disadvantaged persons and elderly persons and to provide participants with an opportunity to explore careers, gain work experience and contribute to the general welfare of their communities and state. The Department is to administer the corps and the Iowa conservation corps account.

This program and the account are currently inactive.

- (b) Statewide Mentoring Program – Chapter 84A.9 of the Code of Iowa states the Department shall establish and administer, in collaboration with the Departments of Human Services, Education and Human Rights, a statewide mentoring program to recruit, screen, train and match individuals in a mentoring relationship.

This program is currently inactive.

- (c) New Employment Opportunity Program – Chapter 84A.10 of the Code of Iowa states the Department shall implement and administer a new employment opportunity program to assist individuals in under-utilized segments of Iowa's workforce, including, but not limited to, persons with physical or mental disabilities, persons convicted of a crime or minority persons between the ages of twelve and twenty-five, to gain and retain employment.

This program is currently inactive.

Recommendation – The Department has requested the repeal of these outdated code sections and should continue to work toward the repeal of these outdated Code sections.

Response – The Department has submitted requests to the Legislature to have these programs rescinded. As of this time, no action has been taken. IWD will continue to work with the Legislature to get this accomplished.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2011

**Staff:**

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager  
Brian R. Brustkern, CPA, Manager  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Brian P. Schenkelberg, CPA, Senior Auditor  
Kassi D. Adams, Staff Auditor  
Ryan T. Jelsma, Staff Auditor  
Casey L. Johnson, Staff Auditor  
Justin M. Scherrman, Staff Auditor  
Marta M. Sobieszkoda, Staff Auditor  
Dorothy O. Stover, Staff Auditor  
Brandon J. Vogel, Staff Auditor  
Adam B. Bartz, Assistant Auditor  
Emily K. Creighton, Assistant Auditor  
Hannah K. Haas, Assistant Auditor  
Marijke J. Hodgson, Assistant Auditor  
Ann C. McMinimee, Assistant Auditor  
David C. McQuarry, Assistant Auditor  
Jamie T. Reuter, Assistant Auditor  
Nicole L. Wilson, Assistant Auditor