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NEWS RELEASE

FOR RELEASE July 13, 2004

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, 2003.

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 a supervisory review of reports is performed to verify the accuracy and completeness of data and information reported.
- (2) To ensure the accuracy of the report submitted to the Iowa Department of Revenue and Finance which documents payroll expenditures and related federal drawdowns.
- (3) To ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.
- (4) To ensure the percentages used and the cost centers charged in the cost allocation system have adequate documentation.
- (5) To ensure payroll certifications are supported by actual time charged through the state payroll system and ensure all employees are included in the time study.
- (6) To ensure established policies and procedures are utilized to prevent and detect duplicate vendor payments.
- (7) To ensure program monitoring and quality reviews are performed on all subrecipients.

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, 2003

— Office of —
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA
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February 27, 2004

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, 2003.

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 other matters. 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 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 Thomas J. Vilsack, Governor
Cynthia P. Eisenhower, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2003

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: 2102K, UI10935FM, UI11819HY, UI12638KS
Federal Award Year: 2000, 2001, 2002, 2003

State of Iowa Single Audit Report Comment: 03-III-DOL-309-1

- (1) 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.

Recommendation – The Department should develop to ensure a supervisory review of reports is performed to verify the accuracy and completeness of information reported.

Response and Corrective Action Planned–The reports were reviewed by supervisors and are correct. Unfortunately, hard copies were not signed or initialed to document that process. They will be signed or initialed by supervisors in the future.

Conclusion–Response accepted.

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: UI11819HY, UI12638KS
Federal Award Year: 2002, 2003

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2003
Federal Award Year: 2003

State of Iowa Single Audit Report Comments: 03-III-DOL-309-2 and 03-III-HHS-309-3

- (2) 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 cash advance 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 2003 for the cost pool included allocation percentages to distribute costs to various cost centers. The percentages used did not correspond with the percentages actually used in the Iowa Financial Accounting System (IFAS) for the first twenty pay periods of the year.

Recommendation–The Department should ensure the payroll spreadsheet submitted to the Iowa Department of Revenue and Finance is accurate.

June 30, 2003

Response and Corrective Action Planned – The analysis prepared was based on final cost pool percentages that are determined at the end of each quarter according to time studies of staff within the cost pool. Estimated percentages are used throughout the quarter and then adjustments are made based on these time studies. The Department realizes that the analysis should have been based exactly on the way costs were incurred throughout the quarter and then apply the quarterly adjusting entry at the point it was posted to the books of account. This will be done on future spreadsheets to the Iowa Department of Revenue and Finance.

Conclusion – Response accepted.

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: 2102K, UI10935FM, UI11819HY, UI12638KS
Federal Award Year: 2000, 2001, 2002, 2003

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2003
Federal Award Year: 2003

State of Iowa Single Audit Report Comments: 03-III-DOL-309-3 and 03-III-HHS-309-4

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

A review of the Department's spreadsheets documenting the daily cash balance by program identified the following:

- (a) For the Unemployment Insurance program, two instances were noted where the cash balance was excessive for a period of seven to eight days.
- (b) For the Temporary Assistance for Needy Families (TANF) program, four instances were noted where the cash balance was excessive for a period of sixteen to thirty-one days.

Recommendation – The Department should monitor cash balances to ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.

Response and Corrective Action Planned – For the Unemployment Insurance program, the Department is only aware of some very short time periods of excess cash. These were due in large part because adjustments were made to move costs from baseline Unemployment Insurance codes to the Temporary Extended Unemployment Benefits cost codes. This is done each payroll and is based on activity code information supplied by the staff members on their timesheets. There are instances where this has resulted in adjusting entries made that temporarily left the Department with excess Unemployment Insurance funds on hand.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2003

The TANF program receives advances from the Iowa Department of Human Services on a monthly basis. This system has resulted in the Department occasionally having less funds available than necessary and sometimes more than is necessary. Every effort is made to minimize the discrepancies through analysis of past experience and refinement of our forecasting of future expenditures.

Conclusion – Response acknowledged. The Department should continue to improve its cash management monitoring system.

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: 2102K, UI10935FM, UI11819HY, UI12638KS
Federal Award Year: 2000, 2001, 2002, 2003

CFDA Number: 17.245 – Trade Adjustment Assistance – Workers
Agency Number: TA11128FX, TA11893IJ, TA12691LD, TA12691LF, TA12638LC,
TA12638LE, 1722K, UI11819II, UI11819IK
Federal Award Year: 2000, 2001, 2002, 2003

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA11251HP, AA12011JF, AA12011KC
Federal Award Year: 2002, 2003

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA12011IZ, AA12925LO
Federal Award Year: 2002, 2003

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: AA11251HQ, AA12011JG, AA11251GR, EM10882JJ, EM10882EF,
EM10882FF, EM10882IT, EM10882KF
Federal Award Year: 2000, 2001, 2002, 2003

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2003
Federal Award Year: 2003

State of Iowa Single Audit Report Comments: 03-III-DOL-309-4 and 03-III-HHS-309-5

- (4) 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.

Review of the cost allocation system identified 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.

Recommendation–The Department should develop procedures to ensure the percentages used and the cost centers charged in the cost allocation system reconcile to supporting documentation and the documentation is maintained.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2003

Response and Corrective Action Planned – The Department prepared an analysis of rent allocations for the fiscal year that ended on June 30, 2003. The actual charges posted were compared to what they would have been had adjustments not been made in the distribution percentages. Because the Department breaks costs down by bureau and program, the net effect of the variances is minimal. In many of the cases, an adjustment would have resulted in charging more costs to one bureau and less costs to another. The net effect is that the bureau may have been over or under charged, however, the program funding sources did not pay significantly more or less than what has been posted to the books of account.

The Department has developed procedures that will ensure that changes made to cost allocation tables are documented through narrative or analysis.

Conclusion–Response accepted.

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI11819HY, UI12638KS

Federal Award Year: 2002, 2003

CFDA Number: 17.258 – WIA Adult Program

Agency Number: AA11251HP, AA12011JF, AA12011KC

Federal Award Year: 2002, 2003

CFDA Number: 17.259 – WIA Youth Activities

Agency Number: AA12011IZ, AA12925LO

Federal Award Year: 2002, 2003

CFDA Number: 17.260 – WIA Dislocated Workers

**Agency Number: AA11251HQ, AA12011JG, AA11251GR, EM10882JJ, EM10882EF,
EM10882FF, EM10882IT, EM10882KF**

Federal Award Year: 2000, 2001, 2002, 2003

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2003

Federal Award Year: 2003

State of Iowa Single Audit Report Comments: 03-III-DOL-309-5 and 03-III-HHS-309-6

- (5) Payroll Allocation – The Department performs a time study on a quarterly basis to determine percentages of time spent on various federal programs within a designated cost pool. The percentages are based upon certifications submitted by the employees working within the cost pool. The percentages are compiled and total costs are distributed to the federal programs within the cost pool.

Review of work report information provided by employees on the state payroll system indicated several instances where the total time charged to the cost pool did not agree with the percentage of time certified. Also, three employees who charged time to the cost pool for a portion of the fiscal year were not included in the time study.

Recommendation – The Department should develop procedures to ensure payroll certifications are supported by actual time charged through the state payroll system. Also, the Department should ensure all employees are included in the time study.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2003

Response and Corrective Action Planned—The Department is not aware of any employees that worked a significant amount of time during a given quarter but did not complete a time study. The Department did have employees who began employment or ended employment during the year. In those cases, the individual may have left without signing a time study. In other cases, staff may have started late in a quarter and did not work a significant number of time periods during that quarter. Therefore, the Department did not request a time study from that person.

The time studies do agree with the state payroll system that is actually used to calculate and charge payroll to the various programs on a payroll by payroll basis. The system that did not agree with time studies is only used by the state to track hours worked and leave time taken. It is not used to actually allocate payroll to any program.

The Department did change the time study process at July 1, 2003 to have time studies completed by staff on a monthly basis. This should reduce the impact of staff leaving employment without completing time studies. Instead of missing an entire quarter, we would not miss any more than 4 weeks of time studies for an individual.

Conclusion—Response acknowledged. The Department should ensure employee quarterly certifications agree with the average time spent on the cost pool as documented in the State's payroll system.

CFDA Number: 17.245 – Trade Adjustment Assistance – Workers
Agency Number: TA11128FX, TA11893IJ, TA12691LD, TA12691LF, TA12638LC,
TA12638LE, 1722K, UI11819II, UI11819IK
Federal Award Year: 2000, 2001, 2002, 2003

State of Iowa Single Audit Report Comment: 03-III-DOL-309-6

(6) Disbursement Controls—Eligible participants in the Trade Adjustment Assistance program may choose to participate in classroom training or on-the-job training. A contract is created with a vendor to provide designated training. Contracts are negotiated on an individual participant basis and a maximum contract amount is determined. The original contract is maintained in the Financial Management Bureau. An encumbrance is created for the full amount of each contract.

Payments to vendors are processed initially by program administrators and first level of approval is given. The original payment voucher with supporting documentation is sent to Financial Management to be processed for payment. Financial Management is to file support with the original contract and ensure funds are available per the negotiated contract. A second level of approval is made by Financial Management and payment is processed.

During fiscal year 2003 a vendor submitted the same invoice for payment twice and warrants were issued to the vendor. Subsequently, the vendor returned the duplicate payment to the Department. However, established controls were not utilized and, therefore, were not effective in preventing and detecting the duplicate payment.

Recommendation—The Department should ensure policies and procedures are utilized to prevent and detect duplication of payments to vendors.

Report of Recommendations to the Iowa Department of Workforce Development

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Response and Corrective Action Planned—This error occurred because an accounting clerk did not follow the established procedure. That individual has been made aware of the error and the proper procedure was reviewed with her to ensure that this problem does not happen again.

Conclusion—Response accepted.

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA11251HP, AA12011JF, AA12011KC
Federal Award Year: 2002, 2003

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA12011IZ, AA12925LO
Federal Award Year: 2002, 2003

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: AA11251HQ, AA12011JG, AA11251GR, EM10882JJ, EM10882EF,
EM10882FF, EM10882IT, EM10882KF
Federal Award Year: 2000, 2001, 2002, 2003

State of Iowa Single Audit Report Comment: 03-III-DOL-309-7

- (7) Subrecipient Monitoring—OMB Circular A-133 Compliance Supplement states, in part, that each state must have a monitoring system which provides for annual on-site monitoring reviews of subrecipient's compliance with U.S. Department of Labor uniform administrative requirements, ensures established policies to achieve program quality and outcomes meet the Workforce Investment Act's objectives and enables the Governor to determine if subrecipients and contractors are in substantial compliance with WIA requirements.

A review of the Department's subrecipient monitoring activities during the fiscal year 2003 identified no program monitoring or quality reviews were performed for seven of the fifteen subrecipients.

Recommendation – The Department should develop policies and procedures to ensure program monitoring and quality reviews are performed on all subrecipients.

Response and Corrective Action Planned – Staffing shortages resulted in these program monitoring reviews not being performed. Every effort is being made to ensure that all program monitoring is performed each year. All required visits are scheduled for state fiscal year 2004.

Conclusion—Response accepted.

CFDA Number: 17.207 – Employment Services
Agency Number: F48764EM, G48764CR, G48764EG, M48764EG
Federal Award Year: 2001

State of Iowa Single Audit Status of Prior Audit Findings 02-III-DOL-309-1

- (8) Federal Reports—The Department is required to submit SF-269, Financial Status Reports for the Employment Service programs on a quarterly basis.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2003

The Department did not submit reports at June 30, 2003 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 – This program has ended and a final report submitted.

Conclusion – Response accepted.

Finding Related to Internal Control:

No matters were noted.

Finding Related to Other Matters:

CFDA Number: 17.245 – Trade Adjustment Assistance – Workers

**Agency Number: TA11128FX, TA11893IJ, TA12691LD, TA12691LF, TA12638LC,
TA12638LE, 1722K, UI11819II, UII1819IK**

Federal Award Year: 2000, 2001, 2002, 2003

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

A review of the Department's spreadsheets documenting the daily cash balance by program identified numerous instances in which the cash balance was negative. There were five instances noted where the cash deficit exceeded (\$100,000) for periods ranging from nine to thirty-nine days.

Recommendation – The Department should monitor cash balances to ensure balances on hand are sufficient to cover current needs.

Response and Corrective Action Planned – For the TAA/NAFTA program, the Department was forced to use other non-federal funding sources to pay for claims on this program. The Department of Labor ran out of available TAA/NAFTA funds during the period being audited. Since this program was intended, by federal legislation, to be an entitlement program, services could not be terminated to clients and obligations had to be paid. The Department had to find alternative funding sources to pay for federal claims until such time as funds became available again from the Department of Labor.

Conclusion – Response acknowledged. The Department should continue to improve their cash management monitoring system.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2003

Staff:

Questions or requests for further assistance should be directed to:

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