

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE _____ September 28, 2015 _____

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2014.

The Iowa Department of Workforce Development is comprised of seven divisions: Worker's Compensation, Labor Services, Administrative Services, Unemployment, Information Technology, Workforce Services and Communications and Labor Market. 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.

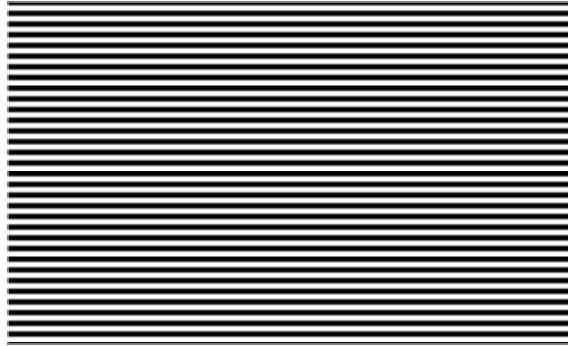
Mosiman recommended the Department develop procedures to:

- (1) Ensure information generated for financial reporting is properly tested and reviewed for accuracy.
- (2) Develop procedures to ensure overtime is allowable, properly approved, tracked and reviewed.
- (3) Identify sensitive positions and ensure background investigations are routinely performed as part of the hiring process.
- (4) Review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained.
- (5) Ensure compliance with the Department of Administrative Services Purchasing Card Program Procedures Manual.
- (6) Ensure compliance with Department of Administrative Services Policy 240.102 for personal service contracts.
- (7) Ensure necessary steps are taken to comply with the Code of Iowa or continue to seek the repeal of outdated Code sections.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/1560-3090-BR00.pdf>.

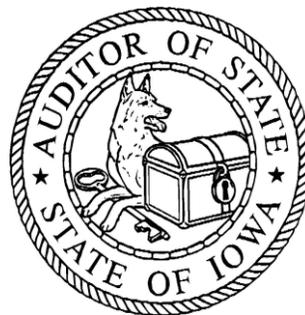
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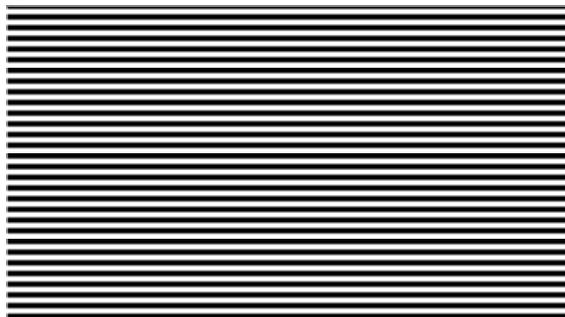
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF WORKFORCE DEVELOPMENT**

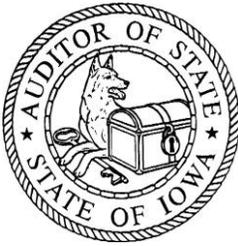
JUNE 30, 2014

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



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September 22, 2015

To Beth Townsend, 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, 2014.

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 Report on Internal Control as well as other recommendations pertaining to the Department's internal control, 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 10 and they are available to discuss these matters with you.


MARY MOSIMAN, 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, 2014

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Department (IWD) has developed the MYIOWAUI system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the 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) in a GAAP package. The following were noted for the year ended June 30, 2014:

- (1) The Department overstated accounts receivable by \$5,905,235 and understated the allowance for doubtful accounts by \$16,796,523 in the GAAP package Unemployment Benefits Fund page. As a result, the net accounts receivable balance was overstated by \$22,701,758. This was properly adjusted for reporting purposes.
- (2) The Department overstated accounts payable by \$5,634,260 in the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (3) According to the Department, an account goes to non-collectible status when the most recent debt creation date on the account is older than 720 days and the last payment was not received within 90 days. These accounts should be written off for reporting purposes and not be included in the balance reported in the GAAP package. During testing, \$363,679 of \$43,199,600 of contributions, \$228,900 of \$16,602,149 of interest and \$47,924 of \$2,074,463 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Recommendation – The Department should ensure financial information generated for the GAAP package is properly reviewed for accuracy. The Department should continue to modify the MYIOWAUI system to ensure the data is accurate, timely and conforms to established policy.

Response – For numbers (1) and (2), IWD will review reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP Package. For number (3), the discrepancy is caused from the comparison of the Employer Accounts Receivable created from the MYIOWAUI system and the Non-Collection List. The problem lies where uncollected debt is never removed from the MYIOWAUI system so uncollected debt older than 720 days appears on this report, but is removed from the Non-Collection List. The reason the debt is not taken out of the MYIOWAUI system is because there are times we consider the debt uncollectible. However, we do receive payment on this at a later date. If there is no way to correct this in the system, a comparison between the two reports will need to be done before the accountant completes this portion of the GAAP package and then back those accounts which appear older than 720 days out of the calculation.

Conclusion – Response accepted.

June 30, 2014

Other Findings Related to Internal Control:

- (1) Overtime Pay – Additional pay received by employees during the year ended June 30, 2014 was reviewed to determine whether additional amounts paid were reasonable and allowable. The additional pay amounts include payments for lead worker, termination, catastrophic, overtime and holiday premium pay. The top five pay amounts were selected for further review. One employee recorded over 590 hours of overtime for the year and recorded 63 hours of holiday hours on their timesheets. A question was posed to the Department about how the holiday overtime pay was calculated and whether it was appropriate. This initial question led the Department to review the timesheets and overtime recorded by this employee.

The Department's review identified the employee had worked for supervisors of three different bureaus. However, none of the supervisors had approved the overtime charged, assuming the other supervisors had approved the overtime hours. In addition, there was no way to substantiate whether the time reported as overtime was actually worked by the employee. During discussions between the employee and two of the supervisors, the employee admitted overtime reported on the timesheet was falsified.

After this admission, the Department reviewed all timesheets for the employee from October 2013 to September 2014 and determined \$39,857.65 was paid to or for the employee for overtime and FICA and IPERS contributions. We reviewed the documentation prepared by the Department, compared it to the State's Human Resource Information System (HRIS) and performed recalculations. No additional amounts were determined to be questionable. The employee was terminated in October 2014.

The Department could not determine whether the overtime and fringe benefit costs were valid and reasonable to be charged to a federal program. Therefore, the Department moved all overtime and fringe benefit expenditures from federal funds to State funds.

During this time, the Department did not have written policies and procedures governing the review and approval of overtime.

Recommendation – The Department should develop written policies and procedures for the advance approval and tracking of overtime hours, including who is allowed to work overtime and who should be approving the overtime. Documentation should be retained regarding the approval of overtime and this documentation should be periodically reviewed to ensure policies and procedures are being followed by staff and supervisors.

Response – Policies have been written and are awaiting approval from the HRIS division within the Department of Administrative Services. In addition, IWD has developed a monthly overtime report which is provided to each Division Administrator and Commissioner. This report identifies individual names of staff who worked overtime, hours worked during the previous month and cumulative totals for the fiscal year by individual. Those Administrators/Commissioners are to review and determine whether or not the hours appear to be justified. If not, then they report such back to IWD Financial Management for review and audit.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2014

- (2) 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 routinely done as part of the hiring process.

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

Response – The Department continues to evaluate and determine the appropriate policies and procedures to consistently apply regarding when background checks should be performed. IWD has done background checks on key staff within the agency and would request some basic standards be put into place for all State Agencies to follow. All Agencies would have the option of expanding those requirements given the unique situations each agency may need to address.

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:

- (1) Eight of fifteen capital assets observed did not have a State property tag affixed to them and the capital asset listing did not contain enough information to identify the individual capital asset for observation.
- (2) Approval for deletions was done after the end of the fiscal year.

Recommendation – The Department should develop procedures to ensure a detailed up-to-date capital asset listing is maintained for all assets with enough information to identify the capital assets. Procedures should include, but not be limited to, ensuring all capital asset deletions are approved timely and prior to deletion and all assets are properly tagged.

Response –

- (1) IWD will reiterate the policies regarding the tagging of equipment to all personnel responsible for that process. In addition, future on-site financial monitoring will include a larger sampling of inventory items to ensure tags have been affixed to the property. IWD will also review the inventory log to see if any additional information can be added. In some cases, this is not possible as many IT equipment items do not have serial numbers and, therefore, it is difficult to include any additional information other than what is listed on the current inventory. However, we will review those items and see what, if any, additional information could be included.
- (2) IWD will clarify the policy with staff regarding proper communication with Financial Management on the disposal of property to ensure we are notified at the time of disposal and not at the time of physical inventory.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2014

- (4) Purchasing Cards – The Purchasing Card is a Visa credit card issued by a bank to the State of Iowa. The purpose of the Purchasing Card program is to establish a faster, more cost-effective method for purchasing and payment. The Department of Administrative Services (DAS) implemented policies and procedures governing the program.

The DAS Purchasing Card policy requires a cardholder to be an employee of the State of Iowa who is designated by their supervisor and approved by the Agency Administrator to utilize the Purchasing Card to purchase supplies and/or goods. The cardholder is subject to single transaction limitations and a monthly limit. Each purchase must be supported by a receipt or other supporting documentation. Cardholders may only hold one card. A card without the cardholder's signature in the signature block is an invalid card.

For 20 purchasing card transactions tested, the following were identified:

- (1) Three payments included purchases which were split into multiple transactions to avoid the single transaction limit associated with a given card.
- (2) Three payments contained "Purchase Request" documents prepared and approved after the purchase transaction occurred.
- (3) Eight payments were made after the statement due date.
- (4) Two payments did not include public purpose documentation for the items purchased.

Recommendation – The Department should develop procedures to ensure the compliance with the Iowa Department of Administrative Services Purchasing Card Program Procedures Manual, including the single transaction limit is not exceeded. In addition, purchase request forms should be prepared and approved prior to the actual purchase. Payments should be made by the statement due date and the purpose for purchases should be clearly identified in the supporting documentation.

Response –

- (1) IWD has contacted cardholders to advise them this practice is not acceptable and must be discontinued immediately.
- (2) Again, IWD had notified the cardholder this practice is not acceptable. Cards will be terminated if it's found this practice continues.
- (3) The Financial Management Bureau has not been at full staffing for almost two years due to illnesses and retirements. This has made it difficult to get every assignment completed on time. Just recently, the Financial Management Bureau hired the last vacant position and this should help get us back on track in terms of making payments on time.
- (4) This issue has been addressed with the cardholders to ensure sufficient itemization is there to verify whether or not the purchase is allowable.

Conclusion – Response accepted.

June 30, 2014

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. Four of the 25 contracts tested were not signed by all parties prior to the contracted service starting date.

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

Response – The Department policy now is if a contract cannot be signed prior to the start date, either the start date is moved forward or a letter of intent to contract is prepared and sent prior to the start date. All Divisions and Commissions have been informed we cannot continue to have agreements begin without some prior written commitment from the Department to the service provider.

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 the state. The Department is to administer the Iowa conservation corps and its 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 underutilized 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 12 and 25, to gain and retain employment.

This program is currently inactive.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2014

- (d) Nursing Workforce Data Clearinghouse – Chapter 84A.11 of the Code of Iowa states the Department shall submit a report to the Governor and the General Assembly annually, by January 15, regarding the nursing workforce data clearinghouse, and, following establishment of the data clearinghouse, the status of the nursing workforce in Iowa.

The required report was not submitted to the Governor and the General Assembly.

Recommendation – The Department has previously requested the repeal of these outdated Code sections and should continue to work toward the repeal of these outdated Code sections. Also, the Department should submit the nursing workforce data clearinghouse report to the Governor and the General Assembly by January 15 of each year.

Response – IWD will continue to work with the Legislature to get outdated program legislation repealed. Funding for the nursing workforce data clearing house was never provided for by the Legislature and, therefore, the database could not be created and reports generated. IWD would have been required to use federal funding which supports the Labor Market information team. It is uncertain whether that would be allowable, given this was a state initiative and not required by the federal government.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2014

Staff:

Questions or requests for further assistance should be directed to:

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