



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ September 12, 2016

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released a report on the Iowa Department of Education for the year ended June 30, 2015.

The Department is empowered to exercise general supervision over the State system of education, including all Iowa local community school districts, merged area schools, area education agencies and other local agencies and non-public schools, to the extent necessary to ascertain compliance with Iowa school laws. In fulfilling the responsibilities assigned to it by law, the Department provides and strives to improve programs and support services necessary to meet the identified state and federal educational needs of Iowa, efficiently and effectively.

Mosiman recommended the Department implement procedures to strengthen controls, segregate various duties and develop policies and procedures over various aspects of its IT systems. The Department should also ensure contracts and related amendments are properly approved and comply with policies and procedures established by the Code of Iowa and the Iowa Department of Administrative Services. The Department's responses to the recommendations are included in the report.

A copy of the report is available for review in the Iowa Department of Education, in the Office of Auditor of State and on the Auditor of State's website at <https://auditor.iowa.gov/reports/1660-2820-BR00>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF EDUCATION**

JUNE 30, 2015

Iowa Department of Education



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STATE OF IOWA

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August 18, 2016

To the Members of the State Board of Education:

The Iowa Department of Education 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, 2015.

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 Education'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 Education, citizens of the State of Iowa and other parties to whom the Iowa Department of Education 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 10 and they are available to discuss these matters with you.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2015

Finding Reported in the State's Single Audit Report:

CFDA Number: 84.027 – Special Education Grants to States

Agency Number: H027A110097, H027A120097, H027A130136, H027A140097

Federal Award Year: 2012, 2013, 2014, 2015

CFDA Number: 84.173 – Special Education Preschool Grants

Agency Number: H173A120102, H173A130102

Federal Award Year: 2013, 2014

State of Iowa Single Audit Report Comment: 15-III-USDE-282-1 (2015-008)

Grant Allocations – Annual allocation spreadsheets for Special Education grants are prepared and reviewed by the Department to ensure the amount allocated to each Area Education Agency is properly calculated. For fiscal year 2015, there was no documentation a review of the allocation spreadsheet was performed by an independent person. This appears to be due to employee oversight.

Recommendation – The Department should ensure independent review of the allocation spreadsheet is performed and documented.

Response and Corrective Action Planned – The Department apologizes for the failure to correct this. We fully intended this be corrected. The Department will comply with this requirement.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2015

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

Payroll – The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Twenty-seven individuals within the Department have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Response – We certainly understand the concern and the rationale behind the recommendation. In practical terms, this will be very difficult for us to implement due to staffing levels. We have developed a process where no one person can put all levels of approval on anything in HRIS. We believe this process gets us to the same result as the above recommendation.

Conclusion – Response accepted.

June 30, 2015

Other Findings Related to Internal Control:

- (1) Contractual Agreements – Under the authority of Executive Order #25, the Department established a number of service contracts with outside parties during the year ended June 30, 2015. For 52 contracts tested, the following were identified:
 - (a) The Department did not approve thirty-four contracts prior to the date of execution.
 - (b) Three contracts did not include required monitoring and review clauses.
 - (c) Two contracts did not have pre-contract questionnaires signed by the Deputy Director of the Department’s Division of School Finance and Support Services.
 - (d) Of the twelve contracts tested with amendments, six contract amendments were not authorized until after the end of the contract period.

In addition to the items noted above, contracts for amounts greater than \$500,000 were tested and the following were identified:

- (a) The forms required by Chapter 8F of the Code of Iowa were not completed for three contracts.

Recommendation – The Department should ensure contracts and related amendments are properly approved, required forms are completed and comply with the policies and procedures for contracts established by the Iowa Department of Administrative Services (DAS) and Chapter 8F of the Code of Iowa.

Response – The Department will comply with these recommendations – they are supported by existing Department policy. Portions of these processes are difficult to control and we consistently work to ensure these situations don’t arise. On the specific items: a) the Department has reinforced with new managers that timeliness is essential. The largest division in the Department has instituted a new project approval process that should result in decisions being made about contract commitments much earlier than before, which will go a long way to solving the problem of signing contracts late. The CFO is also simply refusing to sign contracts after the fact when possible; b) the Department believes it has corrected this moving forward by including the necessary language in the contract template; c) this situation should never happen and was simply an oversight; d) the Department believes most of these modifications were resulting from adjustments in expenditures when the entities submit bills. In some cases, those expenditures were appropriate, but not included in the original contract language, which does prompt a formal amendment. The policy we have in place would support the finding; and for the contracts over \$500,000, a) we will include the necessary Chapter 8F form with the contract template as it is moving through the process for any contract over \$500,000 moving forward.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2015

(2) Written Policies and Procedures – Formal policies and procedures help to achieve uniformity/consistency in actions taken and aid in training additional or replacement personnel. During our review of the EDINFO web application and IT system controls, we noted a need for written policies and procedures in the following areas:

- Incident response procedures, including reporting, documenting, follow-up and management oversight.
- Access control procedures related to authorizing, granting, documenting and removing access to the web application.
- Documentation of actions taken for employee security violations.
- Employee background checks.
- Guidance related to the segregation of incompatible duties and management oversight.
- Management oversight of access to and modification of sensitive or critical files and direct updates to the SQL tables.
- Maintaining security upon termination of employment, including the removal of employee access rights to the system, the process for returning keys and the removal of key card access.
- Resetting administrative passwords and password strength.
- Uniform systems development for new programs or changes to existing programs.

Recommendation – The Department should develop written policies and procedures to strengthen security and controls in these areas.

Response – The Department will have these standard operating procedures and policies in place by June 30, 2016.

Conclusion – Response accepted.

(3) 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. An initial receipt listing is not prepared by the mail opener for bus inspections and Law Library receipts. An independent reconciliation of recorded receipts to the deposit is not performed for bus inspections and State Library receipts. In addition, there is no review of overdue or delinquent accounts for bus inspections.

Recommendation – The Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Report of Recommendations to the Iowa Department of Education

June 30, 2015

Response – For the year in question, the Department agrees with the finding. There are now independent reconciliations of overdue and delinquent accounts for bus inspections. The Department is not preparing an initial receipt listing of mail opened and cash received. However, if accounts don't reconcile to billings, there is now a process to follow-up with districts to ensure accounts are current. The Department will work with State Library staff members to find a solution for the State Library side of this.

Conclusion – Response acknowledged. The Department should continue to work to improve segregation of duties for bus inspections and the Law Library receipts.

Report of Recommendations to the Iowa Department of Education

June 30, 2015

Findings Related to Statutory Requirements and Other Matters:

Code of Iowa Compliance – The Department was not in compliance with the following provisions of the Code of Iowa during the year ended June 30, 2015:

- (a) Chapter 19B.11 of the Code of Iowa requires each school district, area education agency and community college to submit a report to the Department detailing their equal employment opportunity programs and accomplishments. The Department is then required to prepare a compilation of these reports and submit it, along with a report of the Director's programs and accomplishments, to the Department of Management by January 31. This report has not been compiled or submitted.
- (b) Chapter 17A.7 of the Code of Iowa requires the Department to conduct an ongoing and comprehensive review of all the Agency's rules every 5 years, which the Department has not performed.
- (c) Chapter 258.16 of the Code of Iowa requires the Department to establish a vocational education regional planning board in each merged area, which the Department has not established.
- (d) Chapter 256.26 of the Code of Iowa requires the Department to establish a before and after school grant program to provide competitive grants to school districts and other organizations to expand the availability of before and after school programs, which the Department has not established.

Recommendation – The Department should take steps to ensure compliance with the Code of Iowa.

Response – (a) The Department will again state that there has been no expectation communicated by the Department of Management related to this requirement and it has never been done to our knowledge. This is not the Department of Education's section of Code to manage. (b) The Department understands the requirements of Code of Iowa Chapter 17A.7; however, unless something changes in terms of resource allocation, the Department will not have the ability to comply with this expectation. (c) This concept of Regional Planning Boards is included in the Career and Technical Education bill moving through the 2016 legislature and is expected to pass. This bill proposal makes adjustments to the current language and updates the expectations to match current practice. (d) Code of Iowa Chapter 256.26 was originally tied to an appropriation to expand the availability of before and after school programs. That appropriation is no longer funded and as a result, the Department is no longer implementing this competitive grant process. The Department will include this section of Code for deletion in its next Code corrections bill.

Conclusion – Response regarding Chapter 19B.11 of the Code of Iowa acknowledged. Chapter 19B.11(4) of the Code of Iowa states, "The Director of the Department of Education shall prepare a compilation of the reports required under subsection 3 and shall submit this compilation, together with a report of the director's accomplishments and programs pursuant to this section, to the Department of Management by January 31 of each year." Therefore, the Department of Education is required by the Code of Iowa to prepare this report and should not need a request from the Department of Management to initiate its preparation.

Response regarding Chapter 17A.7 of the Code of Iowa acknowledged. The Department should take steps to ensure compliance with the Code of Iowa.

Responses regarding Chapters 258.16 and 256.26 of the Code of Iowa are accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2015

Staff:

Questions or requests for further assistance should be directed to:

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