



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

August 1, 2018

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2017.

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) Communicate the established policies and procedures to all employers to ensure employees are reporting actual hours worked on each program code rather than budgeted.
- (2) Ensure information generated for financial reporting is properly tested and reviewed for accuracy.
- (3) Ensure capital assets are capitalized in the correct amount and correct category, depreciation expense is properly calculated and capital asset deletions are approved timely and prior to deletion.
- (4) Ensure quarterly reports are reviewed and approved by an independent person.
- (5) Identify sensitive positions and ensure background investigations are routinely performed as part of the hiring process.
- (6) Ensure compliance with the Department of Administrative Services Purchasing Card Program Procedures Manual and Chapter 117.15 of the Iowa Administrative Code.
- (7) Ensure necessary steps are taken to comply with the Code of Iowa or continue to seek the repeal of outdated Code sections.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 <https://auditor.iowa.gov/reports/1860-3090-BR00>.

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

**JUNE 30, 2017**

**Iowa Department of Workforce Development**



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July 23, 2018

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, 2017.

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, 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 12 and they are available to discuss these matters with you.

MARY MOSIMAN, CPA  
Auditor of State

cc: Honorable Kim Reynolds, Governor  
David Roederer, Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2017

**Finding Reported in the State's Single Audit Report:**

**CFDA Number: 93.558 – Temporary Assistance for Needy Families**

**Agency Number: ACFS 16-009**

**Federal Award Year: 2017**

**State of Iowa Single Audit Report Comment: 17-III-HHS-309-4 (2017-004)**

Payroll Distribution

Criteria – The Uniform Guidance, Part 200.430(i), states “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed.” This section goes on to state, these records must “Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.” The section also states “Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that: The system for establishing the estimates produces reasonable approximations of the activity actually performed; Significant changes in the corresponding work activity (as defined by the non-Federal entity’s written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the long term; and The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.”

Condition – The Department uses budget estimates to establish interim rates to allocate payroll costs to be used for Department budgeting and to provide employees with an estimate of time which is expected of them for their assigned programs. The Department has informed employees they are to be reporting the actual time worked on each program code which associates with a specific Federal, non-Federal, indirect or cost allocation program. Twenty five employees who charged time to more than one program code for the fourth quarter of the fiscal year were selected for testing. Of the twenty five employees selected, six employees did not deviate their hours from the original budget estimate. In addition, five employees reported the exact same numbers of hours for each program code for every pay period.

Cause – Although the Department has established policies and procedures to require employees to document actual hours worked on program codes, not all employees appear to be reporting actual hours worked to the affected programs. In addition, the Department has not effectively communicated these policies and procedures to all employees.

Effect – Payroll costs could be charged to the incorrect program code which could result in allocating costs incorrectly to all programs and over reporting to federal programs.

Recommendation – The Department should communicate the established policies and procedures to all employees to ensure employees are reporting actual hours worked on each program code rather than budgeted. Time records should be reviewed to ensure employees are complying with established policies and procedures.

June 30, 2017

Response and Corrective Action Planned – The Department will communicate to employees that actual hours worked on each program code should be reported each pay period. The Department will contact supervisors of employees who appear to be using the same program code allocation percentage, each pay period, to determine if actual hours were used. The Department will also review quarterly payroll variance reports for employees who appear to not be changing their time records.

Conclusion – Response accepted.

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

Unemployment Benefits Fund

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the financial statements.

Condition – 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 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, 2017:

- (1) IWD understated accounts receivable by \$4,147,032 and overstated the allowance for doubtful accounts by \$8,614,787 on the GAAP package Unemployment Benefits Fund page. As a result, the net accounts receivable balance was overstated by \$12,761,819. This was properly adjusted for reporting purposes.
- (2) IWD overstated accounts payable by \$9,421,031 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (3) According to IWD, 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, \$534,096 of \$31,446,028 of contributions, \$394,311 of \$14,048,444 of interest and \$128,919 of \$1,869,818 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Cause – Although policies and procedures have been established to require independent review of year-end cut-off transactions to ensure financial statements are accurate and reliable, the review did not identify material errors made in the GAAP package by the preparer.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

## Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2017

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD 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 require further supporting documentation and add a second level of review of 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.

### Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Department's financial statements.

Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

Condition – During the hold open period, the Department prepared ten documents to correct the fiscal year coding of \$4,795,458 of revenue from fiscal year 2017 to fiscal year 2018. The Department incorrectly included these documents on the GAAP package Revenue Corrections page. As a result of reporting these items on the Revenue Corrections page, DAS-SAE would have increased accounts receivable and revenue, thus reversing the correction made by IWD and reporting the revenue in the fiscal year 2017 financial statements rather than fiscal year 2018. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures have been established to require independent review of year-end cut-off transactions to ensure financial statements are accurate and reliable, the review did not identify material errors made in the GAAP package by the preparer.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, adjustments to the financial statements were necessary.

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy and conforms to the specific directions provided in the GAAP Package.



Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2017

Response – The Department will require additional supporting detail and a second level of review to ensure the accuracy of accounts receivable identified on the GAAP package.

Conclusion – Response accepted.

Capital Assets

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Department's financial statements.

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.

Condition – The following conditions were noted:

- (1) Computer software of \$11,561,640 was placed in service during the year ended June 30, 2017. However, the software was reported in the GAAP package as computer software in progress. Computer software in progress is not depreciated. As a result, computer software in progress was initially overstated and computer software was understated by \$11,561,640 and depreciation expense was understated by \$578,082. This was properly adjusted for reporting purposes.
- (2) Approval for deletions was done after the end of the fiscal year.

Cause – Although policies and procedures have been established to require independent review of capital assets, the review did not identify errors made in the GAAP package by the preparer. In addition, assets are disposed of prior to approval as a result of employees not following the Department's policy on the disposal of capital assets.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, adjustments to the financial statements were necessary. In addition, assets may be improperly deleted or asset deletions may not be adjusted for in a timely manner.

Recommendation – The Department should ensure capital assets are capitalized in the correct amount and correct category, so depreciation expense is also properly calculated. They should also ensure this information is properly reviewed for accuracy. In addition, the Department should ensure all capital asset deletions are approved timely and prior to deletion, in accordance with policies and procedures.

Response

- (1) IWD will review computer software in progress and computer software to ensure assets are capitalized in the correct amount.
- (2) IWD will continue to work 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. Communication will be sent out as a reminder at least semi-annually.

Conclusion – Response accepted.

June 30, 2017

**Other Findings Related to Internal Control:**

- (1) Trade Act Participant Report (TAPR) – The Uniform Guidance, Part 200.303, requires the auditee establish and maintain effective internal control over the federal award which provides reasonable assurance the auditee is managing the federal award in compliance with federal statutes, regulation and the terms of the federal award. The TAPR provides a streamlined data collection on the Trade Adjustment Assistance (TAA) program activities and outcomes into a single streamlined reporting structure. The report captures information related to TAA applicants, including TAA participants who receive benefits and services across the program with a standardized set of data elements which includes information on participant demographics, types of services received and performance outcomes. The TAPR is intended to track information on TAA activity on a “real time” basis for individuals from the point of TAA eligibility determination through post-participation outcomes. As required by Training and Employment Guidance Letter No. 6-09, quarterly reports are to be submitted no later than 45 days after the end of each report quarter.

The Department has stated the reports were reviewed and approved, however, this review was not documented. Procedures have not been established to require documentation the reports were independently reviewed and approved. The lack of a documented review of these reports increases the risk for undetected reporting errors or misstatements.

Recommendation – The Department should establish policies and procedures to ensure the quarterly reports are reviewed and approved by an independent person who is knowledgeable about the program. The independent review should be documented by the reviewer’s signature or initials and date of review.

Response – Effective with the federal fiscal year 2018 quarter one data, the TAPR will no longer be an independent report and will become part of the quarterly WIOA Participant Individual Record Layout (PIRL) report. The Department will receive the TAPR file as a part of the PIRL file and will ensure an independent review of the trade-related data elements is completed prior to submission of the PIRL file. This review will be completed by a knowledgeable, independent person by pulling a random sample of participants and reviewing the correct time frames and data elements are included in the PIRL file. After review, the independent reviewer will initial and date a printed copy of the random sample as evidence of the review.

Conclusion – Response accepted.

- (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 is working with the Department of Administrative Services to identify uniform guidance for all state agencies in regards to when background checks should occur.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2017

- (3) 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.

In Addition, Chapter 117.15 of the Iowa Administrative Code states, "An agency shall procure non-master agreement goods costing between \$1,501 and \$5,000 in a competitive manner, using either informal or formal competition."

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

- (a) Eight payments contained "Purchase Request" documents prepared and approved after the purchase transaction occurred.
- (b) Three payments included purchases which were split into multiple transactions for the same good from the same vendor which collectively exceeded the competitive bid threshold of \$1,501 established by Chapter 117.15 of Iowa Administrative Code. No bids were documented for the good purchased.

Recommendation – The Department should develop procedures to ensure the compliance with the Iowa Department of Administrative Services Purchasing Card Program Procedures Manual. Purchase request forms should be prepared and approved prior to the actual purchase. In addition, the Department should follow procurement guidelines outlined in Chapter 117.15 of the Iowa Administrative Code.

Response

- (a) The Department will review the purchase requests for purchasing cards monthly and identify users who are not approving purchases before they have occurred. These users will be trained on the proper policies and procedures to be utilized to be sure the practice is not continued into the future.
- (b) The Department will follow procurement policies to be sure multiple transactions to the same vendor do not exceed procurement limits without the proper bidding documents established by Chapter 117.15 of Iowa Administrative Code.

Conclusion – Response accepted.

June 30, 2017

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

- (1) Targeted Small Business Procurement Goal – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from certified targeted small businesses during the previous fiscal year.

The TSB procurement goal for the Department for fiscal year 2017 was not set at a level exceeding the fiscal year 2016 actual TSB spending.

Recommendation – The Department should set the TSB procurement goal at a level greater than the previous year’s actual TSB spending, or seek legislation to change this statutory requirement.

Response – The Department will establish a procurement goal which exceeds the procurement level from certified targeted small businesses during the previous fiscal year.

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, 2017

- (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.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2017

**Staff:**

Questions or requests for further assistance should be directed to:

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Other individuals who participated in the audits include:

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