



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE September 19, 2006

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, 2005.

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 the accuracy of the report submitted to the Iowa Department of Administrative Services which documents payroll expenditures and related federal drawdowns.
- (2) To ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.
- (3) 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.
- (4) To ensure policies and procedures are followed to provide subrecipients with final determinations on a timely basis.
- (5) To ensure necessary steps are taken to comply with the Code of Iowa or seek the repeal of outdated Code sections.

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

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

JUNE 30, 2005

— Office of —
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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September 11, 2006

To David Neil, Interim 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, 2005.

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, as well as other recommendations pertaining to the Department's 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.

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
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2005

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI12638KS, UI12638KR, UI13547NE, UI13547ND, UI14434QD

Federal Award Year: 2003, 2004, 2005

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2004

Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 05-III-DOL-309-1 and 05-III-HHS-309-3

- (1) 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, 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 Administrative Services which documents payroll expenditures and related federal drawdowns by pay period. The spreadsheet for fiscal year 2005 for the cost pool included allocation percentages to distribute the costs to various cost centers. The percentages used did not correspond with the percentages actually used in the Integrated Information for Iowa (I3) system for nine and seventeen pay periods throughout the year for the Unemployment Insurance and Temporary Assistance for Needy Families Programs, respectively.

In addition, indirect costs recovery rates were applied to the payroll to more accurately reflect the expenditures related to the federal drawdowns. However, in several instances, the amounts reported for indirect cost recovery could not be recalculated or supported.

Recommendation – The Department should ensure the payroll spreadsheet submitted to the Iowa Department of Administrative Services is accurate.

Response and Corrective Action Planned – The State of Iowa implemented a new accounting system June 1, 2004. Iowa Workforce Development (IWD) is the only state agency utilizing the cost allocation module that is part of the new system. As noted in our response to this comment in the fiscal year '04 audit, during the first few months after implementation, the cost allocation system was not working at one point and not working accurately at another. IWD and the vendor were forced to make an extraordinary amount of adjusting entries to allocate and reallocate postings to the system.

This made it very difficult to follow the audit trail on many transactions as there were many instances of adjustments to adjustments. Not only did this make it difficult to analyze daily cash balances, but also to verify accuracy of each individual posting for indirect costs. With the initial system problems addressed, we expect to see improvement in cash management. IWD will continue to monitor cash balances and work to meet the intent of the Federal Cash Management Act.

Conclusion – Response accepted.

June 30, 2005

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: UI10935FM, UI11819HY, UI12638KS, UI12638KR, UI13547NE
Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA12925MO, AA13798OO, AA13798PQ
Federal Award Year: 2004, 2005

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA13798NZ
Federal Award Year: 2004

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10882JJ, EM1088CLY, EM1088KF, EM10885MR, AA12925MP, AA13798OQ, AA13798PS, EM10882PU
Federal Award Year: 2002, 2003, 2004, 2005

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2004
Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 05-III-DOL-309-2 and 05-III-HHS-309-4

- (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 these funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received.

For the Unemployment Insurance program, six instances were noted where the cash balance was excessive for a period of five to sixty-two days.

For the Workforce Investment Act programs, two instances were noted where the cash balance was excessive for a period of five to thirty-eight days.

For the Temporary Assistance for Needy Families (TANF) program, seven instances were noted where the cash balance was excessive for a period of four to fifty-six 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 positive or negative daily balances.

Response and Corrective Action Planned - This issue was caused by the same problem identified in 05-III-DOL-309-1. With so many transactions waiting processing in the cost allocation module, it was impossible to determine the accurate amount of funds to be drawn on any one program. The initial system errors have been corrected, however IWD had no alternative at the time, as data from the new State accounting system was not accurate for several months.

Conclusion – Response accepted.

June 30, 2005

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI12638KS, UI12638KR, UI13547NE, UI13547ND, UI14434QD

Federal Award Year: 2003, 2004, 2005

CFDA Number: 17.258 – WIA Adult Program

Agency Number: AA12925MO, AA13798OO, AA113798PQ

Federal Award Year: 2004, 2005

CFDA Number: 17.259 – WIA Youth Activities

Agency Number: AA13798NZ

Federal Award Year: 2004

CFDA Number: 17.260 – WIA Dislocated Workers

Agency Number: EM10882JJ, EM10882LY, EM10882KF, EM10885MR, AA12925MP,

AA113798OQ, AA13798PS, EEM10882PU

Federal Award Year: 2002, 2003, 2004, 2005

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2004

Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 05-III-DOL-309-3 and 05-III-HHS-309-5

- (3) Payroll Allocation – The Department performs a time study on a monthly 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 on a monthly basis and a quarterly average is calculated. Utilizing the quarterly averages, 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 three instances where the total time charged to the cost pool did not agree with the percentage of time certified. Also, one employee charged time to the cost pool for a portion of the fiscal year but was not included in the time study and one employee was included in the time study but no time was charged to the cost pool.

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 properly included in the time study.

Response and Corrective Action Planned – The state's automated payroll system has two separate and distinct programs for entering time allocations. Variances are always found between the one updated by the IWD personnel department and the one used by IWD staff. The two systems are not linked and continuously cause this type of problem. In addition, neither of the two systems has the flexibility to allow the volume of allocations that one staff member may need to accurately allocate their time to all the programs they work on.

This has caused IWD to use a manual cost pool methodology to allocate time for those that have more than 5 programs they charge time to. With three different programs being used to allocate time, variances are always a concern. It is our understanding that the new State payroll system will eliminate many of the problems we currently face in payroll

Report of Recommendations to the Iowa Department of Workforce Development

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allocations. However, the implementation date for this new payroll system has not been announced. IWD will continue our efforts to minimize variance in the reports.

Conclusion – Response accepted.

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA12011KC, AA12925LU, AA12925MO
Federal Award Year: 2003, 2005

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

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10882IT, AA12011JG, AA12011KD, EM10882JJ, EM10882LY,
EM10882KF, EM10882LM, EM10885MR, AA12925LV
Federal Award Year: 2002, 2003, 2005

State of Iowa Single Audit Report Comment: 05-III-DOL-309-4

- (4) Subrecipient Monitoring – OMB Circular A-133 Compliance Supplement states, in part, 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. The Circular also states each state must ensure required audit reports of subrecipients are completed within nine months of the end of the subrecipient's audit period, issue a management decision on audit findings within six months of receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

The Department has established policies and procedures to be followed in the performance of subrecipient monitoring. These policies state a final determination will be issued to a subrecipient after receipt of a response from the subrecipient after initial determination. Final determinations had not been sent to two of sixteen subrecipients after resolution.

Recommendation – The Department should ensure policies and procedures are followed to provide subrecipients with final determinations on a timely basis.

Response and Corrective Action Planned – The Department has reviewed policies, procedures and tracking documents related to program monitoring requirements. This information has been distributed to all staff responsible for program monitoring activities and management has emphasized that final determination reports must be submitted within established time lines.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2005

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA12925MO, AA13798OO, AA113798PQ
Federal Award Year: 2004, 2005

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA13798NZ
Federal Award Year: 2004

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10882JJ, EM10882LY, EM10882KF, EM10885MR, AA12925MP,
AA113798OQ, AA13798PS, EEM10882PU
Federal Award Year: 2002, 2003, 2004, 2005

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2004
Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 05-III-DOL-309-5 and 05-III-HHS-309-6

- (5) Grant Management – The Office of the Auditor of State is conducting an on-going investigation related to grants awarded to the Central Iowa Employment And Training Consortium (CIETC) for the programs identified above. The grants were awarded to CIETC by the Iowa Department of Workforce Development. Disbursements to CIETC for grant period July 1, 2003 through September 30, 2005 for the WIA programs totaled \$3,296,531 and for the Temporary Assistance for Needy Families program totaled \$3,922,165. A report will be issued by the Office of the Auditor of State when the investigation is completed and will be provided to the appropriate oversight entity. The report will include any recommendations, questioned costs and other concerns identified. In addition, the results will be disclosed within the subsequent year's schedule of findings and questioned costs.

Response and Corrective Action Planned – Department response was not requested.

Current Status – A report on a special investigation of the Central Iowa Employment and Training Consortium (CIETC) and Iowa Workforce Development (IWD) dated March 29, 2006 was issued on March 31, 2006.

Certain tests and procedures were applied to selected financial transactions of CIETC for the period July 1, 2003 through December 15, 2005. Those procedures identified unallowable uses of federal funds, including excessive compensation to CIETC executive employees, improper allocation of salaries and supplemental payments to federal grants and indications of "less than arm's length" transactions between IWD and CIETC.

Officials of the federal funding agencies are in the process of determining actions to be taken as a result of the special investigation, including determination of disallowed costs. Copies of the special investigation report were filed with the Offices of Inspector General for the U.S. Departments of Labor and Health and Human Services, the Iowa Department of Human Services, the Division of Criminal Investigation, the Attorney General's Office and the Polk County Attorney's Office. The report is available for review on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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CFDA Number: 97.034 – Disaster Unemployment Assistance

Agency Number: UI13547NT, UI14434QT

Federal Award Year: 2005

State of Iowa Single Audit Report Comment: 05-III-DHS-309-3

- (6) Calculation of Benefits – The Disaster Unemployment Assistance program provides assistance to individuals whose employment or self-employment has been lost or interrupted as a direct result of a major disaster declared by the President of the United States. The maximum weekly benefit amount is determined under the provisions of the state law for unemployment insurance in the state where the disaster occurred.

Of sixty benefit payments tested totaling \$66,536, eleven payments were noted in which the maximum benefit amount for the previous year was used instead of the maximum benefit amount for the current year. This resulted in underpayments totaling \$2,176 for the payments tested.

Recommendation – The Department should contact the U.S. Department of Labor to determine the appropriate resolution of this issue.

Response and Corrective Action Planned – IWD will contact the U.S. Department of Labor concerning this issue.

Conclusion – Response accepted.

June 30, 2005

Findings Related to Internal Control:

Except for items in the special investigation report discussed in State of Iowa Single Audit Report Comment (5), no matters were noted.

Findings Related to Other Matters:

(1) Iowa Code Compliance – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 20, 2005.

(a) Iowa Conservation Corps – Chapter 84A.7 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 shall administer the corps and the Iowa conservation corps account.

Currently this program and the account are inactive.

(b) Statewide Mentoring Program – Chapter 84A.9 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.

Currently this program and the account are inactive.

(c) New Employment Opportunity Program – Chapter 84A.10 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 the 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.

Currently this program and the account are inactive.

(d) Workers' Compensation Commissioner Seal – Chapter 86.8(5) states the Commissioner shall provide a seal for the authentication of orders and records and for other purposes as required.

Currently the Commissioner does not provide a seal.

Recommendation – The Department should take the necessary steps to comply with the Code of Iowa or the Department should seek the repeal of outdated Code sections.

Response – Iowa Workforce Development will work with the Legislature to repeal outdated Code Sections.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2005

Staff:

Questions or requests for further assistance should be directed to:

Joe T. Marturello, CIA, Manager
Brian R. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Sheila M. Jensen, Staff Auditor
Heather L. Templeton, Staff Auditor
Karen J. Kibbe, Staff Auditor
Ryan J. Johnson, Staff Auditor
Bradley A. Meisterling, Assistant Auditor
Richard W. Reeves, Jr., Assistant Auditor
Marta M. Sobieszkoda, Assistant Auditor