



OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

FOR RELEASE August 13, 2007

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, 2006.

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 there is proper segregation of duties over the WorkKeys accounts receivable and cash receipts cycles and to properly allocate program income to the Unemployment Insurance and Employment Services programs to offset the applicable salary expenses.
- (2) 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.
- (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 policies and procedures are followed to provide subrecipients with final determinations on a timely basis.
- (5) To ensure compliance with Department of Administrative Services Policy 240.102 for personal service contracts.
- (6) To ensure the capital assets inventory is kept current and complete.
- (7) To ensure necessary steps are taken to comply with the Code of Iowa or seek the repeal of outdated Code sections.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, in 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, 2006

— Office of —
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



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August 8, 2007

To Elisabeth Buck, 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, 2006.

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 Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2006

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.207 – Employment Service

**Agency Number: ES13996ON, ES13996PL, ES14864SJ, ES14864SL, ES13996QN,
ES14821PL, ES14864TY**

Federal Award Year: 2004, 2005, 2006

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI12638KS, UI13547NE, UI14434QD, UI15121TM

Federal Award Year: 2003, 2004, 2005, 2006

State of Iowa Single Audit Report Comment: 06-III-DOL-309-1

- (1) Program Income – OMB Circular A-133 requires program income be used in accordance with program requirements. The Iowa Department of Workforce Development (IWD) administers a WorkKeys system, which is a workplace skills and assessment system developed by American College Testing (ACT) to help business and industry match workers with appropriate jobs and manage human resources more effectively. The staff who administer WorkKeys are funded out of the Unemployment Insurance (UI) and Employment Service (ES) federal programs. IWD charges fees to employers who use the system, as well as prospective employees who take one of the tests. The fees collected are used to pay ACT charges to develop testing profiles and for grading of tests. Over a period of time, the fees collected have exceeded the ACT charges. However, the program income has not been used to offset salary expenses of UI and ES federal programs attributable to those staff who administer WorkKeys.

In addition, there is a lack of segregation of duties over the accounts receivable and cash receipts cycles for these fees as one individual handles responsibilities of both cycles. An independent reconciliation of billings to accounts receivable and accounts receivable to receipts is not performed.

Recommendation – The Department should develop procedures to ensure there is proper segregation of duties over the WorkKeys accounts receivable and cash receipts cycles. Also, the Department should properly allocate program income to the UI and ES programs to offset the applicable salary expenses.

Response and Corrective Action Planned – In state fiscal year 2007 (July 1, 2006 to June 30, 2007), IWD began the process of reducing the Wagner Peyser salary costs by the amount of funds collected but not needed to offset the testing fees. The balance mentioned in the finding was an accumulation of fees over the course of more than 6 fiscal years and far less than the actual cost of providing this service to employers. It should also be mentioned that this service is not provided by any private entities in Iowa and therefore, IWD is the only source for this type of testing requested by employers. The intent was to try and recover some of the costs involved, knowing that in the end it would cost IWD twice what was collected in fees. The only balances that will be maintained from this point forward is sufficient funds to pay the testing fees. The balance of the fees will be used to reduce the salary costs of the Wagner Peyser program.

Corrective action has been taken to segregate the responsibilities of tracking and reporting billings and fees versus the receipt and deposit of those funds. Steps will be taken to have those funds reconciled.

Conclusion – Response accepted.

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CFDA Number: 17.207 – Employment Service
Agency Number: ES13996ON, ES13996PL, ES14864SJ, ES14864SL, ES13996QN,
ES14821PL, ES14864TY
Federal Award Year: 2004, 2005, 2006

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: UI12638KS, UI13547NE, UI14434QD, UI1512TM
Federal Award Year: 2003, 2004, 2005, 2006

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA13798PQ, AA14675RI, AA14675SS
Federal Award Year: 2005, 2006

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA13798NZ, AA14675QY
Federal Award Year: 2004, 2005

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10885MR, EM15064RM, EM10882PU, EM14966PU, EM15014PU,
EM15366SW, AA13798PS, AA14675RK, AA14675SU
Federal Award Year: 2004, 2005, 2006

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2005
Federal Award Year: 2005

State of Iowa Single Audit Report Comments: 06-III-DOL-309-2 and 06-III-HHS-309-2

- (2) 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 one employee's total time charged to the cost pool did not agree with the percentage of time certified for one quarter. Also, three employees charged time to the cost pool for a portion of the fiscal year but 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 properly included in the time study.

Response and Corrective Action Planned – There was one individual that certified his time differently on the monthly affidavit than he did on the biweekly payroll report. The discrepancy was between how much time that individual charged to the USDOL Veterans program versus the USDOL Wagner Peyser grant. The discrepancy was noticed at that time and determined to be immaterial as the actual work performed by that person was allowable under either USDOL Wagner Peyser or USDOL Veterans. The overall impact to the allocation of the cost pool was not significant.

Report of Recommendations to the Iowa Department of Workforce Development

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The individuals that were left off of one time study were staff that terminated employment prior to the completion of their time studies. IWD will attempt to obtain signatures on the certifications before those individuals leave employment. However, that is always difficult to do as we have no authority to force those individuals to sign the certifications and sometimes it is not known by our Budget Analysts those staff who have left employment until after their last day. Better coordination and communication between payroll staff and Budget Analyst staff should limit those occurrences.

Conclusion – Response acknowledged. The Department should ensure payroll certifications are supported by actual time charged through the state payroll system.

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: UI12638KS, UI13547NE, UI14434QD, UI1512TM
Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2005
Federal Award Year: 2005

State of Iowa Single Audit Report Comments: 06-III-DOL-309-3 and 06-III-HHS-309-1

- (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 and other federal funds used to supplant programs until federal funds are received.

For the Unemployment Insurance program, eleven instances were noted where the cash balance was excessive for a period of four to eleven days.

For the Temporary Assistance for Needy Families (TANF) program, eight instances were noted where the cash balance was excessive for a period of four to thirty-two 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 – The Department will continue to improve its process for timing draw downs to coincide with the date that payments are made. Given the number of draws done by the Department each year, the number of instances involved is rather small and unforeseen events play into whether payments are made when originally anticipated. However, IWD will make every effort to keep those instances to a minimum.

Conclusion – Response accepted.

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA13798PQ, AA14675RI, AA14675SS
Federal Award Year: 2005, 2006

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA13798NZ, AA14675QY
Federal Award Year: 2004, 2005

Report of Recommendations to the Iowa Department of Workforce Development

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CFDA Number: 17.260 – WIA Dislocated Workers

**Agency Number: EM10885MR, EM15064RM, EM10882PU, EM14966PU, EM15014PU,
EM15366SW, AA13798PS, AA14675RK, AA14675SU**

Federal Award Year: 2004, 2005, 2006

State of Iowa Single Audit Report Comment: 06-III-DOL-309-4

- (4) Subrecipient Monitoring – OMB Circular A-133 Compliance Supplement requires each state to 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 requires each state to 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 program monitoring. In accordance with policies, the Department issues an initial determination letter to the subrecipient. The policies also state a final determination will be issued to the subrecipient within twenty days after receipt of the response from the subrecipient. For four of ten subrecipients tested, the final determinations for program monitoring visits had not been sent within twenty days of receipt of the response.

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

Response and Corrective Action Planned – The program monitoring staff will ensure that future final determinations are issued within the timeframes identified in the WIA Handbook.

Conclusion – Response accepted.

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CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA13798PQ, AA14675RI, AA14675SS
Federal Award Year: 2005, 2006

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA13798NZ, AA14675QY
Federal Award Year: 2004, 2005

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10885MR, EM15064RM, EM10882PU, EM14966PU, EM15014PU,
EM15366SW, AA13798PS, AA14675RK, AA14675SU
Federal Award Year: 2004, 2005, 2006

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

State of Iowa Single Audit Report Comments: 06-III-DOL-309-5 and 06-III-HHS-309-3

- (5) Grant Management – The Office of Auditor of State conducted an investigation related to grants awarded by the Iowa Department of Workforce Development to the Central Iowa Employment and Training Consortium (CIETC) for the programs identified above. Disbursements to CIETC for the above programs for the grant period July 1, 2003 through September 30, 2005 totaled \$3,296,531. The investigation resulted in a report dated March 29, 2006 issued to the Director of the Iowa Department of Workforce Development and the Offices of Inspector General for the U.S. Departments of Labor and Health and Human Services. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State’s web site at <http://auditor.iowa.gov/reports/0614-1602-BOP0.pdf>. Investigations by State and Federal officials are on going.

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

June 30, 2006

Findings Related to Internal Control:

Except for State of Iowa Single Audit Report Comments (1) and (5), no matters were noted.

Findings Related to Other Matters:

- (1) Personal Service Contracts – Iowa Department of Administrative Services (DAS) Policy 240.102 provides guidelines to be followed by departments when entering into personal service contracts. The required procedures include obtaining a signed contract prior to the performance of the contracted services.

None of the twenty-five contracts tested were 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 – We have implemented a new process for contracting and moved the responsibility to the Bureau of Budget and Accounting. The change is expected to greatly improve the time required to get the contracts signed. However, the process of receiving approval from a majority of the agencies IWD contracts with requires approval by the board of directors of the agencies. The board approval step often delays getting the contracts signed prior to start of service delivery under the contracts. In an effort to cover the period between the date services are to begin and actual signature of the contract IWD will implement a formal letter of intent to contract document.

Conclusion – Response acknowledged. The Department should continue to work toward compliance with DAS Policy 240.102 for personal service contracts.

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed, up-to-date inventory of all real and personal property (capital assets) belonging to the state and under their charge, control and management.

The following findings were noted:

- The Department did not perform a reconciliation of capital asset additions to I/3 expenditures for capital assets.
- Sixteen of thirty-eight capital asset expenditures tested were coded to an incorrect expenditure object code. Three of twenty capital asset additions tested were incorrectly coded to an expenditure object code for non-inventory assets.
- Four of thirty-eight capital asset expenditures tested were not capitalized and added to the Department's capital asset listing. Asset amounts totaling \$123,170 were subsequently capitalized and reported by the Department.
- Proper documentation was not available for approving the disposal of two of ten current year deletions tested.
- Eleven items included on a current year deletion request were still reported on the capital asset listing as of June 30, 2006. One of nineteen capital assets tested from the inventory list for observation had been traded in, but was still included on the inventory.

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- During the site visits to three field offices, (a) four of twenty capital assets tested from the inventory list for observation had been transferred or traded-in, but had not been removed from that field office's inventory list, (b) two of thirteen capital assets selected for observation did not appear on the inventory list for that office, (c) none of the twenty capital assets selected for observation at two of the offices were properly tagged with a state identification tag and (d) at two of the offices, some equipment could be checked out by staff to used in the field, but formal procedures to check out the equipment were lacking.

Recommendation – The Department should review capital asset policies and procedures to ensure accurate and current records are maintained. This includes ensuring capital asset additions are reconciled to capital expenditures and all assets are properly accounted for and included on the capital asset listing.

Response – IWD has gone from a bi-annual physical inventory to an annual physical inventory in an effort to improve accountability. In addition, procedures will be reviewed and corrective actions well be implemented, including training of field office personnel, on capital asset policies and procedures.

Conclusion – Response accepted.

- (3) Iowa Code Compliance – The Department was not in compliance with the following Chapters of the Code of Iowa during the year ended June 30, 2006.

- (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 is to 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 is 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, 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 is inactive.

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 – The Code sections applicable to these programs are no longer valid. IWD will begin the process of getting the sections repealed and the Code current and accurate.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2006

Staff:

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

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