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NEWS RELEASE

FOR RELEASE _____ July 13, 2009 _____

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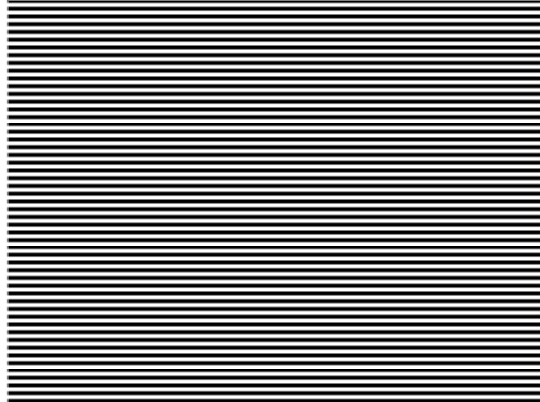
Auditor of State David A. Vaudt today released a report on the Iowa Department of Education, Division of Vocational Rehabilitation Services for the year ended June 30, 2008.

The Iowa Department of Education, Division of Vocational Rehabilitation Services is responsible for determining eligibility of individuals for vocational rehabilitation and the nature and scope of vocational rehabilitation services to be provided. In addition, the Division has assumed the duties relating to making determinations of disability under the Social Security Act pursuant to an agreement between the Division and the Social Security Administration.

Vaudt recommended the Division review its policies and procedures to ensure non-federal expenditures reported are proper, allowable and consistently allocated to the proper period, proper accounting procedures should be followed when adjusting revenues on the I/3 system during the accrual period and should develop and implement procedures to segregate the duties of the Human Resources Associates from the duties of payroll.

A copy of the report is available for review at the Iowa Department of Education, Division of Vocational Rehabilitation Services, 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 EDUCATION, DIVISION OF
VOCATIONAL REHABILITATION SERVICES**

JUNE 30, 2008

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State





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July 7, 2009

To the Members of the State Board of Education:

The Iowa Department of Education, Division of Vocational Rehabilitation Services is 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, 2008.

In conducting our audits, we became aware of certain aspects concerning the Division'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. These recommendations have been discussed with Division personnel and their responses to these recommendations are included in this report.

The Iowa Department of Education, Division of Vocational Rehabilitation Services' responses to the findings identified in our audit are included in this report. While we have expressed our conclusions on the Division's responses, we did not audit the Division'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, Division of Vocational Rehabilitation Services, citizens of the State of Iowa and other parties to whom the Iowa Department of Education, Division of Vocational Rehabilitation Services 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 Division 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 Division are listed on page 8 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
Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

Report of Recommendations to the
Iowa Department of Education
Division of Vocational Rehabilitation Services

June 30, 2008

Findings Reported in the State's Single Audit Report:

CFDA Number: 84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States

Agency Number: H126A070020

Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 08-III-USDE-283-3

- (1) Matching Requirements – The Code of Federal Regulations, 34 CFR 361.60, states third party in-kind contributions may not be used to meet the non-federal share. The Division of Vocational Rehabilitation Services asserts it received federal approval to include third party office space in non-federal expenditures provided a third party agreement exists. However, written federal approval could not be located. The Division reported \$43,383 of third party office space contributions as non-federal expenditures on the June 30, 2008 SF-269 report.

The Division reported \$94,910 of utility costs certified by the Iowa Department of Administrative Services (DAS) as non-federal expenditures on the June 30, 2008 SF-269 report. However, utility costs are a component of the state-wide cost allocation plan (SWCAP) which is also reported as non-federal expenditures, resulting in duplication of the utility costs.

The Division obtains certifications related to non-cash expenditures for match based on the state's fiscal year. The amounts certified are allocated to the applicable federal fiscal year and are reported as non-federal expenditures on SF-269 reports. The Division is not consistently allocating the non-cash expenditure items by federal fiscal year.

Recommendation – The Division should establish policies and procedures to ensure the non-federal expenditures reported are proper, allowable and consistently allocated to the proper period. In addition, the Division should consult with the U.S. Department of Education to determine corrective action.

Response and Corrective Action Planned – Iowa Vocational Rehabilitation Services (IVRS) notified the auditor of the matching requirement issues and acknowledges them. IVRS ceased reporting the items as non-federal match as soon as they were identified. IVRS will collaborate with the federal government to assure all non-federal matching dollars reported by IVRS are allowable. IVRS has established new procedures to allocate non-federal match to the appropriate federal fiscal year. IVRS will consult with the federal government to negotiate a settlement for the instances where non-federal match is disallowed.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Education
Division of Vocational Rehabilitation Services

June 30, 2008

CFDA Number: 84.126 – Rehabilitation Services_Vocational Rehabilitation Grants to States

Agency Number: H126A070020

Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 08-III-USDE-283-4

- (2) Grant Management – Rehabilitation Services Administration (RSA) is conducting a review of the program identified above. A report will be issued by RSA when the review is completed. 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 – Division response not requested.

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

- (1) Financial Reporting – Departments record receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. The GAAP package is to be submitted to DAS – SAE by the first week of September each year. The following were noted:
- (a) During the accrual period, the Department prepared a document to reduce Fund 0034 revenues by \$891,475 and move the revenue from fiscal year 2008 to fiscal year 2009. Because the revenue had been earned, the amount should have been reported in section 3 rather than section 2 of the unearned revenue page of the GAAP package. In addition, the Department coded the transaction on I/3 as prepaid expense rather than a reduction of accounts receivable. Due to the journal entry initially made from the GAAP package, revenue and prepaid expenses were understated and accounts receivable and deferred revenue were overstated. This was properly adjusted for reporting purposes.
 - (b) During the accrual period, the Department reduced revenues by \$423,000 in fiscal year 2008 to properly recognize them in fiscal year 2009. When a Department adjusts revenue reported on I/3 in this manner, the balances are to be reported in section 2 of the unearned revenue page of the GAAP package. An entry is then made by DAS – SAE to reclassify the negative accounts receivable as deferred revenue. The Department excluded the amount from the GAAP package and coded the transactions on I/3 as a reduction to prepaid expenses rather than a reduction to accounts receivable, resulting in an understatement of deferred revenue and prepaid expense. This was properly adjusted for reporting purposes.

Recommendation – Proper accounting procedures should be followed when adjusting revenues on the I/3 system during the accrual period. The Department should also ensure all deferred revenue is properly reported on the GAAP package.

Report of Recommendations to the
Iowa Department of Education
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June 30, 2008

Response –

- a) IVRS agrees the revenue was earned and should have been reported in section 3 of the GAAP package as the purpose of the transaction was to match revenue and expenditures within the fund. IVRS inadvertently reported the amount in section 2. Procedures will be put in place to properly identify transactions and record them in the correct sections of the GAAP package.
- b) IVRS agrees two transactions for \$335,000 and \$88,000 should have been included in the GAAP package. When reviewing internal records to complete the GAAP package, these two transactions were missed and thus not reported. IVRS will more carefully review internal records to be sure all transactions are reported.

IVRS will review all transactions at the time of processing so that they are coded appropriately as prepaid expenditures or as a reduction to accounts receivable.

Conclusion – Response accepted.

- (2) Payroll – Departments process and record payroll and personnel information on the Human Resources Information System (HRIS). The Human Resources Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Individuals at the Division have the ability to initiate and approve timesheets.

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

Response – The IVRS normal practice is for the Human Resource Associate to put initial (PA) level approval on the P-1 documents, after verifying accuracy and appropriateness of the action(s). After this step, the Division Administrator, or in his absence, the Human Resource Executive Officer puts Department approval on the same document. The Bureau Chief for Administrative Services and Chief Financial Officer also have the ability to do this.

The particular transaction observed by auditors in August, 2007 was approved by the Human Resource Associate, at both the “initial/PA” and the “department” levels of approval. This was not in accordance with normal practice and we have taken steps to ensure correction.

From now on, we will limit the Human Resource Associate’s authority on P-1 documents to the first level of preparation/approval. We have designated another employee, from our Fiscal Section, as the backup at this level only. These will be the only two employees to initiate P-1s at this time. Department approval will be maintained by the HR Executive Officer, Administrative Services Bureau Chief, Chief Financial Officer, and IVRS Division Administrator.

Conclusion – Response accepted.

Report of Recommendations to the
Iowa Department of Education
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June 30, 2008

Other Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the
Iowa Department of Education
Division of Vocational Rehabilitation Services

June 30, 2008

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated on the audits include:

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