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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ July 14, 2009

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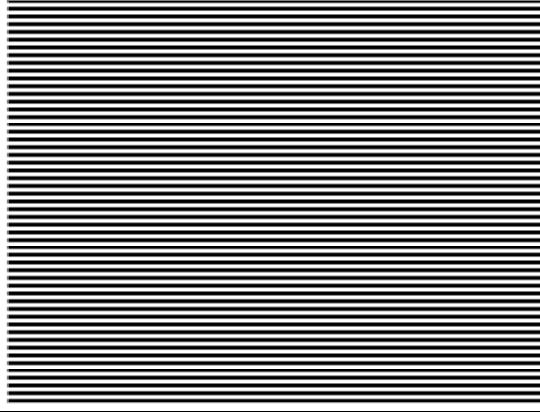
Auditor of State David A. Vaudt today released a report on the Iowa Department of Education for the year ended June 30, 2008.

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.

Vaudt recommended the Department obtain and process requests for payments from subrecipients more timely or consider estimating payables to more accurately report payables at year end. In addition, the Department should develop procedures to ensure all expenditures are in compliance with the policies and procedures established by the Department of Administrative Services. The Department should also develop policies and procedures over various aspects of the EDINFO System. The Department's responses are included in this 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 <http://auditor.iowa.gov/reports/reports.htm>.

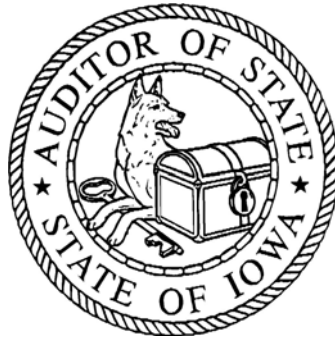
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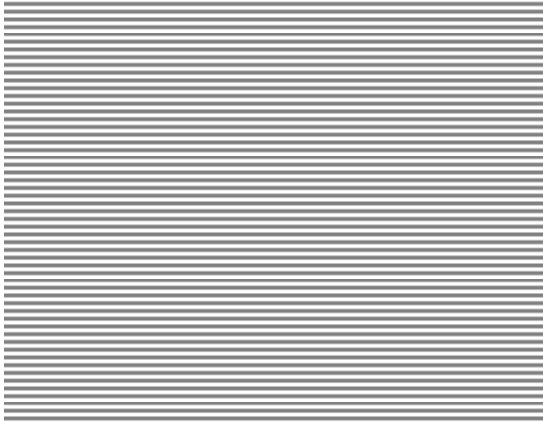
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF EDUCATION**

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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STATE OF IOWA

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July 10, 2009

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, 2008.

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.

The Iowa Department of Education's responses to the findings identified in our audits 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 14 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

June 30, 2008

Findings Reported in the State's Single Audit Report:

CFDA Number: 10.553 – School Breakfast Program
Agency Number: 2007IN109943, 2008IN109943
Federal Award Year: 2007, 2008

CFDA Number: 10.555 – National School Lunch Program
Agency Number: 2007IN109943, 2008IN109943
Federal Award Year: 2007, 2008

CFDA Number: 10.556 – Special Milk Program for Children
Agency Number: 2007IN109943, 2008IN109943
Federal Award Year: 2007, 2008

CFDA Number: 10.559 – Summer Food Service Program for Children
Agency Number: 2007IN109943, 2008IN109943
Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-USDA-282-2

Eligibility Agreement – The Code of Federal Regulations 7 CFR 245.9(b) requires the Department to maintain agreements with schools participating in the School Nutrition Programs. This original agreement or renewal application also includes a tax exemption letter, if applicable. Five of twenty-five institutions tested did not have a completed agreement or renewal application on file. In addition, three of the five institutions did not maintain a tax exemption letter in the file.

Recommendation – The Department should ensure all required agreements and tax exemption letters are maintained in the file.

Response and Corrective Action Planned – The Department will ensure all required agreements and tax exemptions letters related to this finding are on file.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2008

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2007IN202043, 2008IN202043

Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-USDA-282-3

Administrative Reviews – The Code of Federal Regulations 7 CFR 226.6(m)(6) states the Department is to annually review at least 33.3 percent of all institutions. In addition, at least 15 percent of the total number of facility reviews must be unannounced. The Department does not have procedures for tracking the percentage of unannounced reviews. As a result, we were unable to determine if the Department was in compliance.

Recommendation – The Department should implement a tracking procedure in order to ensure the appropriate number of unannounced reviews are performed each year.

Response and Corrective Action Planned – The Department will establish and maintain a database of visits related to this statute indicating the programs visited each year and those visits which are unannounced.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2008

CFDA Number: 84.010 – Title 1 Grants to Local Education Agencies

Agency Number: S010A070015, S010A060015, S010A050015

Federal Award Year: 2006, 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-USDE-282-2

Comparability – Per the U.S. Department of Education Cross Cutting Section Compliance Supplement, the Department is responsible for ensuring school districts remain in compliance with the comparability requirement. The Department obtains comparability reports from the school districts, but there is no evidence these reports are reviewed.

Recommendation – The Department should perform and document review of comparability reports to ensure the school districts are in compliance.

Response and Corrective Action Planned – The Department will include the initial of the person reviewing the report and the date of review on each comparability report.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2008

CFDA Number: 84.287 – Twenty-First Century Community Learning Centers

Agency Number: S287C050015, S287C060015

Federal Award Year: 2006, 2007

State of Iowa Single Audit Report Comment: 08-III-USDE-282-5

Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

The Department has established written policies and procedures for monitoring subrecipients. These policies require subrecipients to submit an annual Year-End Performance and Monitoring report. These reports should be reviewed and evidence of the review should be documented. Review was not documented for thirteen of the twenty reports tested.

Recommendation – The Department should ensure evidence of review is documented on Year-End Performance and Monitoring Reports.

Response and Corrective Action Planned – The Department will establish a database that tracks the submission of the above-referenced subrecipient reports. The Department will include the initial of the reviewer and date of review of each subrecipient report.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

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Finding Reported in Both the State's Report on Internal Control and the State's Single Audit Report:

CFDA Number: 84.287 – Twenty-First Century Community Learning Centers
Agency Number: S287C050015, S287C060015
Federal Award Year: 2006, 2007

CFDA Number: 84.367 – Improving Teacher Quality State Grants
Agency Number: S367A060014, S367A070014
Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-USDE-282-6

Appeal Board Claims – The Department performs certain procedures after September 1 of each year to identify additional accounts payable which were not included as expenditures on the Integrated Information for Iowa (I/3) system. However, at June 30, 2008 there was approximately \$5.8 million in requests for payments submitted by subrecipients, of which approximately \$1.2 million pertained to the Twenty-First Century Community Learning Centers program and approximately \$4.5 million pertained to the Improving Teacher Quality State Grants, which were not reported to the Iowa Department of Administrative Services, State Accounting Enterprise.

Recommendation – The Department should obtain and process requests for payments from subrecipients timely or the Department should consider estimating payables to more accurately report the payables at year end.

Response and Corrective Action Planned – The position of Chief Financial Officer was staffed with interim status the majority of the calendar year. This temporary situation caused loss of forward momentum in several categories, but particularly in management and tracking of expenditures and disbursement of payments. The remedy is obvious and in place. We have now stabilized the staffing in the position. We have instituted tracking systems to monitor work flow in the areas of contracts and claims. We are working to standardize all processes through the development of work flow manuals that explain expectations. These manuals will be used to train program staff over the next year for all Internal Operations processes, including claims and expenditures.

Conclusion – Response accepted.

June 30, 2008

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, 2008. For 38 contracts tested, the following were identified:

- (a) The Department did not approve 9 contracts prior to the date of execution.
- (b) For two contracts where sole source justification was required, a sole source justification form was completed but was not properly signed by the Director.

Recommendation – The Department should ensure contracts are properly approved and comply with the policies and procedures for contracts established by the Iowa Department of Administrative Services.

Response – The Department consistently supports DAS policies related to services contracts, and strives for 100% compliance in all its practices. Contractual agreement training is to be provided to all internal operations and program staff between summer and fall 2009, and internal operations has recently updated the Department's service contracting manual. The main effort and goal of the training focuses on procedures related to proper contract development, forms, documentation and timely submission. While there are rare occasions where services are performed prior to a signed contract being in place, it is the Department's goal to never have this occur.

Conclusion – Response accepted.

- (2) Reconciliation of Receipts – The Board of Educational Examiners does not reconcile the amounts collected through the issuance of licenses to the amount of cash receipts processed monthly by the Department.

Recommendation – Procedures should be established to reconcile the amount of receipts from the issuance of licenses to the amount of cash receipts processed monthly by the Department. An independent person should review the reconciliations and investigate any variances. Evidence of the reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – This procedure has been changed already. The Executive Director of the Board of Educational Examiners gets a monthly report of cash receipt deposits, makes adjustments as appropriate, and signs off on the report, which is then filed.

Conclusion – Response accepted.

- (3) Physical Security – The Department's Data Access and Policy Management Policy Statement for the Iowa Student Identification/Locator System and Project EASIER Student Records require the server to be maintained in a locked room.

Recommendation – The Department should review office procedures and physical security for the server room to ensure unauthorized access is prevented.

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Response – The Department agrees with the need to review office procedures and physical security for the server room. That review has resulted in changes to the procedures for physical security of the server room. The server room is now locked except when IT support staff are physically present in the area of the server room. Also, a sign-in sheet is maintained of visitors to the server room for tracking of access.

Conclusion – Response accepted.

- (4) Logical Access Controls – A user id and password are required for authorized employees to access the EDINFO web application. Current procedures do not conform to best practices and do not document decisions made or access authorized.

Recommendation – The Department should formalize procedures for authorizing and granting logical access and strengthen password controls for the EDINFO web application.

Response – The Department agrees procedures for authorizing and granting logical access should be formalized and password controls for the EDINFO web application should be strengthened. Password procedures have been changed to better align them with best practices. Each EDINFO user now has a unique user id and password. Also, the passwords expire at regular intervals, requiring the user to change the password periodically.

Conclusion – Response accepted.

- (5) 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, 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.
- Departmental security awareness program.
- 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.

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

Report of Recommendations to the Iowa Department of Education

June 30, 2008

Response – The Department agrees written policies and procedures would strengthen security and controls and is beginning to develop those written policies and procedures in several areas.

- The Departmental security plan and security awareness program has been enhanced through use of agreements signed by employees and contractors, which inform them of their accountability and increase their awareness of security practices required by the Department.
- An incident response procedure is being developed which will include initial response to a security incident, escalation procedures as warranted by the incident and procedures for documenting the actions taken for an incident.
- Procedures for access controls will be written to document the process to follow for requesting, granting and removing access to web applications. These procedures will include a process for periodic reviews of employee access to web applications.
- Documentation of actions taken for employee security violations, segregation of incompatible duties, and management oversight of access to and modification of sensitive files will be reviewed to determine effective practices to employ.

Conclusion– Response accepted.

- (6) Blackberry Cellular Phone Policy – The Department provides Blackberries for a number of its employees for business use. Written policies governing the use of Blackberry cellular phones have not been adopted.

Recommendation – The Department should establish written policies governing the use of Blackberry cellular phones.

Response – The Department will develop a blackberry use policy and will include the policy in the Department handbook.

Conclusion – Response accepted.

June 30, 2008

Findings Related to Statutory Requirements and Other Matters:

- (1) Department of Administrative Services Procedure Compliance – Per procedure 210.107 of the State Accounting Policy and Procedures Manual, no transportation costs are allowed between an employee's place of residence and office. When additional expense is incurred by reason of an employee residing in a city or town other than his/her official domicile, the additional expense is caused by the employee's choice of residence and is not reimbursable.

An employee of the Department was reimbursed \$2,933 for mileage and lodging costs for travel between the employee's place of residence and the office.

Recommendation – The Department should ensure compliance with the State Accounting Policy and Procedures Manual.

Response – This issue will be addressed in the updated claims manual being developed by the Department. The Department has adjusted its policy on travel reimbursements to remove commute miles in every situation at the beginning and end of the work day on all travel claims. Exceptions would be for employees who are officially work-domiciled from their residences. The employee in question on the audit recommendation no longer works for the Department.

Conclusion – Response accepted.

- (2) 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, 2008:
- a) Chapter 256.23 of the Code of Iowa requires the Department to establish a recruitment and advancement program to provide for the allocation of grants to schools. The Department has not established this program.
 - b) Chapter 73.2 of the Code of Iowa states all requests for bids and proposals shall contain a paragraph reading as follows, "by virtue of statutory authority, a preference will be given to products and provisions grown and coal produced within the state of Iowa."

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

Response – The Department has included the removal of Chapter 256.23 in its miscellaneous code corrections bill for the past three years. The Department will adjust the bid and proposal process to include the provision in Chapter 73.2 of the Code of Iowa.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

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- (3) Federal Expenditure Coding – The Department utilizes program codes to track revenues and expenditures for various federal grants. One program code for the Fresh Fruit and Vegetable Program was incorrectly grouped with the State Administrative Expenses for Child Nutrition. This miscoding resulted in a \$90,087 misstatement on the Schedule of Expenditures of Federal Awards. The misstatement was corrected on the Schedule of Expenditures of Federal Awards in the State’s Single Audit Report.

Recommendation – The Department should review program codes to ensure federal expenditures and revenues are reported under the proper federal grant name and CFDA number.

Response – This issue has already been corrected. Appropriate coding has been applied.

Conclusion – Response accepted.

- (4) Employment Agreement – The Department entered into an agreement with an individual and the Waterloo School District for an independent contractor to serve as Iowa Recruiter for the Migrant Grant Program. By involving the Waterloo School District as a third party, the Department circumvented the Department of Administrative Services contract procedures. In addition, the disbursement was incorrectly coded to state aid rather than contractor expense on I/3.

Recommendation – The Department should review all contracts to ensure compliance with the Department of Administrative Services procedures and review disbursements for appropriate coding.

Response – The Department ended this contractual agreement and will not contract in this way on this issue again.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2008

Staff:

Questions or requests for further assistance should be directed to:

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

Other individuals who participated on the audits include:

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