



**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 \_\_\_\_\_ June 30, 2003 \_\_\_\_\_ Contact: Andy Nielsen  
515/281-5515

Auditor of State David A. Vaudt today released a report on the Iowa Department of Education for the year ended June 30, 2002.

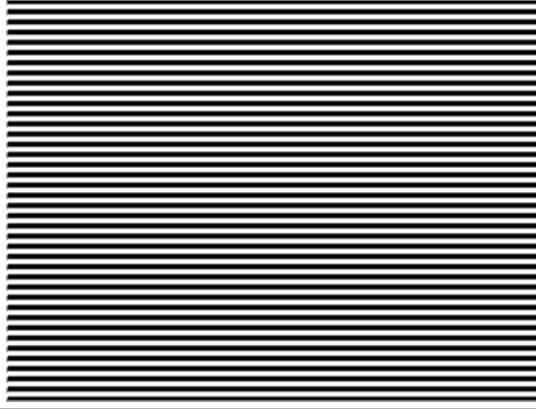
The Department is empowered to exercise general supervision over the State system of education, including all Iowa local community school districts, merged area schools, area education agencies and other local agencies and non-public schools to the extent that is necessary to ascertain compliance with 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 that the Department develop procedures to ensure that contracts are reviewed for reasonableness, are cost effective and that services contracted for are provided in accordance with the contract. Vaudt also recommended that formal written procedures be developed and implemented to ensure that Special Education programs are administered properly. In addition, the Department should develop and implement procedures for monitoring the Fund for the Improvement of Education and Class Size Reduction programs and should comply with all applicable sections of the Code of Iowa.

The Department responded favorably to the recommendations.

A copy of the report is available for review in the Iowa Department of Education or the office of the Auditor of State.

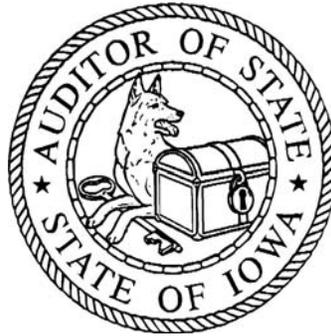
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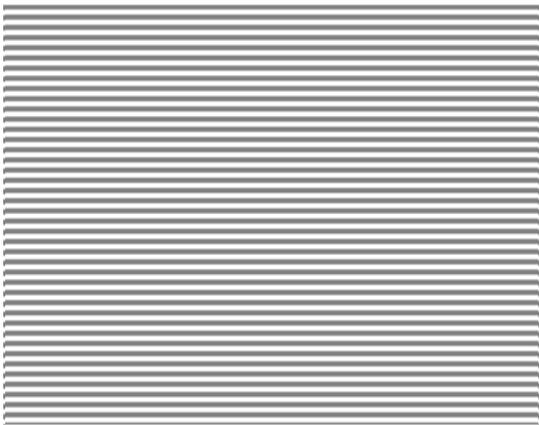
**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF EDUCATION**

**JUNE 30, 2002**

Office of  
**AUDITOR  
OF STATE**  
State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
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June 20, 2003

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, 2002.

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. The recommendations include those which have been reported within the State's Single Audit Report, as well as other recommendations pertaining to the Department's internal control, compliance with statutory requirements and other matters which we believe you should be aware of. 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 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 any questions concerning the above matter, 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 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 Thomas J. Vilsack, Governor  
Cynthia P. Eisenhauer, Director, Department of Management  
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2002

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

**CFDA Number: 84.010 – Title 1 Grants to Local Educational Agencies**

**Agency Number: S010A010015**

**Federal Award Year: 2001**

**State of Iowa Single Audit Report Comment: 02-III-USDE-282-2**

- (1) Allocation Approval – The Department allocates Title I funds to each Community School District (CSD) based on a formula using a per pupil amount. Department procedures for the program require that an independent employee review the allocation calculation. Evidence of the review could not be obtained.

Recommendation – The Department should ensure the review process is performed and documented to ensure that allocations are properly calculated.

Response and Corrective Action Planned – The Title I Administrative Consultant will review the final allocation process to ensure that allocations are properly calculated. The Department will maintain this with the supporting documentation used for calculation of the cost per pupil as required by the Title I legislation.

Conclusion – Response accepted.

**CFDA Number: 84.027 – Special Education – Grants to States**

**Agency Number: H027A010097**

**Federal Award Year: 2001**

**CFDA Number: 84.173 – Special Education – Preschool Grants**

**Agency Number: H173A010102**

**Federal Award Year: 2001**

**CFDA Number: 84.181 – Special Education – Grants for Infants and Families with Disabilities**

**Agency Number: H181A020006**

**Federal Award Year: 2001**

**State of Iowa Single Audit Report Comment: 02-III-USDE-282-3**

- (2) Written Policies and Procedures – There are no written procedures for administering federal funds for the Special Education programs within the Bureau of Children, Families, and Community Services.

Recommendation – The Bureau should establish written policies and procedures to ensure that all federal funds continue to be administered appropriately.

Response and Corrective Action Planned – The Bureau of Children, Families, and Community Services has been working, as time permits, to assemble a procedures manual over the past several years. It continues to be a work in progress and is currently still not completed. The Bureau will continue to work on assembling the necessary procedures as documents are created and updated within the Bureau.

Conclusion – Response accepted.

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**CFDA Number: 84.215 – Fund for the Improvement of Education**

**Agency Number: R215K980011**

**Federal Award Year: 2001**

**CFDA Number: 84.340 – Class Size Reduction**

**Agency Number: S340A010016**

**Federal Award Year: 2001**

**State of Iowa Single Audit Report Comment: 02-III-USDE-282-4**

- (3) Subrecipient Monitoring – OMB Circular A-133 requires the pass-through entity to be responsible for monitoring the activities of the subrecipients, as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of the contract or grant. The Department has not established written procedures for monitoring subrecipient.

Recommendation – The Department should establish written procedures for monitoring subrecipient compliance with applicable federal requirements so that it is clearly and consistently documented and so that the monitoring process covers the necessary federal requirements.

Response and Corrective Action Planned – The Department continues work on the development of monitoring procedures. Interim and final reports are collected from all subgrantees under these programs. The reports are used to monitor the status of the grants as well as for data for the reports that are required to be submitted to the U.S. Department of Education. The Department is developing a letter to send to those districts that have audit exceptions to remind them of the assurances that they signed as part of the grant application and that they are responsible for those assurances. If the district has continuing projects financed by grant funds, we will also request their policy changes to assure corrective action. The Department will conduct site visits of districts for grants awarded prior to fiscal year 2002, that were not audited as part of a single audit within the last three years. Districts who were awarded less than \$10,000 in grants during this time period or were awarded only 98-99 fire (life) safety grants are excluded from the planned site visits. We will expand the required site visits to include the other districts as additional construction grants are awarded.

Conclusion – Response accepted.

**Findings Related to Internal Control:**

- (1) Contractual Agreements – Under the authority of Executive Order #60, the Department established a number of service contracts with outside parties during the year ended June 30, 2002. Of the 259 contracts tested, the following items were identified:
- (a) For 40 contracts that could have been performed internally, written documentation was not available to demonstrate that the Department had performed analyses to determine whether it was more cost beneficial to contract for the services rather than perform the task internally.
  - (b) The Department did not approve 161 contracts prior to the date of execution.

Report of Recommendations to the Iowa Department of Education

June 30, 2002

- (c) Iowa Department of Revenue and Finance's Accounting Policy and Procedures Manual, section 240.102, states that a sole source selection may be used if the contractor is the "most qualified or eligible to perform the service" or the contractor "by virtue of experience, expertise, or proximity to the project, could most satisfactorily provide the service/product." Of 115 contracts tested indicating sole source, 15 did not appear to qualify under either of the stated criteria.
- (d) Of 127 contracts requiring a precontract questionnaire, 14 were completed after the contract was approved and 8 were not prepared.
- (e) Of the 56 contracts amended, three were not approved timely.

Recommendation – The Department should develop procedures to ensure that contracts are reviewed for reasonableness, are cost effective and that services contracted for are provided in accordance with the contract. The Department should also ensure that contracts are an appropriate utilization of public funds, are properly approved, and comply with the policies and procedures for contracts established by the Iowa Department of Revenue and Finance.

Response – The Department established a grants and contracts task force to review and implement the changes to personal service contracting procedures as required by the Accountable Government Act (HF 867) passed by the General Assembly in 2001. The task force is comprised of staff with contracting responsibilities from all work units of the Department. The task force had been developing procedures and forms to implement the requirements of this act. The procedures are distributed to all staff in electronic format as they are completed. An overview of the contracting procedures was given to all staff at the start of the process. Training has been provided to all staff on new and changed policies for personal service contracting. The Department's procedures continue to be reviewed and refined for compliance with all applicable guidelines.

Conclusion – Response accepted.

- (2) Written Policies and Procedures – The Department does not have written procedures for administering federal funds for the Special Education programs within the Bureau of Family and Community Services. See also Single Audit finding O2-III-USDE-282-3 on page 4 that relates to those programs that are considered major programs for the Statewide Single Audit.

Recommendation – The Department should establish written procedures to ensure that all federal funds continue to be administered appropriately.

Response – The Bureau of Children, Families, and Community Services has been working, as time permits, to assemble a procedures manual over the past several years. It continues to be a work in progress and is currently still not completed. The Bureau will continue to work on assembling the necessary procedures as documents are created and updated within the Bureau.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2002

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

- (1) Code Compliance – Chapter 256.23 of the Code of Iowa states, the Department shall establish a recruitment and advancement program to provide for the allocation of grants to school corporations. The Department has not established this program.

Recommendation – The Department should implement procedures to ensure compliance with the Code of Iowa.

Response – Chapter 256.23, Code of Iowa was established by the legislature but no funding for the purposes of this section has been appropriated. Until funds are appropriated to carry out the mandates of this section, the Department is unable to comply with the statute.

Conclusion – Response acknowledged. The Department should take the necessary action to obtain funding or seek to have the requirement removed from the Code of Iowa.

- (2) Timely Deposits – Chapter 12.10 of the Code of Iowa requires 90% of receipts to be deposited within 10 business days and the balance remaining shall not exceed five thousand dollars. The Department received a refund check for \$806,233 on July 8, 2002 that was not deposited until August 8, 2002.

Recommendation – The Department should ensure that funds received are deposited in accordance with Chapter 12.10 of the Code of Iowa.

Response – The Department agrees that the timely deposit of receipts is an important issue. Appropriate staff throughout the Department will be notified of the requirement for timely submission of all receipts. They will be notified to have all receipts sent directly to the Bureau of Internal Operations for deposit to eliminate any potential delays in the deposit of these receipts.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2002

**Staff:**

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager  
James S. Cunningham, CPA, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on this audit include:

Kathleen S. Caggiano, Staff Auditor  
Jeremy J. Howard, CPA, Staff Auditor  
Erin M. Scharingson, Staff Auditor  
Jodi L. Simon, CPA, Staff Auditor  
Kip M. Druecker, Assistant Auditor  
Ryan J. Johnson, Assistant Auditor  
Heather L. Templeton, Assistant Auditor  
Trevor L. Theulen, Assistant Auditor