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NEWS RELEASE

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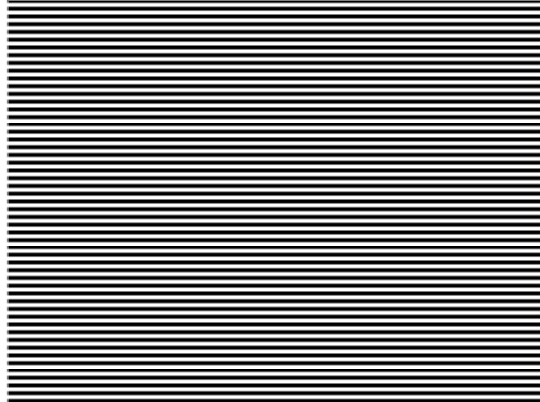
Auditor of State David A. Vaudt today released a report on the Iowa Department of Education for the year ended June 30, 2010.

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 submitted by subrecipients more timely or consider estimating payables to more accurately report payables at year end. In addition, the Department should consider ways to strengthen controls over federal drawdowns, monitoring of federal programs and payroll charged to federal programs. The Department should also develop policies and procedures over various aspects of the EDINFO System. The Department's responses are included in the 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/1160-2820-BR00.pdf>

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

JUNE 30, 2010

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



David A. Vaudt, CPA
Auditor of State





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May 20, 2011

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, 2010.

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. 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 18 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 Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Education

June 30, 2010

Findings Reported in the State's Single Audit Report:

CFDA Number: 10.553 – School Breakfast Program
Agency Number: 2008IN109943, 2009IN109943, 2010IN109943
Federal Award Year: 2008, 2009, 2010

CFDA Number: 10.555 – National School Lunch Program
Agency Number: 2008IN109943, 2009IN109943, 2010IN109943
Federal Award Year: 2008, 2009, 2010

CFDA Number: 10.556 – Special Milk Program for Children
Agency Number: 2009IN109943, 2010IN109943
Federal Award Year: 2009, 2010

CFDA Number: 10.559 – Summer Food Service Program for Children
Agency Number: 2009IN109943, 2010IN109943
Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-USDA-282-3

- (1) Subrecipient Monitoring – Administrative reviews of each subrecipient are scheduled as required, but there is no independent verification all review requirements have been completed and proper follow up, if necessary, has been completed and resolved.

Recommendation – The Department should track all administrative reviews to determine whether reviews have been properly completed and review findings noted, if any, have been followed up and resolved.

Response and Corrective Action Planned – The Bureau is transitioning to on-line based review documentation as part of our administrative reviews. This requires the consultants to complete the forms fully. Fiscal year 2011 is the first full year of use for this system, so we believe this issue has been addressed and corrected.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

CFDA Number: 10.553 – School Breakfast Program
Agency Number: 2008IN109943, 2009IN109943, 2010IN109943
Federal Award Year: 2008, 2009, 2010

CFDA Number: 10.555 – National School Lunch Program
Agency Number: 2008IN109943, 2009IN109943, 2010IN109943
Federal Award Year: 2008, 2009, 2010

CFDA Number: 10.556 – Special Milk Program for Children
Agency Number: 2009IN109943, 2010IN109943
Federal Award Year: 2009, 2010

CFDA Number: 10.559 – Summer Food Service Program for Children
Agency Number: 2009IN109943, 2010IN109943
Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-USDA-282-4

- (2) Residential Child Care Institution Licenses – The Department is to determine whether a residential child care institution (RCCI) is currently licensed to provide residential child care services under the appropriate licensing code by the State or a subordinate level of government.

Of twenty-five institution applications tested, two were RCCIs and the Department had not determined whether the RCCIs had a current license.

Recommendation – The Department should develop procedures to ensure each residential child care institution is properly licensed.

Response and Corrective Action Planned – The license for an RCCI is verified at the time of agreement processing. An electronic calendar with automatic reminders has been set up and the task of ensuring a renewed license has been received is assigned to one position. We believe this issue is adequately addressed and resolved at this point.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2009IN202043, 2010IN202043

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-USDA-282-5

- (3) Administrative Reviews – The Code of Federal Regulations, 7 CFR 226.6(m)(6), requires the Department to annually review at least 33.3% of all institutions. In addition, at least 15% of the total number of facility reviews must be unannounced. Sponsoring organizations with less than 100 facilities must be reviewed at least every three years and sponsoring organizations with more than 100 facilities must be reviewed at least once every two years. Four facilities were not properly reviewed during the fiscal year.

The Department is in the process of implementing a new on-line tracking system to document the administrative reviews completed. Implementation of this system was not complete at the time of testing, so we were unable to obtain complete information on the reviews performed during the year. Because of this, we were unable to determine whether 54 institutions were reviewed as required.

Recommendation – The Department should complete the implementation of the tracking system in order to monitor the total reviews completed. The Department should also monitor the list of completed reviews to determine whether reviews are being completed as required.

Response and Corrective Action Planned – A three year paper schedule has been kept of home sponsors. Implementation, enhancement of the system and training of staff continues on the on-line system. We believe this issue has been addressed through the implementation of the on-line system for fiscal year 2011.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2009IN202043, 2010IN202043

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-USDA-282-6

- (4) Terminated Day Care Providers – The Code of Federal Regulations, 7 CFR 226.6(c)(2)(iii)(E)(2), requires the Department to notify the USDA Food Nutrition Services Regional Office of the name, mailing address and date of birth of each day care home provider whose agreement is terminated for cause.

The Department does not maintain a home providers/center termination list.

Recommendation – The Department should implement procedures to create a listing of terminated home providers/centers and should notify the USDA Food Nutrition Services Regional Office as required when a home provider is terminated.

Response and Corrective Action Planned – During fiscal year 2010, the Bureau maintained a file drawer to collect the files for those providers terminated. This file is still intact. In June 2010 a change of staff responsible for this notification occurred. We will continue to maintain the file and maintain an electronic file of letters sent to the USDA concerning additions to the National Disqualified List (NDL). The Bureau can show documentation of the frequency of communication to the USDA with additions to the NDL. We believe this issue is adequately resolved.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

CFDA Number: 84.010 – Title I Grants to Local Educational Agencies

Agency Number: S010A070015, S0101A080015, S010A090015

Federal Award Year: 2007, 2008, 2009

CFDA Number: 84.027 – Special Education Grants to States

Agency Number: H027A070097, H027A080097, H027A090097

Federal Award Year: 2007, 2008, 2009

CFDA Number: 84.173 – Special Education Preschool Grants

Agency Number: H173A080102, H173A090102

Federal Award Year: 2008, 2009

CFDA Number: 84.367 – Improving Teacher Quality State Grants

Agency Number: S367A080014, S367A090014

Federal Award Year: 2008, 2009

State of Iowa Single Audit Report Comment: 10-III-USDE-282-1

- (5) Payroll Distribution and Certification – OMB Circular A-87 states employees who work on multiple programs will distribute their time based on actual activity. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support. Several employees of the Department work on more than one federal program, so their time is allocated to federal programs based on time charged on their timesheet. These employees receive a letter every fiscal year documenting the percentage of time they are expected to work on each federally funded program. The employee is to record actual hours worked on each program on their timesheet.

In addition, OMB Circular A-87, Attachment B, paragraph 8.h.(3) requires the Department to obtain periodic certifications for any employee who worked solely on a single federal program for the period covered by certification. These certifications are to be prepared at least semi-annually and be signed by the employee or supervisor having first hand knowledge of the work performed.

For twelve of forty timesheets tested, it appeared the recorded hours were based on the predetermined rate rather than the actual hours. In addition, for employees who worked solely on a single federal program, certifications were not obtained.

Recommendation – The Department should ensure employees record actual hours worked on each federal program rather than the predetermined rate. In addition, the Department should ensure certifications are obtained for all employees semi-annually.

Response and Corrective Action Planned – For the period reviewed, this finding was accurate for the first portion of that period. The Department made adjustments in the middle of the review period to address both issues. The Department now reviews all timesheets to ensure actual time is submitted. If two consecutive timesheets are identical, those timesheets are flagged and the employee must address the issue immediately. Policy requires employees to report actual time worked. The semi-annual certifications are now done for all employees on federal funds regardless of whether it is

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single or multiple federal funding streams. This has been true for the last two semi-annual cycles.

Conclusion – Response accepted.

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

Agency Number: S010A070015, S010A080015, S010A090015

Federal Award Year: 2007, 2008, 2009

CFDA Number: 84.367 – Improving Teacher Quality State Grants

Agency Number: S367A080014, S367A090014

Federal Award Year: 2008, 2009

CFDA Number: 84.389 – ARRA - Title I Grants to Local Educational Agencies, Recovery Act

Agency Number: S389A090015

Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 10-III-USDE-282-2

- (6) Application Process – Community School Districts submit applications to the Department for Title I funding and Improving Teacher Quality funding. The Department is to review and approve the applications prior to the disbursement of funds.

For seven of twenty-five Title I applications tested and for two of twenty-five Improving Teacher Quality applications tested, applications were not approved prior to the disbursement of funds.

Recommendation – The Department should establish procedures to ensure applications are properly reviewed and approved prior to the disbursement of funds.

Response and Corrective Action Planned – The U.S. Department of Education program staff in Title I do not agree with this finding as written. In Title I, they will not allow the Iowa Department of Education to withhold the initial grant installment payment for each year pending a lack of an approved plan. They will allow us to hold subsequent payments for non-compliance.

That said, the Department will work to comply with this finding because it is the right way to do business. For the Improving Teacher Quality grant, the consultant is implementing an electronic application submission process that will organize this for subrecipients. Our goal is to have applications approved prior to any fund disbursement.

Conclusion – Response accepted.

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CFDA Number: 84.010 – Title 1 Grants to Local Educational Agencies
Agency Number: S010A070015, S010A080015, S010A090015
Federal Award Year: 2007, 2008, 2009

CFDA Number: 84.389 – ARRA - Title I Grants to Local Educational Agencies, Recovery Act
Agency Number: S389A090015
Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 10-III-USDE-282-3

- (7) Comprehensive School Improvement Plan (CSIP) Certification – Iowa Administrative Code (281) 12.8(2) requires non-public schools and school districts to submit a revised five-year CSIP to the Iowa Department of Education by September 15th of the school year following the comprehensive site visit.

For two of twenty school districts tested, the CSIP was not submitted by the September 15th deadline.

Recommendation – The Department should establish procedures to ensure all CSIP's are received by the September 15th deadline.

Response and Corrective Action Planned – We will comply to the degree we are able. There is no real sanction for the Department on this issue. We do cite them noncompliant when they miss this deadline, which prompts a plan of correction. However, if they insist on not complying, there is little the Department can do other than to persist until they submit the document. We cannot withhold state funding on an issue like this and the Code gives us no other remedies for noncompliance. Our goal is always full compliance on a deadline like this.

Conclusion – Response accepted.

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June 30, 2010

CFDA Number: 84.027 – Special Education Grants to States
Agency Number: H027A070097, H027A080097, H027A090097
Federal Award Year: 2008, 2009, 2010

CFDA Number: 84.173 – Special Education Preschool Grants
Agency Number: H173A080102, H173A090102
Federal Award Year: 2008, 2009

CFDA Number: 84.367 – Improving Teacher Quality State Grants
Agency Number: S367A070014, S367A080014, S367A090014
Federal Award Year: 2008, 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-USDE-282-4

- (8) 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, 2010 there were approximately \$2.4 million in requests for payments submitted by subrecipients, of which approximately \$1.1 million pertained to the Special Education Cluster and approximately \$1.1 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 payables at year end.

Response and Corrective Action Planned – By next fiscal year, the Department will have in place a system to track all obligations against funding streams. Currently, some of our federal funding streams are paid using grants which do not flow through Internal Operations. This creates much difficulty in accurately tracking obligations and expenditures against available funds. Once all obligations are tracked in the same system, it should be possible to estimate the remaining unpaid obligations for the GAAP package. Currently, that process would have to occur manually.

We acknowledge and agree the volume of Appeal Board claims is unacceptable. Additionally, we have to have a system in place to better estimate possible obligations paid using the Appeal Board process. Thank you for your continued pressure on this issue. That pressure is serving to cause us to positively adjust payment processes.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

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

- (1) Financial Reporting – The Department records 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 Department performs additional procedures after September 1 to identify additional accounts payable which were not included as expenditures on the I/3 system. However, even with the additional procedures performed, there were still significant outstanding requests for payments submitted by subrecipients which were not reported in the GAAP package to DAS-SAE.

Recommendation – The Department should consider estimating requests for payments from subrecipients to more accurately report payables at year end.

Response – By next fiscal year, the Department will have in place a system to track all obligations against funding streams. Currently, some of our federal funding streams are paid using grants which do not flow through Internal Operations. This creates much difficulty in accurately tracking obligations and expenditures against available funds. Once all obligations are tracked in the same system, it should be possible to estimate the remaining unpaid obligations for the GAAP package. Currently, that process would have to occur manually.

We acknowledge and agree the volume of Appeal Board Claims is unacceptable. Additionally, we have to have a system in place to better estimate possible obligations paid using the Appeal Board process. Thank you for your continued pressure on this issue. That pressure is serving to cause us to positively adjust payment processes.

Conclusion – Response accepted.

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. The following were noted:
- (a) The Department performs monthly and annual reconciliation of capital asset additions to I/3 system expenditures. However, the reconciliation was not reviewed by someone independent of the reconciliation process.
 - (b) During the year ended June 30, 2010, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets. The Department originally reported \$4,350,000 of intangible assets on the GAAP package, of which some had been placed in service in prior years. The Department could not support the estimate of costs included in the GAAP package. In addition, the Department did not determine a date placed in service, so the Department was not reporting current year or accumulated depreciation on the assets. This was properly adjusted for reporting purposes.

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Recommendation – To strengthen controls, the Department should update current written procedures to include timely review and documentation of reconciliations between I/3 and the Department’s capital asset tracking system by an independent person. The Department should also maintain documentation to support actual or estimated costs for intangible asset additions or deletions, including the dates placed in service.

Response – While the short answer is we will comply with this expectation (independent review, documentation of actual or estimated costs and reconciliations), there is a need to supply some context. At the time we did initial projections of cost for intangible assets, we were not aware of the option to depreciate out the cost of each asset. Because of the age of the assets we were counting, once we understood we could depreciate the asset, the net result was a zero claim.

It should also be noted at the time of the creation of the assets on our list, there was no requirement to document, project or aggregate cost of the asset for recordkeeping purposes. We are happy to manage that as a part of this new expectation, but we hope everyone understands that all agencies are playing catch-up with this new requirement.

Conclusion – Response accepted.

- (3) Payroll – The Department processes and records payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises.

Nine individuals within the Department have the ability to initiate and approve timesheets.

In addition, the Department has assigned certain employees to “act for” other employees by entering their time into HRIS and approving their timesheet. There is no independent review of the information entered into HRIS by the “acts for” employees since, in most cases, the same person is entering the information and approving the information.

Several employees of the Department work on more than one federal program, so their time is allocated to the federal program based on time charged on their timesheet. A payroll clerk summarizes timesheets for all employees whose payroll is distributed between programs. There is no independent review to ensure the payroll distribution entered on HRIS is correct and the correct federal program is being charged.

Recommendation – To strengthen controls, the Department should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll. Also, an independent review should be performed and documented over the information entered into HRIS by the “acts for” employee and the payroll distribution information entered on HRIS.

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June 30, 2010

Response – In April 2010, the Department made an adjustment to this process which corrected this issue. There is no longer anyone at the Department both entering and certifying time sheets, even in an “acting for” capacity. Every time sheet gets an independent review and certification.

Conclusion – Response accepted.

- (4) Review Documentation – The Department periodically draws funds from the federal government. The draw is prepared and recorded on the I/3 system using a cash receipt and a grant information sheet as supporting documentation. One individual is responsible for the preparation of the document and another individual reviews the document, but there is no evidence of the review.

Recommendation – To strengthen controls, the Department should develop and implement procedures to document the independent review of federal draws.

Response – In April 2010, we changed this process. Every cash receipt is now individually reviewed and evidenced by the initials on the bottom of the pay document.

Conclusion – Response accepted.

June 30, 2010

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, 2010. For 37 contracts tested, the following were identified:
- (a) The Department did not approve 29 contracts prior to the date of execution.
 - (b) 25 were not approved by the appropriate individuals in the Department.
 - (c) Eight contracts did not have a completed SS-8 form on file, as required.
 - (d) One contract did not have the request for out-of-state travel completed, as required.

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 – Items “c” and “d” should never happen, so we will review protocols and adjust accordingly. On item “b”, the Department has changed its formal policy. The Chief Financial Officer is now authorized to sign off on all contracts. There is no longer an internal policy requiring the Director to sign off on contracts \$10,000 or over. On item “a”, we work hard to ensure this does not occur. For the time of this review, there were not standard Department protocols in place. We now have a standard protocol to be followed by all Department staff and have trained staff on this issue. We are much more strident about this issue now than we were at the time of review, so we hope future reviews on this issue show progress.

Conclusion – Response accepted.

- (2) 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 – All access is now A&A certified, using the users system login. Access procedures are in place for all Department employees. The Department will update its employee policy manual supplement to the DAS policy manual over the course of fiscal year 2012. The Department had planned to update this manual in fiscal year 2011, but retirements, along with the updating of two internal operations documents which were higher priority work, delayed this update. We will include this issue as an area of policy development in this manual update.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2010

(3) 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.
- 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.

Response – The Department did develop an IT users policy which all employees were required to read and sign off on. The Department will also update its employee policy manual supplement to the DAS policy manual over the course of fiscal year 2012. The Department had planned to update this manual supplement in fiscal year 2011, but retirements, along with the updating of two internal operations documents which were higher priority work, delayed this update. We will include this issue as an area of policy development in this manual update. All employees are now taking the mandated IT security training through DAS, per requirement.

Conclusion – Response accepted.

(4) 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 update its employee policy manual supplement to the DAS policy manual over the course of fiscal year 2012. The Department had planned to update this manual supplement in fiscal year 2011, but retirements, along with the updating of two internal operations documents which were higher priority work, delayed this update. We will include this issue as an area of policy development in this manual update.

Conclusion – Response accepted.

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June 30, 2010

Finding Related to Statutory Requirements and Other Matters:

Code of Iowa Compliance – 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

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

Response – The Department included striking the Code of Iowa section 256.23 in its code corrections prefiled bill again this last legislative session. The Department was unable to get that bill passed and will try again next year to get this provision struck.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

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Staff:

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, 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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Lori M. Dinville, Staff Auditor
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