

OFFICE OF AUDITOR OF STATE

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ September 13, 2011

Contact: Andy Nielsen
515/281-5834

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

The Iowa Department of Workforce Development is comprised of six divisions: Workers Compensation, Labor Services, Administrative Services, Labor Market and Workforce Information, Unemployment Insurance 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 records supporting project costs are retained in compliance with federal requirements.
- (2) To continue to monitor the accuracy of employee work reports and ensure the payroll distribution variance reports are reconciled in total to the payroll costs charged to the Department in the State's accounting system and make adjustments as necessary.
- (3) To ensure audit reports for all subrecipients which expend \$500,000 or more of federal awards each year are formally reviewed in a timely manner, including appropriate follow-up.
- (4) To ensure information generated for financial reporting is properly tested and reviewed for accuracy.
- (5) To ensure the GAAP package is accurately completed.
- (6) To review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained.
- (7) To identify sensitive positions and ensure background investigations are performed as part of the hiring process.
- (8) To have each division prepare an initial listing of checks received, at least on a test basis, prior to forwarding the checks to financial management. Each division should then reconcile its initial listing to the deposits made on their behalf.
- (9) To ensure compliance with Department of Administrative Services Policy 240.102 for personal service contracts.
- (10) To ensure necessary steps are taken to comply with the Code of Iowa or seek the repeal of outdated Code sections.

The report also includes the Department's responses to the recommendations.

A copy of the report is available for review at 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/1160-3090-BR00.pdf>.

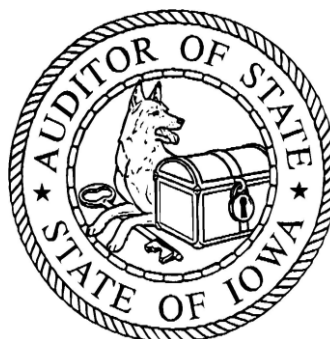
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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF WORKFORCE DEVELOPMENT**

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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September 7, 2011

To Teresa Wahlert, 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, 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 Workforce Development'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 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 15 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

June 30, 2010

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: REEDACT03-13-2002

Federal Award Year: 2002

State of Iowa Single Audit Report Comment: 10-III-DOL-309-1

- (1) Record Retention – The Code of Federal Regulations, 29 CFR 97.42, requires supporting documentation for all expenditures be retained for three years after the final expenditure report. The Department is administering the Unemployment Insurance Tax Redesign Project, which is still in progress. During a review of expenditures, certain documentation supporting the selection of a contractor was not available or had not been consistently retained.

Recommendation – The Department should ensure records supporting the selection of contractors are retained in compliance with federal requirements.

Response and Corrective Action Planned – The Department was made aware of this during the previous audit period and understands the Reed Act records must be maintained for three years after final expenditures. That has been corrected. The documents in question relate back to the same time period as was the issue during the last audit cycle. Therefore, we cannot undo the error that occurred previously and can only ensure all records related to this project from the past four years have been maintained and we will continue to hold all of those records until three years after the final costs are incurred.

Conclusion – Response accepted.

June 30, 2010

CFDA Number: 17.225 – Unemployment Insurance and ARRA – Unemployment Insurance

Agency Number: REEDACT03-13-2002, UI1512TM0, UI15798XF0, UI80205I, UI180204P0, UI180206T0, UI180208C0, UI180209M0, UI180209S0, UI195829R0, UI19582CR0, UI195829Y0, UI180208U0, UI195829S0

Federal Award Year: 2002, 2006, 2009, 2010

CFDA Number: 17.258 – WIA Adult Program and ARRA – WIA Adult Program

Agency Number: AA171213Y0, AA171215J0, AA186406X0, AA186408D0

Federal Award Year: 2009, 2010

CFDA Number: 17.259 – WIA Youth Activities and ARRA – WIA Youth Activities

Agency Number: AA171212F0, AA171215L0, AA186406E0, AA20194AF

Federal Award Year: 2008, 2009, 2010

CFDA Number: 17.260 – WIA Dislocated Workers and ARRA – WIA Dislocated Workers

Agency Number: EM15779VPO, EM160963H0, EM16941YW0, EM17062YW0, EM17458ZW0, EM174774F0, EM174777S0, EM17477ZW0, EM176713H0, EM176773H0, EM180774F0, EM189846B0, EM192996B0, EM193026B0, EM193036B0, EM194546B0, EM200287S0, EM206607S1, MI17526, AA171214A0, AA171215P0, AA186406Z0, AA186408F0

Federal Award Year: 2006, 2007, 2008, 2009, 2010

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: 0902IATANF, 1002IATANF

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comments: 10-III-DOL-309-2 and 10-III-HHS-309-4

- (2) Payroll Distribution Adjustments – OMB Circular A-87 requires the amounts charged to federal awards for salaries and wages, regardless of whether treated as direct or indirect, to be based on documented payrolls. Payrolls must be supported by time and attendance records for individual employees. Since the payroll system is limited to the extent distributions can be made and is based upon predetermined distributions, the Department utilizes a payroll distribution variance report generated by the Iowa Department of Administrative Services – Information Technology Enterprise at the end of each payroll period. The report compares payroll as distributed on the State’s payroll system to payroll distributed per each employee’s work report. The budget analysts then review the variances and make any necessary adjustments to properly distribute payroll.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

The Iowa Department of Administrative Services' computer program creating the report had not been updated to account for the fourth digit in the field to the left of the decimal (\$1,000's), which was necessary due to the rising cost of health insurance. The state share of health insurance is paid on a monthly basis and, on a limited basis, the adjustments made for those pay periods were effected. Those adjustments provided by the payroll distribution variance report, affecting the distributions to various state and federal programs, were not accurate. The Department had not adequately reconciled the information from the payroll distribution reports with corresponding information recorded in the State's accounting system.

Recommendation – The Department should continue to monitor the accuracy of employee work reports and ensure the payroll distribution variance reports are reconciled in total to the payroll costs charged to the Department in the State's accounting system and make adjustments as necessary.

Response and Corrective Action Planned – When the Variance Report was first established several years ago, the Department tested the accuracy of the program against the actual payroll costs that were incurred. This was done for several pay periods, until we were confident that the program was working properly. It came to our attention recently, that the program has stopped reporting health insurance costs accurately and the Department of Administrative Services (DAS) was contacted to have them determine why their Variance Report program was no longer working accurately. It was determined by DAS that a programming error on health insurance benefits was causing the problem.

The program has been tested since the correction and appears to be operating accurately again. The Department will continue to test the program for accuracy until we are again, confident that it is working correctly. At which point, the Department will begin randomly testing the accuracy of the report to ensure that it continues to perform as expected.

Conclusion – Response accepted.

June 30, 2010

CFDA Number: 17.258 – WIA Adult Program and ARRA – WIA Adult Program
Agency Number: AA171213YO, AA171215JO, AA186406XO, AA186408DO
Federal Award Year: 2009, 2010

CFDA Number: 17.259 – WIA Youth Activities and ARRA – WIA Youth Activities
Agency Number: AA171212FO, AA171215LO, AA186406EO, AA20194AF
Federal Award Year: 2008, 2009, 2010

CFDA Number: 17.260 – WIA Dislocated Workers and ARRA – WIA Dislocated Workers
Agency Number: EM15779VPO, EM160963HO, EM16941YW0, EM17062YW0,
EM17458ZW0, EM174774FO, EM174777SO, EM17477ZW0,
EM176713HO, EM176773HO, EM180774FO, EM189846B0,
EM192996B0, EM193026B0, EM193036B0, EM194546B0,
EM200287SO, EM206607S1, MI17526, AA171214AO, AA171215PO,
AA186406ZO, AA186408FO
Federal Award Year: 2006, 2007, 2008, 2009, 2010

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: 0902IATANF, 1002IATANF
Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comments: 10-III-DOL-309-3 and 10-III-HHS-309-5

- (3) Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in federal awards are completed within nine months of the subrecipient's fiscal year end, issue a management decision on audit findings within six months of the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all findings.

Nine of seventeen fiscal year 2009 subrecipient audit report reviews tested did not contain a management decision letter issued within six months of the date of the Department's receipt of the subrecipient's audit report. Of the nine, two still have not been issued.

Recommendation – The Department should ensure audit reports for all subrecipients which expend \$500,000 or more in federal awards each year are formally reviewed in a timely manner, including appropriate follow-up. The Department should also consider cross-training employees to perform subrecipient desk reviews of audit reports during staff turnover and leave.

Response and Corrective Action Planned – Because of transfers and early retirements, the Department's financial management has been short staffed for the past couple of years. In fact, IWD Financial is still short two staff at this time. Once we have all staff on board, a back-up can be assigned to ensure that the reports are completed on time. The individual that reviews the audits has been assisting the bureau with not only her own duties but assisting with the duties of the positions that are currently vacant.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

However, we did review all audits as they were received to determine if any significant findings were in any reports that needed immediate action. None of the reports in question had significant non-compliance issues that may have resulted in the disallowance of any costs. What IWD Financial did not do was ensure that, although the findings were minimal and did not include any possible debt collection, that a final determination of such was issued within the allowed timeframes.

The individual that is responsible for reviewing the reports has been instructed to maintain a file of all audits in the resolution process and the status of each review. This will be reviewed periodically by the Bureau Chief of Financial Management to determine if the audits will be resolved within the time frames required. The log will be initialed by the Bureau Chief as evidence of the review. Corrective action will be taken by the Bureau Chief if it appears that an audit has the potential to miss the deadlines. This corrective action may include the reassignment of the audit resolution to other staff or being completed by the Bureau Chief. The Department has five individuals in Financial Management that are qualified to review and resolve audit findings. Therefore, a reassignment can be done if necessary.

Conclusion - Response accepted.

June 30, 2010

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

- (1) Unemployment Trust Fund Receivables – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has established a ledger system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the running balance of employer contributions receivable and delinquent accounts for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services–State Accounting Enterprise (DAS–SAE) on a GAAP package.
 - (a) The employer contributions receivable as reported on the GAAP package was understated by \$60,065,596. The Department reported the same amount for the current year as was reported for June 30 of the prior year. This was properly adjusted for reporting purposes.
 - (b) The amount reported for accounts receivable on the GAAP package was not adjusted for write-offs of uncollectible employer contributions. Write-offs of uncollectible accounts are historically accounted for in June of each fiscal year. However, for fiscal year 2010, write-offs were not accounted for due to problems encountered in the transition to a new receivable system module.

Recommendation – The Department should ensure information generated for financial reporting is properly reviewed for accuracy. In addition, the Department should continue working towards completing implementation of the receivable system module with proper testing for accuracy.

Response – It is the intent of the new system to not only provide timely information, but more accurate information in regards to on-going business decisions, account collections and preparing the annual GAAP package. Improvements in all those functions, including a review for accuracy, should be seen when IWD prepares the GAAP package for fiscal year 2011.

Conclusion – Response accepted.

- (2) 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 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) The unearned revenue page of the GAAP package captures information on unearned revenues carried forward on the State accounting system to the next fiscal year, unearned revenue not carried forward and revenue carried forward not meeting the definition of unearned revenue. Journal entries are prepared for each section reported.
 - (1) Unearned revenue not carried forward was understated by \$614,403.
 - (2) Unearned revenue carried forward was understated by \$1,828,681.
 - (3) Revenue carried forward not meeting the definition of unearned revenue was understated by \$6,171,910.

These were properly adjusted for reporting purposes.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

- (b) The Trade Readjustment Assistance benefits payable was omitted from the GAAP package, resulting in a \$90,789 understatement of accounts payable. This was properly adjusted for reporting purposes.
- (c) The Combined Wage Claims Payable to Other States was understated by \$1,109,551. This was properly adjusted for reporting purposes.
- (d) The schedule of future minimum operating lease payments was understated by \$155,590 for the applicable property tax adjustment. This was properly adjusted for reporting purposes.
- (e) There were other GAAP package pages with immaterial errors noted.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – IWD understands the importance of completing the GAAP package as accurately as possible and to that end, we have assigned the coordination and review of the GAAP package to an individual within IWD with both auditing and accounting expertise, who will ensure we have completed all necessary components and it is the best and most accurate information we have available at the time the report is due. Coordination is essential as is a pre-audit of that information.

Conclusion – Response accepted.

- (3) 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) Four of fifteen capital assets selected from the listing could not be located. Also, one of the eleven capital assets observed did not have a State property tag affixed to it.
 - (b) Four of ten capital assets selected for observation could not be traced to the capital asset listing. Also, two expenditures for items with a value of over \$5,000 each could not be traced to the capital asset listing.
 - (c) Thirteen of fifteen capital asset deletions tested lacked evidence of approval prior to deletion.
 - (d) Capital assets were tested as a part of field office visits. The following were noted:
 - (1) Two of five capital assets selected for existence testing at the Burlington field office could not be located.
 - (2) Manager approvals for capital asset deletions were not retained at the Davenport field office.
 - (e) Intangible assets of \$3,591,638 for the unemployment insurance tax system redesign were not initially reported on the GAAP package. This was properly adjusted for reporting purposes.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

Recommendation – The Department should review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained. This includes ensuring all assets are properly accounted for, included on the capital asset listing and tagged with a State property tag. In addition, approval prior to the deletion of items from the capital asset listing should be obtained and retained.

Response – The individual assigned to maintain and oversee inventory control has not had sufficient time to do justice to this aspect of financial management. Therefore, the duties involved have been placed with an Accountant 2 within the bureau and duties were restructured to allow time to analyze the inventory and make necessary inquiries. At that same time, inventory control needs to be stressed to each individual manager responsible for segments of inventory. The importance of which will be stressed to those managers through written communication on an annual basis and via periodic meetings held with local managers.

Conclusion – Response accepted.

June 30, 2010

Other Findings Related to Internal Control:

- (1) Background Investigations – The Department hires employees for various positions, including positions which are sensitive in nature, such as information technology staff, individuals with access to cash, etc. Background investigations are not done as part of the employee hiring process.

Recommendation – The Department should develop procedures to identify sensitive positions and ensure background investigations are performed as part of the hiring process.

Response – IWD has taken steps to ensure background checks are conducted on the appropriate staff. We will establish written policies which identify what positions are subject to that investigation.

Conclusion – Response accepted.

- (2) Initial Listing of Receipts – Divisions within the Department receive payment for various fines and fees. Each division opens mail and forwards checks received to financial management for processing. Currently, individuals in the various divisions who open the mail do not prepare an initial listing of receipts for comparison to the amounts deposited.

Recommendation – The Department should develop procedures to ensure the individuals opening the mail for each division prepare an initial listing of checks received prior to forwarding the checks to financial management. The initial listing should be reconciled to the deposits.

Response – The Worker's Compensation, Labor Commission and the Labor Market Information Division represent over 90% of the checks that come into IWD. Financial Management will work with them to ensure they have set up procedures for logging and reconciling amounts deposited.

Conclusion – Response accepted.

June 30, 2010

Findings Related to Statutory Requirements and Other Matters:

- (1) Personal Service Contracts – Iowa Department of Administrative Services Policy 240.102 provides general guidelines to be used by departments when entering into personal service contracts. The required procedures include obtaining a signed contract prior to the performance of the contracted services. The following were noted:
 - (a) Fourteen of the twenty-five contracts tested were not signed by all parties prior to the contracted service starting date.
 - (b) Five pre-contract questionnaires (PCQ) were not dated to evidence proper completion prior to signing the contract.

Recommendation – The Department should ensure compliance with policies and procedures for personal service contracts established by the Iowa Department of Administrative Services.

Response – There will always be situations where emergency services to Iowans dictates immediate action be taken and a contract will follow. However, IWD does understand the number of situations found by the auditors is excessive. Action will be taken to ensure services do not begin until a contract is signed. In the event of an emergency, a letter of intent to contract will be signed by the Director prior to beginning such projects. That letter will identify a minimum of: the starting/ending date; what services are to be provided; what rules or regulations apply; what amount is being contracted; and a fully executed agreement will be signed by both parties within 30 days of the issuance of the letter of intent. Otherwise, the agreement will expire after 30 days. In addition, IWD will ensure all documents related to a contractual agreement are both signed and dated.

Conclusion – Response accepted.

- (2) Iowa Code Compliance – The following compliance items were noted for fiscal year 2010:
 - (a) Iowa Conservation Corps – Chapter 84A.7 of the Code of Iowa 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.

This program and the account are currently inactive.
 - (b) Statewide Mentoring Program – Chapter 84A.9 of the Code of Iowa 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.

This program is currently inactive.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

- (c) New Employment Opportunity Program – Chapter 84A.10 of the Code of Iowa 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.

This program is currently inactive.

Recommendation – The Department should take the necessary steps to ensure compliance with the Code of Iowa or the Department should seek the repeal of outdated Code sections.

Response – IWD will provide this information to the General Assembly during the 2012 legislative session.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2010

Staff:

Questions or requests for further assistance should be directed to:

Ronald D. Swanson, CPA, Manager
Brian R. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Michael J. Hackett, Senior Auditor
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