

**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Mary Mosiman, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

October 1, 2013

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2012.

The Iowa Department of Workforce Development is comprised of seven divisions: Worker's Compensation Commission, Labor Commission, Administrative Services, Unemployment, Information Technology, Workforce Services and Communications and Labor Market. 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.

Mosiman recommended the Department develop procedures to:

- (1) Ensure compliance with the IRS 940 match requirement and certify the amounts contributed annually.
- (2) Ensure information generated for financial reporting is properly tested and reviewed for accuracy.
- (3) Identify sensitive positions and ensure background investigations are performed as part of the hiring process.
- (4) Review capital asset policies and procedures to ensure a detailed, up-to-date capital asset listing is maintained.
- (5) Ensure compliance with Iowa Department of Administrative Services Policy 240.102 for personal service contracts.
- (6) Ensure necessary steps are taken to comply with the Code of Iowa or continue to seek the repeal of outdated Code sections.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/1360-3090-BR00.pdf>.

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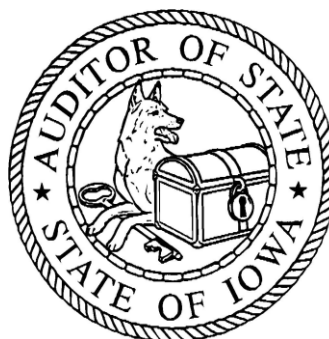


**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF WORKFORCE DEVELOPMENT**

**JUNE 30, 2012**

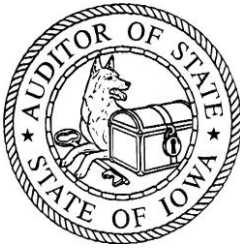
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September 27, 2013


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, 2012.

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 9 and they are available to discuss these matters with you.

  
MARY MOSIMAN, 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, 2012

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

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

**Agency Number: REEDACT03-13-2002, UI80205I, UI195829R0, UI195829R1, UI21099EW0, UI22276JH0, UI21099IFO, UI21099DW0, UI22276IB0, UI2199DVO, UI21099IA0, UI22276IA0, UI21099ER0, UI21099ID0, ES22064GC1**

**Federal Award Year: 2002, 2009, 2010, 2011, 2012**

**State of Iowa Single Audit Report Comment: 12-III-DOL-309-1**

IRS 940 Match – OMB Circular A-133 Compliance Supplement states, “States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the Federal Unemployment Tax Act (FUTA) tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer’s IRS 940 FUTA tax form.” The Department did not perform this match of the 940 file, so it did not certify the amounts contributed by each taxpayer for calendar year 2011.

Recommendation – The Department should develop policies and procedures to ensure compliance with the IRS 940 match requirement and certify the amounts contributed annually.

Response and Corrective Action Planned – A response for calendar year 2011 was transmitted to the IRS on June 29, 2012 and a similar response will be transmitted no later than March 20, 2013. We are nearing the end of the development of new functionality which will automatically assign an investigation to staff to resolve discrepancies found in the IRS and Department cross match. The IRS normally allows 2-3 months to resolve any discrepancies and resubmit. The resolution of those discrepancies will likely be transmitted to the IRS in June 2013.

Conclusion – Response accepted.

**Finding Reported in the State's Report on Internal Control:**

Unemployment Benefits Fund – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Department has developed the MYIOWAUI 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, including penalty and interest calculations, for financial reporting purposes. This activity is reported to the Iowa Department of Administrative Services - State Accounting Enterprise (DAS-SAE) in a GAAP package. The following issues were noted for the year ended June 30, 2012:

- (a) Four of 25 accounts selected for penalty and interest testing were inactive accounts, which should have been removed from the accounts receivable included in the GAAP package.

June 30, 2012

- (b) According to the Department, an account goes to non-collectible status when the most recent debt creation date on the account is older than 720 days and the last payment received was greater than 90 days. These accounts should then be written off for reporting purposes. During testing, we noted \$174,960 of contributions, \$132,075 of interest and \$19,828 of penalties older than 720 days which were still included in the accounts receivable balance shown in the GAAP package.
- (c) Penalty and interest accounts receivable in the GAAP package was overstated by \$628,496.
- (d) The system is unable to process and track return items (NSF checks).

Recommendation – The Department should ensure financial information generated for the GAAP package is properly reviewed for accuracy. The Department should continue to modify the MYIOWAUI system to ensure the data is accurate, timely and operates according to established policy.

Response –

- (a) It is agency policy to not remove inactive accounts from MYIOWAUI until the account has reached termination requirements. However, we do not remove or terminate the accounts which have debt. In the future, inactive accounts will be removed from the accounts receivable balance in the GAAP package.
- (b) It is agency policy to keep all accounts within MYIOWAUI which have debt in our system. Non-Collectible status debt is “written off” or no longer reported as debt for state or federal reporting purposes. We continue to keep these accounts in MYIOWAUI as we do collect some of this debt. In the future, accounts in non-collectible status will be removed from the accounts receivable balance in the GAAP package.
- (c) During August and September 2012, we went through a Payment Maintenance process, resulting in the incorrect interest previously reported being removed and the accounts affected now have correct balances. Penalty was not charged through this process.
- (d) During the Payment Maintenance in August 2012, all returned items were accounted for and processed properly. Additionally, MYIOWAUI now has the functionality to properly account for returned items and procedures are in place and are being followed to get these into MYIOWAUI.

Conclusion – Response accepted.

**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 hiring process.

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

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2012

Response – IWD is currently working on identifying classifications which deal with financial transactions, sensitive or confidential information which may require background checks prior to hire. Once the classifications have been identified, IWD will work with the Iowa Department of Administrative Services on implementing a background check system. Prior to the implementation, IWD will be providing training for managers on the use of background checks. Since IWD receives a majority of its funding from federal monies we are closely overseen by the U.S. Department of Labor (DOL) and the Equal Employment Opportunity Commission (EEOC) guidelines which have been very strict in regards to using background checks in hiring. IWD will need to demonstrate our ability to the EEOC and DOL which we can appropriately use background checks without creating disparate treatment or impact in hiring of protected class individuals. IWD anticipates having background checks for hiring by the end of the calendar year 2013.

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) 22 of the 27 capital assets observed did not have a State property tag affixed to it.
  - (b) Capital asset deletions were all approved together after year end rather than individually as they were deleted.
  - (c) The Department has not prepared a complete intangible asset listing.

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 for the deletion should be obtained prior to the deletion of items from the capital asset listing and should be retained.

Response – Once IWD completes the physical inventory for State fiscal year 2013, we will be shipping out new asset tags and either tagging or re-tagging all equipment over \$5,000. Any equipment purchased for less than \$5,000 will be removed from the inventory listing. IWD Financial Management will work with the Business Services Bureau to determine a better means of identifying items being removed from inventory, at the time it occurs instead of at year end. The intangible asset listing was included on the GAAP package. It just did not appear on the Excel spreadsheets maintained on all equipment. This has been corrected.

Conclusion – Response accepted.

**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. 20 of the 25 contracts tested were not signed by all parties prior to the contracted service starting date.



Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2012

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

Response – It is extremely difficult to ensure all contracts have been signed by both parties, prior to the start date and also ensure the citizens of Iowa receive timely services for employment, unemployment and job training. All contracts must be signed by the contractor before IWD signs the agreement. In many cases, a local board must meet and approve the signing of the contract before it's actually done. Those boards may meet monthly, quarterly or semi-annually. In the meantime, services must begin as many of these projects involve assisting participants who are either low income or dislocated workers. Timely assistance is required to ensure IWD does not have a negative impact on their well-being. In other cases, such as IT contracts, those agreements must run through several layers of agency and multi-agency review before approval. Again, time is usually of the essence in beginning those projects as they may also impact services to citizens of Iowa or ensuring work begins by the due dates established by federal rules and regulations.

IWD will look into the possibility of having Letters of Intent to Contract, put into place prior to the start date, which allows contractors to begin work, with the understanding more comprehensive contractual agreements are being developed and will be distributed as quickly as possible or work may be terminated if not completed shortly after the original start date. These Letters of Intent would identify the work to be done, beginning and ending dates and tentative budget amounts.

Conclusion – Response accepted.

(2) Iowa Code Compliance – The following were noted:

- (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 Iowa conservation corps and its 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.

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- (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 12 and 25, to gain and retain employment.

This program is currently inactive.

Recommendation – The Department has previously requested the repeal of these outdated Code sections and should continue to work toward the repeal of these outdated Code sections.

Response – IWD will continue to work with the Legislature to get the outdated code repealed. However, in the end, it is up to the Legislature to get these codes rescinded and all IWD can do is ask the Legislature to take action.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2012

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

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