



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

August 18, 2014

Contact: Andy Nielsen
515/281-5834

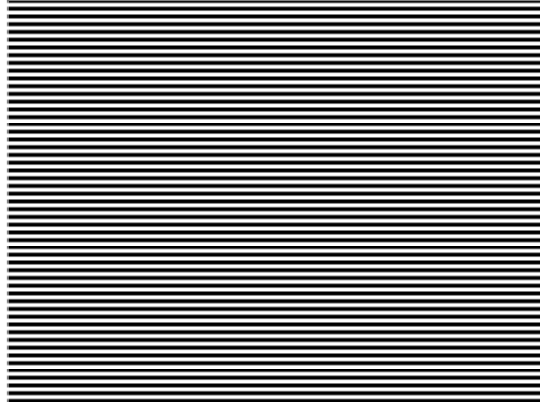
Auditor of State Mary Mosiman today released a report on the Iowa Department of Education for the year ended June 30, 2013.

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.

Mosiman recommended the Department implement procedures to strengthen controls, segregate various duties and develop policies and procedures over various aspects of its IT systems. The Department should also ensure a detailed, up-to-date capital asset listing is maintained and is accurately reported, along with ensuring contracts and related amendments are properly approved and comply with policies and procedures established by the Code of Iowa and Iowa Department of Administrative Services. The Department's responses to the recommendations 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/1460-2820-BR00.pdf>.

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

JUNE 30, 2013

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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Auditor of State





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August 13, 2014


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, 2013.

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 12 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, 2013

Findings Reported in the State's Single Audit Report:

CFDA Number: 10.553 – School Breakfast Program
Agency Number: 2011IN109943, 2012IN109943
Federal Award Year: 2011, 2012

CFDA Number: 10.555 – National School Lunch Program
Agency Number: 2011IN109943, 2012IN109943
Federal Award Year: 2011, 2012

CFDA Number: 10.556 – Special Milk Program for Children
Agency Number: 2011IN109943, 2012IN109943
Federal Award Year: 2011, 2012

CFDA Number: 10.558 – Child and Adult Care Food Program
Agency Number: 2011IN202043, 2012IN202043
Federal Award Year: 2011, 2012

CFDA Number: 10.559 – Summer Food Service Program for Children
Agency Number: 2011IN109943, 2012IN109943
Federal Award Year: 2011, 2012

CFDA Number: 84.010 – Title 1 Grants to Local Educational Agencies
Agency Number: S010A100015, S010A110015, S010A120015
Federal Award Year: 2010, 2011, 2012

CFDA Number: 84.027 – Special Education Grants to States
Agency Number: H027A090097, H027A100097, H027A110097
Federal Award Year: 2010, 2011, 2012

CFDA Number: 84.173 – Special Education Preschool Grants
Agency Number: H173A090102, H173A100102
Federal Award Year: 2010, 2011

CFDA Number: 84.367 – Improving Teacher Quality State Grants
Agency Number: S367A090014, S367A100014, S367A110014
Federal Award Year: 2010, 2011, 2012

State of Iowa Single Audit Report Comments: 13-III-USDA-282-1 and 13-III-USDE-282-3

- (1) Monitoring of Subrecipient Audit Reports – Office of Management and Budget (OMB) Circular A-133 requires the Department to ensure subrecipients expending \$500,000 or more in federal awards have met the audit requirements of OMB Circular A-133.

The Department has established policies and procedures for obtaining and performing desk reviews of audit reports for subrecipients which expend more than \$500,000 each year. However, the checklist used to document such reviews is not sufficient to determine whether the audit was performed in compliance with OMB Circular A-133.

Recommendation – The Department should expand its checklist to include items required by OMB Circular A-133 to determine whether the audit was properly performed.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

Response and Corrective Action Planned – The Department will review its checklist and determine what additions should be made.

Conclusion – Response accepted.

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2012IN202043, 2013IN202043

Federal Award Year: 2012, 2013

State of Iowa Single Audit Report Comment: 13-III-USDA-282-4

- (2) 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.

The Department has implemented an on-line tracking system to document the administrative reviews completed. Each consultant assigned to perform reviews updates the system with the results of their administrative review.

Based on our review of the listing of reviews performed for the years ended June 30, 2009 through June 30, 2013, two administrative reviews required during fiscal year 2013 were not performed. In addition, based on our review of the listing of all participating institutions, four institutions on the listing were not included on the listing of administrative reviews performed for the years ended June 30, 2009 through June 30, 2013. Therefore, we were unable to determine whether these four institutions had the required administrative reviews.

In addition, the Department's established procedures to be followed in completing the administrative reviews require the reviews to be closed by the responsible consultant within six months of the review start date. Based on our review, five reviews were not closed within six months.

Recommendation – The Department should ensure the tracking system is updated, complete and the required administrative reviews performed are adequate, complete and closed timely.

Response and Corrective Action Planned – If administrative reviews were missed, there may have been valid reasons for why those reviews were delayed. The Bureau Chief is managing all of this and will ensure reviews occur as scheduled.

Conclusion – Response acknowledged. If valid reasons exist explaining why reviews were delayed, those reasons should be documented and retained in the files.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

CFDA Number: 84.410 – Education Jobs Fund
Agency Number: S410A100016
Federal Award Year: 2010

State of Iowa Single Audit Report Comment: 13-III-USDE-282-2

- (3) Questioned Costs – The U.S. Department of Education Compliance Supplement for the Education Jobs Fund program (Ed Jobs) has specific allowable activities for States, including, “States may only use the Ed Jobs funds for the costs of administering the program and making subawards to LEA’s (Section 101(2)-(4) of Pub. L. No. 111-226).” The Compliance Supplement also has specific unallowable activities for States, including, “A State may not use program funds, directly or indirectly, to establish, restore, or supplement a “rainy day” fund, or to supplant State funds in a manner that has this effect. Furthermore, a State may not use program funds, directly or indirectly, to reduce or retire debt obligations incurred by the State or to supplant State funds in a manner that has this effect (Section 101(6) of Pub. L. No. 111-226).”

Expenditures of \$9,005 charged to the Ed Jobs Fund for the year ended June 30, 2013 do not appear to be for allowable activities outlined in the Compliance Supplement. Examples of questioned costs include travel to the 2012 Council of Chief State School Officers, Summer Institute/Workshop, speaker fees for the 2012 School Administrator’s Conference and annual subscriptions to education publications.

In addition, payroll expenses of \$5,643 were charged to the Ed Jobs Fund for the year ended June 30, 2013. A time study or payroll allocation was not conducted to document the time spent on the Ed Jobs program. As a result, we are unable to determine the amount, if any, which would not be charged to the Ed Jobs program.

Recommendation – The Department should develop and implement procedures to ensure federal funds are only expended for allowable activities, including payroll costs specifically related to the program. In addition, the Department should contact the U.S. Department of Education for disposition of this matter.

Response and Corrective Action Planned – The Department maintains these costs were appropriate and allowable. All of this expenditure information has been provided to the federal program managers. The Department takes compliance with federal fund allowable activities very seriously. The Department has procedures in place to ensure expenditures are allowable. We will work directly with our federal program managers on this issue. This is a grant which is closed.

Conclusion – Response acknowledged. The Department should work with the U.S. Department of Education to resolve this matter.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

CFDA Number: 84.010 – Title 1 Grants to Local Educational Agencies
Agency Number: S010A110015, S010A120015
Federal Award Year: 2011 and 2012

State of Iowa Single Audit Report Comment: 13-III-USDE-282-4

- (4) Application Process – Community school districts submit applications to the Department for Title I funding. The Department is to review and approve the applications prior to the disbursement of funds.

For 17 of 25 Title I applications tested, the 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 Department’s policy is to hold the second quarterly payment pending approval of the submitted applications. The Department followed this policy. No second payments were issued until the applications were formally approved. Due to staffing levels, the approval process can take up to six months. We believe it is a hardship on local districts to hold all disbursements until the process completes, which is why we pay them their first quarter up front and hold all subsequent payments until the applications are approved.

Conclusion – Response accepted.

CFDA Number: 84.367 – Improving Teacher Quality State Grants
Agency Number: S367A120014
Federal Award Year: 2012

State of Iowa Single Audit Report Comment: 13-III-USDE-282-5

- (5) Subrecipient Monitoring - Award Notification – OMB Circular A-133, Section .400(d), requires the Department to provide certain award information to its subrecipients. This information includes the CFDA title and number, the award name and number, the award year, the name of the federal agency, the award amount and any applicable compliance requirements. For fiscal year 2013 awards, the Department did not provide the required award information to its subrecipients.

Recommendation – The Department should ensure its subrecipients are notified of the required information each year.

Response and Corrective Action Planned – We agree with the finding and will ensure this information gets included in the award letters next cycle.

Conclusion – Response accepted.

June 30, 2013

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

- (1) 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. On September 12, 2011, the Department was assigned six vehicles originally owned by Library Service Areas which were eliminated. These vehicles have not been added to the Department's capital asset listing. Since they were purchased by other entities, the value is not known. In addition, one vehicle belonging to the State Library has not been included on the Department's listing. Also, one vehicle purchased in fiscal year 2013 for \$21,873 was not included as an addition to the Department's capital asset listing.

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained and ensure the amounts are accurately reported in the GAAP package.

Response – We agree with this finding. Those assets should have been included and will adjust our process to ensure they are included in the future.

Conclusion – Response accepted.

- (2) 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. Twenty-one individuals within the Department have the ability to initiate and approve timesheets.

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.

Response – We certainly understand the concern and the rationale behind the recommendation. In practical terms, this will be very difficult for us to implement due to staffing levels. We have developed a process where no one person can put all levels of approval on anything in HRIS. We believe this process gets us to the same result as the above recommendation.

Conclusion – Response accepted.

June 30, 2013

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, 2013. For 52 contracts tested, the following were identified:
 - (a) The Department did not approve 24 contracts prior to the date of execution.
 - (b) 49 contracts did not include required monitoring and review clauses.
 - (c) One contract did not have a pre-contract questionnaire signed by the Deputy Director of the Department’s Division of School Finance and Support Services.
 - (d) Of the four contracts tested with amendments, one contract amendment was not authorized until after the end of the contract period.

In addition to the items noted above, contracts for amounts greater than \$500,000 were tested and the following were identified:

- (a) The forms required by Chapter 8F of the Code of Iowa were not completed for four contracts.
- (b) The Department does not require the recipient entity to file an annual report within ten months following the end of the recipient entity’s fiscal year in accordance with Chapter 8F.4(1 and 2) of the Code of Iowa.

Recommendation – The Department should ensure contracts and related amendments are properly approved, required forms and reports are completed or received and comply with the policies and procedures for contracts established by the Iowa Department of Administrative Services (DAS) and Chapter 8F of the Code of Iowa.

Response – Portions of these processes are difficult to control, but the Department agrees – it is always the goal of the Department to address these issues correctly and Department processes are designed to ensure these issues don’t occur. The Department will comply with these recommendations.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

(2) 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 and IT system controls, 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.
- Maintaining security upon termination of employment, including the removal of employee access rights to the system, the process for returning keys and the removal of key card access.
- Resetting administrative passwords and password strength.
- Uniform systems development for new programs or changes to existing programs.

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

Response – The Department will comply with this recommendation.

Conclusion – Response accepted.

(3) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. An initial receipt listing is not prepared by the mail opener for bus inspections and Law Library receipts. An independent reconciliation of recorded receipts to the deposit is not performed for bus inspections and State Library receipts. In addition, there is no review of overdue or delinquent accounts for bus inspections.

Recommendation – The Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Department will review its operating procedures on these issues.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

Finding Related to Statutory Requirements and Other Matters:

Code of Iowa Compliance – The Department was not in compliance with the following provisions of the Code of Iowa during the year ended June 30, 2013:

- (a) Chapter 19B.11 of the Code of Iowa requires each school district, area education agency and community college to submit a report to the Department detailing their equal employment opportunity programs and accomplishments. The Department is then required to prepare a compilation of these reports and submit it, along with a report of the Director’s programs and accomplishments, to the Department of Management by January 31. This report has not been compiled or submitted.
- (b) Chapter 17A.7 of the Code of Iowa requires the Department to conduct an ongoing and comprehensive review of all the Agency’s rules every 5 years, which the Department has not performed.

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

Response – Chapter 19B.11 of the Code of Iowa is a Code chapter related to the Department of Management, not the Iowa Department of Education. The Iowa Department of Education has not had an indication from the Department of Management this is a report they are compiling and submitting. When the Department receives notice from the Department of Management they want us to comply with the Code section, we will.

The Department will comply with Chapter 17A.7 requirements.

Conclusion – Response regarding Chapter 19B.11 of the Code of Iowa acknowledged. Chapter 19B.11(4) of the Code of Iowa states, “The director of the department of education shall prepare a compilation of the reports required under subsection 3 and shall submit this compilation, together with a report of the director’s accomplishments and programs pursuant to this section, to the department of management by January 31 of each year.” Therefore, the Department of Education is required by the Code of Iowa to prepare this report and should not need a request from the Department of Management to initiate its preparation.

Response regarding Chapter 17A.7 of the Code of Iowa is accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2013

Staff:

Questions or requests for further assistance should be directed to:

Pamela J. Bormann, CPA, Manager
Tammy A. Hollingsworth, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Tiffany M. Ainger, CPA, Senior Auditor II
Justin M. Scherrman, Senior Auditor
Kassi D. Adams, Staff Auditor
Kayley R. Alexander, Staff Auditor
Ryan D. Baker, Staff Auditor
Jessica L. Barloon, CPA, Staff Auditor
April D. Harbst, Staff Auditor
Kirstie R. Hill, Staff Auditor
Benjamin P. James, Staff Auditor
Daniel J. Mikels, Staff Auditor
Elissa R. Olson, Staff Auditor
Joshua W. Ostrander, Staff Auditor
Brooke A. Robb, Staff Auditor
Laura M. Wernimont, Staff Auditor
Lucas D. Bernhard, Assistant Auditor
Danielle R. Hausch, Assistant Auditor
Luke H. Holman, Assistant Auditor
Ryan J. Magill, Assistant Auditor
James P. Moriarity, CPA, Assistant Auditor
Miranda A. Shipman, Assistant Auditor
Brandon A. Soda, Assistant Auditor