



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

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____ September 5, 2017 _____

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, 2016.

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 and develop policies and procedures over various aspects of its IT systems. The Department should also ensure contracts and related amendments are properly approved and comply with policies and procedures established by the Code of Iowa and the 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 <https://auditor.iowa.gov/reports/1760-2820-BR00>.

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

JUNE 30, 2016

Iowa Department of Education



OFFICE OF AUDITOR OF STATE
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August 10, 2017

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, 2016.

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 Report on Internal Control, as well as other recommendations pertaining to the Department's internal control. 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 8 and they are available to discuss these matters with you.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2016

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

The Department records receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS–SAE) in a GAAP package. The GAAP package is to be submitted to DAS–SAE by the first week of September each year.

Condition – Prepaid expenses were understated by \$795,500. This was properly adjusted for reporting purposes.

Cause – Policies have not been established and procedures have not been implemented to require an independent review of year end cut-off transactions to ensure the State's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Department employees not detecting the error in the normal course of performing their assigned functions.

Recommendation – The Department should establish procedures to ensure all prepaid expenses are identified and properly reported in the GAAP package.

Response – The Department acknowledges the Auditor's comments. Immediately upon discovery of this issue the Department carefully examined the situation and determined that prepaid expenses were understated on the GAAP package. The Department then performed an extensive review to determine whether or not other prepaid expenses existed. No other prepaid expenses were found. The Department has established a process to review transactions for prepaid expenses and report them properly on the GAAP package. Also, the Department is striving to eliminate prepaid expenses unless the prepaid expense creates a tangible benefit to the State.

Conclusion – Response accepted.

June 30, 2016

Other Findings Related to Internal Control:

(1) Contractual Agreements

Criteria – Under the direction of Chapter 8F of the Code of Iowa, the Department established a number of service contracts with outside parties during the year ended June 30, 2016.

Condition – For 57 contracts tested, of which thirteen had amendments that were also tested, the following were identified:

- (a) The Department did not approve twenty-seven of the 57 contracts prior to the date of execution.
- (b) 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.
- (c) One of the 57 contracts and one contract amendment were not authorized by the contracting party.
- (d) One contract amendment was not authorized before 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) Three of the five contract recipients tested did not file an annual report within ten months following the end of the recipient's fiscal year in accordance with sections 8F.4 (1) and (2) of the Code of Iowa.

Cause – Procedures have not been enforced to ensure contracts are in compliance with the policies and procedures established by the Iowa Department of Administrative Services and the Code of Iowa.

Effect – The Department is not in compliance with established policies and procedures or the Code of Iowa.

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

Response – The Iowa Department of Education (IDOE) acknowledges the importance of adherence to proper contracting procedures. IDOE will double check each contract to ensure signature authorizations are applied timely and appropriately by all parties before the start of services.

June 30, 2016

IDOE must state circumstances beyond the Department's control do occasionally occur such as where unforeseen changes require an amendment to the initial agreement being executed after the event. An example of this could be more people attending an event than were originally anticipated.

IDOE administrative staff is working with IDOE program staff to initiate the contracting process earlier to allow sufficient time to fully and appropriately execute contracts in a timely basis. Contracts presented to IDOE administrative staff with insufficient lead time are being returned to IDOE program staff to identify a later start date.

Conclusion – Response accepted.

(2) Written Policies and Procedures

Criteria – Formal policies and procedures help to achieve uniformity/consistency in actions taken and aid in training additional or replacement personnel.

Condition – 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:

- Access control procedures related to authorizing, granting, documenting and removing access to the web application.
- 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.
- Uniform systems development for new programs or changes to existing programs.

Cause – Policies have not been established and procedures have not been implemented for IT system controls.

Effect – Lack of policies and procedures puts the Department at greater risk for breach of security and controls in these areas.

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

Response – The Iowa Department of Education (IDOE) acknowledges the importance of having written policies and procedures for critical Information Technology (IT) functions. The IDOE is actively drafting, reviewing and finalizing policies to strengthen the security of IDOE IT systems. Formal policies will be in place to address every procedure noted in the audit no later than June 30, 2017.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2016

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the Iowa Department of Education

June 30, 2016

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated in the audits include:

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