



OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

FOR RELEASE _____ July 12, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2004.

The Iowa Department of Workforce Development is comprised of six divisions: Workers Compensation Services, Labor Services, Administrative Services, Policy and Information, Unemployment Insurance Services 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 the accuracy of the report submitted to the Iowa Department of Administrative Services which documents payroll expenditures and related federal drawdowns.
- (2) To ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive positive or negative daily balances.
- (3) To ensure payroll certifications are supported by actual time charged through the state payroll system and ensure all employees are included in the time study.
- (4) To ensure established policies and procedures are utilized to prevent and detect duplicate vendor payments and ensure payments are made only for invoiced amounts.
- (5) To ensure policies and procedures are followed to provide subrecipients with final determinations on a timely basis.

A copy of the report is available for review in the Iowa Department of Workforce Development or the Office of Auditor of State.

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

JUNE 30, 2004

— Office of —
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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July 1, 2005

To Richard V. Running, 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, 2004.

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. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report.

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 10 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 Thomas J. Vilsack, Governor
Michael L. Tramontina, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2004

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI10935FM, UI11819HY, UI12638KS, UI12638KR, UI13547NE

Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2004

Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 04-III-DOL-309-1 and 04-III-HHS-309-4

- (1) CMIA Agreement – Payroll – As stated in the Cash Management Improvement Act (CMIA) Agreement, the state utilizes a bi-weekly payroll system with a payday every other Friday. Consistent with the state's cash advance requirements, departments must have funds on hand by Tuesday preceding the payday to cover net pay, employer contributions, and employee deductions. Due to these administrative constraints, the state is required to pay interest on direct payroll costs for 4.60 days, which is the dollar weighted average clearance of payroll related costs for mandatory and discretionary deductions held by the Centralized Payroll Trustee.

The Department is required to submit a spreadsheet to the Iowa Department of Administrative Services which documents payroll expenditures and related federal drawdowns by pay period. The spreadsheet for fiscal year 2004 for the cost pool included allocation percentages to distribute the costs to various cost centers. The percentages used did not correspond with the percentages actually used in the Iowa Financial Accounting System (IFAS) for seven pay periods throughout the year.

In addition, indirect costs recovery rates were applied to the payroll to more accurately reflect the expenditures related to the federal drawdowns. However, in several instances, the amounts reported for indirect cost recovery could not be recalculated or supported.

Recommendation – The Department should ensure the payroll spreadsheet submitted to the Iowa Department of Administrative Services is accurate.

Response and Corrective Action Planned – The State of Iowa implemented a new accounting system June 1, 2004. Iowa Workforce Development (IWD) is the only state agency utilizing the cost allocation module that is part of the new system. During the first few months after implementation, the cost allocation system was not working at one point and not working accurately at another. IWD and the vendor were forced to make an extraordinary amount of adjusting entries to allocate and reallocate postings to the system.

This made it very difficult to follow the audit trail on many transactions as there were many instances of adjustments to adjustments. Not only did this make it difficult to analyze daily cash balances, but also to verify accuracy of each individual posting for indirect costs. However, IWD has verified in total for the fiscal year, no program or project was charged in excess of the approved indirect cost rate. In fact, all programs within IWD paid less than the full indirect rate. IWD actually ended the year with under-recoveries of indirect costs.

Conclusion – Response acknowledged. The spreadsheet submitted to the Iowa Department of Administrative Services is utilized to determine the State's liability under CMIA. The spreadsheet should include accurate information that reflects activity as it occurred in the state's accounting system.

June 30, 2004

CFDA Number: 17.225 – Unemployment Insurance
Agency Number: UI10935FM, UI11819HY, UI12638KS, UI12638KR, UI13547NE
Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 17.245 – Trade Adjustment Assistance – Workers
Agency Number: TA11128FX, TA11893IJ, TA11893IL, UI12638LC, UI12638LE,
TA12691LD, TA12691LF, UI13547NP, UI13547NR, UI13547NY,
TA13494NQ
Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 93.558 – Temporary Assistance for Needy Families
Agency Number: PJ2004
Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 04-III-DOL-309-2 and 04-III-HHS-309-5

- (2) Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of these funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received.

For the Unemployment Insurance program, four instances were noted where the cash balance was excessive for a period of five to twenty-seven days.

For the Trade Adjustment Assistance program, one instance was noted where the cash balance was excessive for a period of seven days. In addition, five instances were noted where the cash deficit exceeded (\$100,000) for periods ranging from five to ten days.

For the Temporary Assistance for Needy Families (TANF) program, eight instances were noted where the cash balance was excessive for a period of five to thirty days.

Recommendation – The Department should monitor cash balances to ensure balances on hand are sufficient to cover current needs and are disbursed in a timely manner without carrying excessive positive or negative daily balances.

Response and Corrective Action Planned - This issue was caused by the same problem identified in the response to 04-III-DOL-309-1. With so many transactions waiting processing in the cost allocation module, it was impossible to determine the accurate amount of funds to be drawn on any one program. Once we were able to do so, it was determined we had under-drawn on multiple federal programs and were actually using state resources to pay for federal expenditures. This has been corrected, but IWD had no alternative at the time, as data from the new state accounting system was not accurate for several months.

Conclusion – Response acknowledged. While many of the instances of excessive positive and negative cash balances occurred after the June 1, 2004 implementation of the new accounting system, several occurred prior. The Department should continue to improve its cash management monitoring system.

June 30, 2004

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: UI10935FM, UI11819HY, UI12638KS, UI12638KR, UI13547NE

Federal Award Year: 2001, 2002, 2003, 2004

CFDA Number: 17.258 – WIA Adult Program

Agency Number: AA12011KC, AA12925LU, AA12925MO

Federal Award Year: 2003, 2004

CFDA Number: 17.259 – WIA Youth Activities

Agency Number: AA12925LO

Federal Award Year: 2003

CFDA Number: 17.260 – WIA Dislocated Workers

**Agency Number: EM10882IT, AA12011JG, AA12011KD, EM10882JJ, EM10882LY,
EM10882KF, EM10882LM, EM10885MR, AA12925LV**

Federal Award Year: 2002, 2003, 2004

CFDA Number: 93.558 – Temporary Assistance for Needy Families

Agency Number: PJ2004

Federal Award Year: 2004

State of Iowa Single Audit Report Comments: 04-III-DOL-309-3 and 04-III-HHS-309-6

- (3) Payroll Allocation – The Department performs a time study on a monthly basis to determine percentages of time spent on various federal programs within a designated cost pool. The percentages are based upon certifications submitted by the employees working within the cost pool. The percentages are compiled on a monthly basis and a quarterly average is calculated. Utilizing the quarterly averages, total costs are distributed to the federal programs within the cost pool.

Review of work report information provided by employees on the state payroll system indicated several instances where the total time charged to the cost pool did not agree with the percentage of time certified. Also, four employees charged time to the cost pool for a portion of the fiscal year and were either not included in the time study or included for incorrect time periods.

In addition, the quarterly average calculated and utilized for the third quarter of state fiscal year 2004 was not supported by the monthly time studies conducted for January and February 2004.

Recommendation – The Department should develop procedures to ensure payroll certifications are supported by actual time charged through the state payroll system. Also, the Department should ensure employees are properly included in the time study. In addition, the Department should ensure that the quarterly averages are properly supported and calculated.

Response and Corrective Action Planned – The state's automated payroll system has two separate and distinct programs for entering time allocations. Variances are always found between the one updated by the IWD personnel department and the one used by IWD staff. The two systems are not linked and continuously cause this type of problem. In addition, neither of the two systems has the flexibility to allow the volume of allocations that one staff member may need to accurately allocate their time to all the programs they work on.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2004

This has caused IWD to use a manual cost pool methodology to allocate time for those that have more than five programs they charge time to. With three different programs being used to allocate time, variances are always a concern. It is our understanding the new payroll system to be implemented during the next state fiscal year will eliminate many of the problems we currently face in payroll allocations. Although the variances are immaterial in total, IWD understands they are variances nonetheless.

Conclusion – Response acknowledged. The Department should ensure employee monthly certifications agree with the average time spent on the cost pool as documented in the state’s payroll system. In addition, the Department should ensure the quarterly averages utilized to distribute costs are supported by the monthly time studies.

CFDA Number: 17.245 – Trade Adjustment Assistance – Workers

**Agency Number: TA11128FX, TA11893IJ, TA11893IL, UI12638LC, UI12638LE,
TA12691LD, TA12691LF, UI13547NP, UI13547NR, UI13547NY,
TA13494NQ**

Federal Award Year: 2001, 2002, 2003, 2004

State of Iowa Single Audit Report Comment: 04-III-DOL-309-4

- (4) Disbursement Controls – Eligible participants in the Trade Adjustment Assistance program may choose to participate in classroom training or on-the-job training. A contract is created with a vendor to provide designated training. Contracts are negotiated on an individual participant basis and a maximum contract amount is determined. The original contract is maintained in the Financial Management Bureau. An encumbrance is created for the full amount of each contract.

Payments to vendors are processed initially by program administrators and first level of approval is given. The original payment voucher with supporting documentation is sent to Financial Management to be processed for payment. Financial Management is to file support with the original contract and ensure that funds are available per the negotiated contract. A second level of approval is made by Financial Management and payment is processed.

During fiscal year 2004, two vendors submitted an invoice for payment twice for the same service and warrants were issued to the vendors for a total overpayment of \$5,531. In addition, a payment was made to a vendor for \$7,176 in excess of the invoice.

Recommendation – The Department should ensure established policies and procedures are utilized to prevent and detect duplication of payments to vendors and to ensure payments are made only for invoiced amounts.

Response and Corrective Action Planned – These overpayments were the result of instances where established procedures were not followed. Proper procedures and the use of established internal controls have been re-emphasized to all staff.

Conclusion – Response acknowledged. The Department should take action to recover the overpayments from the vendors.

June 30, 2004

CFDA Number: 17.258 – WIA Adult Program
Agency Number: AA12011KC, AA12925LU, AA12925MO
Federal Award Year: 2003, 2004

CFDA Number: 17.259 – WIA Youth Activities
Agency Number: AA12925LO
Federal Award Year: 2003

CFDA Number: 17.260 – WIA Dislocated Workers
Agency Number: EM10882IT, AA12011JG, AA12011KD, EM10882JJ, EM10882LY,
EM10882KF, EM10882LM, EM10885MR, AA12925LV
Federal Award Year: 2002, 2003, 2004

State of Iowa Single Audit Report Comment: 04-III-DOL-309-5

- (5) Subrecipient Monitoring – OMB Circular A-133 Compliance Supplement states, in part, that each state must have a monitoring system which provides for annual on-site monitoring reviews of subrecipient's compliance with U.S. Department of Labor uniform administrative requirements, ensures established policies to achieve program quality and outcomes meet the Workforce Investment Act's objectives and enables the Governor to determine if subrecipients and contractors are in substantial compliance with WIA requirements. The Circular also states each state must ensure required audit reports of subrecipients are completed within nine months of the end of the subrecipient's audit period, issue a management decision on audit findings within six months of receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all audit findings.

The Department has established policies and procedures to be followed in the performance of subrecipient monitoring. These policies state a final determination will be issued to a subrecipient after receipt of a response from the subrecipient after initial determination.

During our review of program monitoring files, we noted that final determinations had not been sent to two of sixteen subrecipients after resolution. In addition final determinations were not sent timely to two subrecipients after resolution of audit report monitoring and one subrecipient after resolution of the prior year audit report monitoring.

Recommendation – The Department should ensure policies and procedures are followed to provide subrecipients with final determinations on a timely basis.

Response and Corrective Action Planned - Staff responsible for both program and financial monitoring have been made aware of these findings. We will ensure established policies and proper procedures will be followed in the future.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2004

Findings Related to Internal Control:

No matters were noted.

Findings Related to Other Matters:

No matters were noted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2004

Staff:

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

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