



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

October 25, 2022

Auditor of State Rob Sand today released a report on the Iowa Department of Workforce Development for the year ended June 30, 2020.

The Iowa Department of Workforce Development is comprised of seven divisions: Worker's Compensation, Labor Services, 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.

AUDIT FINDINGS:

Sand reported fourteen findings related to the Department. The findings are on pages 3 through 18 of this report. Sand recommended the Department comply with established policies and procedures to ensure reports are submitted timely, that quarterly reports are reviewed and approved by an independent person and information generated for financial reporting purposes is properly tested and reviewed for accuracy. Sand also recommended the Department establish policies and procedures to ensure cross-matches are performed to identify ineligible claims, to ensure compliance with Uniform Guidance requirements for subrecipient monitoring and subaward documents, identify sensitive positions and ensure background investigations are routinely performed as part of the hiring process, that capital asset deletions are approved prior to deletion, to ensure compliance with the Department of Administrative Services Purchasing Card Program Manual and comply with the Code of Iowa or continue to seek the repeal of outdated Code sections.

Seven of the findings discussed above are repeated from the prior year. Management of the Iowa Department of Workforce Development has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

A copy of the report is available for review on the Auditor of State's web site at [Audit Reports – Auditor of State](#).

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

JUNE 30, 2020

Iowa Department of Workforce Development



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STATE OF IOWA

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October 13, 2022

Iowa Department of Workforce Development
Des Moines, Iowa

To Beth Townsend, Director of the Iowa Department of Workforce Development:

I am pleased to submit to you this Report of Recommendations for the Iowa Department of Workforce Development for the year ended June 30, 2020. The report includes findings pertaining to the Department's internal control and compliance with statutory requirements and other matters which resulted from the fiscal year 2020 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Department of Workforce Development throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Iowa Department of Workforce Development



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October 13, 2022

To Beth Townsend, 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 Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2020.

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

A handwritten signature in cursive script, reading "Ernest H. Ruben, Jr.", is written in black ink.

Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Director, Department of Management
Timothy McDermott, Director, Legislative Services Agency

June 30, 2020

Findings Reported in the State's Single Audit Report:

CFDA Number: 17.225 – Unemployment Insurance

**Agency Number: REEDMOD09, UI298417W0, UI31293EZ0, UI31293EZ1, UI32599HT0,
UI32599J20, UI32599Q10, UI32703K10, UI32703K20, UI32839R20,
UI32839R21, UI34058V70, UI34058310, UI34164U50, UI34164U60,
UI34496Y90, UI34496Y91, UI34715C80, UI34715Z30, UI34715Z50,
UI34715Z70**

Federal Award Year: 2017, 2018, 2019, 2020

Prior Year Single Audit Report Finding Number: N/A

State of Iowa Single Audit Report Comment: 2020-001

Incarceration Cross-match

Criteria – Section 7511, Part V, of the U.S. Department of Labor, Employment Security Manual (ESM) requires state unemployment compensation (UC) laws to include provisions for such methods of administration as are, within reason, calculated (1) to detect benefits paid through error by the state UC agency or through willful misrepresentation or error by the claimant or others, (2) to deter claimants from obtaining benefits through willful misrepresentation, and (3) to recover benefits overpaid under certain circumstances.

These required functions are accomplished through state agency Benefit Payment Control (BPC) units or other designated staff responsible for promoting and maintaining the integrity of the Unemployment Insurance (UI) program through prevention, detection, investigations, establishment and recovery of overpayments. BPC units or designated staff also prepare cases for prosecution.

On May 11, 2021, the U.S. Department of Labor issued an Unemployment Insurance Program Letter No. 23-20 which strongly recommended additional BPC activities as part of a state's effective BPC operation for the regular Unemployment Insurance (UI) programs, Pandemic Unemployment Assistants (PUA), and Pandemic Emergency Unemployment Compensation (PEUC), including an Incarceration Cross-match comparing claimants with available prisoner data.

To receive UC, the Department must ensure claimants are "able to work" and "available to work" as required by section 303(a)(12) of the Social Security Act. After initial eligibility is determined, claimants' eligibility for UC is determined on a weekly basis, and claimants are required to take certain actions to maintain that eligibility on a weekly basis. Ensuring that claimants have completed these actions, therefore, must be documented and verified by the state on a weekly basis.

Condition – During the year ended June 30, 2020, the Department did not perform an Incarceration Cross-match comparing claimants with available prisoner data. A Cross-match was subsequently performed and identified eight UI claimants who were incarcerated prisoners during the fiscal year ended June 30, 2020. As a result, the Department established Benefit Overpayments Receivables on the Great Plains overpayment system, totaling \$113,813 for the incarcerated prisoners who were not eligible to receive UC. The Great Plains overpayment system establishes and monitors the repayment process.

Cause – Department policies and procedures have not been established to require an Incarceration Cross-match with prisoner data from the Iowa Department of Corrections.

Effect – The Department paid UC to eight ineligible incarcerated prisoners resulting in a questioned cost of \$113,813.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Recommendation – The Department should establish policies and procedures to ensure an Incarceration Cross-match comparing claimants with available prisoner data is performed. Procedures should include that the resulting cross-match includes an independent reviewer, evidenced by the reviewer’s signature and date, to ensure all matches were properly investigated.

Response and Corrective Action Planned – As of February 8, 2021, the Iowa Department of Workforce Development (IWD) resumed receiving incarceration data that included social security numbers for currently incarcerated individuals. Going forward, IWD will receive this data monthly and take immediate action to investigate these claims.

Conclusion – Response accepted.

CFDA Number: 17.225 – Unemployment Insurance

**Agency Number: REEDMOD09, UI298417W0, UI31293EZO, UI31293EZ1, UI32599HT0,
UI32599J20, UI32599Q10, UI32703K10, UI32703K20, UI32839R20,
UI32839R21, UI34058V70, UI34058310, UI34164U50, UI34164U60,
UI34496Y90, UI34496Y91, UI34715C80, UI34715Z30, UI34715Z50,
UI34715Z70**

Federal Award Year: 2017, 2018, 2019, 2020

Prior Year Single Audit Report Finding Number: N/A

State of Iowa Single Audit Report Comment: 2020-002

Social Security Administration Cross-match

Criteria – Section 7511, Part V, of the Employment Security Manual (ESM) requires state unemployment compensation (UC) laws to include provisions for such methods of administration as are, within reason, calculated (1) to detect benefits paid through error by the state UC agency or through willful misrepresentation or error by the claimant or others, (2) to deter claimants from obtaining benefits through willful misrepresentation, and (3) to recover benefits overpaid under certain circumstances.

These required functions are accomplished through state agency Benefit Payment Control (BPC) units or other designated staff responsible for promoting and maintaining the integrity of the Unemployment Insurance (UI) program through prevention, detection, investigations, establishment and recovery of overpayments. BPC units or designated staff also prepare cases for prosecution.

On May 11, 2020, the U.S. Department of Labor issued an Unemployment Insurance Program Letter No. 23-20 which strongly recommended additional BPC activities as part of a state’s effective BPC operation for the regular Unemployment Insurance (UI) programs, Pandemic Unemployment Assistants (PUA), and Pandemic Emergency Unemployment Compensation (PEUC), including a Social Security Administration (SSA) Cross-match comparing key data from claimants with information on file with the SSA, including but not limited to date of death of claimant.

To receive UC, the Department must ensure claimants are “able to work” and “available to work” as required by section 303(a)(12) of the Social Security Act. After initial eligibility is determined, claimants’ eligibility for UC is determined on a weekly basis, and claimants are required to take certain actions to maintain that eligibility on a weekly basis. Ensuring that claimants have completed these actions, therefore, must be documented and verified by the state on a weekly basis.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Condition – Although the Department performed a cross-match comparing data from claimants with available SSA data, investigators failed to identify six claimants who were deceased and therefore were ineligible for payments. The Department overpaid these six deceased claimants \$124,698 for the fiscal year ended June 30, 2020.

Cause – Due to a massive influx of claims beginning March of 2020, staff members from all bureaus, including investigations, were directed to assist with pandemic related claims. This included claims processing, answering phone calls on the customer service line and conducting two party fact-findings. Because investigations staff were required to work these areas, normal investigations work, including monitoring the SSA Reports of Deceased Claimants, was delayed.

Effect – The Department overpaid six claimants not eligible for unemployment compensation as the claimant was determined to be deceased, resulting in a questioned cost of \$124,698.

Recommendation – The Department should establish policies and procedures to ensure all deceased claimants are properly identified through the Social Security Administration cross-match. The cross-match should be independently reviewed and the review should be documented by the reviewer's signature and date. All matches should be thoroughly investigated and resolved.

Response and Corrective Action Planned – The Department will continue to use third party vendors to combat claims using a deceased SSN during the initial unemployment application process. This includes:

- Third-party vendors recognize deceased SSNs in the initial claim process and promptly place an ID-Lock on the claim.
- Third-party vendors have access to deceased SSNs and put flags on software which is viewed by investigators.
- The Department has daily and or weekly access to a report from the SSA which indicates SSNs that are deceased. This report is worked by an investigator to determine if an SSN is filing past a death date.

The Department will also implement the following to further strengthen the integrity of the unemployment system in Iowa regarding SSN's:

- We are partnering with the IDPH (Iowa Department of Public Health) to allow IDPH to share SSNs of deceased individuals. This will allow for immediate access to information to help prevent fraud.
- Cross-train investigators to work reports from third-party vendors, the SSA and the IDPH.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

CFDA Number: 17.225 – Unemployment Insurance

**Agency Number: REEDMOD09, UI298417W0, UI31293EZ0, UI31293EZ1, UI32599HT0,
UI32599J20, UI32599Q10, UI32703K10, UI32703K20, UI32839R20,
UI32839R21, UI34058V70, UI34058310, UI34164U50, UI34164U60,
UI34496Y90, UI34496Y91, UI34715C80, UI34715Z30, UI34715Z50,
UI34715Z70**

Federal Award Year: 2017, 2018, 2019, 2020

Prior Year Single Audit Report Finding Number: N/A

State of Iowa Single Audit Report Comment: 2020-003

Employment and Training Administration (ETA) Reports

Criteria – The Uniform Guidance, Part 200.303, requires the auditee establish and maintain effective internal control over the federal award which provides reasonable assurance the auditee is managing the federal award in compliance with federal statutes, regulation and the terms of the federal award. The ETA 2112 report, “UI Financial Transaction Summary”, is a monthly summary of transactions in a state unemployment fund which consists of the Clearing Account, Unemployment Trust Fund (UTF) Account, and Benefit Payment Account. UI Reports Handbook No. 401 requires the report to be submitted to the Employment and Training Administration of the U.S. Department of Labor monthly, by the first day of the second month following the month of reference.

Condition – For the months of April 2020 to June 2020, the Department did not report deposits received for Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and federal funds received for the first week of regular Unemployment Compensation (UC) on the ETA 2112 reports. The Department also did not report disbursements for PUA and PEUC on the ETA 2112 reports. In addition, Federal Pandemic Unemployment Compensation (FPUC) reported on the ETA 2112 report was not supported by Department records. For the month ending June 30, 2020, ETA 2112 report, FPUC deposits were understated by \$79,458,000 and disbursements were understated by \$121,970,560.

Cause – The Iowa Department of Workforce Development (IWD) utilizes an external accounting system for the processing of Unemployment Insurance (UI) benefit payments to claimants. The benefit claimant system processes the claims, then communicates the information to the State’s accounting system, the Integrated Information for Iowa (I/3) system, for payment.

The benefit claimant system identifies benefit payments by State Unemployment and Federal Unemployment programs, including Federal Unemployment claims covered under the Coronavirus Aid, Relief and Economic Security (CARES) Act.

IWD has developed a process to reconcile benefit payments by type and in total between the IWD benefit claimant system and I/3 daily to ensure benefit payments are accurately recorded for financial reporting purposes. Although IWD performed the reconciliations between the IWD benefit claimant system and I/3, variances were identified and remained uncorrected at the time of reporting for the ETA 2112 reports.

Variances on the reconciliations were subsequently corrected; however, amended reports were not prepared and submitted to the Employment and Training Administration of the U.S. Department of Labor for the months of April 2020 to June 2020.

Effect – Uncorrected supporting documentation resulted in undetected reporting errors and misstatements.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Recommendation – IWD should follow policies and procedures already established to ensure variances in the reconciliation process are investigated and corrected immediately. If errors are noted on the ETA 2112 reports after initial submission, IWD should amend the completed report to agree with the corrected supporting documentation.

Response and Corrective Action Planned – The Department will ensure staff follow existing policies and procedures to ensure variances identified during the reconciliation process are corrected. The Department is also modifying policies and procedures related to the ETA 2112 report and submission to specifically account for Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation (FPUC) benefits. In addition, management will review ETA 2112 reports for accuracy and to identify if an amended report should be filed.

Conclusion – Response accepted.

CFDA Number: 17.225 – Unemployment Insurance

**Agency Number: REEDMOD09, UI298417W0, UI31293EZ0, UI31293EZ1, UI32599HT0,
UI32599J20, UI32599Q10, UI32703K10, UI32703K20, UI32839R20,
UI32839R21, UI34058V70, UI34058310, UI34164U50, UI34164U60,
UI34496Y90, UI34496Y91, UI34715C80, UI34715Z30, UI34715Z50,
UI34715Z70**

Federal Award Year: 2017, 2018, 2019, 2020

Prior Year Single Audit Report Finding Number: 2019-002

State of Iowa Single Audit Report Comment: 2020-004

Employment and Training Administration (ETA) Reports

Criteria – The Uniform Guidance, Part 200.303, requires the auditee establish and maintain effective internal control over the federal award which provides reasonable assurance the auditee is managing the federal award in compliance with federal statutes, regulations and the terms of the federal award. The ETA 227 report, “Overpayment Detection and Recovery Activities”, provides information on overpayments of intrastate and interstate claims under the regular state Unemployment Insurance (UI) program and under federal UI programs, including the Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Members (UCX) programs, established under Chapter 85, Title 5, U.S. Code. The report includes claims for regular, additional state programs and the permanent federal-state Extended Benefits (EB) programs. Data is provided for the establishment of overpayments, recoveries of overpayments, criminal and civil actions involving overpayments obtained fraudulently and an aging schedule of outstanding benefit overpayment accounts. The UI Reports Handbook No. 401 requires the report to be submitted quarterly on the first day of the second month after the end of the quarter.

Condition – The fourth quarter ETA 227 report did not include overpayments relating to Pandemic Unemployment Assistance (PUA), Federal Pandemic Unemployment Compensation (FPUC) and Pandemic Emergency Unemployment Compensation (PEUC). In addition, one of the four quarterly reports was submitted 27 days late.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Cause – From March to June 2020, Iowa Workforce Development investigators focused on setting up and paying initial claimants due to a significant increase in unemployment claims caused by the global pandemic. As a result, the Department did not have enough resources to perform the number of fact-finding interviews that were required. Instead, the Department performed a reduced number of fact-finding interviews, focusing only on employer's that protested payment of benefits, for the period. Subsequent to June 30, 2020, a significant number of fact-finding interviews were performed for claimants with initial claims during the March 2020 through June 2020 timeframe. The results of those interviews were included in the ETA 227 report once completed and entered in the benefit overpayment system.

In addition, Department procedures have not been established to ensure the ETA 227 reports were submitted timely in accordance with the UI Reports Handbook.

Effect – The fourth quarter ETA 227 report did not include overpayment receivables relating to PUA, FPUC and PEUC. In addition, the lack of established policies and procedures resulted in the late submission of one quarterly report.

Recommendation – The Department should establish policies and procedures to ensure fact-finding interviews are being performed timely and overpayment receivables are properly reported on the ETA 227 report. In addition, The Department should establish policies and procedures to ensure reports are submitted timely.

Response and Corrective Action Planned – The Department conducted limited fact-finding interviews between March and May 2020. Once we had capacity to do so, we directed an unprecedented number of staff to engage in fact-finding in an effort to reduce the backlog and catch up as quickly as possible. Through our efforts we went from a high of approximately 15,000 fact findings in the backlog to less than 5,600 by this fall 2020. The Department began reporting amounts related to PUA, FPUC and PEUC for the December 31, 2020, ETA 227 Quarterly Report.

Procedures have been established for transmitting the ETA 227 report. Included in the procedures are where to retain the supporting data file and review of the report by the Integrity Bureau Chief prior to final transmission. The report must be returned with a signature and date prior to submitting the finalized ETA 227 report to the Department of Labor within the reporting deadline.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

CFDA Number: 17.225 – Unemployment Insurance

Agency Number: REEDMOD09, UI298417W0, UI31293EZ0, UI31293EZ1, UI32599HT0, UI32599J20, UI32599Q10, UI32703K10, UI32703K20, UI32839R20, UI32839R21, UI34058V70, UI34058310, UI34164U50, UI34164U60, UI34496Y90, UI34496Y91, UI34715C80, UI34715Z30, UI34715Z50, UI34715Z70

Federal Award Year: 2017, 2018, 2019, 2020

Prior Year Single Audit Report Finding Number: N/A

State of Iowa Single Audit Report Comment: 2020-005

Employment and Training Administration (ETA) Reports

Criteria – The Uniform Guidance, Part 200.303, requires the auditee establish and maintain effective internal control over the federal award which provides reasonable assurance the auditee is managing the federal award in compliance with federal statutes, regulation and the terms of the federal award. The ETA 9178 report, “Quarterly Narrative Progress Report Employment and Training Supplemental Budget Request Activities”, is a monitoring instrument for Employment Training Administration (ETA) of the U.S. Department of Labor to track a grantee’s progress toward completing supplemental grant activities. The ETA 9178 report provides for narrative updates on supplemental grant activities to ETA and helps ensure the grantee achieves the goals described in the supplemental grant application. Unemployment Insurance Program Letter No. 05-19 requires the report to be submitted electronically for each calendar quarter to the Employment and Training Administration no later than 45 days after the end of each reporting quarter.

Condition – The Department has indicated the ETA 9178 reports submitted during fiscal year 2020 were reviewed and approved; however, this review was not documented.

Cause – Department procedures have not been established to require the independent review and approval of the ETA 9178 reports be documented.

Effect – The lack of a documented review of these reports increases the risk for undetected reporting errors or misstatements.

Recommendation – The Department should establish policies and procedures to ensure the quarterly reports are reviewed and approved by an independent person who is knowledgeable about the program. This independent review should be documented by the reviewer’s signature or initials and date of review prior to submission.

Response and Corrective Action Planned – A policy and procedures will be established for the quarter ending March 31, 2021, to ensure evidence of an independent review is documented by the reviewer’s signature and date of the review prior to submission. The ETA 9178 report will be reviewed by the Unemployment Insurance Benefits Bureau Chief and will be signed and dated prior to any future ETA 9178 submissions to the ETA. The Unemployment Insurance Benefits Bureau Chief is knowledgeable of the Reemployment services (RESEA) program.

Conclusion – Response accepted.

June 30, 2020

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

Unemployment Benefits Fund

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 financial statements.

(1) Unemployment Benefits Fund Employer Accounts

Condition – To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the Iowa Department of Workforce Development (IWD) has developed the MYIOWAUI system to track employer unemployment insurance contributions based on quarterly employer payroll reports. The system generates information regarding the 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 were noted for the year ended June 30, 2020:

- (a) IWD overstated unearned revenue by \$3,853,111 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) According to IWD, 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 was not received within 90 days. These accounts should be written off for reporting purposes and not be included in the balance reported in the GAAP package. During testing, \$217,098 of \$18,224,768 of contributions, \$3,608,894 of \$13,844,914 of interest and \$157,955 of \$1,396,219 of penalties older than 720 days were included in the accounts receivable balance reported in the GAAP package.

Cause – Although policies and procedures have been established to require independent review of year-end cut-off transactions to ensure financial statements are accurate and reliable, the review did not identify material errors made in the GAAP package by the preparer.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

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

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Response – IWD will require additional supporting documentation and add a second level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. For (b) the discrepancy is caused from the comparison of the Employer Accounts Receivable created from the MYIOWAUI system and the Non-Collection List. The problem lies where uncollected debt is never removed from the MYIOWAUI system so uncollected debt older than 720 days appears on this report but is removed from the Non-Collection List. The reason the debt is not taken out of the MYIOWAUI system is because there are times we consider the debt uncollectible; however, we do receive payment on this at a later date. If there is no way to correct this in the system a comparison between the two reports will need to be done before the accountant completes this portion of the GAAP package and then back those accounts which appear older than 720 days out of the calculation.

Conclusion – Response accepted.

(2) Unemployment Insurance Trust Activity

Condition – Each state maintains its own Unemployment Insurance (UI) trust fund reserve built from state taxes, primarily on employers, and used only to pay for UI benefits. The Iowa Unemployment Compensation Trust Fund is established within the Treasury of the United States and contains the deposits from state and federal unemployment taxes. To comply with governmental accounting and financial reporting standards for the Unemployment Benefits Fund, the activity within the trust is reconciled to the state accounting system and reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) IWD understated due to other funds by \$1,618,473 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) IWD understated payables by \$4,529,158 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (c) IWD understated unearned revenue by \$1,370,588 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures have been established to require independent review of year-end cut-off transactions to ensure financial statements are accurate and reliable, the review did not identify material errors made in the GAAP package by the preparer.

Effect – IWD employees did not detect the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

Recommendation – IWD should ensure financial information generated for the GAAP package is properly reviewed for accuracy. IWD should modify procedures to ensure all activity is accounted for from the trust to the state financial accounting system through the reporting period to ensure the data is accurate, timely and conforms to established policy.

Response – IWD will require additional supporting documentation and add a second level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. Transactions occurring within the hold open period will also require an additional level of review to ensure they are reported correctly on the GAAP package Unemployment Benefits Fund page.

Conclusion – Response accepted.

June 30, 2020

(3) Unemployment Benefits Fund Reconciliation

Condition – IWD utilizes an external accounting system for the processing of Unemployment Insurance (UI) benefit payments to claimants. The system processes claims, then communicates that information to the State’s accounting system for payment. IWD has developed a process to reconcile the two systems daily to ensure payments agree by program type and in total for financial reporting purposes. Although IWD did perform UI benefit payment reconciliations to the state accounting system, the reports generated from the benefit claimant system did not identify each unemployment insurance program by federal program and sub fund associated with the Coronavirus Aid, Relief and Economic Security (CARES) Act.

In addition, the reconciliation performed showed material variances between federal and non-federal programs. Reconciliations were subsequently corrected, and the activity was reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) For individual claimant transactions and per our review of corrected reconciliations, we determined IWD had processed claims using State UI funds but those claimants were to be paid from funding provided by the CARES Act. As a result, IWD understated receivables by \$116,034,769 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) IWD understated payables by \$34,975,093 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (c) IWD understated unearned revenue by \$7,712,274 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

Cause – Although policies and procedures established in the reconciliation processes identified material variances by program and sub fund, IWD did not correct these errors for several months after they were brought to their attention.

Effect – IWD employees did not correct the errors in the normal course of performing their assigned functions. As a result, material adjustments to the financial statements were necessary.

Recommendation – IWD should follow policies and procedures already established to ensure variances in the reconciliation process are investigated and corrected immediately.

Response – IWD will require additional supporting documentation and add another level of review of reconciling pages to ensure numbers are accurate on the Unemployment Benefits Fund page in the GAAP package. Procedures have been established to ensure all unemployment programs are tracked correctly and programs have a sub fund account when applicable. IWD has instituted bi- weekly and monthly meetings with members of the benefits and IT teams to quickly identify and correct programs that may be missing critical accounting fields. In addition, procedures and policies have been developed to correct material variances associated with unemployment benefit reconciliations in a timely manner.

Conclusion – Response accepted.

June 30, 2020

(4) Unemployment Insurance Fact-Finding

Condition – If an unemployment insurance (UI) claim is determined monetarily eligible, a Notice of Claim (form 65-5317) is sent to the claimant's most recent employer and to all employers in the claimant's base period. The employer may protest payment of benefits if the employer feels the individual is not qualified. To protest a UI claim, or to report payments applicable to the days/weeks following the effective date of the UI claim, the employer must mail, submit electronically or fax the notice to IWD stating the reasons for protest and sign the notice. The employer's signature must be on the protest or it may be rejected by IWD. The response must be postmarked or received within ten days from the date it was mailed to the employer. The fact-finding interview is conducted by telephone. A notice for the fact-finding interview is mailed to the employer and the claimant. The notice will include the scheduled date, time and the telephone number the factfinder will call for the interview. If a claimant is determined to be overpaid for the period in question, IWD will set up an overpayment receivable within their system to collect the amount already paid out to the claimant. The overpayment receivables are then reported to DAS-SAE in a GAAP package. The following were noted for the year ended June 30, 2020:

- (a) IWD performed a reduced number of fact-finding interviews, focusing only on employer's that protested payment of benefits, for the period of April 1, 2020 to June 30, 2020 (period under audit). IWD subsequently performed a significant number of fact-finding interviews, for claimants with initial claims during this timeframe, after the end of the fiscal year. As a result of the completed fact-finding interviews, Federal UI benefit overpayments receivables were understated by \$4,144,877. In addition, Federal UI benefit overpayment payables were also understated by the same amount on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.
- (b) State UI benefit overpayments receivables were understated by \$8,507,565 on the GAAP package Unemployment Benefits Fund page. This was properly adjusted for reporting purposes.

Cause – From March to June 2020, IWD investigators focused on setting up and paying initial claimants due to a significant increase in unemployment caused by the global pandemic. As a result, IWD did not have enough resources to allocate to the number of fact-finding interviews that were required due to the significant increase of claims that were filed.

Effect – IWD employees did not identify overpayment receivables. As a result, material adjustments to the financial statements were necessary.

Recommendation – IWD should establish policies and procedures to ensure fact-finding interviews are being performed timely and overpayment receivables are properly reported on the GAAP package Unemployment Benefits Fund page.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Response – To begin, it is important to keep in mind that between March and June 2020, IWD received an unprecedented and historic number of unemployment claims unlikely to ever be seen again in a similar three-month period. Further, Congress created 4 new unemployment programs in March 2020 that had to be developed, tested and then implemented. At the same time, IWD received an unparalleled number of customer service phone calls and email requests for help. When claims went from approximately 125,000 a month pre-pandemic, to 250,000 to over 600,000 claims each month and phone calls went from less than 1,000 a day to 25,000 and more a day, it is not surprising that there would need to be a repositioning of IWD resources and priorities. U.S. Department of Labor (USDOL) provided guidance that paying claimants was the number one priority for all workforce agencies at the expense of any other activity. Indeed, during the time period in question, USDOL guidance indicated that payments took priority over conducting fact finding interviews.

When the pandemic hit Iowa in March 2020, IWD immediately instituted an "all hands-on deck" approach to staffing assignments in order to process the unprecedented number of unemployment claims and handle customer service requests. The UI division went from 139 employees to over 475 IWD staff working in the area literally overnight. Additionally, IWD immediately implemented mandatory overtime for all staff, expanding the work week to 10-hour weekdays and 8-hour Saturdays beginning the middle of March. We also hired over 250 temporary employees and utilized 55 volunteer staff from other agencies. Moving all resources to processing claims and providing customer service ensured we were paying all eligible claimants in the quickest time possible as we were directed to do and in line with our priorities.

IWD conducted limited fact-finding interviews between March and May 2020. Once we had capacity to do so, we directed an unprecedented number of staff to engage in fact-finding in an effort to reduce the backlog and catch up as quickly as possible. Through our efforts we went from a high of approximately 15,000 fact findings in the backlog to less than 5,600 by this fall.

The pandemic was a unique and never before seen circumstance and following guidance from USDOL, IWD performed the work that was the highest priority at the beginning of the pandemic. As time and resources became available, we moved resources to address other areas of concern, like fact-finding. We will continue to endeavor in the future, to use flexibility to establish priorities and then provide resources necessary to perform the priorities. We do not anticipate that the issues that lead to the finding in this audit report, in this particular period of time, will ever arise again. But if it should, we have the experiences, resources and processes in place to quickly address them as needed.

Conclusion – Response accepted.

June 30, 2020

Other Findings Related to Internal Control:

- (1) Subrecipient Program Monitoring – The Code of Federal Regulations, 20 CFR 683.410(b), outlines the State’s roles and responsibilities for monitoring and oversight. The regulations require, in part, “The State monitoring system must: Provide for annual on-site monitoring reviews of local areas’ compliance with 2 CFR Part 200, as required by section 184(a)(3) of the Workforce Innovation and Opportunity Act (WIOA); Ensure that established policies to achieve program performance and outcomes meet the objectives of WIOA and the WIOA regulations.” The regulations further require, “The State must conduct an annual on-site monitoring review of each local area’s compliance with 2 CFR Part 200 as required by section 187(a)(4) of WIOA.” In addition, the State must require prompt corrective action be taken if any substantial violation of standards is found.

In addition, the Uniform Guidance, Part 200.331 states, “All pass-through entities must: Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include; reviewing financial and performance reports required by the pass-through entity and following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, onsite reviews, and other means.

Although the Department performed financial monitoring visits of subrecipients, the Department did not perform monitoring visits to ensure subrecipients were achieving program performance and outcomes which meet the objectives of WIOA and the WIOA regulations. The financial monitoring visits did not determine whether the subaward is used in compliance with Federal Statutes, regulations and the terms and conditions of the subaward or that performance goals are achieved. As a result, the Department is not in compliance with subrecipient monitoring as required by 20 CFR 683.410(b) and the Uniform Guidance, Part 200.331.

Recommendation – The Department should establish policies and procedures to ensure compliance with 20 CFR 683.410(b) and the Uniform Guidance, Part 200.331. Annual on-site visits to all local areas should include program performance and outcome monitoring to ensure the programs are properly monitored.

Response – In cooperation with the U.S. Department of Labor, the Department recently completed realignment of local workforce development areas. Since this critical step has been achieved, policies and procedures have been implemented to comply with 20 CFR 683.410(b) and the Uniform Guidance, Part 200.331. On-site monitoring visits have begun effective July 1, 2020 and will continue to be performed annually going forward.

Conclusion – Response accepted.

- (2) 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 routinely done as part of the hiring process.

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

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Response – The Department’s background check policy for safeguarding federal tax return information became effective November 2019. Fingerprint background checks have been completed for a significant portion of the Department’s current employees, with the expectation that this will be completed throughout calendar year 2022 and 2023. In select areas of the Department, background checks are completed for new hires and offered conditional positions pending a successful background check. The Department also requires all applicants selected for interview to complete a notice of felony conviction form.

Conclusion – Response accepted.

- (3) Capital Assets – 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.

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. We noted approvals for deletions were done after the end of the fiscal year.

Recommendation – The Department should develop procedures to ensure a detailed up-to-date capital asset listing is maintained for all assets. Procedures should include, but not be limited to, ensuring all capital assets deletions are approved timely and prior to deletion.

Response – The Department has identified staff that will be responsible for maintaining a written, detailed, and up to date inventory of property belonging to the Department. Responsibilities for this position related to capital assets are to identify all capital assets in the Department’s possession, verify locations of capital assets, and ensure proper records and approvals are maintained for purchases, transfers, and disposals. The Department is also in the process of developing policies and procedures that conform with GASB 72 and DAS SAE requirements related to capital assets. Procedures will include requirement of detailed listing including acquisition date, total costs, location, and estimated useful life. In addition to the detail listing, the Department will draft policy language that will address approval authority and required notifications for acquisition, transfer, or disposal.

Conclusion – Response accepted.

- (4) Purchasing Cards – The purchasing card (Pcard) is a Visa credit card issued by a bank to the State of Iowa. The purpose of the Pcard program is to establish a faster, more cost-effective method for purchasing and payment. The Department of Administrative Services (DAS) implemented policies and procedures governing the program.

The DAS Purchasing Card policy requires a cardholder to be an employee of the State of Iowa who is designated by their supervisor and approved by the Agency Administrator to utilize the Purchasing Card to purchase supplies and/or goods. The cardholder is subject to single transaction limitations and a monthly limit. Each purchase must be supported by a receipt or other supporting documentation. In addition, all purchases must have an approved purchase request prior to the purchase. Cardholders may only hold one card. A card without the cardholder’s signature in the signature block is an invalid card.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

For the twenty purchasing card transactions tested, the following were identified:

- (a) Two payments contained “Purchase Request” documents prepared and approved after the purchase transaction occurred.
- (b) One payment contained “Purchase Request” documents prepared but there was no evidence of supervisor approval.

Recommendation – The Department should develop procedures to ensure compliance with the Iowa Department of Administrative Services Purchasing Card Program Procedures Manual. In addition, purchase request forms should be prepared and approved prior to the actual purchase.

Response – The Department is in the process of reviewing the “purchase request” process and identifying transaction limits and / or expense types that require a “purchase request” and appropriate approval prior to usage of the purchasing card. The Department will also conduct a review of all purchasing card holders in conjunction with the review of the “purchase request” process to potentially limit the transactional limits on purchases for select purchasing card holders. The Department continually monitors users that do not adhere to Purchasing Card Procedures and will have their purchase cards terminated.

Conclusion – Response accepted.

June 30, 2020

Findings Related to Statutory Requirements and Other Matters:

(1) 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 the 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.

(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 underutilized 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.

(d) Nursing Workforce Data Clearinghouse – Chapter 84A.11 of the Code of Iowa states the Department shall submit a report to the Governor and the General Assembly annually, by January 15, regarding the nursing workforce data clearinghouse, and, following establishment of the data clearinghouse, the status of the nursing workforce in Iowa.

The required report was not submitted to the Governor and the General Assembly.

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. Also, the Department should submit the nursing workforce data clearinghouse report to the Governor and the General Assembly by January 15 of each year.

Response – The Department will continue to work for the repeal of these code sections. Also, funding for the nursing workforce data clearing house was never provided for by the Legislature and, therefore, the database could not be created, and reports generated.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Workforce Development

June 30, 2020

Staff:

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