



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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Des Moines, Iowa 50319-0006
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NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

July 23, 2024

Auditor of State Rob Sand today released a report on the Iowa Department of Education for the year ended June 30, 2023.

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.

AUDIT FINDINGS:

Sand reported two findings pertaining to the Iowa Department of Education. The findings are on pages 3 through 7 of this report. Sand recommended the Department establish procedures to ensure federal funds are earmarked and spent in accordance with federal requirements and retain documentation justifying modifications to an existing agreement including evidence of timely review by the Bureau of Accounting. The Department responded corrective action is being implemented.

Management of the Iowa Department of Education have 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 exercise in its fiduciary capacity.

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

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

JUNE 30, 2023

Iowa Department of Education



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

Rob Sand
Auditor of State

July 22, 2024

Iowa Department of Education
Des Moines, Iowa

To McKenzie Snow, Director:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Education for the year ended June 30, 2023. The report includes findings pertaining to the Department's internal control and compliance which resulted from the fiscal year 2023 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Department of Education 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 Education



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834

July 22, 2024

To: McKenzie Snow, Director
of the Iowa Department 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 Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2023.

In conducting our audits, we became aware of 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 one finding reported in the State's Single Audit Report and one finding 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 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 8 and they are available to discuss these matters with you.

A handwritten signature in black ink, appearing to read "Brian R. Brustkern".

Brian R. Brustkern, CPA
Deputy Auditor of State

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

Report of Recommendations to the
Iowa Department of Education

June 30, 2023

Findings Reported in the State's Single Audit Report:

ALN: 84.367 – Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)

Agency Number: S367A190014, S367A200014/S367A200014-20A, S367A210014

Federal Award Year: 2020, 2021, 2022

Prior Year Single Audit Report Finding Number: N/A

State of Iowa Single Audit Report Comment: 2023-011

Activities Allowed and Unallowed

Criteria – Title II Part A, Elementary and Secondary Education Act (ESEA) section 2101 (C)(1) and (3) requires each state receiving an allotment to reserve not less than 95 percent to make subgrants to local educational agencies. Of the 95 percent allocated to local educational agencies the state educational agency may reserve not more than 3% for one or more of the activities for principals or other school leaders.

According to the ESEA, a paraprofessional is not a school leader. School leaders are defined by ESEA 8101(44) as “a principal, assistant principal, or other individual who is an employee or officer of an elementary school or secondary school, local educational agency, or other entity operating an elementary school or secondary school; and is responsible for the daily instructional leadership and managerial operations in the elementary school or secondary school building”. Section 8101.37 defines paraprofessional as an “educational assistant or instructional assistant”.

Condition – Allocations awarded to the State for federal fiscal years (FFY) 2020, 2021, 2022 were active and being spent during state fiscal year ended June 30, 2023. The maximum 3% reservation for principals and school leaders which could have been allocated by the Iowa Department of Education, was approximately \$430,000, \$455,000 and \$455,000 for FY20 through FY22 respectively, totaling approximately \$1,340,000.

During the year ended June 30, 2023, \$1,215,607 was awarded to community colleges and area education agencies for paraeducator programs. For the year ended June 30, 2023 \$840,672 was spent on the paraeducator programs. Since paraeducators do not meet the “school leaders” criteria, the costs of the awards are considered unallowable under ESEA section 2101(C)(4) for the 3% reserved from LEA subgrants.

Cause – Although procedures have been established to earmark and allocate funds properly, the Department’s final review procedures did not detect the error in the normal course of performing their assigned duties.

Effect – The Department improperly allocated funds that were earmarked for school leaders to paraeducator programs, resulting in questioned costs of \$840,672.

Recommendation – The Department should contact the U.S. Department of Education for resolution. The Department should follow established procedures to ensure federal funds are earmarked and spent in accordance with federal requirements for allowable purposes.

Report of Recommendations to the
Iowa Department of Education

June 30, 2023

Response and Corrective Action Planned –

As stated by the Office of the Auditor of the State, the Iowa Department of Education has established procedures to earmark and allocate funds properly. When the decision was made in 2022 to use Title IIA school leader 3% allocation for paraeducator certification, the Department relied upon internal legal guidance stating the decision was legally permissible. Guidance from the U.S. Department of Education states the other Title IIA state set aside funds may be used for any State activity under ESEA section 2101(c)(4), some of which involve paraprofessionals. However, the allowable uses of other Title IIA state set aside funds are distinct from the allowable uses of Title IIA school leader 3% allocation.

At this time, the Department is working to engage and identify appropriate next steps with the U.S. Department of Education. Please note the use of the Title IIA school leader 3% allocation for paraeducator certification concluded at the end of FY23; Title IIA school leader 3% funds were not used for this purpose in FY24 beginning July 1, 2023 under current leadership.

To continue to build Department capacity in the administration of funds under ESEA, Department leadership directed ESEA and federal grants management training for the Bureau of Federal Programs and all other relevant Department staff, which will be provided by the Council for Chief State School Officer's Federal Education Group beginning in April 2024. Additionally, Department leadership directed additional expectations in its spending oversight procedures, including that all program fund managers and accounting budget analysts review and approve all uses in which their funding is involved.

Conclusion – Response accepted.

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

No matters were noted.

Other Finding Related to Internal Control:

Education Savings Account Administration Contract:

Criteria – An effective internal control system provides for internal controls related to contracts and contract amendments to ensure contracts and amendments are reasonable and justified and comply with established policies and procedures. Department of Education policies and procedures for personal service and other contracts require a program consultant within the Department, before an amendment is approved, to determine the need to modify an existing agreement, to draft an amendment and to email the amendment draft to the Bureau of Accounting (BOA) Compliance for review.

Background – The Education Savings Account (ESA) Program was signed into law on January 24, 2023. The Act, among other things, established education savings accounts for resident students in grades one through twelve to attend nonpublic schools.

On the day the Act was signed, January 24, 2023, the Department of Administrative Services posted a notice of Request for Proposal (RFP) titled, "Education Savings Account Administration" to the Targeted Small Business (TSB) website and issued the RFP for vendors to respond two days later.

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June 30, 2023

In Odyssey's technical proposal they stated that if selected they planned to open an office in Des Moines. However, while waiting to finalize, Odyssey stated they had secured temporary accommodations at 1007 E. Grand Avenue in Des Moines, which is the Capitol Building. There does not appear to be any legitimate means to make this claim; however, based on documentation provided, this claim was not questioned by those reviewing the proposals.

When Odyssey issued their response to the RFP, Odyssey's cost proposal clearly reiterated the State's requirement that the cost proposal is to include an all-inclusive, itemized, total cost in U.S. dollars (including all travel, expenses, etc. in prices) for the proposed services.

On April 6, 2023, Odyssey was selected to administer the program and entered into a contract with the Department of Education and the Department of Administrative Services. The initial contract is for three years with three annual extensions. This contract with Odyssey included an additional \$100,000 annually for "Standalone System Fee" that was not included in the original proposal submitted by Odyssey.

The Legislative Services Agency (LSA) estimated the fiscal impact of the ESA program in fiscal years 2024, 2025, 2026 and 2027 at \$106.9 million, \$156.3 million, \$313.9 million and \$341.1 million, respectively.

Condition – Chapter 6.01 of Government Auditing Standards (GAS – Yellow Book) states that GAS incorporates by reference AICPA Statements on Auditing Standards (SAS). AU-C 560.05 requires the auditor to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements. Through the work done to meet this standard we noted that Amendment 1 to the contract was signed July 14, 2023, three months after the original contract, and amended the contract price to include variable fees.

The amendment added the following to the contract.

Variable fees shall include:

1. Odyssey shall pass through to the State of Iowa transaction fees incurred through the use of Stripe as part of the Iowa Students First ESA program. Transaction fees incurred through the use of Stripe and passed through to the State of Iowa shall be at cost.
2. Odyssey shall be paid in the amount of 25 basis points of the amount paid out as a Qualified Education Expense.
3. Odyssey shall be paid in the amount of \$.25 per transaction. Transactions shall be consolidated by nonpublic school.
4. Odyssey shall invoice monthly for the variable fees and shall provide sufficient documentation to validate that invoices reflect actual transaction fees without mark-up.

Report of Recommendations to the
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June 30, 2023

Among the noted increases in the amendment includes a fee of .0025 (25 basis points) of the amount paid out as a qualified educational expense. The Act defines a qualified education expense as tuition and fees, textbooks, fees or payments for education therapies, training, curriculum fees, software, and materials for a course of study for a specific subject matter or grade level, tuition or fees for nonpublic online education programs, tuition for vocational and life skills education, education materials and services for pupils with disabilities from an accredited provider, including the cost of paraprofessionals and assistants who are trained in accordance with state law, standardized test fees, and advanced placement examinations or examinations related to postsecondary education admission or credentialing.

In fiscal year 2024, this 0.0025 of the amounts paid out as a qualified educational expense amounts to an additional \$267,250 cost to administer the program, in fiscal year 2025 the additional cost is \$390,750, in fiscal year 2026 the additional cost is \$784,750 and for fiscal year 2027 this amount is \$852,750, based on the estimates of the LSA.

The fiscal year 2027 additional contract cost is more than double the original contract amount of \$729,550. The original contract with Odyssey including the additional \$100,000 annual “Standalone System Fee” in year 1 is \$682,333 and \$729,550 in year 2 and each year thereafter. Therefore, in year 1, the added cost is 39% more than the contract amount and 117% more by year 2027.

The Department’s contract amendment policy required documentation of the need to modify the existing agreement and evidence the draft amendment was provided to the Bureau of Accounting (BOA) for review and approval.

A request for the amendment documentation was made on December 20, 2023, but this documentation was not received until July 12, 2024. The documentation provided shows the amendment, which was signed on July 14, 2023, was not formally approved by the Bureau of Accounting until July 12, 2024. While the documentation included that the estimated increase to the contract for years 2 and 3 was expected to be \$540,500, it did not include documentation of the need to modify the existing agreement.

Cause – Although a contract amendment policy has been established, that policy was not followed for this contract amendment.

Effect – Justification of the contract amendment was not documented and therefore the Department of Education was not in compliance with the established contract amendment policy.

Recommendation – The Department of Education should retain documentation justifying a modification to an existing agreement including timely evidence of review by the Bureau of Accounting (BOA), as required.

Response – In response to the amendments executed on July 14, 2023 and August 1, 2023, please find attached the Department’s documents with the relevant approvals. Moving forward, the Department will ensure documentation of all relevant approvals at the time of execution. As discussed, please note this response is regarding a FY2024 matter that the Office of the Auditor of State has included in the FY2023 “Findings Reported in the Report of Recommendations”.

Report of Recommendations to the
Iowa Department of Education

June 30, 2023

Conclusion – Response acknowledged. In addition, the documentation for contract amendments should also include documentation of the need to modify the existing agreement. As far as the determination that this is a FY2024 matter the audits performed by our office routinely include information covering multiple years. Chapter 3 of the Yellow Book defines the period of a professional engagement. Section 3.23, states in part, “The period lasts for the duration of the professional relationship-which, for recurring engagements, could cover many periods.” This includes FY2024 and FY2025, which is the year the amendments were approved by the Bureau of Accounting as required by policy. In addition, the opening paragraph of our engagement letter states, “We are pleased to confirm our understanding of the services we are to provide the State of Iowa, including all departments, offices, and institutions for the year ended June 30, 2023 and subsequent years until revised. The period of engagement will encompass multiple years.”

Also, Chapter 6.01 of Government Auditing Standards (GAS – Yellow Book) states that GAS incorporates by reference AICPA Statements on Auditing Standards (SAS). AU-C 560.05 requires the auditor to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the
Iowa Department of Education

June 30, 2023

Staff:

Questions or requests for further assistance should be directed to:

Brian R. Brustkern, CPA, Deputy
Deborah J. Moser CPA, Manager
Erin J. Sietstra, Senior Auditor

Other individuals who participated in the audits include:

April R. Davenport, Senior Auditor
Kimberly L. Behrens, Staff Auditor
Allison L. Carlon, Staff Auditor
Maria R. Collins, Staff Auditor
Miranda L. Hoch, Staff Auditor
Laurel P. Hoogenson, Staff Auditor
Mackenzie L. Johnson, Staff Auditor
Kelsey R. Sauer, Staff Auditor
Roxanne R. Stotler, Staff Auditor
Ariel N. Dennler, Assistant Auditor
Anthony G. Peutsch, Assistant Auditor
Jacob Blaskey, Audit Intern