



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE August 22, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on the Iowa Department of Education for the year ended June 30, 2007.

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.

Vaudt recommended the Department develop and implement procedures for monitoring subrecipients and their eligibility and ensure reports are submitted timely for various federal programs. The Department should obtain and process requests for payments from subrecipients more timely or consider estimating payables to more accurately report payables at year end. In addition, the Department should develop procedures to ensure amounts collected for various fees and licenses are in compliance with the Iowa Administrative Code and establish appropriate controls. The Department should also develop policies and procedures over various aspects of the EDINFO System. The Department's responses are included in this report.

A copy of the report is available for review in the Iowa Department of Education, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/reports.htm>.

#

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

JUNE 30, 2007

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

August 15, 2008

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, 2007.

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.

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 13 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 Chester J. Culver, Governor
Charles J. Krogmeier, Director, Department of Management
Timothy C. Faller, Interim Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Findings Reported in the State's Single Audit Report:

CFDA Number: 10.553 – School Breakfast Program

Agency Number: 2006IN109943, 2007IN109943

Federal Award Year: 2006, 2007

CFDA Number: 10.555 – National School Lunch Program

Agency Number: 2006IN109943, 2007IN109943

Federal Award Year: 2006, 2007

CFDA Number: 10.556 – Special Milk Program for Children

Agency Number: 2006IN19943, 2007IN109943

Federal Award Year: 2006, 2007

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2006IN202043, 2007IN202043, 2006IN109943, 2007IN109943

Federal Award Year: 2006, 2007

CFDA Number: 10.559 – Summer Food Service Program for Children

Agency Number: 2006IN19943, 2007IN109943

Federal Award Year: 2006, 2007

State of Iowa Single Audit Report Comment: 07-III-USDA-282-2

Timely Submission – Federal requirements state the Department must submit the Summer Food (SF) 269 reports by dates specified in Title 7 of the Code of Federal Regulation (CFR) 277.11(c)(4). Two of the five required reports were not submitted timely.

Recommendation – The Department should ensure the reports are submitted timely.

Response and Corrective Action Planned – The Department will review its procedures for the development and submission of the Summer Fund 269 reports to ensure all reports are submitted timely. We are beginning the development of a payment and reporting calendar that should assist in this effort.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

CFDA Number: 10.558 – Child and Adult Care Food Program

Agency Number: 2007IN202043

Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 07-III-USDA-282-3

Administrative Reviews – Title 7 Code of Federal Regulations (CFR) 226.6(m)(4) states the Department is to review sponsoring organizations every three years for sponsors having 1-100 facilities and every two years for those having greater than 100 facilities. One center had no reviews on file. Also, one center's review had no supporting documentation indicating administrative costs were allowable.

Recommendation – The Department should ensure sponsoring facilities are reviewed within the proper cycle and adequate supporting documentation for the review is maintained.

Response and Corrective Action Planned – Per discussion with the Office of Auditor of State, the audit exceptions were identified within two agreements of the program. In the first agreement, the sponsor review form has been misplaced and efforts to locate the missing review form have not been successful. A note dated March 1, 2008 acknowledging the missing document and efforts to locate said document is on file with the review report. An additional attempt will be made to locate the missing document. The second file did not document the request for approval to report CACFP administrative expenses on their approved budget. CACFP administrative expenses were not claimed and review questions relating to administrative costs are there fore "Not Applicable" to this institution. Program reviewers will be instructed to enter a "Yes", or "No" or "N/A" response, as applicable, to all required review questions.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

CFDA Number: 84.048 – Vocational Education-Basic Grants to States

Agency Number: V048A050015A

Federal Award Year: 2007

State of Iowa Single Audit Report Comment: 07-III-USDE-282-3

Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

The Department has established written policies and procedures for the performance of on-site monitoring of subrecipients. These policies state on-site monitoring visits will be performed once every three years for each subrecipient. Five of the 116 subrecipients were not reviewed within the last three years.

Recommendation – The Department should ensure monitoring visits are performed within a three year cycle as established in the Department's written policies and procedures.

Response and Corrective Action Planned – While all required site visits had been completed, there were five instances in the one-hundred and sixteen visits where required paperwork had not been filed. Paperwork for those five visits were located either with the consultant involved or in the Division file for the subrecipient. For corrective action, a training review of Perkins monitoring procedures and the location of the monitoring log will be given to all consultants. More specifically, we will remind the two consultants who retained their yearly annual evaluations of the importance of the following monitoring procedures.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

CFDA Number: 84.287 – Twenty-First Century Community Learning Centers

Agency Number: S287C040015, A287C050015, S287C060015

Federal Award Year: 2005, 2006, 2007

State of Iowa Single Audit Report Comment: 07-III-USDE-282-4

Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of its subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

The Department has established written policies and procedures for the monitoring of subrecipients. These policies require subrecipients to submit an annual Year-End Performance and Monitoring report by October 15 of each year. One of the twenty subrecipients had not submitted their Year-End Performance and Monitoring Report timely.

Recommendation – The Department should ensure the reports are submitted timely.

Response and Corrective Action Planned – The Year-End Performance and Monitoring Report is due by October 15, of each year by 21st Century Community Learning Center (CCLC) grantees. Of the 20 reports emailed out to all the grantees, one grantee (Cedar Rapids) did not receive its electronic copy. It was discovered they had not received the form until after the October 15 deadline. They were sent another copy and their final report was submitted within 10 days of the original submission deadline. By November 1, all 21st CCLC Year-End Performance and Monitoring Reports were received by the Department.

The Year-End Performance and Monitoring Report is in addition to the federal Performance and Profile Information Collection System (PPICS) data collection and information reporting system all 21st CCLC must complete as part of the No Child Left Behind Act (NCLB). The Year-End Performance and Monitoring Report is not a required part of the federal reporting requirement for 21st CCLC grantees to help assist with future training, technical assistance and professional development.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Finding Reported Both in the State's Report on Internal Control and the State of Iowa Single Audit Report:

CFDA Number: 84.287 – Twenty-First Century Community Learning Centers

Agency Number: S287C040015, A287C050015, S287C060015

Federal Award Year: 2005, 2006, 2007

State of Iowa Single Audit Report Comment: 07-III-USDE-282-5

Appeal Board Claims – The Department performs certain procedures after September 1st to identify additional accounts payable which were not included as expenditures on the I/3 system. However, at June 30, 2007 there were approximately \$7.4 million in requests for payments submitted by subrecipients, of which approximately \$1 million pertained to the Twenty-First Century Community Learning Centers program, which were not reported to DAS-SAE.

Recommendation – The Department should obtain and process requests for payments from subrecipients more timely or the Department should consider estimating payables to more accurately report the payables at year end.

Response and Corrective Action Planned – The Department understands and agrees with the Auditor's comment on the need for timely payment of claims to subrecipients. In FY08, the Department revamped its contract databases to track payables on contracts to better estimate and note unpaid claims. We are also researching additional methods to track grant and allocation payments to subrecipients in FY09.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Other Findings Related to Internal Control:

- (1) Contractual Agreements – Under the authority of Executive Order #25, the Department established a number of service contracts with outside parties during the year ended June 30, 2007. For 51 contracts tested, the following items were identified:

- (a) The Department did not approve 30 contracts prior to the date of execution.
- (b) For nineteen contracts where sole source justification was required, a sole source justification form was completed, but not properly signed by the Director. Eight of the nineteen contracts were signed by the Bureau Chief.
- (c) Three contracts were amended for over 5% of the original contract amount. The Department did not use the Contract Amendment form and did not obtain the signature of the contracting party.

Recommendation – The Department should ensure contracts are properly approved and comply with the policies and procedures for contracts established by the Iowa Department of Administrative Services.

Response – The Department will make the appropriate adjustments to internal processes to ensure compliance with the policies and procedures established by the Iowa Department of Administrative Services. The Department will review and revise our process to be more consistent and complete to ensure we are in compliance.

Conclusion – Response accepted.

- (2) Reconciliation of Receipts – The Board of Educational Examiners does not reconcile the amounts collected through the issuance of licenses to the amount of cash receipts processed monthly by the Department of Education.

Recommendation – Procedures should be established to reconcile the amount of receipts from the issuance of licenses to the amount of cash receipts processed monthly by the Department of Education. An independent person should review the reconciliations and investigate any variances. Evidence of the reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – The Board of Educational Examiners and the Department of Education will collaborate to add a step to the review process to ensure an independent person will review the reconciliations related to monthly cash receipts processed and to investigate any variances in those reconciliations. Evidence of this review shall be kept on file and will include the initials of the independent reviewer and the date of the review.

Conclusion – Response accepted.

- (3) Physical Security – The Department's Data Access and Policy Management Policy Statement for the Iowa Student Identification/Locator System and Project EASIER Student Records require the server to be maintained in a locked room. During our observations we noted physical security for the server room should be strengthened in two areas.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Recommendation – The Department should review office procedures and physical security for the server room to ensure unauthorized access is prevented.

Response – The Department agrees office procedures and physical security for the server room should be reviewed and is in the process of beginning the review. The intent of the review will be to implement procedures to prevent unauthorized access and improve physical security so access is appropriately limited.

Conclusion – Response accepted.

- (4) Logical Access Controls – A user id and password are required for authorized employees to access the EDINFO web application. Current procedures do not follow what are commonly referred to as best practices and do not document decisions made or access authorized.

Recommendation – The Department should formalize procedures for authorizing and granting logical access and strengthen password controls for the EDINFO web application.

Response – The Department agrees procedures for authorizing and granting logical access should be formalized and password controls for the EDINFO web application should be strengthened. Password procedures are in the process of being changed to better align them with the best practices. Procedures for authorizing and granting logical access are being reviewed to determine appropriate actions to better document decisions and the access granted.

Conclusion – Response accepted.

- (5) Written Policies and Procedures – Formal policies and procedures help to achieve uniformity/consistency in actions taken and aid in training additional or replacement personnel. During our review of the EDINFO web application, we noted a need for written policies and procedures in the following areas:

- Incident response procedures including report, documenting, follow-up and management oversight.
- Access control procedures related to authorizing, granting, documenting and removing access to the web application as well as informing users they will be held accountable for actions performed under their user id.
- Departmental security plan and security awareness program.
- Documentation of actions taken for employee security violations.
- Employee confidentiality agreements and 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.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

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

Response – The Department agrees written policies and procedures would strengthen security and controls and is beginning to develop those written policies and procedures in several areas.

- An incident response procedure is being developed including response to a security incident, escalation procedures as warranted by the incident and procedures for documenting the actions taken for an incident.
- Procedures for access controls will be written to document the process to follow for requesting, granting and removing access to web applications. These procedures will include a process for periodic reviews of employee access to web applications.
- The Departmental security plan and security awareness program will be enhanced through the use of agreements signed by employees and contractors, which will inform them of their accountability and increase their awareness of security practices required by the Department.
- Documentation of actions taken for employee security violations, segregation of incompatible duties and management oversight of access to and modification of sensitive files will be reviewed to determine effective practices to employ.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Findings Related to Statutory Requirements and Other Matters:

- (1) Iowa Administrative Code Compliance – The Department was not in compliance with Chapter 19.5(2) of the Iowa Administrative Code during the year ended June 30, 2007. The Code states a one-year extension of the holder's coaching authorization will be issued if all requirements for the five-year renewal of the coaching authorization have not been met. This extension is not renewable. Effective September 1, 2005, the fee for the one-year extension shall be \$25.

The Board of Educational Examiners is charging \$40.

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

Response – The issue has been rectified by an amendment to IAC 19.5(2).

Conclusion – Response accepted.

- (2) Code of Iowa Compliance – The Department was not in compliance with the following provision of the Code of Iowa during the year ended June 30, 2007:

Chapter 256.23 of the Code of Iowa requires the Department to establish a recruitment and advancement program to provide for the allocation of grants to schools. The Department has not established this program.

Recommendation – The Department should take steps to ensure compliance with the Code of Iowa or seek to have the requirement removed.

Response – The Department has been working to eliminate this Code section through the submission of a Code Corrections bill to the legislature for the past two years.

Conclusion – Response accepted.

- (3) Federal Expenditure Coding – The Department utilizes program codes to track revenues and expenditures for various federal grants. Four program codes for the Fresh Fruit and Vegetable Program were incorrectly grouped with the State Administrative Expenses for Child Nutrition. This miscoding resulted in an \$888,592 misstatement on the Schedule of Federal Expenditures. The misstatement was corrected on the Schedule of Federal Expenditures in the State of Iowa Single Audit Report.

Recommendation – The Department should review program codes to ensure federal expenditures and revenues are being reported under the proper federal grant name and CFDA number.

Response – At the time of this review, the grant awards from the USDA did not include a CFDA number. This caused some inevitable miscoding until we received the proper code numbers from the USDA. Now, all grants have the CFDA number attached and are coded correctly originally, so this issue has been resolved.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Education

June 30, 2007

Staff:

Questions or requests for further assistance should be directed to:

Joe T. Marturello, CIA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Melissa J. Knoll-Speer, Staff Auditor
Shelley M. Klingbeil, Staff Auditor
Michael R. Field, Staff Auditor
Michael P. Piehl, Staff Auditor
James R. Wittenwyler, Staff Auditor
Tiffany M. Maske, Assistant Auditor
Richard C. Nelson, Assistant Auditor