



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

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NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

November 21, 2022

Auditor of State Rob Sand today released a report on the Department of Management for the year ended June 30, 2021.

The Department is responsible for state budget development, local government budget support, revenue estimating and economic forecasting for the state of Iowa, policy development and analysis, enterprise project management and governance system development and oversight. The Department is also responsible for community empowerment coordination for early childhood, utility tax replacement administration, state appeal board administration and collective bargaining support.

AUDIT FINDINGS:

Sand reported one finding related to the Department. The finding is on pages 3 through 7 of this report.

Management of the Department of Management 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 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
DEPARTMENT OF MANAGEMENT**

JUNE 30, 2021

Department of Management



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November 16, 2022

Iowa Department of Management
Des Moines, Iowa

To Kraig Paulsen, Director of the Iowa Department of Management:

I am pleased to submit to you the Report of Recommendations for the Iowa Department of Management for the year ended June 30, 2021. The report includes a finding pertaining to the Department's internal control which resulted from the fiscal year 2021 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Department of Management 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", written in a cursive style.

Rob Sand
Auditor of State

Department of Management



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November 16, 2022

To Kraig Paulsen, Director of the Iowa Department of Management:

The Iowa Department of Management 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, 2021.

In conducting our audits, we became aware of certain aspects concerning the Office's operations for which we believe corrective action is necessary. As a result, we have developed a recommendation which is reported on the following pages. We believe you should be aware of the recommendation, which was reported in the State's Report on Internal Control. The recommendation has been discussed with Office personnel and their response to the recommendation is included in this report. While we have expressed our conclusion on the Office's response, we did not audit the Department of Managements' response and, accordingly, we express no opinion on it.

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 Office 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 6 and they are available to discuss these matters with you.

A handwritten signature in cursive script, reading "Ernest H. Ruben, Jr.", is positioned above the printed name.

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

cc: Honorable Kim Reynolds, Governor
Tim McDermott, Director, Legislative Services Agency

June 30, 2021

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

Financial Reporting

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

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

Condition – American Rescue Plan Act (ARPA) of 2021 provides additional relief to address the continued impact of COVID-19 (i.e., coronavirus disease 2019) on the economy, public health, state and local governments, individuals, and businesses. Under the interim final rule, a recipient may use State and Local Fiscal Recovery Funds (SLFRF), a part of the American Rescue Plan, to make deposits into its state account of the Unemployment Insurance Trust Fund established under section 904 of the Social Security Act (42 U.S.C. 1104) up to the level needed to restore the pre-pandemic balance of such account as of January 27, 2020. On July 25, 2021, the State deposited \$237,470,586 of the SLFRF program into the state account of the Unemployment Trust Fund.

Each state maintains its own Unemployment Insurance (UI) trust fund reserve built from state taxes, primarily on employers, and used only to pay for state 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 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, 2021:

- (a) On their GAAP package, the Iowa Department of Management (DOM) understated accounts receivable related to federal revenues and the corresponding amount due to the Unemployment Insurance Trust Fund in the amount of \$237,470,586. This was properly adjusted for reporting purposes.
- (b) Iowa Workforce Development (IWD) understated the corresponding due from other funds in the Unemployment Insurance Trust Fund in the amount of \$237,470,586 on their GAAP package. This was properly adjusted for reporting purposes.

Cause – The understatement by both IWD and DOM is attributed to each agency's collective interpretation of the interim final rule specific to the trust fund balance as of January 27, 2020 prior to the pandemic, and the impact of SFY 2022 activity on the trust fund balance at the time of the SLFRF deposit. Both factors, combined with the unique nature of the availability of SLFRF funds, led to the SLFRF deposit not being reported on each agencies respective GAAP package.

Effect – DOM and 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.

Report of Recommendations to the Department of Management

June 30, 2021

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

Response – To ensure the State and Local Fiscal Recovery Funds (SLFRF) trust fund deposit adhered to guidance as specified in the interim final rule, the trust fund balance at the time of deposit (July 26, 2021) was a critical piece of the SLFRF trust fund deposit calculation. SLFRF were not deposited into the state account until state fiscal year 2022 and a small part of our calculation, in determining the trust fund deposit, was for activity from July 1, 2022 to July 23th, 2022.

Initial guidance under the interim final rule allowed the use SLFRF to be deposited into the state account of the Unemployment Trust Fund established under section 904 of the Social Security Act (42 U.S.C. 1104) up to the level needed to restore the prepandemic balances of such account on January 27, 2020.

Traditionally, DOM is not involved with the deposit of funds into Unemployment Compensation Trust Fund. Policies and procedures established for cut-off transactions were not followed due to the unique nature of the source of funding for the deposit and the impact of SFY 2022 activity to the final deposit amount.

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

Findings Reported in the State's Single Audit Report:

No matters were reported.

Other Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Deputy
Ryan J. Pithan, CPA, Manager
Tristan J. Swiggum, Staff Auditor

Other individuals who participated in the audits include:

Steve D. Rater, Staff Auditor