
KIM REYNOLDS, GOVERNOR

October 4, 2024

Alex Kawamura, CPA Manager
Office of the Auditor of State
Hoover State Office Building
Des Moines, IA. 50319
Email: Alex.Kawamura@aos.iowa.gov

Dear Sir:

This letter responds to your list of audit demands concerning the Education Savings Accounts (ESA) program forwarded on September 23rd. The Department of Education responds below with written answers and documentation outlining how it has implemented controls to address the risks raised in your last series of questions.

This inquiry is perceived as highly unusual and politically motivated because this breadth of inquiry as part of the ACFR is unprecedented. Auditor of State staff in a recent meeting attempted to justify this conduct based on prior program launches, but the effort simply strains credulity. It is our expectation that the State's response to the last set of programmatic questions resolves this controversy as to the ACFR.

Below are specific responses to your questions:

1. *What controls are in place to ensure only individuals who meet the eligibility requirements for an ESA are awarded an ESA?*

Response: Each application is reviewed to verify Iowa residency and, if required, income requirements are met. The documents able to be provided to prove Iowa residency and/or income requirements were satisfied are available on the Department's ESA page (<https://educate.iowa.gov/pk-12/educational-choice/education-savings-accounts>), Questions: Eligibility #1 and #20.

2. *Does the State hold the awarded ESA funds until a valid expenditure has been claimed?*

Response: Funds remain in the State's General Fund until they are used for an eligible expenditure by an eligible ESA participant.

3. *How are the balances tracked and controlled for individual ESA's that have been awarded?*

Response: The program tracks individual ESA participant transactions to ensure ESA balances are current and funds are available pursuant to statutory requirements.

4. *How are claimed expenditures out of each ESA verified to ensure they fall within the "Qualified educational expenses" definition as defined in the Code of Iowa and rules adopted by the Department of Education before payment?*

Response: The program ensures only ESA-eligible products and services are available to be purchased with ESA funds by ESA participants.

5. *Walk us through what Education staff do to review and verify invoices received from Odyssey/Primary Class, Inc. before they are paid.*

Response: The Department follows normal internal procedures for invoices submitted by external vendors.

6. *What controls have been put in place to ensure amounts remaining in a pupil's ESA are transferred to the State's general fund when the pupil graduates from high school or turns 20 years of age (whichever comes first)?*

Response: Funds remain in the State's General Fund until they are used for an eligible expenditure by an eligible ESA participant.

7. *Have there been any instances of abuse or fraud that the Department is aware of?*

Response: No.

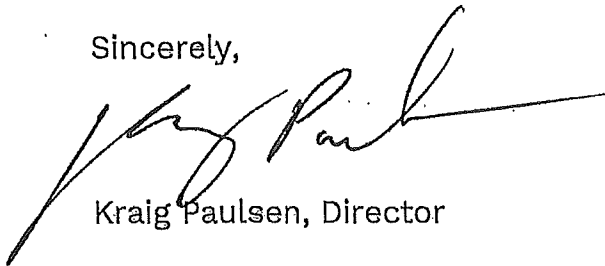
8. *What are the controls that the Department has put in place to ensure that the items on the marketplace are qualified education expenses?*

Response: Each educational product and service is reviewed

against the Eligible and Ineligible expenses document available on the Department's ESA web page. Only approved ESA-eligible educational products/services are available in the Odyssey marketplace.

As to the very last statement in the list, which speaks to the need to "make observations to verify the controls," this is unheard of in relation to an ACFR report. This last statement seeks a programmatic evaluation, which your office is entitled to do. All that we would request is a separate engagement letter so that the Department of Education is on notice of what you are doing. Iowa Code § 11.3. As of the date of this letter, we believe no outstanding issues remain to be addressed concerning the ESA program.

Sincerely,

A handwritten signature in black ink, appearing to read "Kraig Paulsen", with a long horizontal flourish extending to the right.

Kraig Paulsen, Director