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NEWS RELEASE

FOR RELEASE _____

July 18, 2011

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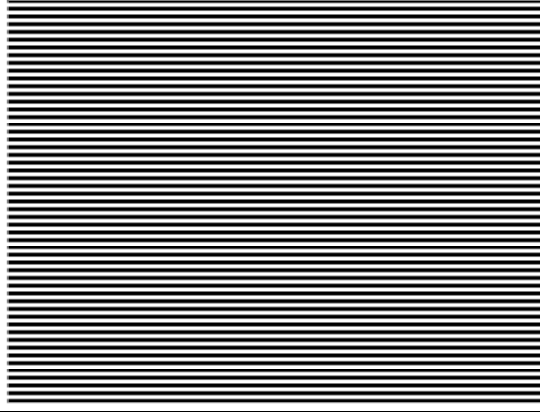
Auditor of State David A. Vaudt today released a report on the Iowa Department of Inspections and Appeals for the year ended June 30, 2010.

The Iowa Department of Inspections and Appeals was created for the purpose of coordinating and conducting audits, appeals, hearings, inspections and investigations related to the operations of Iowa state government. The Department also provides administrative support services for the Employment Appeal Board, Hospital Licensing Board, Child Advocacy Board, State Public Defender and the Iowa Racing and Gaming Commission.

Vaudt recommended the Department improve controls over federal cash management and reporting and comply with various statutory and other requirements. The Department responded corrective action is being implemented.

A copy of the report is available for review in the Iowa Department of Inspections and Appeals, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1160-4270-0R00.pdf>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF INSPECTIONS AND APPEALS**

JUNE 30, 2010

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State





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July 11, 2011

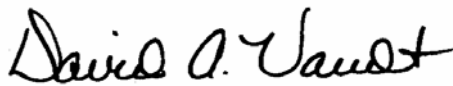
To Rodney Roberts, Director of the
Iowa Department of Inspections and Appeals:

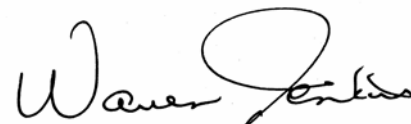
The Iowa Department of Inspections and Appeals is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2010.

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 recommendations pertaining to the Department's 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 Inspections and Appeals' 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 Inspections and Appeals, 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 12 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 Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2010

Findings Reported in the State's Single Audit Report:

CFDA Number: 93.775 – State Medicaid Fraud Control Units

Agency Number: None

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HHS-427-19

- (1) Reporting – The State Medicaid Fraud Control Unit program is designed to eliminate fraud and patient abuse in the State Medicaid programs. The statute authorizes 75% matching funds for investigation and prosecution of fraud and patient abuse in the State Medicaid Programs. Quarterly Financial Status Reports are completed and submitted by the Department to the U.S. Department of Health and Human Services. The quarterly reports due to the Federal government are not reviewed and approved by an independent person for propriety.

Recommendation – The Department should review its procedures to ensure the quarterly reports are reviewed and approved by an independent person who is knowledgeable of the common requirements of the State Medicaid Fraud Control Unit program. The independent review should be evidenced by the reviewer's signature or initials and date of review.

Response and Corrective Action Planned – The Department will work on training staff to be knowledgeable of the common requirements of the State Medicaid Fraud Control Unit program so an independent review can be performed. The Department will have the staff performing the independent review initial and date the quarterly report.

Conclusion – Response accepted.

CFDA Number: 93.775 – State Medicaid Fraud Control Units

Agency Number: None

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HHS-427-20

- (2) Cash Management – Drawdowns are performed bi-weekly and monthly. Bi-weekly estimates are based on prior fiscal year's information to help ensure the Department is not over billing. Using the bi-weekly estimates, drawdowns are made from the U.S. Department of Health and Human Services. Using actual costs, monthly drawdowns are made drawing down the remaining amount of funds owed.

The following items were noted:

- (a) Two instances were noted where estimated drawdowns were not requested timely.
- (b) One instance was noted where an estimated drawdown was drawn before the pay period ended.
- (c) Four instances were noted where final monthly drawdowns were not requested timely.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

Recommendation – The Department should review its procedures to ensure drawdowns are performed timely and are not performed prior to costs being incurred.

Response and Corrective Action Planned – Due to staffing cuts, there were times when the drawdowns and balances were not requested in a timely manner. The Department will work towards ensuring timely requests. Due to an upcoming vacation, the drawdown that was requested early was to ensure funds were available for payroll. The Department will work towards training another staff member to ensure funds are not drawn early.

Conclusion – Response accepted.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers

Agency Number: None

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HHS-427-21

- (3) Reporting – The Department prepares a Health Facilities Time Allocation report each pay period based on timesheets completed by employees. These allocations are subsequently summarized by activity code on a Health Facilities Allocation of Salaries and FTE report which determines the percentage of time spent on various federal programs. These percentages are used to allocate payroll and other monthly expenses from the Integrated Information System for Iowa (I/3) to the programs. Each quarter, the applicable monthly reports are compiled to prepare the quarterly report due to the Federal government.
- a) During the state fiscal year (SFY) 2009 audit, the first three quarterly reports for federal fiscal year (FFY) 2009 were reviewed and limited errors were noted during the review. The fourth quarter of federal fiscal year 2009 was reviewed during the current audit. However, the information included in the fourth quarter report to the Centers for Medicaid and Medicare Services (CMS) could not be supported. The Fiscal Service Bureau re-submitted all four quarterly reports in May 2010 after the first three quarterly reports had been reviewed during the state fiscal year 2009 audit. According to the Fiscal Service Bureau, they were instructed by CMS to divide the cumulative total by four and re-submit the four quarterly reports reflecting those figures. The Department was unable to provide written instructions documenting CMS's approval. Because of the re-submission, all four quarterly reports were unsupported and did not agree to the Summary of Expenses for the quarter or annually.
 - b) A review of all four quarters of federal fiscal year 2010 was also performed and several variances between the Summary of Expenses and the fourth quarter report were noted. In addition, the quarterly reports were not reviewed and approved by an independent person.

Recommendation – The Department should develop and implement procedures to ensure quarterly reports are completed accurately and are properly supported. In addition, the Department should review its procedures to ensure the quarterly reports are reviewed and approved by an independent person who is knowledgeable of the common requirements of the program. The independent review should be evidenced by the reviewer's signature or initials and the date of review.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

Response and Corrective Action Planned – Due to CMS not allowing the Department to exceed the Title XVIII budget, the Department was instructed to make changes to the quarterly reports. It was brought to CMS' attention that when the state audit would be performed, our expenditures would not match the quarterly reports. CMS still instructed the Department to make changes and divide the total expenses evenly among the four quarters.

The fourth quarter variances for federal fiscal year 2010 were identified and the quarterly report was revised and resubmitted to CMS on March 2, 2011.

The Department will work on training staff to be knowledgeable of the common requirements of the State Survey and Certification program so an independent review can be performed. The Department will have the staff performing the independent review initial and date the quarterly report.

Conclusion – Response accepted.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers

Agency Number: None

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HHS-427-22

- (4) Cash Management – Drawdowns are performed bi-weekly and monthly. Bi-weekly estimates are based on prior fiscal year's information to help ensure the Department is not over billing. Using the bi-weekly estimates, drawdowns are made from either the U.S. Department of Health and Human Services or the Iowa Department of Human Services, depending on the federal program funding the expenditures. Using actual costs, monthly drawdowns are made drawing down the remaining amount of funds owed.

A review of the drawdowns for Title XVIII, Medicare and Title XIX, Medicaid was performed for federal fiscal years 2009 and 2010. Due to budget shortfalls in Title XVIII, the Fiscal Service Bureau drew down Title XVIII expenditures with Title XIX funds during federal fiscal years 2009 and 2010. Federal regulations do not allow one program to fund the expenditures of another program. It is unknown the amount drawn down improperly from Title XIX as it relates to Title XVIII. In addition, Title XVIII is fully federally funded and Title XIX requires a state match. Therefore, the State of Iowa paid match related to the Title XVIII expenditures.

In addition, the following items were noted:

Direct – U.S. Department of Health and Human Services:

- 1) One instance was noted where an estimated drawdown was not requested timely.
- 2) One instance was noted where an estimated drawdown was drawn before the pay period ended.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

Indirect – Iowa Department of Human Services:

- 1) Three instances were noted where estimated drawdowns were not requested timely.
- 2) One instance was noted where an estimated drawdown was drawn before the pay period ended.
- 3) One instance was noted where a final monthly drawdown was not requested timely.

Recommendation – Funds from one federal program cannot be drawn down based on expenditures from another federal program. In addition, the Department should review its procedures to ensure drawdowns are performed timely and are not performed prior to costs being incurred.

Response and Corrective Action Planned – Per correspondence from CMS, the Department was instructed when there were no remaining Title XVIII funds, to draw down funds from Title XIX for the long-term care facilities. Due to staffing cuts, there were times when drawdowns and balances were not requested in a timely manner. The Department will work towards ensuring timely requests. Due to an upcoming vacation, the drawdown that was requested early was to ensure funds were available for payroll. The Department will work towards training another staff member to ensure funds are not drawn early.

Conclusion – Response acknowledged. Funds from one federal program cannot be drawn down for expenditures related to another federal program.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers

Agency Number: None

Federal Award Year: 2009, 2010

State of Iowa Single Audit Report Comment: 10-III-HHS-427-23

- (5) Payroll Distribution – The Department prepares a Health Facilities Time Allocation report each pay period based on timesheets completed by employees. These allocations are subsequently summarized by activity code on a Health Facilities Allocation of Salaries and FTE report which determines the percentage of time spent on various federal programs. These percentages are used to allocate payroll and other monthly expenses from the Integrated Information System for Iowa (I/3) to the programs. Each quarter, the applicable monthly reports are compiled to prepare the quarterly report due to the Federal government.

Surveyors are to record their time to various activity codes depending on the type of facility visited. During federal fiscal year 2009 and federal fiscal year 2010, the surveys for dually certified nursing facilities were not properly allocated to the correct activity codes. The Fiscal Service Bureau of the Department became aware of the problems associated with the incorrect allocation of activity codes and attempted to make adjustments. However, the adjustments did not correct the problems. The amount of time improperly allocated between Title XVIII, Title XIX and the state is unknown.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

For the pay period ending August 6, 2009, 131 timesheets of the Health Facilities Division were selected for testing. Twenty-two timesheets were completed and turned in to the employee's supervisor before the end of the pay period, which resulted in estimating time between multiple activity codes and not recording actual time. In addition, twenty nine timesheets were not signed by the employee.

Recommendation – The Department should ensure the surveyors are using the correct activity codes for the various surveys conducted. In addition, timesheets should not be completed before the end of the pay period and all timesheets should be signed by the employee.

Response and Corrective Action Planned – On February 22, 2011, the Department notified the Health Facilities staff of the correct procedure to code the dually certified facilities.

On February 21, 2011, the Department notified the Health Facilities staff the procedure for submitting timesheets to ensure they are submitted as close to the end of the pay period as possible.

On June 11 2010, the issue of employee signatures was addressed in an email to the Health Facilities staff. Supervisors currently print the employee's email when their timesheet is submitted and attach it to the timesheet to use as the employee signature.

Conclusion – Response accepted.

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

Financial Reporting – The Department records receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Department of Administrative Services – State Accounting Enterprise (DAS-SAE) on a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. Findings were noted as follows:

Inspections and Appeals

- (a) The Department understated future minimum rental payments by \$105,993. This was properly adjusted for reporting purposes.
- (b) The Department understated operating lease payments by \$50,407. This was properly adjusted for reporting purposes.
- (c) The Department performs procedures after September 1 to identify additional accounts receivables which were not included as revenues on the I/3 system. However, even with the additional procedures performed, there were additional receivables which were not reported in the GAAP package to DAS-SAE. In addition, the GAAP package did not include an allocation between current, non-current and allowance for uncollectible accounts. The Department understated accounts receivable by \$43,253. This was properly adjusted for reporting purposes.

June 30, 2010

State Public Defender's Office

The Department overstated future minimum rental payments by \$36,487. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package information reported is complete and accurate.

Response – The schedule for leases and future rent payments was corrected and was able to be incorporated into the GAAP package. Fiscal has requested any time there is a change to a lease, the business services area submit an additional copy to be kept with GAAP package information so the schedules can be updated.

The Health Facilities Division currently submits monthly reports of accounts receivable to Fiscal which will allow for tracking of all fines. Fiscal met with staff from the Office of Auditor of State to clarify what was considered current, non-current and allowance for uncollectibles so this should not be an issue in the future.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters:

- (1) Capital Assets – 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. Errors noted in the Department's capital asset listing resulted in an understatement of capital assets of \$22,925 and an understatement of accumulated depreciation of \$35,740. In addition, inventory was not periodically reviewed during the fiscal year.

Recommendation – The Department should review its capital assets procedures to ensure accurate and current records are maintained. Inventory should also be reviewed periodically by an independent person.

Response – The Department will ensure inventory is reviewed at least quarterly during the fiscal year. In addition, the Department will review the capital assets procedures and a second individual will follow-up to ensure the records have been updated.

Conclusion – Response accepted.

- (2) Food and Consumer Safety – According to Chapter 481—31.1 of the Iowa Administrative Code, the Department is responsible for administering and enforcing the U. S. Food and Drug Administration's Food Code by conducting food safety inspections at food establishments. All food establishments in Iowa are inspected according to the 2005 Edition of the Food Code. Sub part 8-401 of the 2005 Edition of the Food Code states "the regulatory authority shall inspect a food establishment at least once every 6 months". The Department is responsible for conducting inspections for twenty-four of the ninety-nine counties. The Department contracts with twenty-eight Local Health Departments for the remaining seventy-five counties and five cities. The Local Health Departments also conduct food safety inspections according to the 2005 Edition of the Food Code.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

The Department did not perform semi-annual inspections for all food establishments during the year.

In addition, the Department did not perform site visits of the Local Health Departments on a periodic basis.

Recommendation – The Department should ensure semi-annual inspections are performed by both the Department and the Local Health Departments. In lieu of performing semi-annual inspections, the Department may implement a written risk-based inspection schedule as allowed by the 2005 Edition of the Food Code.

The Department should also perform periodic site visits of the Local Health Departments.

Response – As of April 1, 2011, the Department has implemented a risk-based inspection system for the counties inspected and licensed by it, in accordance with the FDA Food Code, which has been adopted as the Iowa Food Code, with some exceptions. In addition, the Department is working on the development of the contract performance review component, including standardization of inspectors, an updated 28E Agreement, and ongoing review procedures, with implementation anticipated for January 1, 2012.

Conclusion – Response accepted.

- (3) Medicaid Fraud Account – Pursuant to Chapter 249A.7 of the Code of Iowa, “A Medicaid fraud account is created in the general fund of the state under the authority of the department of inspections and appeals. Moneys from penalties and other amounts received as a result of prosecutions involving the department of inspections and appeals investigations and audits to ensure compliance with the medical assistance program that are not credited to the program may be credited to the account. Notwithstanding sections 8.33 and 8.39, moneys credited to the account shall not revert to any other account or fund and are not subject to transfer except as specifically provided by law.” \$26,489 in Medicaid fraud account moneys were not properly carried forward to fiscal year 2011.

Recommendation – The Department should ensure compliance with Chapter 249A.7 of the Code of Iowa. All Medicaid fraud account funds at the end of the fiscal year should be properly carried forward into the next fiscal year.

Response – The Department will verify the year-end balance and ensure the proper amount is carried forward into the next fiscal year.

Conclusion – Response accepted.

- (4) CLIA-88 – The Department has a contract with the University of Iowa Hygienic Laboratory to administer and carry out the survey and certification responsibilities for the Clinical Laboratory Improvement Amendments of 1988 Laboratory Program for the State of Iowa. The following findings were identified:

- a) Pursuant to OMB Circular No. A-133, a pass-through entity shall identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is research and development, and the name of the Federal agency. The contract between the Department and the University of Iowa Hygienic Laboratory did not contain all required information.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

- b) The Department drew down an additional \$20,628.67 for which expenses had not yet been incurred.

Recommendation – The Department should ensure subrecipients are provided the information required by OMB Circular No. A-133. In addition, the Department should review its procedures to ensure drawdowns are performed only when expenses are incurred.

Response – The Department revised the contract to include all necessary information as required.

The Department will review its drawdown procedures and modify to ensure drawdowns are only performed when expenses are incurred.

Conclusion – Response accepted.

- (5) State Fiscal Stabilization Fund – Departments were appropriated funds from the State Fiscal Stabilization Fund by the Iowa Legislature for use during fiscal year 2010. Based on expenditures incurred, the Department transferred its appropriation quarterly to an operating account. Due to formula errors in the spreadsheets used, the Department transferred incorrect amounts in the first three quarters.

Recommendation – The Department should review its procedures to ensure the quarterly reports are completed accurately and the correct funds are drawn down.

Response – These funds are no longer available. The Department will review its procedures to ensure that any future transfers of such special funds are transferred appropriately.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2010

Staff:

Questions or requests for further assistance should be directed to:

James S. Cunningham, CPA, Manager
James R. Wittenwyler, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Tiffany M. Ainger, Staff Auditor
Daniel W. Henaman, Staff Auditor
Kassi D. Adams, Assistant Auditor