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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

August 29, 2012

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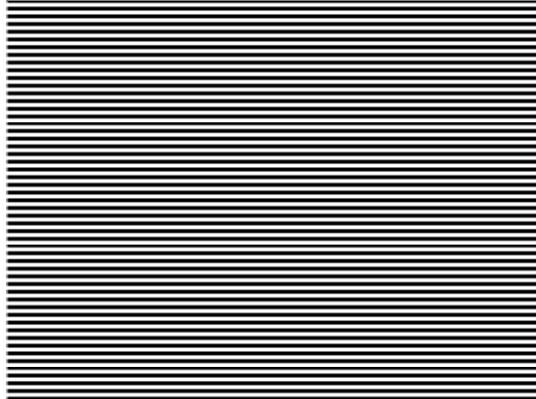
Auditor of State David A. Vaudt today released a report on the Iowa Department of Inspections and Appeals for the year ended June 30, 2011.

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, reporting and payroll distribution 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/1260-4270-OR00.pdf>.

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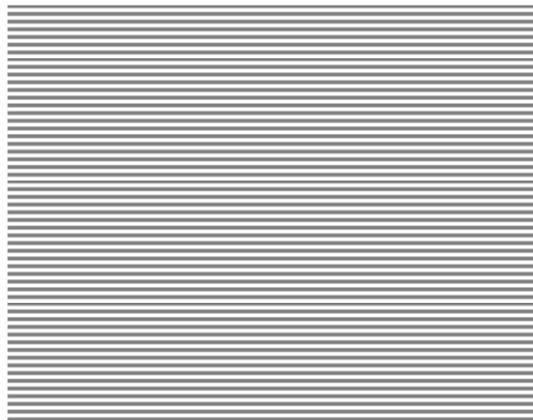
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF INSPECTIONS AND APPEALS**

JUNE 30, 2011

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



David A. Vaudt, CPA
Auditor of State





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August 27, 2012

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

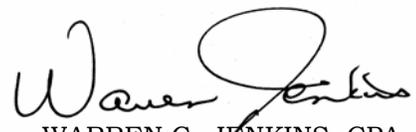
The Iowa Department of Inspections and Appeals is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2011.

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. 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 11 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, 2011

Findings Reported in the State's Single Audit Report:

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-2

- (1) Unallowable Expense – The Department has a contract with the Iowa Department of Public Safety (IDPS) to conduct Federal Health Care Life Safety Code surveys for the State of Iowa. The Department also contracts with IDPS to review and approve plans and specifications for new construction, remodeling or other alterations to health care facilities. Expenditures associated with reviewing and approving plans for health care facilities should be coded to a 100% state funded account. However, \$58,352 in expenditures were included as indirect costs to be allocated to various federal or State programs. Therefore, the amount of federal funds improperly drawn down for Title XVIII and Title XIX is unknown.

Recommendation – The Department should ensure state expenditures are not drawn down from the federal government.

Response and Corrective Action Planned – The Department has put a procedure in place to ensure expenditures associated with reviewing and approving plans are charged 100% to the State.

Conclusion – Response accepted.

CFDA Number: 93.775 – State Medicaid Fraud Control Units

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-17

- (2) 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 prior to submission.

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.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2011

Response and Corrective Action Planned – The Department will work towards ensuring a knowledgeable independent person will review and initial and date the quarterly reports.

Conclusion – Response accepted.

CFDA Number: 93.775 – State Medicaid Fraud Control Units

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-18

- (3) Cash Management – Department procedures state 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) Two instances were noted where final monthly drawdowns were not requested timely.
- d) Four instances were noted where estimated drawdowns were not performed.

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 – The Department acknowledges these requests were not processed in a timely manner. Staffing cuts have complicated this issue. We will work towards ensuring timely requests are performed in the future.

Conclusion – Response accepted.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-19

- (4) Reporting – The State Survey and Certification program is designed to provide oversight and inspection of various health care entities. The statute authorizes matching funds for survey and recertification of specified facilities. 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 prior to submission.

Report of Recommendations to the Iowa Department of Inspections and Appeals

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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 Survey and Certification 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 towards ensuring a knowledgeable independent person will review and initial and date the quarterly reports.

Conclusion – Response accepted.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-20

- (5) Cash Management – Department procedures state 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.

A review of the drawdowns for Title XVIII, Medicare and Title XIX, Medicaid was performed for state fiscal year (SFY) 2011. Due to budget shortfalls in Title XVIII, the Fiscal Service Bureau drew down Title XVIII expenditures with Title XIX funds during the first three quarters of SFY 2011. Federal regulations do not allow one program to fund the expenditures of another program. Once the finding was brought to the attention of the Department, adjustments of approximately \$500,000 were made between programs in the second and third quarter of SFY 2011. It is unknown if the adjustments made in the second and third quarter of SFY 2011 properly adjusted all expenditures between Title XVIII and Title XIX. In addition, the amount drawn down improperly for Title XIX as it relates to Title XVIII for the first quarter of SFY 2011 is unknown. Since Title XVIII is fully federally funded and Title XIX requires a state match, the state paid for Title XVIII expenditures.

In addition, the following items were noted:

Title XVIII:

- a) Two instances were noted where estimated drawdowns were not requested timely.
- b) Two instances were noted where final monthly drawdowns were not requested timely.
- c) Eight instances were noted where estimated drawdowns were not performed.
- d) Three instances were noted where final monthly drawdowns were not performed.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2011

Title XIX:

- a) Four instances were noted where estimated drawdowns were not requested timely.
- b) One instance was noted where a final monthly drawdown was not requested timely.
- c) Ten instances were noted where estimated drawdowns were not performed.
- d) Two instances were noted where final monthly drawdowns were not performed.
- e) The Fiscal Service Bureau over drew \$46,904 in federal fiscal year 2011.

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.

Response and Corrective Action Planned – The Department acknowledges these requests were not processed in a timely manner. Staffing cuts have complicated this issue. We will work towards ensuring timely request in the future. The \$46,904 overdraw will be decreased from a federal fiscal year 2012 drawdown request.

Conclusion – Response accepted.

CFDA Number: 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

Agency Number: None

Federal Award Year: 2010, 2011

State of Iowa Single Audit Report Comment: 11-III-HHS-427-21

- (6) 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 for Iowa (I/3) system 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 2010 and federal fiscal year 2011, 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, 2011

For the pay period ended May 26, 2011, 105 timesheets of the Health Facilities Division were selected for testing. Fifty-nine 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.

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.

Response and Corrective Action Planned – The pay period ended May 26, 2011 was the Memorial weekend so some timesheets were submitted early as some staff were going to be on vacation.

On February 21, 2011, the Health Facilities Division staff received a memo with instructions regarding early submission of timesheets. We will follow up with staff again regarding this issue.

Conclusion – Response accepted.

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

- (1) 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:

Iowa Department of Inspections and Appeals/State Public Defender's Office

- a) The Department understated accounts receivable by \$80,437. This was properly adjusted for reporting purposes.
- b) The Department understated the future minimum rental payments by \$158,121. This was properly adjusted for reporting purposes.
- c) The Department understated rent expense by \$4,900. This was properly adjusted for reporting purposes.

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

Response – The schedules for leases and rent payments were corrected and incorporated into the GAAP package. Fiscal Services has requested any time there is a change to a lease, the State Public Defender submit an additional copy to be kept with the GAAP information so the schedules can be updated.

Conclusion – Response accepted.

June 30, 2011

- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires the Department to maintain a written, detailed and up-to-date inventory of property under its charge and control. Findings were noted as follows:

Iowa Department of Inspections and Appeals/State Public Defender's Office

- a) Capital asset additions were not reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records.
- b) The Department did not perform a physical inventory of capital assets in fiscal year 2011.
- c) The personnel responsible for recording and maintaining capital asset records were not provided the Request for Proposals (RFP's) associated with capital asset purchases.
- d) Asset tags were not promptly placed on equipment.
- e) Deletion forms were not utilized for capital assets. In addition, policies and procedures were not adequate to ensure capital asset deletion documentation was provided to the personnel responsible for maintaining capital asset records.
- f) The Department understated capital assets by \$56,592. This was properly adjusted for reporting purposes.
- g) The Department understated accumulated depreciation by \$48,863. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure capital asset additions are reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records. Capital asset records should be maintained and tested periodically. Asset tags should be promptly placed on equipment. Deletion forms should be utilized and all deletion forms and Requests for Proposals should be provided to the personnel responsible for recording and maintaining capital assets. The Department should ensure the GAAP package information reported is complete and accurate.

Response – Due to a change in staffing, Fiscal Services was not able to review the inventory timely. Also, the I/3 reconciliation was not able to be performed. The Department will work to change this for the future. The Department will ensure RFP's are attached to the invoice for the asset. The Department will also ensure deletion forms are used. The Department will double check assets and depreciation to ensure they are recorded correctly.

Conclusion – Response accepted.

June 30, 2011

Other Finding Related to Internal Control:

Receipts – The following were noted:

- a) Deposit preparation and recording and accounting functions are not properly segregated.
- b) Reconciliations of initial listings at the Bureau level to I/3 are not performed. A reconciliation of initial listings at the Bureau level to the Fiscal Service Bureau is performed, but not by an independent person. In addition, no reconciliations are performed between receipt collections per Bureau databases to I/3. A reconciliation between the Fiscal Service Bureau's initial listing and I/3 is not performed.
- c) Accounts receivable reconciliations were not performed between County Base collections and County Base billings.

Recommendation – The Department develop procedures to ensure deposit preparation is properly segregated from the recording and accounting functions. In addition, the Department should ensure collections are reconciled to I/3 and reconciliations should be performed between County Base collections and billings. Reconciliations should be performed by an independent person.

Response –

- a) Effective July 23, 2011, deposit preparation and submission was reassigned to the Accounting Technician 1 and the Accounting Technician 3. The Fiscal Bureau secretary records the receipts at the time received. The Bureau Chief will perform the accounting functions.
- b) Effective July 1, 2012, Divisions/Bureaus will be given the monthly I/3 report to reconcile with their records.
- c) As the county base checks are received, the Fiscal Services secretary compares to an Excel spreadsheet of county base billings provided to the State Public Defender Office and documents receipt of the checks. The Fiscal Services Bureau Chief now reconciles the listing with I/3.

Conclusion – Response accepted.

Finding Related to Statutory Requirements and Other Matters:

Timely Deposits – Pursuant to Chapter 12.10 of the Code of Iowa, the Department must deposit ninety percent of all fees collected with the Treasurer of State within ten business days following collection. Receipts totaling \$1,033,520 were reviewed between April 1, 2011 and July 31, 2011. Of the \$1,033,520 of receipts reviewed, \$751,288 were not deposited within ten business days.

Recommendation – The Department should develop procedures to ensure all receipts are deposited intact and timely as required by Chapter 12.10 of the Code of Iowa.

Response – Effective July 23, 2011, deposit preparation and submission was reassigned to two accounting staff to ensure timely deposits. Deposits are being made every Friday.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2011

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 in the audits include:

Kassi D. Adams, Staff Auditor
Robert W. Endriss, Assistant Auditor
Victor L. Kennedy, Assistant Auditor