



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ September 10, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the Iowa Department of Human Services – Targeted Case Management Unit for the year ended June 30, 2011.

The Unit helps individuals with mental retardation, chronic mental illness or developmental disabilities gain access to appropriate living environments, needed medical services and interrelated social, vocational and educational services.

The Unit had revenues totaling \$17,600,350 for fiscal year 2011, a 4.0% increase over the prior year. The Unit's expenses for the year totaled \$18,039,909, an increase of less than 1.0% over the prior year.

A copy of the audit report is available for review in the Iowa Department of Human Services – Targeted Case Management Unit, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/1260-4010-B001.pdf>.

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**IOWA DEPARTMENT OF HUMAN SERVICES –
TARGETED CASE MANAGEMENT UNIT**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2011

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**Iowa Department of Human Services – Targeted Case Management Unit
State of Iowa**

Officials

Name

Title

Governor

Honorable Chester J. Culver
(Ended during January 2011)

Honorable Terry E. Branstad
(Began during January 2011)

Director, Department of Management

Richard C. Oshlo, Jr.
(Ended during January 2011)

David Roederer
(Began during January 2011)

Director, Legislative Services Agency

Glen P. Dickinson

Director, Department of Human Services

Charles J. Krogmeier
(Ended during January 2011)

Charles M. Palmer
(Began during January 2011)

Agency

Sally Titus
Richard Shults

Deputy Director of Programs and Services
Division Administrator, Division of Mental Health and
Disability Services

Diane Diamond

Bureau Chief, Targeted Case Management Unit

Iowa Department of Human Services – Targeted Case Management Unit



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Independent Auditor's Report

To the Council Members of the
Iowa Department of Human Services:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Targeted Case Management Unit as of and for the year ended June 30, 2011, which collectively comprise the Unit's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Unit's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Iowa Department of Human Services – Targeted Case Management Unit are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State of Iowa that is attributable to the transactions of the Iowa Department of Human Services – Targeted Case Management Unit. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Iowa Department of Human Services – Targeted Case Management Unit as of June 30, 2011, and the respective changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2012 on our consideration of the Iowa Department of Human Services – Targeted Case Management Unit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 9 and 22 and 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION AND REPORTING ENTITY

Management of the Iowa Department of Human Services – Targeted Case Management Unit (Unit) provides this “Management’s Discussion and Analysis” of the Unit’s annual financial statements. This narrative overview and analysis of the financial activities of the Unit is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Unit’s financial statements which follow the discussion.

The Iowa Department of Human Services – Targeted Case Management Unit operates as a Medicaid service provider and uses prospective cost-related rates to establish reasonable estimates for providing case management services to consumers. At the end of each fiscal year, the Unit conducts a final cost settlement with the Iowa Medicaid Enterprise (IME) based on actual revenues received and costs incurred.

The Unit first offered services in 1989 when Iowa began initial efforts to provide services to individuals with mental health disorders and disabilities in their own homes and in the community. The primary focus of a community-based service approach is to provide supportive services necessary for individuals with disabilities to live in the least restrictive setting possible, preferably at home with their families and a part of their own communities. The Unit has 232 employees and 33 offices spread across Iowa. During fiscal year 2011, the Unit connected 5,584 citizens to services necessary to their health, safety and well-being.

The Unit’s advisory board meets at least three times annually to review operations. Voluntary inclusion on the advisory board is open to those who are officials in contracted counties, provider agency staff, members and member guardians.

2011 FINANCIAL HIGHLIGHTS

- The Unit had total revenues of \$17,600,350 during fiscal year 2011 from a combination of fees for service, a 4% increase over fiscal year 2010.
- The Unit had expenses of \$18,039,909 during fiscal year 2011, an increase of less than 1% over fiscal year 2010.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management’s Discussion and Analysis introduces the financial statements and provides an analytical overview of the Unit’s financial activities.

The Entity-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Unit as a whole and present an overall view of the Unit’s finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as identifying amounts which remain for future spending.

The financial statements also include Notes to Financial Statements and Required Supplementary Information which explain some of the information in the financial statements and provide more detailed data.

REPORTING THE UNIT'S FINANCIAL ACTIVITIES

Entity-wide Financial Statements

One of the most important questions asked about the Unit's finances is, "Is the Unit as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Unit as a whole and about its activities in a way which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Unit's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Unit's net assets may serve as a useful indicator of whether the financial position of the Unit is improving or deteriorating.

The Statement of Activities presents information showing how the Unit's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Unit's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include administrative costs and payments for contractual services.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position.

The Unit's combined net assets decreased compared to a year ago. Our analysis below focuses on the net assets and the change in net assets of the Unit's governmental activities.

Net Assets of Governmental Activities		
	June 30,	
	2011	2010
Assets	\$ 5,254,777	2,267,125
Current liabilities	3,185,257	2,313,241
Noncurrent liabilities	5,325,034	2,769,839
Net assets	(3,255,514)	(2,815,955)

Change in Net Assets of Governmental Activities		
	June 30,	
	2011	2010
Revenues	\$ 17,600,350	16,894,075
Expenses	18,039,909	17,889,070
Change in net assets	(439,559)	(994,995)
Net assets beginning of year	(2,815,955)	(1,820,960)
Net assets end of year	\$ (3,255,514)	\$ (2,815,955)

Net assets of the Unit decreased approximately 16% (negative \$3.3 million at June 30, 2011 compared to a negative \$2.8 million at June 30, 2010). This decrease was due, in part, to costs associated with cost settlement and an increase in compensated absences and other postemployment benefits.

BUDGETARY HIGHLIGHTS

The Iowa Department of Human Services – Targeted Case Management Unit’s receipts were \$102,929 more than budgeted receipts, a variance of less than 1%.

Expenditures during the year ended June 30, 2011 exceeded the amounts budgeted for supplies and materials and equipment and repair because of the Unit’s policy to use the budget as a projection tool and not to amend the budget throughout the year. Expenditures exceeded amounts budgeted primarily due to the equipment and software needed to upgrade the billing program to be in compliance with new federal guidelines.

CAPITAL ASSETS

The Iowa Department of Human Services – Targeted Case Management Unit’s investment in capital assets for its governmental activities at June 30, 2011 was approximately \$389,000, net of accumulated depreciation of approximately \$250,000, leaving a net book value of approximately \$139,000.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Looking ahead toward fiscal year 2012, many significant changes which impacted the Unit in fiscal year 2011 will continue to impact the Unit in fiscal year 2012. Fiscal year 2011 was the first year the Iowa Medicaid Enterprise (IME) required billable units to be calculated in 15 minute intervals rather than a monthly rate, which was the former practice. This change increased the amount of billable units by approximately 830%. To accommodate this dramatic increase in units, the Unit migrated to a new software platform called Sigmund. The software required significant expense for the platform itself, as well as additional training and software upgrades during fiscal year 2012.

CONTACTING THE UNIT’S FINANCIAL MANAGEMENT

This financial report is designed to provide our consumers, providers and citizens of the State of Iowa with a general overview of the Unit’s finances and to show the Unit’s accountability for the money we receive. If you have questions about the report or need additional financial information, contact the Iowa Department of Human Services – Targeted Case Management Unit, 401 SW 8th Street, Suite Q, Des Moines, IA 50309.

**Iowa Department of Human Services –
Targeted Case Management Unit**

Basic Financial Statements

Exhibit AIowa Department of Human Services – Targeted Case Management Unit
Governmental Fund Balance Sheet and Statement of Net Assets (Deficit)

June 30, 2011

	General Fund	Adjustments (Note 5)	Statement of Net Assets
Cash	\$ 2,479,436	-	2,479,436
Accounts receivable	2,343,009	-	2,343,009
Cost settlement receivable	247,076	-	247,076
Prepaid expenditures/expenses	46,560	-	46,560
Capital assets, net of accumulated depreciation	-	138,696	138,696
Total assets	5,116,081	138,696	5,254,777
Current liabilities:			
Accounts payable	780,302	335,567	1,115,869
Salaries payable	240,312	-	240,312
Due to other state agencies	630,836	-	630,836
Deferred revenue	274,136	(274,136)	-
Compensated absences	-	1,198,240	1,198,240
Total current liabilities	1,925,586	1,259,671	3,185,257
Noncurrent liabilities:			
Accounts payable	-	800,836	800,836
Cost settlement payable	2,988,473	-	2,988,473
Compensated absences	-	892,517	892,517
OPEB liability	-	643,208	643,208
Total noncurrent liabilities	2,988,473	2,336,561	5,325,034
Total liabilities	4,914,059	3,596,232	8,510,291
Fund Balance/Net Assets			
Committed fund balance	202,022	(202,022)	-
Total liabilities and fund balance	\$ 5,116,081		
Net assets:			
Invested in capital assets		138,696	138,696
Unrestricted deficit		(3,394,210)	(3,394,210)
Total net assets (deficit)		\$ (3,255,514)	(3,255,514)

See notes to financial statements.

Iowa Department of Human Services – Targeted Case Management Unit

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance and Statement of Activities

Year ended June 30, 2011

	General Fund	Adjustments (Note 6)	Statement of Activities
Revenues:			
Fees for service:			
Medicaid	\$ 15,518,272	(288,273)	15,229,999
Merit Behavioral Counties	2,290,692	(7,882)	2,282,810
	88,555	(1,014)	87,541
Total revenues	<u>17,897,519</u>	<u>(297,169)</u>	<u>17,600,350</u>
Expenditures:			
Personal services	14,950,991	318,921	15,269,912
Travel and subsistence	409,960	-	409,960
Supplies and materials	133,793	-	133,793
Depreciation	-	68,601	68,601
Contractual services	1,717,355	-	1,717,355
Equipment and repair	440,288	-	440,288
Total expenditures/expenses	<u>17,652,387</u>	<u>387,522</u>	<u>18,039,909</u>
Excess (deficiency) of revenues over (under) expenditures	245,132	(245,132)	-
Change in net assets	-	(439,559)	(439,559)
Fund balance/net assets (deficit) beginning of year	(43,110)	(2,772,845)	(2,815,955)
Fund balance/net assets (deficit) end of year	<u>\$ 202,022</u>	<u>(3,457,536)</u>	<u>(3,255,514)</u>

See notes to financial statements.

Iowa Department of Human Services – Targeted Case Management Unit

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The Iowa Department of Human Services – Targeted Case Management Unit (Unit) began operations in 1989 to provide services designed to help consumers with mental retardation, chronic mental illness or developmental disabilities gain access to appropriate living environments, needed medical services and interrelated social, vocational and educational services.

The basic operations of the Unit are primarily financed by Iowa’s Medicaid program. Other sources of financing are the client’s county of legal settlement and the State of Iowa.

The Unit’s financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the Unit’s accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Iowa Department of Human Services – Targeted Case Management Unit has included all funds. The Unit has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Unit are such that exclusion would cause the Unit’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the Unit to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Unit. The Unit has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide and Fund Financial Statements

The financial statements on pages 12 and 13 combine both an entity-wide perspective and a governmental fund perspective.

The General Fund comprises the Iowa Department of Human Services – Targeted Case Management Unit’s governmental fund. This fund is the general operating fund of the Unit and the difference between assets and liabilities of the fund is referred to as “fund balance.”

The entity-wide financial statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all of the activities of the Unit. Governmental activities are those which normally are supported by taxes and intergovernmental revenues.

The Statement of Net Assets (Deficit) presents the Unit's assets and liabilities, with the difference reported as net assets (deficit). Net assets are reported in two categories:

Invested in capital assets consists of capital assets net of accumulated depreciation.

Unrestricted net assets (deficit) consists of net assets not invested in capital assets, as defined in the preceding category, and not having constraints placed on them from external sources or imposed by law through constitutional provisions or enabling legislation.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The entity-wide financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the "current financial resources measurement focus" and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Unit considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

D. Capital Assets

Capital assets, which include equipment, are reported in the entity-wide Statement of Net Assets (Deficit) at historical cost. Donated capital assets are reported at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Unit as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Depreciation is computed for equipment using the straight-line method over 5 years. The entity-wide Statement of Activities reports depreciation expense.

E. Compensated Absences and Other Postemployment Benefits (OPEB)

Unit employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. A liability is recorded when incurred in the entity-wide Statement of Net Assets (Deficit). Unit employees accrue vacation, sick leave and compensatory leave at rates specified in the Code of Iowa and/or collective bargaining agreements. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

F. Fund Balance

In the governmental fund financial statement the fund balance is classified as follows:

Committed – Amounts which can be used only for the specific purposes determined by a formal action of the State’s highest level of decision-making authority. The Iowa Legislature and Governor represent the State’s highest level of decision-making authority. Formal action consists of legislation passed by both the House and Senate and signed by the Governor and is required to establish, modify or rescind a limitation.

(2) Deposits

The Unit’s deposits with the Treasurer of State throughout the period and at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance			Balance
	Beginning	Additions	Deletions	End of
	of Year			Year
Capital assets:				
Equipment	\$ 388,826	-	-	388,826
Less accumulated depreciation:				
Equipment	181,529	68,601	-	250,130
Capital assets, net	\$ 207,297	(68,601)	-	138,696

(4) Changes in Compensated Absences and Other Postemployment Benefits (OPEB)

Changes in compensated absences and other postemployment benefit obligations for the year ended June 30, 2011 are summarized as follows:

Benefit	Balance			Balance	Due
	Beginning	Additions	Decreases	End	Within
	of Year			of Year	One Year
Compensated absences	\$ 1,091,223	1,148,703	994,621	1,245,305	1,198,240
SLIP	704,801	172,504	8,704	868,601	20,697
SERIP	1,348,992	-	235,738	1,113,254	314,870
Net OPEB liability	406,432	236,776	-	643,208	-
Total	\$ 3,551,448	1,557,983	1,239,063	3,870,368	1,533,807

Sick Leave Insurance Program (SLIP) - Included in the accrued accounts payable and compensated absences liability for the year ended June 30, 2011 is the cost of a voluntary termination benefit program entitled Sick Leave Insurance Program (SLIP). The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the state’s group health insurance plan after their retirement.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee's current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee's retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

If the sick leave balance is:	The conversion rate is:
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee's SLIP account. Each month, the Unit will pay 100% of the employer's share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Unit will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, the employee is eligible for Medicare, the employee waives the benefit or the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited. All SLIP program benefits are financed on a pay-as-you-go basis. Amounts calculated for this program are included in the compensated absences liability for current employees and \$23,151 is included in accounts payable for retirees.

For the year ended June 30, 2011, two retired employees received benefits of \$23,601 under the SLIP program.

State Employee Retirement Incentive Program (SERIP)

On February 10, 2010, the Governor signed into law a State Employee Retirement Incentive Program (SERIP) for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and terminate employment no later than June 24, 2010.

Participants in SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2011 on the participant's last pay check.
- 2) Health insurance – A minimum of five years of state contributions toward the premiums of a state-sponsored health insurance plan, either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.

- 3) Unused vacation leave and years of service incentive – Cash payments, including the entire value of the participant’s accrued but unused vacation leave and, for participants with at least ten years of state employment, \$1,000 for each year of state employment, up to 25 years of employment. The total unused vacation leave and years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

SERIP is financed on a pay-as-you-go basis by the Unit. Twenty-one employees retired under this program and the amounts due have been recorded as accounts payable. The liability for the expected future health insurance benefits at June 30, 2011 is \$634,168 and the liability for the unused vacation leave and years of service incentive payments at June 30, 2011 is \$479,086.

Other Postemployment Benefits - As a part of the State of Iowa, the Unit participates in the State of Iowa postretirement medical plan (OPEB Plan). The OPEB Plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$377.9 million for the State of Iowa as of June 30, 2011. The Unit’s portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa’s Comprehensive Annual Financial Report for the year ended June 30, 2011. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Unit recognized a net OPEB liability of \$643,208 for other postemployment benefits, which represents the Unit’s portion of the State’s net OPEB obligation. The Unit’s portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Unit compared to full time equivalent employees of the State of Iowa.

(5) Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (Deficit)

The differences result from the long-term economic resources focus of the Statement of Net Assets (Deficit) versus the current financial resources focus of the Governmental Fund Balance Sheet.

When capital assets to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental fund. However, the Statement of Net Assets (Deficit) includes those capital assets, net of accumulated depreciation, among the assets of the Unit as a whole.

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay current-period expenditures. Those assets are offset by deferred revenues in the governmental fund and are not included in fund balance.

Certain liabilities applicable to the Unit’s governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. However, they are reported in the Statement of Net Assets (Deficit).

The effects of these differences are summarized as follows:

Capital assets, net of accumulated depreciation	\$ 138,696
Deferred revenue	274,136
Accounts payable	(1,136,403)
Compensated absences and OPEB	<u>(2,733,965)</u>
Total	<u><u>\$(3,457,536)</u></u>

(6) Explanation of Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities

The differences result from the long-term economic resources focus of the Statement of Activities versus the current financial resources focus of the governmental fund.

When capital assets to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental fund. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended. For the year ended June 30, 2011, no financial resources were expended for capital assets. However, net assets decreased by the amount of depreciation expense, \$68,601.

Because fees for service of \$274,136 will not be collected for several months after the Unit's year end, they are not considered "available" revenues in the governmental fund.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. These expenses consist of compensated absences and other postemployment benefits totaling \$3,870,368.

The effects of these differences are summarized as follows:

Depreciation expense	\$ (68,601)
Decrease in deferred revenue	(297,169)
Increase in compensated absences and other postemployment benefits	<u>(318,921)</u>
Total	<u><u>\$(684,691)</u></u>

(7) Pension and Retirement Benefits

The Unit contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

For the year ended June 30, 2011, plan members are required to contribute 4.5% of their annual covered salary and the Unit is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by state statute. The Unit's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$733,204, \$669,593 and \$617,787, respectively, equal to the required contributions for each year.

(8) Operating Leases

The Unit has leased various office facilities throughout the State of Iowa. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. The leases expire between June 30, 2011 and June 30, 2016 and require various minimum annual rentals. Certain leases are renewable for additional periods. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2011:

Year Ending June 30,	Minimum Rental Payments
2012	\$ 452,711
2013	247,272
2014	124,936
2015	31,034
2016	31,034
Total	<u>\$ 886,987</u>

Rental expense for the year ended June 30, 2011 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$488,487.

(9) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

(10) Contingencies

The Unit reports revenues at estimated net realizable amounts for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Required Supplementary Information

Iowa Department of Human Services – Targeted Case Management Unit

Budgetary Comparison Schedule

Required Supplementary Information

Year ended June 30, 2011

	Original/ Final Budget	Actual	Final to Actual Variance
Revenues:			
Fees for service:			
Medicaid	\$ 15,767,471	15,518,272	(249,199)
Merit Behavioral Counties	1,937,108	2,290,692	353,584
Miscellaneous	90,003	88,555	(1,448)
Total revenues	8	-	(8)
	<u>17,794,590</u>	<u>17,897,519</u>	<u>102,929</u>
Expenditures:			
Personal services	15,037,025	14,950,991	86,034
Travel and subsistence	633,834	409,960	223,874
Supplies and materials	117,604	133,793	(16,189)
Contractual services	1,877,125	1,717,355	159,770
Equipment and repair	129,000	440,288	(311,288)
Service fee refunds	4	-	4
Total expenditures	<u>17,794,592</u>	<u>17,652,387</u>	<u>142,205</u>
Excess (deficiency) of revenues over (under) expenditures	(2)	245,132	245,134
Balance beginning of year	(43,110)	(43,110)	-
Balance end of year	<u>\$ (43,112)</u>	<u>202,022</u>	<u>245,134</u>

See accompanying independent auditor's report.

Iowa Department of Human Services – Targeted Case Management Unit

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

Budgetary control is exercised over the Iowa Department of Human Services – Targeted Case Management Unit through the budgetary process prescribed in Chapter 8 of the Code of Iowa. Each department of the State prepares estimates of expenditures and income for each ensuing fiscal year. These estimates are transmitted to the Department of Management which prepares and submits a tentative budget to the Governor. After holding public hearings, the Governor prepares and transmits the budget to the Iowa Legislature. The Legislature appropriates funds to the various departments based on the budget as adjusted through the appropriation process. The Iowa Department of Human Services – Targeted Case Management Unit does not receive a State appropriation and is primarily funded by service fees. The Unit generated additional service fee revenues and expended those funds for allowable program expenditures.

The budget for the General Fund is adopted on a basis consistent with U.S. generally accepted accounting principles. There were no material violations of finance-related legal and contractual provisions.

Total expenditures during the year ended June 30, 2011 were under the amount budgeted by \$142,205. The Unit's policy is to use the budget as a projection tool and not to amend the budget throughout the year.

Iowa Department of Human Services – Targeted Case Management Unit



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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Council Members of the
Iowa Department of Human Services:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Targeted Case Management Unit (Unit) as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated August 28, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Unit is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Unit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Unit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Department of Human Services – Targeted Case Management Unit's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control 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 on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Department of Human Services – Targeted Case Management Unit's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

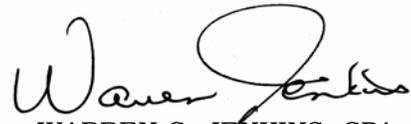
As part of obtaining reasonable assurance about whether the Iowa Department of Human Services – Targeted Case Management Unit’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

The Unit’s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Unit’s response, we did not audit the Unit’s 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 Iowa Department of Human Services – Targeted Case Management Unit and other parties to whom the Iowa Department of Human Services – Targeted Case Management Unit 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 Iowa Department of Human Services – Targeted Case Management Unit during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 28, 2012

Iowa Department of Human Services – Targeted Case Management Unit

Schedule of Findings

Year ended June 30, 2011

Finding Related to the Financial Statements:

Internal Control Deficiency:

Financial Reporting – The Department records 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 for disclosure in the statewide Comprehensive Annual Financial Report (CAFR). The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The GAAP package amount reported by the Unit for accounts receivable was overstated by \$577,260. This amount has been reported properly in the Unit’s financial statements.

Recommendation – The Unit should ensure correct information is provided in the GAAP package for statewide financial reporting.

Response – The Unit converted to a new billing software program for the fiscal year ended June 30, 2011. The software vendor accounts receivable report included items that should have been reversed in the billing database. This problem has been identified and corrected. Per review, there is no indication of any improper or duplicated invoicing.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Iowa Department of Human Services – Targeted Case Management Unit

Staff

This audit was performed by:

Michelle B. Meyer CPA, Manager
Dorothy O. Stover, Staff Auditor
Victor L. Kennedy, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State