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STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 3, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on the Iowa Department of Human Services – Targeted Case Management Unit (Unit) for the year ended June 30, 2012.

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 \$18,725,481 for the year ended June 30, 2012, a 6.4% increase over the prior year. The Unit's expenses for the year totaled \$19,328,646, an increase of 7.1% 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/1360-4010-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, 2012

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

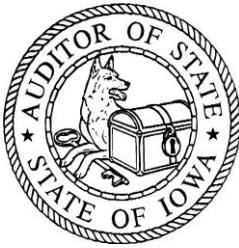
Officials

<u>Name</u>	<u>Title</u>
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Charles M. Palmer	Director, Department of Human Services

Agency

Sally Titus	Deputy Director of Programs and Services
Richard Shults	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 (Unit) as of and for the year ended June 30, 2012, 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.

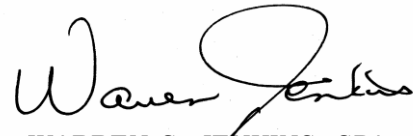
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2012, 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, 2012, 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 May 16, 2013 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 10 and 22 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read "Warren Jenkins". The signature is fluid and cursive, with a large loop at the end of the last name.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 16, 2013

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, 2012. 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 229 employees and 33 offices spread across Iowa. During fiscal year 2012, the Unit connected 5,283 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.

2012 FINANCIAL HIGHLIGHTS

- The Unit had total revenues of \$18,725,481 during fiscal year 2012 from a combination of fees for service, a 6.4% increase over fiscal year 2011.
- The Unit had expenses of \$19,328,646 during fiscal year 2012, an increase of 7.1% over fiscal year 2011.

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 which 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,	
	2012	2011
Assets	\$ 6,076,909	5,254,777
Current liabilities	4,267,878	3,185,257
Noncurrent liabilities	5,667,710	5,325,034
Net assets	\$ (3,858,679)	(3,255,514)

Change in Net Assets of Governmental Activities		
	June 30,	
	2012	2011
Revenues	\$ 18,725,481	17,600,350
Expenses	19,328,646	18,039,909
Change in net assets	(603,165)	(439,559)
Net assets beginning of year	(3,255,514)	(2,815,955)
Net assets end of year	\$ (3,858,679)	(3,255,514)

Net assets of the Unit decreased approximately 19% (negative \$3.9 million at June 30, 2012 compared to a negative \$3.3 million at June 30, 2011). 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 Unit's receipts were \$1,162,779 less than budgeted receipts, a variance of 6%. Since the Unit is reimbursed for the services it provides and operates in a cost settlement environment, receipts correlate directly with costs incurred. As explained in the following paragraph, expenditures were 6% lower than budgeted. Therefore, the Unit's receipts were a comparable percentage below budget.

Expenditures during the year ended June 30, 2012 exceeded the amounts budgeted for travel and subsistence, supplies and materials, equipment and repair and claims and miscellaneous 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. While the Unit's expenditures for these categories exceeded budgeted amounts, the Unit's overall costs were 6% lower than what was budgeted. This was primarily due to not filling vacant positions during fiscal year 2012. Unit management decided not to fill vacant positions due to the unknown effects of pending legislation for Integrated Health Homes which will phase in beginning in fiscal year 2014 in five pilot counties.

CAPITAL ASSETS

The Unit's investment in capital assets for its governmental activities at June 30, 2012 was approximately \$332,000, net of accumulated depreciation of approximately \$255,000, leaving a net book value of approximately \$77,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In fiscal year 2013, the Financial Team is preparing for the challenge of the Atypical Code Conversion, a project undertaken by the Iowa Medicaid Enterprise (IME) due to provisions in the 1996 federal Health Insurance Portability and Accountability Act (HIPAA) which require standardized coding for reporting and billing for health care transactions by all entities. To comply, the Unit will need to have these codes prepared for implementation on July 1, 2013 to ensure billing is not interrupted. All Case Managers will need to be trained to use the new codes as well.

Beginning July 1, 2013, adults with a Chronic Mental Illness (CMI) and children with a Severe Emotional Disturbance (SED) who are enrolled in Medicaid and receive targeted case management services will be enrolled in an Integrated Health Home (IHH) program in five counties, including Dubuque, Linn, Polk, Warren and Woodbury. Individuals receiving these services in the remaining counties will be transitioned to IHHs over the next 12 to 18 months. An IHH program is a team of professionals who work together to provide whole-person, patient-centered coordinated care. The IHHs will be administered by Magellan Behavioral Care (MBC) and provided by community-based IHHs. The IHHs provide care coordination for all aspects of an individual's life and for any care transitions the individual experiences.

The Iowa Department of Human Services (DHS) estimates 16% of those who will be served by IHHs currently receive targeted case management services, including 22% of adults with a CMI and 5% of children with an SED. A six-month transition period will be established for individuals assigned to an IHH who currently receive targeted case management services so responsibilities can be safely transferred from the Unit to the IHHs. The Unit will work diligently to assist these individuals and their families to ensure the transition period is as seamless as possible. After the transition period, individuals assigned to an IHH will not be permitted to access the Medicaid service, "Targeted Case Management," but will receive all of their care coordination through an IHH.

Unit management has made and will continue to make financial, staffing and budget decisions which will accommodate these changes.

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.

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, 2012

	General Fund	Adjustments (Note 5)	Statement of Net Assets
Cash	\$ 4,103,782	-	4,103,782
Accounts receivable	1,790,706	-	1,790,706
Cost settlement receivable	35,358	-	35,358
Prepaid expenditures/expenses	69,840	-	69,840
Capital assets, net of accumulated depreciation	-	77,223	77,223
Total assets	5,999,686	77,223	6,076,909
Current liabilities:			
Accounts payable	1,106,234	301,130	1,407,364
Due to other state agencies	93,072	-	93,072
Deferred revenue	227,335	(44,725)	182,610
Cost settlement payable	1,264,116	-	1,264,116
Compensated absences	-	1,320,716	1,320,716
Total current liabilities	2,690,757	1,577,121	4,267,878
Noncurrent liabilities:			
Accounts payable	-	565,473	565,473
Cost settlement payable	3,075,266	-	3,075,266
Compensated absences	-	1,176,156	1,176,156
OPEB liability	-	850,815	850,815
Total noncurrent liabilities	3,075,266	2,592,444	5,667,710
Total liabilities	5,766,023	4,169,565	9,935,588
Fund Balance/Net Assets			
Committed fund balance	233,663	(233,663)	-
Total liabilities and fund balance	\$ 5,999,686		
Net assets:			
Invested in capital assets		77,223	77,223
Unrestricted deficit		(3,935,902)	(3,935,902)
Total net assets (deficit)		\$ (3,858,679)	(3,858,679)

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, 2012

	General Fund	Adjustments (Note 6)	Statement of Activities
Revenues:			
Fees for service:			
Medicaid	\$ 16,358,042	(219,147)	16,138,895
Merit Behavioral Counties	2,534,566	(7,552)	2,527,014
	62,285	(2,713)	59,572
Total revenues	<u>18,954,893</u>	<u>(229,412)</u>	<u>18,725,481</u>
Expenditures:			
Personal services	16,048,205	343,921	16,392,126
Travel and subsistence	456,719	-	456,719
Supplies and materials	140,832	-	140,832
Depreciation	-	60,794	60,794
Contractual services	1,836,714	-	1,836,714
Equipment and repair	437,815	679	438,494
Claims and miscellaneous	2,967	-	2,967
Total expenditures/expenses	<u>18,923,252</u>	<u>405,394</u>	<u>19,328,646</u>
Excess (deficiency) of revenues over (under) expenditures	31,641	(31,641)	-
Change in net assets	-	(603,165)	(603,165)
Fund balance /net assets (deficit) beginning of year	202,022	(3,457,536)	(3,255,514)
Fund balance /net assets (deficit) end of year	<u>\$ 233,663</u>	<u>(4,092,342)</u>	<u>(3,858,679)</u>

See notes to financial statements.

Iowa Department of Human Services – Targeted Case Management Unit

Notes to Financial Statements

June 30, 2012

(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 intellectual disabilities, 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 (deficit) 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, 2012 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, 2012 is as follows:

	Balance			Balance
	Beginning	Additions	Deletions	End of
	of Year			Year
Capital assets:				
Equipment	\$ 388,826	-	(56,805)	332,021
Less accumulated depreciation:				
Equipment	250,130	60,794	(56,126)	254,798
Capital assets, net	\$ 138,696	(60,794)	(679)	77,223

(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, 2012 are summarized as follows:

Benefit	Balance			Balance	Due
	Beginning	Increases	Decreases		
	of Year			of Year	One Year
Compensated absences	\$ 1,245,305	1,400,988	1,101,510	1,544,783	1,172,860
SLIP	868,601	106,639	15,266	959,974	154,075
SERIP	1,113,254	-	254,536	858,718	294,911
Net OPEB liability	643,208	207,607	-	850,815	-
Total	\$ 3,870,368	1,715,234	1,371,312	4,214,290	1,621,846

Sick Leave Insurance Program (SLIP) - Included in the accrued accounts payable and compensated absences liability for the year ended June 30, 2012 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:

<u>If the sick leave balance is:</u>	<u>The conversion rate is:</u>
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 SLIP account 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 \$7,885 is included in accounts payable for retirees.

For the year ended June 30, 2012, two retired employees received benefits of \$23,451 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 2010 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, 2012 is \$499,404 and the liability for the unused vacation leave and years of service incentive payments at June 30, 2012 is \$359,314.

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, 2012. 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, 2012. 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 \$850,815 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 year 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	\$ 77,223
Deferred revenue	44,725
Accounts payable	(866,603)
Compensated absences and OPEB	<u>(3,347,687)</u>
Total	<u>\$ (4,092,342)</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, the governmental fund balance decreases by the amount of financial resources expended. For the year ended June 30, 2012, no financial resources were expended for capital assets. However, net assets decreased by the amount of depreciation expense, \$60,794.

Because fees for service of \$44,725 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 \$4,214,290.

The effects of these differences are summarized as follows:

Depreciation expense	\$ (60,794)
Decrease in deferred revenue	(229,411)
Loss on disposal of equipment	(679)
Increase in compensated absences and other postemployment benefits	<u>(343,922)</u>
Total	<u>\$ (634,806)</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, 2012, plan members are required to contribute 5.38% of their annual covered salary and the Unit is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The Unit's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$904,159, \$733,204 and \$669,593, 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, 2012 and June 30, 2017 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, 2012:

Year Ending June 30,	Minimum Rental Payments
2013	\$ 596,984
2014	432,924
2015	348,360
2016	251,242
2017	126,503
Total	\$ 1,756,013

Rental expense for the year ended June 30, 2012 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$520,619.

(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 year the related services are rendered and such amounts are adjusted in future years 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, 2012

	Original/ Final Budget	Actual	Final to Actual Variance
Revenues:			
Fees for service:			
Medicaid	\$ 17,924,552	16,358,042	(1,566,510)
Merit Behavioral Counties	2,077,857	2,534,566	456,709
	115,258	62,285	(52,973)
Miscellaneous	5	-	(5)
Total revenues	20,117,672	18,954,893	(1,162,779)
Expenditures:			
Personal services	17,506,940	16,048,205	1,458,735
Travel and subsistence	374,501	456,719	(82,218)
Supplies and materials	135,302	140,832	(5,530)
Contractual services	2,027,001	1,836,714	190,287
Equipment and repair	49,001	437,815	(388,814)
Claims and miscellaneous	-	2,967	(2,967)
Service fee refunds	4	-	4
Total expenditures	20,092,749	18,923,252	1,169,497
Excess of revenues over expenditures	24,923	31,641	6,718
Balance beginning of year	202,022	202,022	-
Balance end of year	\$ 226,945	233,663	6,718

See accompanying independent auditor's report.

Iowa Department of Human Services – Targeted Case Management Unit

Notes to Required Supplementary Information – Budgetary Reporting

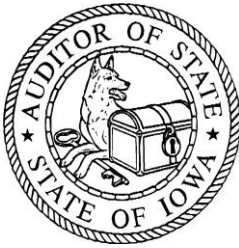
June 30, 2012

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, 2012 were under the amount budgeted by \$1,169,497. 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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Mary Mosiman, 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, 2012, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated May 16, 2013. 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.

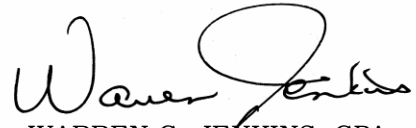
Compliance and Other Matters

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.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 16, 2013

Iowa Department of Human Services – Targeted Case Management Unit

Schedule of Findings

Year ended June 30, 2012

Finding Related to the Financial Statements:

Internal Control Deficiency:

Financial Reporting – The Unit 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 \$82,842 and deferred revenue and accounts payable were understated \$182,610 and \$53,708, respectively. These amounts have 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 concurs and will develop quality assurance procedures to verify the accuracy of receivables and payables reported in our GAAP package for future reporting periods.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

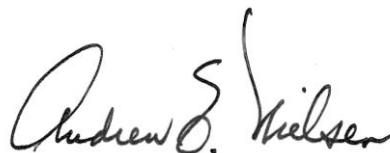
No matters were noted.

Iowa Department of Human Services – Targeted Case Management Unit

Staff

This audit was performed by:

Michelle B. Meyer CPA, Manager
Dorothy O. Stover, Senior Auditor
Kirstie R. Hill, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State