



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

August 14, 2013

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released a report on the Iowa Department of Inspections and Appeals for the year ended June 30, 2012.

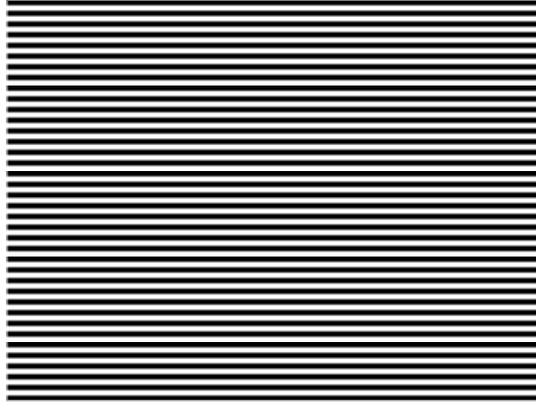
The Iowa Department of Inspections and Appeals was created for the purpose of coordinating and conducting audits, appeals, hearings, inspections and investigations related to the operations of Iowa state government. The Department also provides administrative support services for the Employment Appeal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

Mosiman recommended the Department improve controls over federal cash management, reporting and payroll distribution. The Department responded corrective action is being implemented.

A copy of the report is available for review in the Iowa Department of Inspections and Appeals, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1360-4270-0R00.pdf>.

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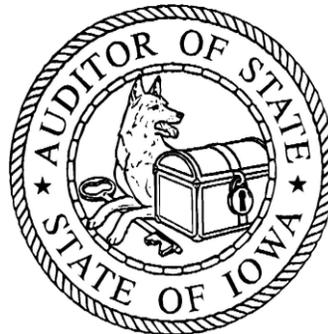
**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF INSPECTIONS AND APPEALS**

**JUNE 30, 2012**

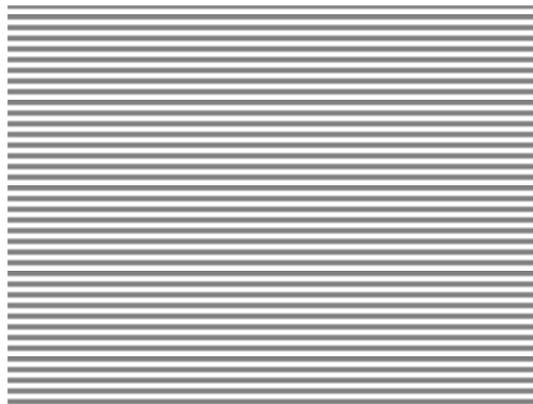
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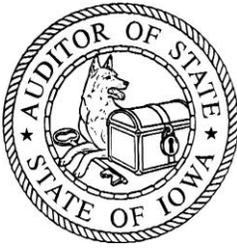
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August 9, 2013

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

The Iowa Department of Inspections and Appeals is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2012.

In conducting our audit, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report and the State's Report on Internal Control, as well as other recommendations pertaining to the Department's internal control. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Inspections and Appeals' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Inspections and Appeals, citizens of the State of Iowa and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 13 and they are available to discuss these matters with you.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor  
David Roederer, Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2012

**Findings Reported in the State's Single Audit Report:**

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

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-2**

- (1) Unallowable Expenditures – The Department has a contract with the Iowa Department of Public Safety (IDPS) to conduct Federal Health Care Life Safety Code surveys for the State of Iowa. The Department also contracts with IDPS to review and approve plans and specifications for new construction, remodeling or other alterations to health care facilities. Expenditures associated with reviewing and approving plans for health care facilities should be coded to a 100% state funded account. However, the Department coded \$85,412 of expenditures to a federal account, thereby including these expenditures in the Department's bi-weekly drawdowns. The Department subsequently reduced drawdowns by \$64,400 in an effort to correct the coding error. However, as of June 30, 2012, the Department had a remaining unallowable expenditure balance of \$21,012.

Recommendation – The Department should ensure expenditures are properly coded so drawdowns represent allowable expenditures. The Department should also consult with the U.S. Department of Health and Human Services on the disposition of this matter.

Response and Corrective Action Planned – The Department will implement a second review to ensure these expenditures are charged 100% to the State. This document is submitted originally to the Division Administrator of the Health Facilities Division. The Administrator signs and dates the document to let the Fiscal Services Bureau know the billing is ok to pay. The Division Administrator will now make a notation this billing is to be charged 100% to state funds. The Department will also contact the U.S. Department of Health and Human Services to see how they want us to handle the matter of the remaining \$21,012.

Conclusion – Response accepted.

**CFDA Number: 93.775 – State Medicaid Fraud Control Units**

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-11**

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

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2012

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

Response and Corrective Action Planned – The Department initiated its second review of the quarterly reports with the second quarter of federal fiscal year 2012. Subsequent reports have had the second review.

Conclusion – Response accepted.

**CFDA Number: 93.775 – State Medicaid Fraud Control Units**

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-12**

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

The following items were noted:

- (a) One instance where estimated drawdowns were not requested timely.
- (b) Two instances where final monthly drawdowns were not requested timely.
- (c) Nine instances where estimated drawdowns were not performed.
- (d) Four instances in which the final monthly drawdown was not reviewed or approved by an independent person.
- (e) One instance in which the Department erroneously used the 2010 monthly expenditures to support the monthly drawdown, resulting in an additional \$20,931 of unsupported federal funds being drawn for the month.

Recommendation – The Department should review its procedures to ensure drawdowns are performed timely. The drawdowns should be reviewed and approved by an independent person. The Department should implement procedures to ensure the Department is only drawing down reimbursable expenditures.

Response and Corrective Action Planned – The Department will work to ensure drawdowns are completed in a timely manner. The Department will implement a second review to ensure the proper month’s expenditures are being utilized for drawdowns. The Department implemented the second review by an independent person with the pay period ended November 10, 2011. The Department will attach a copy of the I/3 report to the drawdown report. A later drawdown was reduced by \$20,931 to correct the oversight.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2012

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

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-13**

- (4) Reporting – The State Survey and Certification program is designed to provide oversight and inspection of various health care entities. The statute authorizes matching funds for survey and recertification of specified facilities. Quarterly Financial Status Reports are completed and submitted by the Department to the U.S. Department of Health and Human Services. The quarterly reports due to the Federal government are not reviewed and approved by an independent person for propriety prior to submission.

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

Response and Corrective Action Planned – The Department initiated its second review of the quarterly reports with the second quarter of federal fiscal year 2012. Subsequent reports have had the second review.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2012

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

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-14**

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

The following were noted for Title XVIII, Medicare:

- (a) Two instances where estimated drawdowns were not requested timely.
- (b) Two instances where final monthly drawdowns were not requested timely.
- (c) Ten instances where estimated drawdowns were not performed.
- (d) One instance where the monthly drawdown was not reviewed by an independent person.

The following were noted for Title XIX, Medicaid:

- (a) Three instances where estimated drawdowns were not requested timely.
- (b) Four instances where a final monthly drawdown was not requested timely.
- (c) Nine instances where estimated drawdowns were not performed.
- (d) Ten instances where the drawdowns were not reviewed and approved by an independent person.

Recommendation – The Department should review its procedures to ensure drawdowns are performed timely. Drawdowns should be reviewed by an independent person.

Response and Corrective Action Planned – The Department started the implementation of a second review with the pay period ended November 10, 2011.

Conclusion – Response accepted.

June 30, 2012

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

**Agency Number: None**

**Federal Award Year: 2011, 2012**

**12-III-HHS-427-15**

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

Surveyors are to record their time to various activity codes depending on the type of facility visited. During federal fiscal year 2011 and federal fiscal year 2012, the surveys for dually certified nursing facilities were not properly allocated to the correct activity codes. The amount of time improperly allocated between Title XVIII, Title XIX and the State is unknown.

For the pay period ended November 24, 2011, 106 timesheets of the Health Facilities Division were selected for testing. Eight timesheets were completed and turned in to the employee's supervisor before the end of the pay period, which resulted in estimating time between multiple activity codes and not recording actual time.

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

Response and Corrective Action Planned – The Department will work with the Health Facilities Division to ensure time sheets are not submitted early. If the time sheet has to be submitted early, such as for a vacation, the Department will attach a copy of the email from the employee stating the reason for early submission.

Conclusion – Response accepted.

June 30, 2012

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

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

**Iowa Department of Inspections and Appeals**

The Department understated accounts receivable by \$69,040. This was properly adjusted for reporting purposes.

**State Public Defender's Office**

- (a) The Office incorrectly recorded two receipts for drug court cost reimbursements to fiscal year 2013, resulting in an understatement of accounts receivable by \$10,123. This was properly adjusted for reporting purposes.
- (b) The Office understated the future minimum rental payments by \$118,000. This was properly adjusted for reporting purposes.

**Iowa Racing and Gaming Commission**

- (a) The Commission recorded one weekly tax receipt to the wrong fiscal year, resulting in an understatement of accounts receivable by \$199,484. This was properly adjusted for reporting purposes.
- (b) The Commission understated rent expense by \$78,000. This was properly adjusted for reporting purposes.

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

Responses:

**Iowa Department of Inspections and Appeals** – The Department omitted the Adult Services accounts receivable. The Department will verify this information with Adult Services in the future.

**State Public Defender's Office** – The Office will ensure receipts are coded properly in the future. In addition, the Office will have another employee verify the schedule to ensure accuracy. Also, the Office will ensure the current lease is used.

**Iowa Racing and Gaming Commission (IRGC)** – IRGC will ensure receipts are properly coded in the future.

Conclusions – Responses accepted.

June 30, 2012

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

**Iowa Department of Inspections and Appeals**

- (a) Capital asset additions were not reconciled to I/3 by an employee who is not responsible for recording and maintaining capital asset records.
- (b) The Department included one vehicle twice in the capital assets listing and capitalized two other vehicles in error. This resulted in an overstatement of capital asset additions of \$19,050.
- (c) The Department understated accumulated depreciation by \$11,710.

**Iowa Racing and Gaming Commission**

- (a) Capital asset additions were not reconciled to I/3 by an employee who is not responsible for recording and maintaining capital asset records.
- (b) Deletion forms were not utilized for capital assets. In addition, policies and procedures were not adequate to ensure capital asset deletions were provided to the personnel responsible for maintaining capital asset records.

Recommendation – The Department and Commission should ensure capital asset additions are reconciled to I/3 by an employee not responsible for recording and maintaining capital asset records. In addition, the Department and Commission should ensure the GAAP package information reported is complete and accurate. Deletion forms should be utilized and policies and procedures for capital asset deletions should be established and enforced to ensure personnel responsible for recording and maintaining capital assets are notified when disposition of a capital asset has occurred.

Responses:

**Iowa Department of Inspections and Appeals:**

- (a) The Department has assigned an employee who is not responsible for reconciling capital assets to record and maintain capital asset records.
- (b) The Department will ensure vehicles are only listed once in the future.
- (c) The Department will ensure depreciation schedules are correct in the future.

**Iowa Racing and Gaming Commission (IRGC)** – IRGC will assign reconciliation duties to an employee who is not responsible for the record keeping of capital assets. The authorization for deletions is given jointly with the authorization of purchase as our deletions are mirrored by the purchase of replacement equipment. IRGC will ensure authorization for deletions is expressly stated with the authorization to purchase.

Conclusions – Responses accepted.

June 30, 2012

**Other Findings Related to Internal Control:**

(1) Receipts – The following were noted:

- (a) Reconciliations of initial listings at the Bureau level to I/3 are not performed. A reconciliation of initial listings at the Bureau level to the Fiscal Service Bureau is performed, but not by an independent person. In addition, reconciliations are not performed between receipt collections per the Bureau databases to I/3. A reconciliation between the Fiscal Service Bureau's initial listing and I/3 is not performed.
- (b) Accounts receivable reconciliations were not performed between County Base collections and County Base billings.

Recommendation – The Department should ensure collections are reconciled to I/3 and reconciliations should be performed between County Base collections and billings. Reconciliations should be performed by an independent person.

Response –

- (a) The Food Services Bureau is currently reconciling the Food, TSB, Social and Charitable Gaming and Amusement Devices receipts. Fiscal Service Bureau staff provide the I-3 reports monthly to the bureau to reconcile.
- (b) Fiscal Service Bureau staff will provide the State Public Defender the I-3 report of County Base collections to reconcile to their records.

Conclusion – Response accepted.

(2) Financial Reporting – The Schedule of Expenditures of Federal Awards for the year ended June 30, 2012 understated federal disbursements by \$75,221 for the State Survey and Certification Program. This was due to agency oversight and was corrected for the Statewide Single Audit Report.

Recommendation – The Department should develop and implement procedures to ensure all federal funds are included in the Department's annual Schedule of Expenditures of Federal Awards.

Response – The Department will implement a second review to ensure all federal funds are included.

Conclusion – Response accepted.

(3) Duplicate Drawdown – Drawdowns are performed bi-weekly and monthly. Bi-weekly estimates are based off prior fiscal year information to help ensure the Department is not over billing. Using the bi-weekly estimates, drawdowns are made from the U.S. Department of Health and Human Services. Using actual costs, monthly drawdowns are made drawing down the remaining amount of funds owed. During the year ended June 30, 2012, the Department requested one drawdown twice in error. This additional drawdown resulted in the Department receiving \$25,604 in federal funds in error.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2012

Recommendation – The Department should develop policies and procedures to ensure drawdowns are only requested once. In addition, the Department should implement procedures to ensure any excess draws are reimbursed to the Federal Government in a timely manner.

Response – The Department acknowledges this error. This amount was reduced in a later drawdown. The Department has implemented a change to its report which requires a reentry of this figure to ensure there are no duplicate drawdowns.

Conclusion – Response accepted.

- (4) Indirect Cost Allocation Plan – Federal grant agreements provide for indirect costs associated with the programs being funded. These indirect costs are calculated based upon several criteria including, but not limited to, costs of administrative divisions of the Department, such as the Fiscal Services Bureau, Information Services, the Director's office and office rental costs. These costs are allocated to the federal programs based upon the total salaries within the programs. The indirect cost allocation percentage for the state fiscal year 2012 is determined by state fiscal year 2010 expenditures.

For the fiscal year 2012 Indirect Cost Allocation Plan, the Department overstated rental income, and consequentially understated net rental expense, and understated the Director's Office expenses by a total of \$205,627. This understatement decreased the Department's indirect cost allocation rate by .5%. The miscalculation of the Department's Indirect Cost Allocation rate resulted in \$17,313 of lost federal revenues.

The Department used the fiscal year 2011 allocation rate of 13.2% instead of the approved fiscal year 2012 rate of 11.1%. Also, the Department drew down an additional \$311 due to this miscalculation.

Recommendation – The Department should develop and implement procedures to ensure the Department's Cost Allocation Plan is calculated correctly and provides the Department the maximum allowable resources to administer these programs. The Department should ensure all drawdowns from the federal government are based on the rates agreed upon between the Department and the federal government.

Response - The Department will implement a second review to ensure all expenses are included and the rental income and expenses are correct.

Conclusion – Response acknowledged. The Department should use the approved indirect cost rates.

**Findings Related to Statutory Requirements and Other Matters:**

No matters were noted.

Report of Recommendations to the Iowa Department of Inspections and Appeals

June 30, 2012

**Staff:**

Questions or requests for further assistance should be directed to:

James S. Cunningham, CPA, Manager  
Karen J. Kibbe, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

Jessica P. Green, Staff Auditor  
Robert W. Endriss, CPA, Assistant Auditor  
Stephen J. Hoffman, Assistant Auditor  
Benjamin P. James, Assistant Auditor