

# FISCAL UPDATE

August 9, 2004

## Legislative Services Agency

(515)-281-5279 FAX 281-8451

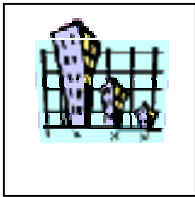
<http://staffweb.legis.state.ia.us/lfb>

### GROW IOWA VALUES FUND UPDATE

#### Iowa Values Fund

The Fiscal Services Division of the Legislative Services Agency (LSA) has compiled an overview of the activities for the Grow Iowa Values Fund through June 2004. On June 16, the Iowa Supreme Court ruled that since the Governor did not approve HF 692 (Taxation Changes, Grow Iowa Values, Regulatory Reform Bill) in its entirety, the Bill was vetoed.

#### Grow Iowa Values



During the 2003 Legislative Session, appropriations were made to and from the Grow Iowa Values Fund through FY 2010. House File 683 (Grow Iowa Values Fund Act) appropriated \$128.0 million over FY 2004 and FY 2005 to the Fund for various economic development programs. The dedicated revenue sources for the Fund included \$100.0 million anticipated to be received from the federal government and \$28.0 million estimated to be generated from implementation of the Streamlined Sales and Use Tax.

As required, the Fund would only receive sales tax revenue if the total revenue generated exceeded 2.0% growth compared to the previous fiscal year. The Fiscal Services Division's projections in January 2004 indicated the Fund could receive \$30.0 to \$40.0 million in FY 2006, which would not be available for expenditure until FY 2007. As a result, of the \$128.0 million appropriated over FY 2004 and FY 2005, only \$100.0 million (the federal funds received) would be available for expenditure. The allocations are listed below.

#### Strategic Marketing

Approximately \$7.0 million was allocated over FY 2004 and FY 2005 to the Department of Economic Development (DED) for the implementation and administration of a marketing strategy approved by the Marketing Board. The strategy was designed to market Iowa as a lifestyle, increase the State's population and the wealth of Iowans, and expand and stimulate the State's economy. The majority of this allocation has been awarded to the Integer Group to carry out the marketing strategy; however, as of May 31, 2004, only \$315,000 had been expended. The remaining obligations total \$6.7 million.

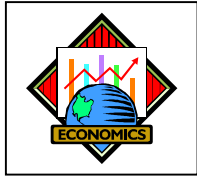
#### Economic Development

Approximately \$68.0 million was allocated over FY 2004 and FY 2005 for general programs administered by the DED. For each year the funds were allocated for this purpose, the Grow Iowa Values Board was required to allocate a percentage of the funds for business start-ups, expansion,

#### IN THIS ISSUE:

Grow Iowa Values Fund Update, pg. 1  
Appeal Board Pays Injured Worker, pg. 4  
Legislative Fiscal Committee Meeting, pg. 4  
Government Oversight Committee Mtgs., pg. 5  
FY 2004 Lottery Revenue/Expenditures, pg. 6  
Board of Regents Meeting, pg. 9  
College Student Aid Commission Mtg., pg. 10  
Dept. of Education Director Retires, pg. 11  
MH/DD Commission Meeting, pg. 11  
Medical Assistance Program Estimates, pg. 12  
MH System Redesign Progress Report, pg. 13  
Soil Conservation Committee Tour/Mtg., pg. 13

Highway Construction Contracts, pg. 14  
Audit Report – Iowa Civil Rights Commission, pg. 14  
Audit Report – Dept. of Corrections, pg. 15  
Audit Report – Dept. of Justice, pg. 16  
Audit Report – Dept. of Public Defense, pg. 16  
Audit Report – Co. Clerks of District Courts, pg. 18  
Audit Report – Dept. of Human Services, pg. 18  
Audit Report – Dept. of Public Health, pg. 21  
Audit Report – Dept. of Education, pg. 22  
Audit Report – Dept. of Human Rights, pg. 22  
Audit Report – Dept. of Natural Resources, pg. 24



modernization, attraction, retention, and marketing. Of the \$68.0 million, \$38.3 million has been awarded to 18 companies over FY 2004 and FY 2005; however, as of May 31, 2004, only \$6.0 million had been expended, with \$32.3 million in remaining obligations over the two fiscal years. Additionally, \$4.0 million was awarded for the Community and Economic Betterment Account (CEBA) Program and \$3.0 million was allocated for the Value-Added Agricultural Products and Processes Financial Assistance Program (VAAPFAP). Of the \$4.0 million allocated for CEBA, \$1.9 million has been awarded, but as of May 31, 2004, no funds had been expended. Of the \$3.0 million allocated for the VAAPFAP, \$2.8 million has been awarded, but only \$480,000 has been expended as of May 31, 2004.

**Financial Assistance**

Approximately \$10.1 million was allocated over FY 2004 and FY 2005 for institutions of higher learning under the State Board of Regents and for accredited private institutions for multiuse, goods manufacturing processes approved by the United States (U.S.) Food and Drug Administration, protein purification facilities for plant, animal, and chemical manufactured proteins; accelerating new business creation; innovation accelerators and business parks; incubator facilities; upgrading food and drug administration drug approval laboratories in Iowa City to a larger multiclient, goods manufacturing processes facility; crop and animal livestock facilities for the growing of transgenic crops and livestock, protein extraction facilities, containment facilities, and bioanalytical, biochemical, chemical, and microbiological support facilities; a national center for food safety and security; and advanced laboratory space.

**Assistance Awards**



The entire \$10.1 million has been awarded, but as of May 31, 2004, no funds had been expended, leaving \$10.1 million in remaining obligations. House File 683 specified amounts each of the Regents Institutions were to receive. Converting the dollar amount to a percentage of total funds allocated for this purpose, Iowa State University (ISU) and the University of Iowa would each be required to receive 40.0% of the total allocation and the University of Northern Iowa (UNI) would receive the remaining 20.0%. Therefore, of the \$10.1 million allocated, ISU and the University of Iowa were each awarded \$4.0 million and the UNI was awarded \$2.0 million.

**Loan and Credit Guarantee**

Approximately \$5.5 million was allocated over FY 2004 and FY 2005 for the Loan and Credit Guarantee Program. The Program, administered by the DED, was to assist qualified businesses with an annual average of 200 employees or less and targeted industry businesses to receive loan and credit guarantees. A Loan and Credit Guarantee Fund was created for payment of claims pursuant to loan and credit guarantee agreements entered into as specified in the legislation; for payment of the Department's actual and necessary administrative expenses of the Program; for purchase or buyout of superior or prior liens, mortgages, or security interests; and for purchase of insurance to cover the default of loans through the Program. The legislation also created the Loan and Credit Guarantee Advisory Board to work with the Department in administering the Program. Of the amount allocated, as of May 31, 2004, only \$12,000 had been awarded and expended for administrative costs. There are no future obligations for the Program. The Department has, however, received one or two applications for participation in the Program.

**Endowment Tax Credits**



In addition, the legislation allowed taxpayers to claim a tax credit equal to 20.0% of a taxpayer's endowment gift to a qualified community foundation.

The aggregate amount of tax credits authorized was not to exceed \$2.0 million, and an individual taxpayer's award was not to exceed 5.0% of the aggregate. Approximately \$155,000 has been allocated for this purpose over FY 2004 and FY 2005. As of May 31, 2004, the entire amount had been obligated. While only \$155,000 was allocated for the awarding of tax credits, the legislation allowed up to \$2.0 million dollars to be awarded for this purpose. As of May 31, 2004, the Department had issued \$1.2 million in Endow Iowa Tax Credits. The \$155,000 allocated for this purpose was intended to be transferred to the State's General Fund, which has not yet occurred.

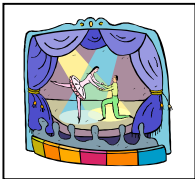
**Endow Iowa Grants**

The DED was also required to identify a lead philanthropic entity to encourage the development of qualified community foundations in the State. The Board of this entity would then be allowed to award Endow Iowa Grants to qualified community foundations and affiliate organizations, provided certain specified criteria were met. The Iowa Council of Foundations was awarded a contract as this entity, but the contract has not been signed. Approximately \$155,000 was allocated for this purpose. As of May 31, 2004, no funds had been awarded, and there are no obligations.

**State and Destination Parks**

The Department of Natural Resources, in cooperation with the DED, was to submit to the Grow Iowa Values Board an expenditure plan for the improvement of State and destination parks for economic development purposes. The plan was submitted, approved, and approximately \$476,000 was allocated for this purpose. The entire amount has been awarded, but as of May 31, 2004, no funds had been expended.

**Iowa Cultural Trust Fund**



The Department of Cultural Affairs was required to establish and administer a Cultural and Entertainment District Certification Program. The appropriation was to be used as an incentive to encourage the growth of communities through the development of areas within a city or county for public and private uses related to cultural and entertainment purposes. Cities and counties would be allowed to create cultural and entertainment districts. Approximately \$476,000 was allocated for the Program. The entire amount has been awarded and expended, and there are no remaining obligations.

**DED Funds**

A Workforce Training and Economic Development Fund was to be created for each community college for the following: Accelerated Career Education projects; Iowa Job Training projects under Chapter 260F, Code of Iowa; Career Academies; programs and courses that provide vocational and technical training, and programs for in-service training and retraining; and job retention projects. For the first three years an appropriation is made, an allocation of \$1.0 million must be set aside each year for job retention projects. Approximately \$7.8 million was appropriated over FY 2004 and FY 2005 for this purpose, with \$1.0 million set aside for job retention projects. Of the \$6.8 million appropriated for these funds, \$3.8 million has been awarded. As of May 31, 2004, \$3.0 million had been expended, leaving approximately \$800,000 in remaining obligations. The \$1.0 million set aside for job retention projects has not been awarded.

**Summary**



Of the \$100.0 million received from the federal government and appropriated to the Grow Iowa Values Fund, \$69.7 million has been awarded, of which \$10.7 million has been expended, and \$59.0 million remains in outstanding obligations. A total of 18 companies have been awarded direct Grow Iowa

---

Values Fund assistance totaling \$51.7 million over several fiscal years and have pledged to create 3,641 jobs and to retain 2,794. In addition, companies receiving awards totaling \$4.7 million from the CEBA and the VAAPFAP have pledged to create 615 jobs and to retain 366.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Russell Trimble (Ext. 14613)

---

**STATE APPEAL BOARD PAYS \$350,000 TO INJURED WORKER**

**Board Payment**



The State Appeal Board settled a personal injury case against the State, agreeing to pay \$150,000 in June and an additional \$200,000 in July to resolve a claim from an injury to an employee of Breiholz Construction on December 6, 2000. The employee was working on renovations to the Lucas State Office Building when his right hand was trapped in the freight elevator door.

**Injury**

As a result of the incident, the injured individual had his right middle finger amputated and has been diagnosed with chronic pain syndrome and depression. The federal Social Security Administration determined that he is totally and permanently disabled. The elevator was replaced as part of the renovation.

**State Contracts**

The Legislature may wish to review the indemnification language found in State contracts, which may be used to protect the State from injuries or damage arising from work situations or product liability.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

---

**LEGISLATIVE FISCAL COMMITTEE MEETING**

**Fiscal Committee**



The Legislative Fiscal Committee met on August 5 and conducted the following business:

- Heard presentations regarding a technology transfer from representatives of the Board of Regents institutions.
- Received information from the Department of Management, including:
  - The Governor's Executive Order 36, which restored a portion of the FY 2004 across-the-board reductions.
  - An explanation of the planned budgetary request and Governor's recommendation for FY 2006.
- Reviewed information regarding prison populations and costs with the Department of Corrections.
- Discussed the State's competitive bidding process with the following:
  - A representative of the General Services Enterprise, Department of Administrative Services.



- A representative of the Department of Administrative Services.
- Senator Mary Lundby, Co-chairperson, Legislative Oversight Committee.
- Reviewed the number of individuals choosing early-out retirement plans that were subsequently reemployed by the State with the Department of Administrative Services.
- Received an update regarding restoration of the Capitol from the General Services Enterprise, Department of Administrative Services.
- Received State revenue information from staff of the Fiscal Services Division, LSA.
- Received FY 2004 expenditure and FY 2005 budget information regarding the Medicaid Program and the Healthy and Well Kids in Iowa (*hawk-i*) Program from staff of the Fiscal Services Division, LSA.
- Reviewed FY 2004 and FY 2005 appropriations transfer information with the staff of the Fiscal Services Division, LSA.

### Next Meeting

The next meeting was not scheduled and the Committee is on call.

### More Information

Additional information is available from the LSA upon request. All handouts from the meeting are available on the LSA web site at:  
[http://staffweb.legis.state.ia.us/lfb/subcom/fiscal\\_comm/handouts.htm](http://staffweb.legis.state.ia.us/lfb/subcom/fiscal_comm/handouts.htm) .

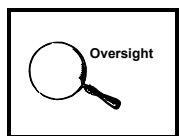
STAFF CONTACT: Sue Lerdal (Ext. 17794) David Reynolds (Ext. 16934)

## GOVERNMENT OVERSIGHT COMMITTEE MEETINGS

### Oversight Meetings

The Government Oversight Committee met in June and July.

### June Meeting



The following was discussed at the June meeting:

- The K-12 Laptop Computers Program and experiences in other states by Apple Computer, Incorporated.
- The Federal No Child Left Behind Act.
- Managing computer viruses, controlling spam email, and the LSA's continued receipt and analysis of Executive Branch data tapes.
- Governor's veto of HF 2514 (Dementia-Specific Care Alternatives Bill).
- State Liquor Warehouse functions.
- Privatizing the State Liquor Warehouse operations.
- House File 2521 (Health Insurance Study Bill).
- The Kansas City Small Business Administration.

### Subcommittees

The Competitive Bidding Subcommittee also met in June and presentations were provided by procurement representatives from the Regents Institutions and the federal General Services and Small Business Administrations. The Subcommittee will continue to meet through the 2004 Interim.

**July Meeting**

The following was discussed at the July meeting:

- The State's responsibility in certifying the annual budgets of local governments and school districts.
- Information on year-end balances as of June 30, 2004, and projected receipts for FY 2005.
- The State's long-range planning and budgeting activities.
- The sale of the Iowa Communications Network (ICN) from the perspective of the Governor's Office.
- Status update on Charter Agencies.
- Update on the State's implementation of the Help America Voting Act (HAVA).
- Update on the Blue Ribbon Elder Services Planning Group.
- Removal of deer carcasses from highways and roads.
- Update on activities in the Ombudsman's Office.
- Discussion of the Grow Iowa Values Fund.



**Subcommittee**

The Competitive Bidding Subcommittee also met in July.

**More Information**

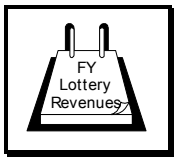
Additional information is available from the LSA upon request. The 2004 Interim Calendar may be accessed on the LSA web site at: <http://www.legis.state.ia.us/GA/80GA/Interim/2004/>. Copies of the agenda and handouts are also available on the LSA web site at: <http://staffweb.legis.state.ia.us/lfb/committee/oversight/oversight.htm>

STAFF CONTACT: Sam Leto (Ext. 16764) Douglas Wulf (Ext. 13250) Richard

Nelson (Ext. 2-5822)

**FY 2004 LOTTERY REVENUE AND EXPENDITURES**

**FY 2004 Rev./Exp.**



The FY 2004 Lottery game revenues through the month of June increased \$29.9 million compared to the FY 2003 level. Lottery prize expenses increased \$10.3 million; operating expenses increased \$2.6 million; and transfers to State funds increased \$7.7 million. The following table details revenues, expenditures, and balances of the State Lottery. Rows and columns may not add, due to rounding.

## STATE LOTTERY

July Through June  
(Dollars in millions)

	FY 2003	FY 2004	Increase/ Decrease	% Increase
Fiscal Year Beginning Balance	\$ 2.3	\$ 1.8	\$ -0.5	
Game Revenues	\$ 180.1	\$ 209.9	\$ 29.9	16.6%
Interest	0.7	0.5	-0.1	-21.0%
Total Revenue	\$ 180.7	\$ 210.4	\$ 29.7	16.4%
Prize Expense	\$ 104.2	\$ 114.5	\$ 10.3	9.8%
Operating Expense	38.0	40.6	2.6	6.7%
Transfer of Profits	39.0	55.8	16.8	42.9%
Total Expense	\$ 181.3	\$ 210.8	\$ 29.6	16.3%
June Ending Balance	\$ 1.8	\$ 1.4	\$ -0.4	

## Comparison to FY 2003

Fiscal year sales through June, compared to the same time period in FY 2003, were as follows:

- Instant ticket sales increased \$14.4 million (17.8%).
- Pick 3 sales increased \$608,000 (10.6%).
- Multi-State Powerball sales increased \$11.2 million (20.4%).
- Hot Lotto sales increased \$2.0 million (35.8%).
- Freeplay Replay sales decreased \$247,000 (76.2%).
- Daily Game sales increased \$201,000 (4.8%).
- Pull-tab sales decreased \$1.5 million (5.5%).



## Ticket Sales

The total Lottery sales were \$209.9 million through June, an increase of \$29.9 million (16.6%) compared to June 2003. The FY 2004 sales for the Instant Tickets, Pick 3, Powerball, Hot Lotto, and Daily Game were above sales for the same period in FY 2003.

## Vending Machine Sales

Ticket sales through Monitor Vending Machines began in May 2003 on a trial basis. The Machines had sales of \$1.1 million through June. The Statewide deployment of the Touch Play Machines began in May 2004. The net receipts from the Touch Play Machines were \$303,000 through June.

## Pick 4

Pick 4 sales began September 21, 2003, and replaced Freeplay Replay, with sales of \$1.7 million through June.

## Estimated Transfers

At the March 19 meeting, the Revenue Estimating Conference (REC) projected that FY 2004 Lottery profit transfers to the General Fund would

total \$54.9 million. Actual profit transfer for FY 2003 was \$47.4 million, including \$9.0 million from sales tax. The REC is currently estimating General Fund Lottery transfers will be \$7.5 million (15.8%) higher in FY 2004 than in FY 2003. The FY 2004 transfers payable to the General Fund were \$55.1 million through June, which is \$7.7 million (16.2%) above FY 2003.

**Lottery Transfer**



The REC also projected FY 2005 Lottery profit transfers to the General Fund will total \$55.7 million at the March 19 meeting. The REC is currently estimating General Fund Lottery transfers will be \$600,000 (1.1%) higher in FY 2005 than in FY 2004.

**Retained Earnings**

House File 655 (FY 2004 Administration and Regulation Appropriations Act) required the Lottery to deduct \$500,000 from calculated retained earnings before making Lottery proceeds transfers to the General Fund in FY 2004. This is a continuation from FY 2003 and the impact was a one-time increased transfer of \$500,000 during FY 2003. Unless legislation is enacted to continue the \$500,000 reduction in retained earnings, there will be a one-time reduction in the amount of funds transferred to the General Fund during FY 2005. The net impact of this accounting change is that the Lottery will need net earnings to increase \$1.1 million (2.0%) to reach the REC estimate for FY 2005 transfers to the General Fund.

**Unclaimed Prizes**

The proceeds transfers for FY 2003 included \$1.2 million from the sales amount for Iowa's share of an unclaimed Powerball ticket sold in Indiana.

**Freeplay Replay**

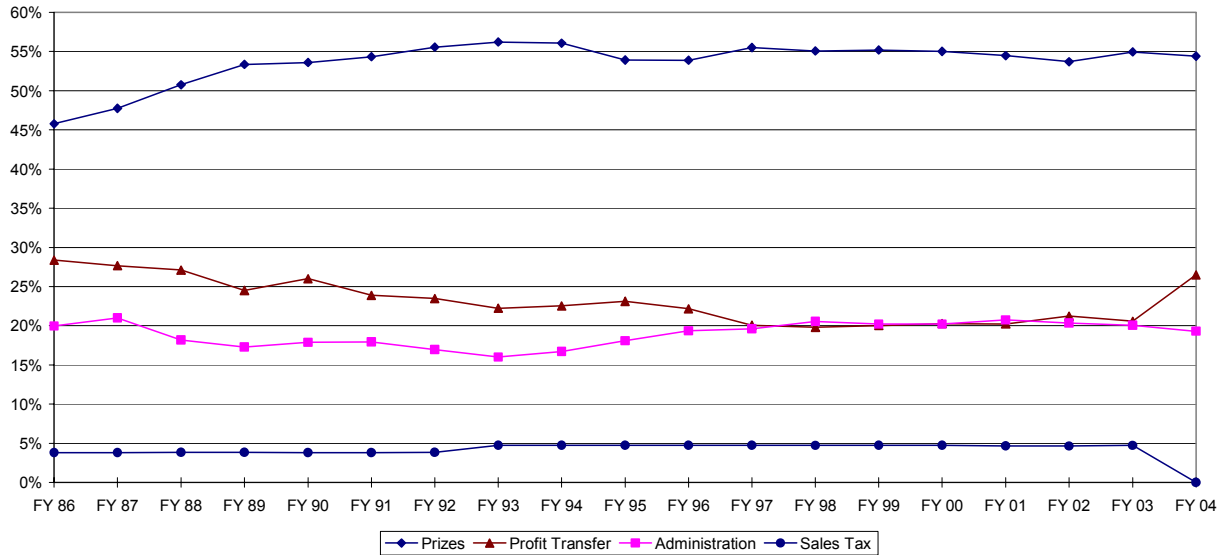
The proceeds transfers for FY 2004 included \$840,000 from unclaimed Freeplay Replay prizes and \$498,000 from unclaimed Powerball prizes.

**Expenditures**

The chart below shows what happens to an average dollar expended on a Lottery ticket in Iowa. For FY 2004, 54.4% was returned to the players as prizes, 19.3% was used to administer the Lottery (including retailer and vendor compensation), and 26.5% was transferred to the State as profit. House File 534 (Department of Administrative Services Act) eliminated the sales tax on Lottery sales beginning in FY 2004. The amount that was recorded, as sales tax, is now reported as part of the Lottery profit transfer. Percentages do not add to 100.0% due to changes in the Lottery's ending balance.



Lottery Expenditures as a Percent of Revenue



**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Ron Robinson (Ext. 16256)

**BOARD OF REGENTS MEETING**

**Board Meeting**



The Board of Regents met on August 3 and 4 at the Sioux City Convention Center. The following Committees met and significant agenda items included:

- Economic Development Committee. The Committee heard the following presentations related to economic development efforts:
  - Report of economic development activities by each of the Regents universities.
  - Director Blouin, Department of Economic Development, gave a presentation on the economic outlook for the State, including an update on the Grow Iowa Values Fund.
  - Dr. Walter Plosila, Battelle Memorial Institute’s Technology Partnership Practice, gave a presentation of the Battelle report, “The State of Iowa Biosciences Path for Development.”
  - Reviewed a report from the National Center for Higher Education Management Systems at the Iowa Coordinating Council for Post-High School Education. The Report reviews factors in the relationship between education and economic prosperity in Iowa.
- Audit and Compliance Committee. The Committee reviewed several completed internal audit reports and received updates regarding various internal audits currently in progress.



- University of Iowa Hospitals and Clinics Executive Board Committee. The Committee heard a report from Director Katen-Bahensky, received a strategic plan update, and received an update on Hospital operations, programs, and finances.
- Annual Student Aid Financial Report. Reviews the use of various forms of financial aid, including grants, loans, and employment. In 2002-2003, a total of \$619.8 million in student financial aid was awarded as follows:
  - Grants/scholarships - \$145.7 million (23.5%)
  - Loans - \$337.1 million (54.4%)
  - Employment - \$137.0 (22.1%)
- Annual Distance Education Report. Provides information regarding distance education activities at the Regents universities.
- Budget Ceiling Adjustments for FY 2004. The Board approved increases in the FY 2004 budget ceilings \$2.6 million. Of the total, \$1.5 million resulted from the Governor's restoration of a portion of the across-the-board reduction ordered in October 2003. The remainder of the increase, totaling \$1.1 million, resulted from additional sales and service revenue at the University of Iowa Hospitals and Clinics.
- Conceptual FY 2006 Operating Appropriations Priorities. No specific dollar amounts were discussed. The highest priority for the Regents institutions will be funding for salaries and inflationary increases.

**Next Meeting**

The next meeting is scheduled for September 14-15 at the University of Iowa in Iowa City.

**More Information**

Additional information is available from the LSA upon request. The full text of the agenda and docket items is available on the Board's web site at: <http://www2.state.ia.us/regents/Meetings/meetings.html>.

STAFF CONTACT: Mary Shipman (Ext. 14617)

---

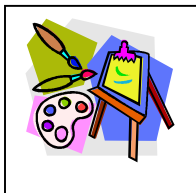
**COLLEGE STUDENT AID COMMISSION MEETING**

**Commission Meeting**



The College Student Aid Commission met on July 20. Significant agenda items included:

- Election of officers. All current officers were re-elected, including Michelle Durand-Adams, Chair; Jim Crawford, Vice Chair; and John Hartung, Secretary/Treasurer.
- Approval of an agreement with the Department of Education for the provision of the Iowa Career Information Delivery System. The System is supported by user fees and provides career counseling and information to educators and students.
- Approval of FY 2005 federal Leveraging Educational Assistance Partnership (LEAP) Program funding. The Commission will receive \$348,000 in FY 2005. All funds received will be allocated to the Iowa Grant Program.
- Approval of postsecondary registrations for the Viterbo University Master of Arts in Education and a one-year approval for the University of St. Francis of Joliet, Illinois.



- Approval of proposed budget recommendations for FY 2006. The Commission approved the following preliminary recommendations:
  - \$2.8 million compared to the FY 2005 funding level to reinstate funding for the Program. This is a standing appropriation that has been nullified by the General Assembly and the Governor for the last four years. The Program was last funded in FY 2001 in the amount of \$2.8 million.
  - \$48.8 million for the Tuition Grant Program. This is an increase of \$1.7 million compared to the FY 2005 funding level. This level of funding is estimated by Commission staff to allow full funding of the \$4,000 statutory maximum awards.
  - \$2.7 million for the Vocational-Technical Tuition Grant Program. This is an increase of \$135,000 compared to the FY 2005 funding level. The Commission staff estimates this funding level will serve an additional 150 students.
  - \$100,000 for the Osteopathic Forgivable Loan Program. This is an increase of \$50,000 compared to the FY 2005 funding level.
- Authorized the Personnel Committee to employ a search firm to assist in finding a replacement for Executive Director Gary Nichols. Nichols plans to retire during 2005.

**Next Meeting**

The next meeting is scheduled for September 21.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Shipman (Ext. 14617)

**DEPARTMENT OF EDUCATION DIRECTOR RETIRES****Retirement Announced****Interim Director**

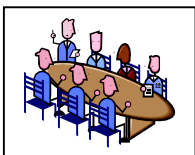
On August 3, the Governor announced the retirement of Ted Stilwill as the Director of the Department of Education, effective August 12. Director Stilwill has held the position since 1995. Governor Vilsack expressed regret upon accepting the resignation.

Judy Jeffrey will serve as the Interim Director. She is currently the Division Administrator of the Department's Early Childhood, Elementary, and Secondary Education and will assume the additional responsibilities while the Governor conducts a nationwide search for a permanent replacement.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

**MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES COMMISSION MEETING****Commission Meeting**

The Mental Health, Mental Retardation, Developmental Disabilities, and Brain Injury Commission met on July 15 and conducted the following business:

- Approved various accreditations of facilities.

- Heard a presentation regarding the Child System Design Oversight Committee.
- Heard a presentation regarding the Child Welfare Redesign.
- Received updates regarding the eight Adult Redesign Teams.

**Next Meeting**

The next meeting is scheduled for August 19 at Iowa Lutheran Hospital in Des Moines.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

---

**FY 2004 AND FY 2005 MEDICAL ASSISTANCE PROGRAM ESTIMATES**

**Medicaid Estimates**

Staff members from the Department of Management, the Department of Human Services (DHS) and the Fiscal Services Division of the LSA met on July 29 to discuss estimated expenditures for the Medical Assistance (Medicaid) Program for FY 2004 and FY 2005. The staffs meet monthly to discuss estimated expenditures for the current fiscal year and to agree on a range for expenditures.

**FY 2004**



The three staffs agreed to an estimated range of a deficit of \$200,000 to \$4.4 million for FY 2004. The estimate accounts for the increased funding due to the federal Fiscal Relief for Medicaid, but does not include three items projected to result in \$5.7 million in savings for FY 2004, including savings initiatives enacted in HF 2134 (Medicaid Changes Act).

**Potential Savings**

The items have not been included in the ranges to date since it is uncertain whether the changes will be implemented in time to result in savings for FY 2004. Recent actions, such as the approval of a State Plan Amendment, indicate more certainty that these items will be implemented prior to the close of FY 2004 on August 30. The three items and the current status are discussed below:

- Expansion of the Intermediate Care Facilities for Mental Retardation (ICF/MR) provider fee to include the State Resource Centers. The State Plan Amendment has been approved. Some technical system changes need to be made. The estimated FY 2004 savings is \$2.6 million.
- Expansion of eligibility for the State Supplementary Assistance Program for a specific population in the Buy-In Program. The State currently pays 100.0% in State funds for the Medicare premiums for this group. The change will allow federal match to be drawn down for these premiums. Some system changes are still required. The estimated FY 2004 savings is \$2.8 million.
- Drawing federal match for exceptions to policy. When the DHS allows coverage for a service under an exception to policy, federal match was not previously claimed. The DHS has determined it is allowable to draw down the federal match. The estimated FY 2004 savings is \$300,000.



**Savings**

If savings from all three initiatives are achieved, the estimated range for FY 2004 is a surplus of \$1.3 to \$5.5 million. The previous range was a deficit of \$5.0 million to a surplus of \$3.0 million.

**FY 2005**

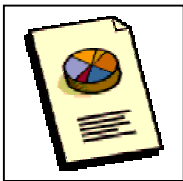
When the FY 2005 Medicaid budget of \$568.5 million was enacted, it was discussed that the funding was not likely to cover all costs. A shortfall for FY 2005 is projected, with an agreed-upon range of \$32.0 to \$64.0 million compared to the FY 2005 appropriation. The previous shortfall range for FY 2005 was \$30.0 to \$60.0 million.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Vermeer (Ext. 14611)

---

**MENTAL HEALTH SYSTEM REDESIGN PROGRESS REPORT**
**Progress Report**

The Mental Health, Mental Retardation, Developmental Disability, and Brain Injury Commission released the required Progress Report in July. The Report indicates that various work teams have been created to plan for the implementation of the December 2004 Redesign Report recommendations. The Report also outlines the progress on the Child Mental Health and Developmental Disability System Redesign. A copy of the Report is available on the LSA web site at:

[http://staffweb.legis.state.ia.us/lfb/subcom/human\\_serv/interim\\_2004.htm](http://staffweb.legis.state.ia.us/lfb/subcom/human_serv/interim_2004.htm)

**.More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

---

**STATE SOIL CONSERVATION COMMITTEE HOLDS TOUR AND MEETING**
**Conservation Committee**

The State Soil Conservation Committee sponsored a tour of various conservation projects in northeast Iowa on July 29 and held the monthly meeting on July 30. Representative Chuck Gipp was in attendance on July 30.

**Conservation Tour**

The tour included discussion of the following:

- Improvements made to the Bear Creek Watershed that included a demonstration by the Department of Natural Resources (DNR) on the increased number of trout in the area. The DNR, in conjunction with other local groups, has installed wooden bankside structures that have stabilized the stream banks and improved the water quality.
- A tour of Heritage Farms and a presentation by the founder, Kent Whealey. Heritage Farms began in 1975 and is a non-profit organization that preserves and sells heirloom seeds.
- An overview of the conservation programs in Allamakee County and the problems with sinkholes. The region's karst terrain makes the groundwater more vulnerable to contamination.
- A tour of the Springdale Gardens located near Postville and owned by Lee and Ruth White. The gardening and conservation project began in 1989.

**Committee Meeting**

The Committee met on July 30 and discussed the following:

- Lyle Asell, DNR, discussed the federal Grassland Reserve Program and indicated that Iowa will receive a limited amount of funding due to the decreased

---

number of acres of grassland in the State. It is estimated there are 4.0 million acres of Iowa grassland.

- Martin Adkins, Natural Resources Conservation Service (NRCS), discussed the Wetlands Reserve Program and explained that fewer acres have been placed into permanent easements as farmland values increase.
- Dean Lemke, Department of Agriculture and Land Stewardship (DALs), discussed the Conservation Reserve Enhancement Program (CREP) that was implemented to reduce nitrate levels. Currently, there are three sites that have been constructed, 31 sites in construction stages, and 13 new sites that recently had contracts signed. One concern is the federal Corps of Engineers may be changing the construction permit process from a general permit to individual permits for each project. This would increase the project timeline by 90 days.
- Bill Ehm, DALs, informed the Committee that all secretarial positions in the Soil and Water Conservation District Offices are filled. Ehm also discussed future legislative conservation tours that will showcase conservation projects completed by the Department. There was a general discussion on funding Commissioners' expenses and whether the funding should be from the General Fund or the Environment First Fund. The discussion included comments from Committee members and Soil and Water Commissioners.

**Next Meeting**

The next meeting is scheduled for September 4 in Des Moines.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Debra Kozel (Ext. 16767)

---

**HIGHWAY CONSTRUCTION CONTRACTS**

**Highway Contracts**



The Department of Transportation (DOT) notifies the Fiscal Services Division, LSA, of all highway construction contracts in excess of \$5.0 million. A contract totaling \$7.5 million was awarded in July to United Contractors, Incorporated; and Jensen Construction of Johnston, Iowa, for the following I-235 projects in Des Moines:

- \$4.4 million to grade and replace the 63<sup>rd</sup> Street Interchange.
- \$2.2 million to replace the 63<sup>rd</sup> Street bridge.
- \$570,000 to widen the bridge at Cummins Parkway.
- \$262,000 to replace traffic signals at the 63<sup>rd</sup> Street Interchange.
- \$104,000 to replace street lights at the 63<sup>rd</sup> Street Interchange.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

---

**AUDIT REPORT – IOWA CIVIL RIGHTS COMMISSION**

**Audit Report**



The State Auditor released the FY 2003 Audit Report for the Civil Rights Commission. There was one reportable finding related to internal control:

- There are no written policies for password protection, confidentiality, and a disaster recovery plan for computer-based systems. The Commission

responded that it is developing an agreement with the Information Technology Enterprise, Department of Administrative Services, for administration of the computer system, which will address issues raised by the Audit.

### Board Meetings

The Commission was also not in compliance with Section 69.15, Code of Iowa, regarding attendance of Commissioners at Board meetings. The attendance of three of seven members did not comply with the law. The Commission responded that the meeting schedule has been changed to accommodate Board members, and improved attendance is anticipated in FY 2004.

### GAAP Reporting

The Commission was not in compliance with Generally Accepted Accounting Principles (GAAP) regarding the reporting of unearned revenue in the GAAP package. The Commission responded that it understands the error and steps have been taken to ensure correct reporting of such revenue.

### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

## AUDIT REPORT – DEPARTMENT OF CORRECTIONS

### Audit Report



The State Auditor issued the FY 2003 Audit Report for the Department of Corrections' (DOC) Central Office. Findings related to internal control procedures included:

- The Department has not been completing certain sections of the Generally Accepted Accounting Principles (GAAP) package. No independent review of the GAAP package is completed before it is submitted to the Department of Administrative Services. The Department responded that it would take steps to try to comply, but continuing staff shortages cause some internal control problems.
- The Department should implement procedures to ensure revenues and expenditures are reported in the proper accounting period. Federal receipts of \$244,000 earned in FY 2004 were recorded in FY 2003, while \$78,000 in federal expenditures incurred in FY 2003 were not recorded until FY 2004. The Department responded it would make every effort to comply with GAAP principles.

### Statutory Requirements



The Department was not in compliance with the following statutory requirements:

- Section 905.4, Code of Iowa, requires each Community-Based Corrections (CBC) District Department to file certain financial reports with the Board of Supervisors of each county within the judicial district and the DOC within 90 days of the close of the fiscal year. The Department does not require District Departments to submit these reports until December 15. The Department responded that it may request legislation to move the statutory due date to a later time.
- Section 8D.10, Code of Iowa, requires each State agency that uses the Iowa Communications Network (ICN) to file a report with the General Assembly by January 15 for the previous year. The report is to include the savings associated with using the ICN. The Department did not submit the report for FY 2003 by the due date. The Department responded it will comply with this section in the future.

**Prison Industries**

The Audit Report for Iowa Prison Industries was also issued. The Auditor reported no findings related to the Agency's internal control procedures, compliance with statutory requirements, or other matters.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

---

**AUDIT REPORT – DEPARTMENT OF JUSTICE**

**Audit Report**



The State Auditor issued the FY 2003 Audit Report for the Department of Justice. Findings related to internal control procedures included:

- Segregation of duties:
  - Attorney General's Office: The initial receipt list is not compared to the amounts recorded in the Iowa Finance and Accounting System (IFAS) by an individual independent of recording and depositing receipts. The Office responded that an independent administrative staff member will compare the original receipt to receipts recorded in IFAS.
  - Office of the Consumer Advocate and Prosecuting Attorneys Training Council: Responsibilities for receipt collection, deposit preparation, and reconciliation functions are not separate from those of recording receipts. The Office responded that procedures have changed to comply with the Auditor's recommendation.
- Subrecipient monitoring: The Crime Victim Assistance Division is required to perform site visits at least once every three years for each grantee. Three of five selected grantees had not been visited within the last three years. The Department responded that it would perform site visits at least every three years. There were extenuating circumstances in FY 2003 (implementing new computer software and administering an additional federal grant) that interfered with the usual site visit schedule, but the Department is correcting this problem.
- Statutory matters:
  - Section 537.6104(5), Code of Iowa, requires an annual report regarding the administration of the Consumer Credit Code. The Report has not been made to the General Assembly for several years. The Department responded that it intends to request that the General Assembly eliminate this reporting requirement.
  - Section 8D.10, Code of Iowa, requires each State agency that uses the Iowa Communications Network (ICN) to file a Report with the General Assembly by January 15 for the previous year. The Report is to include the savings associated with using the ICN. The Department did not submit the Report for FY 2003 by the due date. The Department responded that it will comply with this section in the future.



**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

---

**AUDIT REPORT – DEPARTMENT OF PUBLIC DEFENSE**

**Audit Report**



The State Auditor issued the FY 2003 Audit Report for the Department of Public Defense. The following were some of the findings from the Report.



The Auditor accepted the Department's responses for corrective action on the findings unless noted.

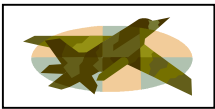
### CIVIC Investigation

Beginning in fall of 1999, there was a cooperative agreement entered into between the National Guard Bureau and the State for a Consolidated Interactive Virtual Information Center (CIVIC). The CIVIC Program was supported by the Iowa Technology Center (ITC), an entity formed by the Department of Public Defense and International Simulation & Training Systems (ISTS) through the use of a 28E Agreement. The Program ended in September 2002 due to questions involving contractor reimbursements and is currently under investigation by the Defense Criminal Investigative Service, Department of Defense of the Inspector General. Costs of \$1.5 million under the Cooperative Agreement for the quarter that ended September 30, 2002, are being questioned.

### CIVIC Recommendation

The Auditor recommended the Department of Public Defense continue to work with the Attorney General's Office to resolve the matter. To strengthen controls, the Department should identify risk factors associated with vendor contractors and require detailed documentation. The Attorney General's Office is currently involved in a contracting review with Defense Criminal Investigative Services. The findings and agreements will be implemented in future agreements involving the Department of Public Defense.

### Cooperative Agreements



The State Fiscal Office, Military Division, does not always receive the cooperative agreement modifications prior to exceeding approved funding. The Auditor's Office recommended that the State Fiscal Office ensure the receipt of copies of the master cooperative appendices and monitor disbursements to ensure they do not exceed authorized amounts. The Military Division's fiscal staff is working with the United States (U.S.) Property and Fiscal Office to develop procedures to ensure requirements are met. The response was acknowledged and will be reviewed during the next Audit.

### Reimbursement

States are required to expend State funds prior to requesting reimbursement from the federal government. If it is not feasible for the State to expend funds prior to requesting federal reimbursement due to the large amount of the expenditures, the State should work with the U.S. Property and Fiscal Office to begin receiving federal funds on an advance basis. The Military Division developed new reports to ensure compliance with the federal regulations and the new procedures should be in place by October 2004. The response was acknowledged and will be reviewed during the next Audit.

### Construction Contracts

According to Section 18.6(9), Code of Iowa, when the estimated cost of construction, erection, demolition, alteration, or repair of a public improvement exceeds \$25,000, the Department is required to solicit bids on the proposed improvement by publishing an advertisement in print format. The Military Division has policies and procedures in place, but on two incidents these were not followed. The staff involved has been counseled on the proper policies and procedures. The Division will comply with this Section of the Code in the future.

### Receivables and Payables



Expenditures totaling \$196,000 incurred prior to June 30, 2003, were included as payables for FY 2004 rather than FY 2003. Receivables of \$91,000 earned prior to June 30, 2003, were not included in FY 2003 activity but were recorded as FY 2004 revenue. These items were resolved for audit

purposes. The Department will increase oversight by the State Comptroller to ensure that staff follows recording policies.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Acton (Ext. 17846)

---

**AUDIT REPORT – COUNTY CLERKS OF DISTRICT COURTS**

**Audit Report**



The State Auditor issued the FY 2003 Audit Report for the County Clerks of District Courts. The following were some of the findings from the Report. The Auditor accepted the Department's responses for corrective action for each of the findings.

**Timely Deposits**

The Auditor found that receipts were not being deposited on a daily basis. The Judicial Branch Accounting Procedures Manual requires that receipts be deposited at the close of each business day. The Judicial Branch will work with counties to ensure that timely deposits are made in the future.

**Court-Ordered Trusts**

One county had approximately \$82,000 of interest earned on certain court ordered trusts that was not posted to the Iowa Court Information System (ICIS). The Judicial Branch will work with this county to ensure that interest on trusts is posted to the ICIS in the future.

**Bank Signature Cards**

In three counties, individuals that retired or were terminated were still listed as authorized users on bank accounts. All bank signature cards have been updated.

**Settlement of Accounts**

Certain fines, fees, and surcharges were not remitted to the State, to cities, and to counties as required by Sections 602.8108 and 602.8109, Code of Iowa. Due to major staff reductions, it has been more difficult for Clerks of Court offices to meet the monthly report deadline. The clerks will continue to try to meet the deadline in a timely fashion.

**Old Trusts and Bonds**



Section 556.11, Code of Iowa, requires Clerks of Court to report and remit outstanding obligations, including checks, trusts, and bonds held for more than two years, to the State Treasurer's Office on an annual basis. Certain counties did not remit these obligations. The procedures will be reviewed to ensure annual reports are remitted to the Treasurer's Office as required.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Acton (Ext. 17846)

---

**AUDIT REPORT - DEPARTMENT OF HUMAN SERVICES**

**Audit Report**

The State Auditor issued the FY 2003 Audit Report for the Department of Human Services (DHS). The Report commented on the following issues:

**Field Office**

**DHS Field Office Internal Controls** – Several field office staff responsible for transmittal of receipts were also responsible for the validation of transmittal.



- Recommendation – The DHS should strengthen internal control and procedures to comply with the employee manual.

- Response – The DHS staff will revise the requirements and separate the duties regarding transmittal and verification of receipts.
- Conclusion – Response accepted.

### Subsidy Payment

**Adoption Subsidy Overpayment** – The DHS made adoption subsidy payments to children’s families while the children were residing at the Eldora Training School or the Toledo Juvenile Home, resulting in duplicate assistance.

- Recommendation – The DHS should enforce procedures regarding duplicative assistance and implement recoupment procedures for overpayments.
- Response – The DHS indicated training and a system entry for placements at Eldora and Toledo will take place.
- Conclusion – Response acknowledged while recommending recoupment for overpayments.

### Child Support



**Child Support Enforcement Referral** – The DHS did not totally comply with a timeframe requirement referring a child support case to another state after determination of location of a non-custodial parent.

- Recommendation – The DHS should comply with the federal requirement of referring an interstate child support case within 20 calendar days.
- Response – The DHS has directed staff to reprioritize work so the requirement timeframes are met.
- Conclusion – Response accepted.

### Foster Care Plans

**Foster Care Case Plans** – The DHS did not totally comply with foster care timeframes in development of case plans or re-evaluation of the case plans.

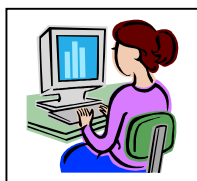
- Recommendation – The DHS should enforce procedures regarding development of foster care case plans and six-month evaluations of the plans.
- Response – The DHS indicated additional DHS staff training will take place and discussion with the juvenile court services case plan requirements will also take place.
- Conclusion – Response accepted.

### Foster Care Subsidy

**Foster Care Adoption Subsidy** – The DHS did not totally comply with the timeframes for reevaluations of a subsidy agreement plan nor adjustments in subsidy rates based upon the age of the child.

- Recommendation – The DHS should implement procedures regarding timeframes for review of subsidy agreements and adjustments to a foster care subsidy.
- Response – The DHS indicated reminders will be set in place for review of timeframes and a general reminder to staff regarding the policy will be issued.
- Conclusion – Response was acknowledged and accepted.

### Segregation of Duties



**Separation of Duties** – The DHS incurred employee initiating and approving a timesheet in lieu of segregation of those duties.

- Recommendation – The DHS should separate duties so the same individual does not initiate and approve the same transaction.
- Response – The DHS indicated action will take place to implement an alternate approval process to eliminate consecutive levels of approval.
- Conclusion – Response accepted.

**Assistance Payments**

**Child Care Assistance Payments** – A DHS employee created fraudulent invoices for the Child Care Assistance Program.

- Recommendation – The DHS should ensure payment controls are in place and operating effectively.
- Response – The DHS indicated that procedures were implemented in December 2002 after the identification of unauthorized child day care payments occurred in June 2002.
- Conclusion – Response accepted.

**Employee Access**



**Former Employee Access** – The DHS has not always revoked the user access of former employees.

- Recommendation – The DHS should revoke the access of former employees in a timely manner.
- Response – The DHS has altered the procedure order in which access is revoked, resulting in deletion of user access and subsequent notification of the Supervisor of the former employee.
- Conclusion – Response accepted.

**Software Access**

**System Software Access** – The DHS did not restrict certain personnel to having the ability to update certain software.

- Recommendation – The DHS should restrict certain employees from having update access to system software.
- Response – The DHS indicated the recommended change is being implemented.
- Conclusion – Response accepted.

**Capital Assets**

**Inventory of Capital Assets** – The DHS did not maintain an up-to-date inventory of various real and personal property.

- Recommendation – The DHS should develop procedures for an accurate inventory of all real and personal property for the Department.
- Response – The DHS indicated that proper documentation should be available.
- Conclusion – Response accepted.

**Statutory Compliance**

**Code Compliance** – It was noted that for two organizational references within the Code of Iowa, the Department did not comply.

- Recommendation – The DHS should either comply with the statutory provisions or seek repeal of outdated sections of the Code of Iowa.



### In-Home Health Care

- Response – The DHS indicated the Department will seek deletion of one of the sections and will work with the Code Editor on changes that reflect the current Departmental structure.
- Conclusion – Response accepted.

**Review of In-Home Health Care Services** – The DHS did not totally comply with the Administrative Rules specifying certain review times of in-home health care services.

- Recommendation – The DHS should implement procedures to review in-home health care services to ensure compliance with the Administrative Rules.
- Response – The DHS indicated a corrective plan of action will be put into place regarding the reviews and the value and frequency of the reviews.
- Conclusion – Response accepted.

### More Information

Additional information is available from the LSA upon request. A copy of the Report is available on the LSA web site at:

[http://staffweb.legis.state.ia.us/lfb/subcom/human\\_serv/interim\\_2004.htm](http://staffweb.legis.state.ia.us/lfb/subcom/human_serv/interim_2004.htm)

STAFF CONTACT: Sue Lerdal (Ext. 17794) Lisa Burk (Ext. 17942)  
Jennifer Vermeer (Ext. 14611)

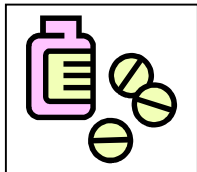
## AUDIT REPORT – DEPARTMENT OF PUBLIC HEALTH

### Audit Report



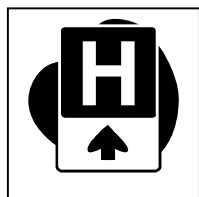
The State Auditor issued the FY 2003 Audit Report for the Department of Public Health. The Auditor accepted the Department's response for corrective action for each of the findings, which are outlined below.

- Audit Report Comments:
  - The Department did not have adequate segregation of duties in the Immunization Program so the same individual is not responsible for inventory and the recording of inventory. The Department response included the description of several activities that have been implemented to address the concern.
  - The Department did not address if proper safeguard measures were established to avoid the risk of loss from theft during subrecipients monitoring visits for federal immunization grants. The Department responded that a question will be added to the site visit questionnaire and the Quality Assurance Training Manual and staff will be trained accordingly.
  - The Department did not maintain the minimum level of effort required by federal block grants for prevention and treatment of substance abuse. The Department responded that a waiver was requested and received for a subsequent year grant, and that the Governor's Office, Legislature, and the Department of Management were informed of the potential loss of federal funds due to State budget reductions.
- Findings Related to Internal Control:
  - The Department had one employee that could initiate and approve payroll transactions on the Human Resource Information System (HRIS). The Department responded that in instances when this occurs, staff entering the information will now enter remarks on the HRIS to provide additional information. Personnel staff will also check timesheets to ensure that



proper approvals and remarks have been entered for all employee timesheets.

- The Boards of Dental and Pharmacy Examiners generally had one individual with the responsibility for receiving cash, preparing deposits, reconciling bank and book balances, and recording and accounting for cash receipts. Both Boards responded by revising internal controls to address the issue.
- The Board of Medical Examiners had one employee with the capability to order, approve, record, and receive supply purchases. The Board responded that the number of staff involved in the purchasing process were increased to ensure adequate segregation of duties.
- The Department did not reconcile the receiving log and the summary reports submitted by hospitals for birth certificates issued. The Department responded that two staff were reassigned in May 2004 to ensure the information is reconciled in a timely manner.
- The Department did not conduct monitoring visits of federal Bioterrorism grant subrecipients in FY 2003. The Department responded that visits have been scheduled and were being conducted.
- The Department records capital assets on Asset Manager, but did not reconcile additions per Asset Manager to current year equipment purchase expenditures. The Department responded that the reconciliation was not prepared in FY 2003 due to time limitations; however, in the future, the procedure will be prioritized to ensure preparation.



**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

---

**AUDIT REPORT – DEPARTMENT OF EDUCATION**

**Audit Report**



The State Auditor issued the FY 2003 Audit Report for the Department of Education. There were five findings regarding procedures for handling and monitoring federal funds. For three of the findings, the Auditor accepted the Department's response that corrective action had been taken.

**Teacher Quality Grants**

Two other findings related to application approval and subrecipient monitoring for Improving Teacher Quality State Grants. While the Department indicated that corrective action has been or is being taken, the Auditor indicated that more was needed. The Auditor noted that application review is now being documented, but documentation of approval is still lacking.

**Audit Reports**

In regard to subrecipient monitoring, the Auditor indicated that relying upon annual audits performed on local school districts was not sufficient, since less than 10 districts received the bulk of program funds. The Auditor recommended monitoring throughout the program year.

**Service Contracts**

The Report also included one finding regarding the Department's handling of service contracts. The problems identified included:

- Lack of documentation to demonstrate cost-benefit analyses for services that could be performed internally.



- Contracts not approved prior to the date of execution.
- Sole-source contracts that did not meet the Department of Revenue criteria.
- Pre-contract questionnaires completed after the contract was approved or never completed.
- Scope of work descriptions that were too vague to determine whether intended objectives were met.
- Contract amendments that were not timely or lacked proper documentation.

### Response

The Department responded that procedures have been published, implemented, and reviewed by all staff. The Department's contract team continues to identify areas for improvement and refine procedures. The Auditor accepted the Department's response.

### Statutory Compliance

In addition, the Report found that the Department has not established the Administrative Advancement and Recruitment Program as required by Section 256.23, Code of Iowa. The Department responded that no funding has been appropriated for the Program. The Auditor recommended that the Department obtain funding or seek to have the statute eliminated.

### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Robin Madison (Ext. 15270)

## AUDIT REPORT – DEPARTMENT OF HUMAN RIGHTS

### Audit Report

The State Auditor issued the FY 2003 Audit Report for the Department of Human Rights. The Auditor accepted the Department's response for corrective action on each of the findings, which are outlined below.

### Cash Management



The Report recommended that the Department develop and implement procedures to ensure proper draw down and disbursement of federal funds. The report indicated that the Department's accounts for the Low-Income Home Energy Assistance Program (LIHEAP) reflected excessive daily balances that are counter to the requirements of the federal Cash Management Improvement Act (CMIA).

### Recommendation

The Report recommended that the Department closely monitor cash balances of subrecipient Community Action Agencies (CAAs) to ensure compliance with the proper request and disbursement of federal funds in accordance with CMIA guidelines. The Report indicated that the CAAs reflected month-end cash balances of the LIHEAP funds.

### Statutory Requirements



The following findings were related to statutory requirements:

- The Report recommended the Department continue efforts to encourage Commission and Council members' attendance at meetings and work with the Governor's Office to fill vacancies. Instances were noted regarding lack of attendance at meetings as required by Section 69.15, Code of Iowa, and vacancies on some Commissions.
- The Report recommended the Department implement procedures to ensure the Commission of Latino Affairs meet in compliance with Sections 216A.13 and

216A.15(6), Code of Iowa. During FY 2003, the Commission met four times versus the required six.

- The Report recommended the Department implement procedures to ensure the Commission on the Status of African-Americans is in compliance with Sections 216A.146(9) and 216A.149, Code of Iowa, regarding conducting surveys. During FY 2003, no surveys were conducted to ascertain the needs of African-Americans.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Sam Leto (Ext. 16764)

---

**AUDIT REPORT – DEPARTMENT OF NATURAL RESOURCES**

**Audit Report**

The State Auditor issued the FY 2003 Audit Report for the Department of Natural Resources (DNR).

**Reportable Conditions**

The Report commented on the following issues:

**Water Reports**



**Audit Reports Not Received** – The DNR has not received all of the required audit reports from recipients as specified in the Drinking Water State Revolving Fund and for the Clean Water State Revolving Loan Fund.

- Recommendation – The DNR should develop written policies to ensure required audit reports are received.
- Response – The DNR does receive the required audit reports; however, sometimes the reports are late. The DNR notifies the recipient when a report is not received.
- Conclusion – Response acknowledged.

**Interest Rates**



**Solid Waste Alternatives Program** – The DNR does not always properly calculate the interest due on loans in the Solid Waste Alternatives Program.

- Recommendation – The DNR should develop written procedures for computing interest rates on low-interest loans.
- Response – The DNR outlined the various rules and procedures regarding interest rates on loans that are forgivable, zero interest, three percent, or a combination of these.
- Conclusion – Response acknowledged.

**Other Findings**

Other findings related to statutory requirements included:

- Comprehensive Plans for Management of Hazardous Waste – Section 455B.412(1), Code of Iowa, states the DNR will develop a comprehensive plan for management of hazardous waste. The DNR has not complied.
- Comprehensive Groundwater Monitoring Network – Section 455E.8(1), Code of Iowa, states the DNR will develop a comprehensive groundwater monitoring network in cooperation with soil and water conservation district commissioners and other State and local agencies. The DNR has not complied.
- Registry of Hazardous Waste or Hazardous Substance Disposal Sites – Section 455B.426(2), Code of Iowa, states the DNR will investigate all known or





suspected hazardous waste or hazardous waste disposal sites and determine if they should be registered. The DNR has not investigated all sites.

- Iowa Communications Network Report – Section 455D.20, Code of Iowa, specifies an annual report stating the savings from using the Iowa Communications Network (ICN) should be prepared. The DNR did not submit the report by the required date.
- Comprehensive Groundwater Monitoring Network – Section 455E.8, Code of Iowa, requires the Department to develop a comprehensive groundwater monitoring network. The network has not been developed.
- Statewide Building Energy Efficiency Rating – Section 473.40I, Code of Iowa, specifies the DNR should adopt rules that establish a Statewide building energy efficiency rating system. Rules have not been adopted for this system.

### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Debra Kozel (Ext. 16767)

This document can be found on the LSA web site:  
<http://staffweb.legis.state.ia.us/lfb/fupdate/fupdate.htm>