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NEWS RELEASE

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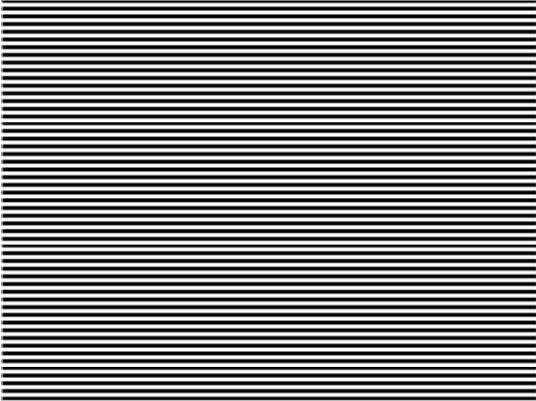
Auditor of State David A. Vaudt today released a report on the Iowa Department on Aging for the year ended June 30, 2009.

The Department has the primary responsibility for providing advocacy, educational and prevention services to older Iowans. The Department receives funding from the U.S. Administration on Aging and distributes funds to Area Agencies on Aging.

Vaudt recommended the Department review policies and procedures covering internal controls over contracts. In addition, the Department should review the monitoring procedures used by Area Agencies on Aging to process revenues and expenditures. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department on Aging, in the Office of Auditor of State and on the Auditor of State's website at: <http://auditor.iowa.gov/reports/1060-2970-0R00.pdf>

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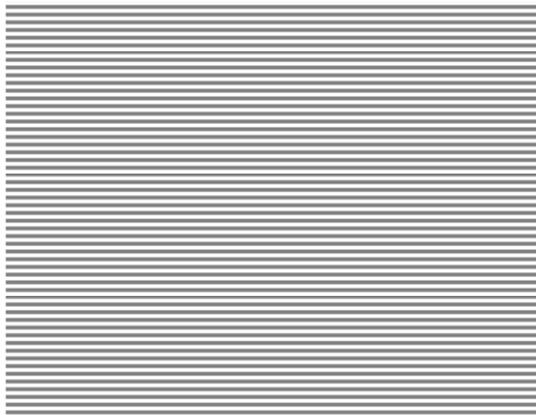
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT ON AGING**

JUNE 30, 2009

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



David A. Vaudt, CPA
Auditor of State





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August 23, 2010

To the Members of the Commission on Aging:

The Iowa Department on Aging 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, 2009.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report as well as other recommendations pertaining to the Department's internal control, compliance with statutory requirements and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department on Aging's 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 on Aging, citizens of the State of Iowa and other parties to whom the Iowa Department on Aging 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 the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 11 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Richard C. Oshlo, Jr., Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2009

Finding Reported in the State's Single Audit Report:

CFDA Number: 93.044 – Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers

Agency Number: 09AAIAT3SP

Federal Award Year: 2009

CFDA Number: 93.045 – Special Programs for the Aging Title III, Part C Nutrition Services

Agency Number: 09AAIAT3SP

Federal Award Year: 2009

CFDA Number: 93.053 – Nutrition Services Incentive Program

Agency Number: 09AAIANSIP

Federal Award Year: 2009

CFDA Number: 93.705 – ARRA - Aging Home-Delivered Nutrition Services for States

Agency Number: 09AAIAC2RR

Federal Award Year: 2009

CFDA Number: 93.707 – ARRA - Aging Congregate Nutrition Services for States

Agency Number: 09AAIAC1RR

Federal Award Year: 2009

State of Iowa Single Audit Report Comment: 09-III-HHS-297-3

Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in Federal awards are completed within nine months of the subrecipient's fiscal year end, issue a management decision on audit findings within six months of the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all findings.

The Department has established policies and procedures for obtaining and performing desk reviews of audit reports for subrecipients who expend more than \$500,000 from the Department each year. However, the Department did not review all subrecipient audit reports during the year. Due to time constraints, subrecipient desk reviews of audit reports received from subrecipients were not available for our review.

Recommendation – The Department should ensure audit reports for all subrecipients which receive \$500,000 or more in federal awards each year are formally reviewed in a timely manner, including appropriate follow-up.

Response and Corrective Action Planned – The Department has identified the contributory factors and re-defined priorities to ensure and strengthen the process whereby subrecipient audit reports are logged in, reviews completed and a management decision issued within 6 months of receipt. This timeframe will be met for all fiscal year 2009 and subsequent subrecipient audit reports received.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department on Aging

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

No matters were noted.

Other Findings Related to Internal Control:

Service Contracts – Services contracts are contracts entered into by a department to aid it in carrying out its programs and to provide specialized services through an independent contractor qualified by education, experience and/or technical ability. Services contracts may be with individuals, partnerships, firms, corporations or other business entities.

Iowa Administrative Code (IAC) 11-106 through 11-107 requires service contracts be signed prior to the start date of the contract and include an indemnification clause, a termination clause and clauses requiring the service provider to comply with all applicable state/federal regulations. If the contract is awarded to a provider without a competitive bidding process, a 'Report of Sole Procurement' should be prepared and attached to the contract. The following variances were noted:

- (a) 6 of the 10 contracts reviewed started before they were signed.
- (b) 3 of the 10 contracts reviewed were sole source procurements, but a "Report of Sole Source Procurement" was not attached to the contracts.
- (c) 1 of the 10 contracts reviewed had no agreement or contract signed by the contractor.
- (d) 1 of the 10 contracts reviewed did not include an indemnification clause or termination clause.
- (e) 2 of the 10 contracts reviewed did not include a clause requiring the service provider to comply with all applicable state/federal regulations.

Recommendation – The Department should ensure all requirements of IAC 11-106 through 11-107 are met when entering into service contracts.

Response – The Department will review its service contracting process and take action to ensure all the requirements of IAC 11-106 through 11-107 are met.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department on Aging

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Findings Related to Statutory Requirements and Other Matters:

The Office of Auditor of State issued a report dated January 29, 2010 on a review of Aging Resources of Central Iowa (ARCI) for the period ended July 1, 2005 through June 30, 2009. As part of our review, we reviewed the procedures used by the Iowa Department on Aging and Aging Resources of Central Iowa to process revenues and expenditures. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check of those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen internal controls at both the Iowa Department on Aging (IDA) and ARCI.

- (1) Prepayment of Services – Checks were written by ARCI at the end of several fiscal years to establish charge accounts for goods and/or services which had not been received. It appears these payments were made to “spend down funds” in order to avoid returning a year-end balance to IDA. While the vendors receiving prepayments provide goods and services based on ARCI’s clients served, establishment of prepaid accounts at the end of a fiscal year does not appear to comply with IDA guidelines.

Claims for goods and/or services should only be paid when goods and/or services are rendered or received.

Recommendation – IDA should implement procedures which ensure ARCI and all Agencies on Aging (AAA) pay only for goods or services which have been received and they are paid from the proper fiscal year.

Response – It shall be the procedure that all IDA awards and contracts with vendors/providers include the following language:

1. Generally, payments resulting from expenditures incurred under this award or contract must be for goods received or services performed during the award or agreement period.
2. Prepayment of expenses is allowed for the following:
 - a) Contracts for software purchases, software maintenance, or other maintenance contracts, but only when the contract includes a clause requiring prepayment.
 - b) Subscriptions paid not more than 8 weeks in advance to avoid missing issues.
 - c) Rentals – building space, PO boxes, booths (only the portion that must be pre-paid to reserve a space). Building space and PO boxes would be expected to be limited to one month and documentation attached to any such payment made.
3. Payments for services crossing fiscal years ending June 30 must be split:

A separate billing should be requested to coincide with the period ending June 30. If this is not possible, the billing must be detailed enough to determine the service that was provided as of the period ending June 30.
4. Payments for goods crossing fiscal years ending June 30 do not have to be split for the following:

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Utility bills, subscriptions, maintenance contracts, and similar items in accordance with Generally Accepted Accounting Principles (GAAP).

These are general guidelines, which parallel state and federal regulations. Any written guidelines that are more restrictive must be followed.

5. The purchase of gift cards and debit cards or any other similar device does not constitute the receipt of goods or services and are therefore prohibited except with the express advance, written permission of IDA.
6. If any funds are expended in a manner that is not in compliance with the procedures and applicable federal and state laws, rules, and regulations, and are subsequently subject to repayment, the award or contract recipient expending such funds in contravention of such procedures, laws, rules and regulations, not the IDA or any entity of the state, shall be liable for such repayment.

In addition, the IDA Audit Guidelines issued annually to AAAs will add language that will require testing/sampling transacted by the AAA's independent auditing firm to include the review and report on:

1. Documented contracts entered into by the AAA in accordance with Iowa Administrative Code (IAC) 321-5.15(231) Acquisition of goods and services.
2. Aggregate payments to vendors/providers where IAC 321-5.15(231) would apply.

Conclusion – Response acknowledged. The Department should also include procedures for Departmental fiscal monitoring to ensure compliance with IAC 321-5.15(231).

(2) Disbursements – During our review of ARCI's disbursements for the period July 1, 2005 through June 30, 2009, we determined:

1. Prepaid account ledgers were not maintained for certain vendors for fiscal year 2006.
2. Supporting documentation could not be located for food and/or gas gift cards purchased prior to May 2008.
3. ARCI relied on vendors to properly calculate any remaining balances on prepaid accounts.
4. ARCI purchased certain items at the end of the fiscal year and maintained an inventory of the items for an extended period of time. It appears the purchases were made in an attempt to avoid returning program funds.

Recommendation – IDA should implement procedures which ensure ARCI and all AAAs do not establish prepaid accounts to avoid returning unused program funds and should implement procedures to ensure unused program funds are returned to IDA at the end of each fiscal year in accordance with IDA requirements. In addition, ARCI should not use program funds to accumulate an inventory of equipment which is held for an extended period of time without specific plans for their use.

Response – Prepaid accounts are addressed in our response to comment number 1.

IDA will require AAAs to develop a comprehensive written inventory management policy addressing areas such as asset management; inventory valuation and forecasting of award or contract period needs; replenishment; and maximum inventoried levels. The policy should incorporate the expectation that expenditures incurred under any given

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award or contract for goods received coincide to the maximum extent possible with the benefit received during the award or contract period.

Forecasting should be based on reasonable estimates of goods needed to meet documented client operational demands; such decisions are a matter of judgment. For example, if the normal demand for shelf stable meals is 1,000 per calendar quarter and it is necessary to place order for additional shelf stable meals in May to meet the demand for the month of June, a reasonable order might be for 330-400 meals. An order for 1000 meals would not be reasonable.

Conclusion – Response accepted.

- (3) Allowability of Expenditures – It is the responsibility of IDA to monitor the use of the funds provided to AAAs for compliance with State and Federal regulations. However, we determined on-site reviews conducted by IDA focus on specific clients served and do not address whether payments to vendors were for eligible goods and/or services actually received by specific clients.

In addition, we identified \$184,422 of vendor prepayments and gift card purchases which were not in compliance with State and Federal regulations. ARCI provided a repayment to IDA in the amount of \$67,137, leaving a net amount of \$117,285 which has not been repaid.

Recommendation – IDA should implement procedures to ensure allowability of vendor payments is reviewed on a periodic basis during on-site visits. In addition, IDA should consult with legal counsel to determine the mechanism to be used to recover additional funds from ARCI. IDA should also ensure any legal expenses incurred by ARCI are not paid using state and/or federal funds.

Response – IDA monitoring will add testing as to whether payments to vendors/providers for allowable expenditures benefited specific clients. Items included in our response to comment number 1 will also assist in this area.

IDA will work with the Iowa Attorney General's office, the Office of Auditor of State and others in regard to these payments and the repayment of identified inappropriately expended funds.

Per OMB Circular A-122, Attachment B, Item #10, IDA will ensure ARCI does not use state or federal funds in the payment of associated legal fees by ARCI but will continue to consult with legal counsel and work toward a final determination.

Conclusion – Response accepted.

- (4) Bids – As stated in Iowa Administrative Code (IAC) 321-5.15(8), “When the estimated one-year value of the contract is equal to or greater than \$5,000 but less than \$50,000 or when the estimated multiyear aggregate value, including all renewals, is \$15,000 or more, but is less than \$150,000, the Department or AAA shall use either an informal or formal competitive selection process.”

ARCI entered into verbal contracts with the vendors receiving prepayments using an informal bid process; however, no supporting documentation was maintained to provide explanation of how the vendors were selected or how the prepayment amount was determined.

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Recommendation – To ensure the most competitive prices are obtained, IDA should implement procedures which ensure ARCI and all AAAs comply with the bidding requirements of IAC 321-5.15(8). In addition, the AAAs should maintain supporting documentation for vendor selection to ensure compliance with IAC 321-5.15(8). Also, ARCI should consider developing written contracts with vendors to ensure agreed upon terms are complied with.

Response – These are already requirements under both state and federal procurement requirements. Our response to comment #1 addresses this recommendation.

Conclusion – Response accepted.

- (5) IDA Reports – IDA requires AAAs to submit an “AAA Reallocation of State and Federal Funds Form” annually. However, no supporting documentation is maintained at the AAAs for the amounts reported, nor is any supporting documentation required to be submitted to IDA.

In addition, when IDA releases additional funds, the AAAs are not required to resubmit the reallocation form to re-evaluate the AAAs need for additional funding.

Recommendation – IDA should implement procedures requiring the AAAs maintain supporting documentation for all amounts submitted to IDA. In addition, IDA should develop a policy requiring the AAAs to resubmit the reallocation form to ensure any additional funds released are needed by the AAAs.

Response – The annual reallocation process will be modified in accordance with the following policy which focuses more on the long-term expenditure of AAA formula allocations rather than the justification related to one-time additional funding requests.

The annual reallocation process will be modified to require AAAs requesting additional funding through the process to:

- a) Provide specific projections on the number of additional clients and units of service by service taxonomy and funding source associated with any additional funding request.
- b) Report any and all service expenditures with the reallocated funds by service, source and funding cluster per item a.

Conclusion – Response accepted.

- (6) Policies and Procedures – IDA’s policy does not address the maintenance of inventoried items or the purchase of vendor gift cards. In addition, IDA does not define the term “obligate” in IAC 321-5.11(2).

Also, ARCI does not have a policy addressing the inventory of goods purchased.

Recommendation – IDA should determine if maintenance of inventoried items and the purchase of vendor gift cards is allowable. If so, IDA should develop a policy to address these issues. In addition, IDA should review IAC 321-5.11(2) and define the term “obligate” to ensure it is applied as intended. ARCI should consult with IDA regarding the practice of maintaining an inventory of certain goods purchased.

Response – Comment responses for comments number 1 and 2 will assist in this area.

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IDA will delete the word and IAC 321-5.11(2) (now IAC 17-5.11(2)) will be re-written to read

Unused state funds. If the department determines prior to the end of the fiscal year that an AAA will have unexpended state funds, the department may reallocate the unused funds to one or more AAA in accordance with demonstrated utilization or by a reallocation method specified in Iowa Aging Program Instructions (IAPI). The area agencies receiving these reallocated funds shall expend them for goods received and services performed prior to the end of the fiscal year for which they are reallocated.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department on Aging

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Staff:

Questions or requests for further assistance should be directed to:

Deborah J. Moser, CPA, Manager
Jessica N. Meierotto, Staff Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Clinton J. Krapfl, Assistant Auditor
Stephanie A. Sissel, Assistant Auditor