FISCAL UPDATE July 20, 1998

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Board of Corrections Meeting



**Corrections Board Meeting** The Board of Corrections met July 10, at the Iowa Correctional Institution for Women at Mitchellville. The meeting opened with the introduction of new staff by Director Kip Kautzky. Diane Wilder-Tomlinson, a former county attorney and administrative law judge, has joined the Central Office as a staff attorney. Larry Brimeyer, a former Deputy Warden at the Anamosa State Penitentiary, has been named Deputy Director for the Eastern Region. He takes over the position from Acting Deputy Director Rusty Rogerson. Mr. Rogerson will continue his regular position as Warden of the Iowa Medical and Classification Center at Oakdale.

**Community Service** Director Kautzky described the community service provided by inmates from seven of Iowa’s prison. The inmates were bussed to cities affected by the June 29 storm. Men and women inmates worked along side other volunteers clearing away downed trees and other damage.



**Construction** Director Kautzky next discussed construction progress. The Fort Dodge facility will be completed with the installation of the perimeter security system. The prison is approximately half filled and is expected to have full occupancy in November 1998.

The scheduled opening of the converted Department of Human Services (DHS) space to women’s prison beds has been moved from August to December 1998. Meetings are being held with the Department of General Services and the DHS concerning renovation of space for DHS to move into. Fifty women are scheduled to move into the converted facility in December 1999; another 25 are scheduled for March 1999; and the final 25 are to move in during June 1999.

**Tour of Women’s Prison** The Board toured the women’s facility. Warden Long showed the Board members cells with bunks stacked one to two feet apart, dorm areas with blind turns hampering supervision, and deteriorating buildings. After the tour, the Board reconvened to discuss the growing female inmate population and future construction. Director Kautzky stated that the Department is being proactive in attempting to bring down the overcrowding in the women’s facility to avoid a federal lawsuit.

**FY 2000 Budget Request** The meeting concluded with a discussion of budget issues by John Baldwin, Deputy Director for Administration. The Department’s FY 2000 budget request will emphasize:



* Information Technology: The Department does not have a data processing unit. It relies on data management service from DHS and by other Department of Corrections staff. The request will focus on development of an offender data system and technical staffing to provide for data sharing, research, and management decision support.
* Expansion: The Department will be requesting operating funds as approved expansion projects become operational. The Department will also be requesting funding for additional community-based corrections (CBC) residential beds, a 100- to 200-bed special needs unit at Oakdale, major maintenance, and vertical infrastructure needs including building operating systems.
* Diversion Programs: The Department will be asking for funding to expand the use intensive supervision, day programming, and pre-release programming with the goal of diverting offenders from prison to other appropriate sanctions.
* CBC and Institution Programs: The Department will be requesting increased funding for basic probation and parole, educational programs, sex offender programming and civil commitment, and protective custody needs.
* Criminal Justice Collaboration: The Department will be requesting funding for improved coordination of transportation of inmates, development of regional jails, increased medical costs, and out of state placement of inmates.

**Next Meeting** The August Board meeting will be at the Mount Pleasant facility.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561) Darlene Kruse (Ext. 16301)

State Board of Education Meetings

**Education Board Meetings** The State Board of Education met on May 14 and 15 in the State Board Room in the Grimes Building. Significant agenda items included:



* Corine Hadley was re-elected as President and Sally Frudden was re-elected as Vice President of the Board.
* Approved the rewritten Chapter 44, Iowa Administrative Code, regarding school bus transportation. The Chapter outlines specifications for the construction of school bus bodies, chassis, and related equipment.
* Approved the interim accreditation visit report of Iowa Central Community College.
* Approved community college budget information for FY 1999.
* Received a report on desegregation/integration issues from three Iowa school districts - Des Moines, Burlington, and West Liberty.
* Met with representatives of the independent colleges and universities regarding coordination of efforts related to teacher preparation programs.

The State Board met June 4 via the ICN. Significant agenda items included:

* Joint meeting with members of the Educational Telecommunications Council.
* Reviewed and approved proposed rules for distribution of community college funding.
* Reviewed and approved proposed rule changes for the community college instructional course for drinking drivers. Changes include an increase in the tuition from $60 to $75 for the 12-hour program and sets tuition at $175 for the 28-hour weekend program.
* Reviewed and approved reaccredidation of the practitioner preparation program at Drake University.
* Reviewed the annual Vocational Education Report.

The State Board also met June 17-19 at the Ox Yoke Inn in the Amana Colonies for the annual Board retreat to review and discuss Board goals and strategies.

STAFF CONTACT: Mary Shipman (Ext. 14617)

HAWK-I Board Meeting



**HAWK-I Board** The Healthy and Well Kids in Iowa (HAWK-I) Board met for the first time on June 29. Governor-appointed Board Members include: Christopher Atchison, Director, Iowa Department of Public Health; Sister Helen Huewe, retired President and CEO, Mercy Health Center in Dubuque; Eldon Huston, retired Executive Director of the Iowa Medical Society; David Krutzfeldt, Controller and Chief Financial Officer, Panel Components Corporation, Oskaloosa; Nancy Mounts, Educator, East High School, Sioux City, and past Board of Public Health member; Ted Stillwell, Director, Iowa Department of Education; and Terri Vaughn, Commissioner, Insurance Division, Department of Commerce. Ex officio non-voting legislative members include Senators Hammond and Kramer, and Representatives Hansen and Osterhaus. Staff support was provided by the Department of Human Services (DHS), and the initial meeting was chaired by Chuck Palmer, Director, DHS.



**Children’s Health Insurance** Anita Smith, DHS, presented an overview of the federal State Children’s Health Insurance Program (SCHIP) established in the balanced Budget Act of 1997, including:

* Addition of a new Title XXI to the Social Security Act to provide health care coverage to uninsured targeted low-income children.
* Congressional appropriations including Iowa’s allotment of $32.4 million annually, a State matching funds requirement of 25.37%, the option of participant cost sharing, and funding available October 1, 1997, with the ability to carry forward funds for three years.
* Targeted low-income children, under age 19, living in a family below 200.0% of the federal poverty level (annual income of $27,300 for a family of three), not Medicaid eligible or covered under an existing group health plan or other health insurance, and not the dependent of a State employee. (Dependents of federal government employees are not similarly excluded.)
* Options for use of Title XXI funds include expansion of Medicaid, a new child health program, or a combination of the two.
* Basic program design elements include full Medicaid coverage or a benchmark equivalent benefit package, comprehensive benefits required, and cost sharing permitted for families between 150.0% and 200.0% of the federal poverty level.

Ms. Smith later presented details of Medicaid expansion in Iowa effective July 1, including coordination with the Caring Program for Children and outreach activities to notify families of the new criteria for eligibility.

**Children’s Medicaid Coverage** Don Herman, DHS, provided an overview of House File 2517 (HAWK-I Program Act of 1998), which expands Medicaid coverage for children to 133.0% of the federal poverty level effective July 1, 1998, and creates the HAWK-I Program for children in families with incomes up to 185.0% of the federal poverty level effective January 1, 1999. The Act designates State, public, and ex officio legislative Board members, provides mandates to DHS including development of a two-page application form for both Medicaid and HAWK-I eligibility, and establishes Board and Program mandates.

**Board Overview** The Board reviewed mandated tasks and timelines; heard an overview of the DHS plan for outreach activities; and discussed an eventual third-party administrator contract to potentially handle eligibility determination, claims payment, toll-free customer service access, and other administrator requirements of the Program. The Board also discussed ramifications of any willing health care or insurance provider, appointments to an advisory committee for children with special health care needs, and administrative rules.



**Outreach Activities** Board members agreed to let State officials negotiate a contract with a Des Moines public relations firm to provide outreach activities in two phases: (1) targeting the newly added Medicaid eligibles immediately and (2) eligible individuals for HAWK-I Program services beginning in December. The DHS received 12 proposals from various companies and selected Zimmerman Public Relations and Marketing Firm of Des Moines for the outreach contractor. The budget for contracted outreach activities in FY 1998 is $500,000. The public awareness campaign is expected to include posters, brochures, handouts, and television spots as specified in the Request for Proposals. The DHS estimates that 16,000 children in the State are newly eligible for the Medicaid expansion, many of them siblings of younger Medicaid eligibles, and 40,000 children in the State will be eligible for the HAWK-I Program effective in January 1999.

STAFF CONTACT: Margaret Buckton (Ext. 17942) Deb Anderson (Ext. 16764)

June Board of Regents Meeting



**Regents Board Meeting** The Board of Regents met June 16 and 17 and conducted the following business:

* Approved the creation of a new Airworthiness Assurance Center of Excellence at Iowa State University. Iowa State will provide $600,000 for the annual operation of the Center.
* Received a report and information regarding international agreements by the institutions. Approximately 1,800 students were involved in FY 1997, with more than 55 countries with 176 agreements with foreign universities and government entities.
* Received a report regarding the 1998 Legislative Session and the item-vetoes by the Governor requested by the Regents.



* Approved a belated lease purchase agreement by the University of Northern Iowa for an upgrade of a mainframe computer system. The 36-month lease has an interest rate of 5.945 percent, with an amount of $513,911. The University had previously entered into the agreement without approval by the Board nor notification to the Legislative Fiscal Committee.
* Approved plans to sell $107.15 million in bonds between July 1998 and July 1999 for the University of Iowa Medical Education Building and parking, utility, and residence systems at the three institutions. The sale of these bonds do not affect the appropriation for Tuition Replacement.
* Received the Quarterly Investment Report, noting a market value of the combined operating budget portfolios of $725.3 million and endowment portfolios of $161.3 million. This does not include investments by the related foundations of the five institutions.
* Approved the split of the $450,000 to be received from FY 1998 reversions as follows: $175,000 to both the University of Iowa and Iowa State University, $90,000 to the University of Northern Iowa, and $5,000 to both the Iowa Braille and Sight Saving School and the Iowa School for the Deaf.



* Received information regarding the plan for the five institutions to propose $158.9 million of capital improvement projects during FY 1999. Of this amount, $10.9 million is to be for fire and environmental safety and $15.0 million for building deferred maintenance. The amount also includes a project based upon future capital appropriations of $7.6 million, to remodel Morrill Hall at Iowa State University.
* Received the unit cost study report for FY 1997, indicating that the average cost per undergraduate student at the Regents’ institutions was $7,340.
* Approved a two-year agreement for labor negotiations with Joseph Flynn from Minneapolis, at a per-hour cost of $116 for FY 1999 and $120 for FY 2000.
* Heard from a student group from Iowa State University regarding the name of the Carrie Chapman Catt Hall.
* Received a report regarding a master plan for the Iowa State University residence hall system at an estimated cost of $105.4 million. The plan includes bond debt of $95.1 million.
* Heard a status report of the Year 2000 compliance from the University of Northern Iowa and the University of Iowa.
* Increased the salaries of the presidents and superintendents by 6.0%, with the FY 1999 annual salaries as follows:
* University of Iowa President Mary Sue Coleman, $218,275
* Iowa State University President Martin Jischke, $218,275
* University of Northern Iowa President Robert Koob, $171,975
* Iowa School for the Deaf Superintendent William Johnson, $86,052
* Iowa School for the Blind Superintendent Dennis Thurman, $86,052
* Heard a report regarding a survey of University of Iowa graduate students graduating in May 1997.
* Approved the addition of an unspecified amount of state appropriations to be used as one of the now five funding sources, for the Westlawn Renovation and Expansion project at the University of Iowa, with a total cost of $6.9 million.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

Departments of Human Services and Public Health Award Managed Behavioral Care Contract to Merit Behavioral Care of Iowa



**Managed Behavioral Care** State officials announced on July 9, the award of the contract to administer the Iowa Plan for Behavioral Health to Merit Behavioral Care of Iowa. The Plan provides managed care of mental health and substance abuse services to an estimated 184,000 Medicaid eligibles, and to additional individuals eligible for substance abuse treatment services funded by the Iowa Department of Public Health. The Plan is effective January 1, 1999.



**Contract** The two-year contract is valued at an estimated $82.7 million total funds annually, including State and federal Medicaid funds, Department of Public Health federal substance abuse block grant funds, and State funds for mental health services for State Cases (individuals without legal settlement in an Iowa county). The contract includes an option to renew annually for three years. The Iowa Plan will combine administration of two existing managed care contracts: the Mental Health Access Plan (MHAP) and the Iowa Managed Substance Abuse Care Plan (IMSACP).

***Issue Review*** An ***Issue Review*** entitled “The Iowa Plan for Behavioral Health”, was published on July 8. The ***Review*** details the history of the two existing contracts, the evaluation process to select the Iowa Plan contractor, and

the timeline for implementation of the Iowa Plan. Copies are available from the Legislative Fiscal Bureau office.

STAFF CONTACT: Margaret Buckton (Ext. 17942) Deb Anderson (Ext. 16764)

Commission on Urban Planning, Growth Management of Cities, and Protection of Farmland Holds Town meetings



**Town Meetings** The Commission on Urban Planning, Growth Management of Cities, and Protection of Farmland held the first two Town Meetings in Fairfield on July 8 at the First National Bank and at Upper Iowa University, in Fayette, on July 14. A number of public speakers voiced concerns regarding urban sprawl. Some of the issues discussed included:

* Community development through implementation of zoning laws by city and county officials.
* Planned urban development that preserves productive farmland and strengthens the agriculture economy.
* Planned economic development that creates new jobs and attracts new industries to Iowa. This encourages Iowa graduates to stay in the State as well as attracts new workers and companies.
* Creating a balance between urban development and agricultural areas.

**Next Meeting** The next Town Meeting will be held on July 22, in Lamoni at Graceland College.

STAFF CONTACT: Deb Kozel (Ext. 16767)

Department of Corrections Funds Transfer



**Funds Transfer** The Legislative Fiscal Bureau has received notice that the Fort Dodge Correctional Facility will make a $200,000 transfer to the Fifth Community-Based Corrections District Department (CBC) as permitted by Section 8.39, Code of Iowa. The funds were available for transfer due to delays in opening the new facility. The Fifth CBC will use the funding for costs associated with the renovation and addition of beds at the Fort Des Moines Work Release Center.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

Lottery Revenues and Expenditures Through May



**FY 1998 Lottery Revenues** Through May, FY 1998 Lottery sales revenues were $1.2 million above the FY 1997 level. Lottery prize expenses increased $90,000, operating expenses increased $1.8 million, and transfers to other State funds decreased $293,000. The following table details the revenues, expenditures, and balances of the State Lottery. Rows and columns may not add, due to rounding.

| **STATE LOTTERY**  **July Through May**  **(Dollars in Millions)** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | FY 1997 |  | FY 1998 |  | Inc./  Decr. |  | % Inc. |
| FY Beg. Balance |  | $ 3.2 |  | $ 3.4 |  | $ 0.2 |  |  |
|  |  |  |  |  |  |  |  |  |
| Game Revenues |  | 151.8 |  | 153.0 |  | 1.2 |  | 0.8 |
| Interest |  | 0.8 |  | 0.7 |  | -0.2 |  | -18.4 |
| Total Revenue |  | $ 152.6 |  | $ 153.6 |  | $ 1.0 |  | 1.1 |
|  |  |  |  |  |  |  |  |  |
| Prize Expense |  | 88.9 |  | 88.9 |  | 0.1 |  | 0.1 |
| Operating Expense |  | 31.1 |  | 32.9 |  | 1.8 |  | 5.8 |
| Transfer of Profits |  | 32.3 |  | 32.0 |  | -0.3 |  | -0.9 |
| Total Expense |  | $ 152.3 |  | $ 153.9 |  | $ -1.6 |  | 1.1 |
|  |  |  |  |  |  |  |  |  |
| Year-to-Date Ending Balance |  | $ 3.6 |  | $ 3.1 |  | $ -0.4 |  |  |

**FY Sales** Fiscal year sales through May, compared to the same time period of FY 1997, were as follows:

* Instant ticket sales decreased $632,000 (0.8%).



* Iowa Lotto/Supercash sales decreased $1.8 million (20.8%).
* Multi-State Powerball sales increased $5.2 million (18.5%).
* Multi-State Daily Millions/Cash 4 Life sales decreased $47,000 (0.9%).
* Dream Draw sales decreased $940,000 (100.0%, discontinued in FY 1997).
* Daily Game sales decreased $1.3 million (22.5%).
* Pull-tab sales increased $382,000 (1.7%).

**May Sales** Total Lottery sales for May were above May 1997 by $6.4 million (44.2%). May 1998 sales for pull-tabs and the two Multi-State games were above May 1997, with Multi-State Powerball sales up $6.3 million (238.4%). The largest jackpot in Powerball history, $195.0 million, was won during May 1998.



**REC Projections** The April Revenue Estimating Conference (REC) projected FY 1998 Lottery profits will total $32.0 million. Of this amount, $31.5 million is to be transferred to the General Fund and three-tenths of one percent of gross Lottery sales transferred to the Gambler’s Assistance Fund (approximately $450,000). Actual profit transfer for FY 1997 was $35.0 million. Due to May’s record Powerball, it is likely Lottery profits will exceed projections in FY 1998 by approximately $2.7 million. Any profits in excess of projections are deposited to the General Fund.

**Lottery Expenditures** The following chart shows the annual percent of Lottery revenue expended on prizes, administration, profit transfers to other State funds, and sales tax. The FY 1998 figure is through May and the previous year’s figures are year-end.



**Sales Tax Paid** In addition to the amount transferred to the State as profits, the Lottery has paid $7.6 million in sales tax during FY 1998.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Road Use Tax Fund Revenues



**Road Use Tax Fund** Road Use Tax Fund receipts for FY 1998 increased $23.2 million (2.7%) over FY 1997. Revenues from Motor Vehicle Use Tax and vehicle registrations and certificates of title were responsible for nearly all the growth in the Road Fund. These two revenue sources combined increased by $24.0 million (12.9%) over FY 1997. All of the other revenue sources have experienced a total combined decrease of $800,000 (0.2%).

**Motor Vehicle Use Tax** Year-to-date Motor Vehicle Use Tax receipts increased $13.7 million (9.3%) compared to FY 1997 receipts. The increase in these receipts is primarily attributed to the increase in car and truck sales in Iowa and the shifting of the State Patrol funding away from the Motor Vehicle Use Tax into the General Fund. The most recent information available shows that for the first 11 months of FY 1998, sales were 10.5% higher than the same period of FY 1997.

**Registration and Title Fees** Registration and title fees increased $10.3 million (3.6%) compared to FY 1997. The increase in vehicle registration fees is largely attributed to the increase in the price of vehicles being registered. This also corresponds with the increase in new car and truck sales being experienced this fiscal year.

**Fuel Tax Revenues** Motor Vehicle Fuel Tax revenues have increased only $1.7 million (0.4%) compared to the same period for FY 1997. Fuel taxes were projected to increase by $9.4 million (2.9%) in FY 1998; however, fuel consumption, particularly diesel fuel, was considerably less than projected.

**Driver’s License Fees** Driver’s License Fees are down $3.8 million (31.5%) compared to FY 1997. This decrease is due to the normal license issuance cycle. Total driver’s license receipts for FY 1998 are estimated to be approximately $4.7 million (39.4%) less than FY 1997, due to fewer anticipated license renewals. Changes in other revenue sources were relatively insignificant.

**FY 1997 Comparison** The following table compares the Road Use Tax Fund receipts for FY 1997 and FY 1998 by revenue source. The sum of the revenues may not equal totals due to rounding.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ROAD USE TAX FUND RECEIPTS** | | | | | | | | | |
| **(Dollars in Millions)** | | | | | | | | | |
| Year-end | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | Increase/ |  | Percent |
|  |  |  | FY 1997 |  | FY 1998 |  | Decrease |  | Change |
| Motor Vehicle Use Tax | |  | $ 146.9 |  | $ 160.7 |  | $ 13.7 |  | 9.3% |
| Motor Vehicle Fuel Tax | |  | 376.9 |  | 378.6 |  | 1.7 |  | 0.4% |
| Registration/Title Fees & Misc. | |  | 284.4 |  | 294.7 |  | 10.3 |  | 3.6% |
| Underground Tank Fees | |  | 18.4 |  | 18.8 |  | 0.4 |  | 2.3% |
| Driver License Fees | |  | 11.9 |  | 8.2 |  | -3.8 |  | -31.5% |
| Interest | |  | 11.5 |  | 12.1 |  | 0.5 |  | 4.4% |
| Other Fees | |  | 6.3 |  | 5.4 |  | -1.0 |  | -15.6% |
| Motor Carrier Fines | |  | 0.0 |  | 1.3 |  | 1.3 |  |  |
| TOTAL RECEIPTS | |  | $ 856.5 |  | $ 879.7 |  | $ 23.2 |  | 2.7% |

*Note: For Road Use Tax Fund reporting, receipts are considered in the month for which they are distributed by formula rather than the month in which they are collected. For example, June revenues were collected in May but distributed to the various State and local road funds in June.*

STAFF CONTACT: David Reynolds (Ext. 16934)

FEDERAL Energy and Water Development Appropriation Passes Senate and House



**Federal Appropriations Bills** The Senate passed the Energy and Water Development Appropriation Bill (S. 2138) on June 18 that appropriates $21.4 billion. The House version of the Bill was approved on June 22 which appropriates $21.1 billion. The following table gives a breakdown of the amounts appropriated:

**FY 1999 DEPARTMENT OF ENERGY AND WATER\***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Program Description** | **FY 1998**  **Appropriation**  (000 Omitted) | **FY 1999**  **Clinton Req.**  (000 Omitted) | **Senate Bill**  **S. 2138**  (000 Omitted) | **House Bill**  **H. R. 4060**  (000 Omitted) |
| Army Corps of Engineers | $4,169,599 | $3,222,000 | $3,788,264 | $3,967,148 |
| Interior Department | 916,134 | 934,297 | 881,992 | 803,757 |
| Energy Department | 15,898,574 | 17,070,365 | 16,473,910 | 16,203,560 |
| Independent Agencies | 277,600 | 498,800 | 227,100 | 103,000 |
| **Total** | **$21,261,907** | **$21,725,462** | **$21,371,266** | **$21,077,465** |

\*Information from *CQ Weekly*, June 20, 1998, page 1,698.

**Major Differences** The major differences between the two bills include:

* The Senate Bill appropriates $50 million more for the Weapons Activity Account in the Energy Department. This increase would maintain and refurbish the nuclear arsenal of the country.
* The Senate Bill appropriates $70 million for the Tennessee Valley Authority and the House Bill eliminates funding.
* The House Bill appropriates $208 million more to the Army Corps of Engineers for general construction projects involving flood control and navigation projects.

STAFF CONTACT: Deb Kozel (Ext. 16767)

Iowa Environmental Council Hosts Iowa Water Quality Action Plan Meeting



**Water Quality Action Plan** The Iowa Environmental Council hosted the first meeting of the implementation team for the Iowa Water Quality Action Plan June 25, in Urbandale. This meeting was to organize individuals that volunteered to work on Goals One and Two of the Iowa Water Quality Action Plan. The two teams were combined to develop a master plan for establishing a comprehensive water quality monitoring network and to gather, analyze, and organize existing data.

**Plans** At the end of the meeting, it was decided that the Goal One volunteers would develop a series of frequently asked questions about water quality in Iowa, and the Goal Two volunteers would research the data available that could answer those questions.

**Future Meeting** A future meeting will be held, however, the date and place have not been determined.

STAFF CONTACT: Deb Kozel (Ext. 16767)

Community Tree Steward Program

**Community Tree Steward** The Community Tree Steward Program was completed by two groups of students on June 30. One class was held in the Johnson/Linn counties region and the second class was held in the Story/Polk counties region.



**Six-Week Course** During the six-week course, students received 24 hours of instruction on tree identification, tree planting, tree care and maintenance, pest management, inventory techniques, and community program planning and implementation. Upon completion of the Program, the students are required to contribute a minimum of 24 hours of community tree service.

**Sponsors** This Program is in its seventh year and is sponsored by the Iowa Urban and Community Forestry Council, Iowa State University Extension, Iowa Department of Natural Resources, and Trees Forever. During the first six years of this Program, graduates have donated over 6,000 hours of

community service in Iowa communities. The Program is coordinated by Mark Vitosh, Iowa State University.

STAFF CONTACT: Deb Kozel (Ext. 16767)

Department of Education - Audit Report

**Audit Report Findings** The LFB has received the audit report for the Department of Education for the period ended June 30, 1997. Significant findings of the audit are outlined below.



**Suspended/Debarred Parties** Suspended or Debarred Parties - The federal government requires that contractors receiving individual awards of $100,000 or more, and all subrecipients must certify that the organization and its principles are not suspended or debarred. The Department did not obtain the certification nor did it have policies in place to obtain the certification. The Department responded that an addendum will be added to contracts to obtain the proper certification beginning July 1, 1998.

**Food Distribution Inventory** Food Distribution Program Inventory - The federal government requires the Department to maintain accurate inventory records for the Food Distribution Program. The Department has contracted with a general contractor for maintenance of its commodity inventory. The general contractor has contracted with four warehouses throughout Iowa for storage of the inventory. The following items were noted:

* The Department’s inventory was commingled with inventories of other schools at one of the storage locations.
* All of the items were counted at one location and none agreed with the inventory listings.
* The Department does not perform a reconciliation of reports received from the U.S. Department of Agriculture, the bills of lading, and the reports from the general contractor and the storage warehouses.

The Department stated the four inventory locations are implementing procedures to separate school inventory from other commodity inventory. Annual on-site visits will be implemented in June 1998.

**Food Distribution Delivery** Food Distribution Program Delivery Documentation - The Department maintains warehouse and delivery orders stating the total number of units of various commodities received by school districts. The Department’s policy states that these orders are to be signed by appropriate school personnel to document the receipt of goods. Any discrepancies are to be noted on the order and initialed by the deliverer and school personnel. The following items were noted:

* Nineteen of 46 schools tested had unexplained variances between the units received per the delivery orders based on shipping invoices and the commodity distribution report, which is based on orders placed by the school.
* Twenty-six of 46 schools tested had changes in deliveries. Of those, 21 were not properly signed by the appropriate personnel.

The Department responded that new procedures will be implemented on July 1, 1998, to verify copies of each location’s receipts correspond with the main warehouse release.



**Overpayment of Funds** Overpayment of Special Education Funds - Area Education Agencies (AEAs) and State Operated Programs (SOPs) are allocated federal funds based on the December 1 student count reported. The recipient submits an application for the amount needed for the operational period and is reimbursed based on quarterly expense reports. A final report is submitted at the end of the operational period for the amount actually expended. The following items were noted:

* One AEA was paid twice for the final payment. The payment of $146,066 was made without the quarterly expense report. The first request of the next operational period was reduced for the double payment.
* One AEA was paid twice for one quarter. The payment was made without the quarterly expense report and subsequent requests were not reduced for the double payment of $75,179.
* The application for one SOP was approved for more than they were allocated resulting in an overpayment of $334.

The Department responded that they will develop and implement procedures by July 1, 1998, to address these concerns.

**Fed Funds Cash Mgmt** Cash Management of Federal Funds - Effective cash management procedures should provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of the funds, as well as minimize the amount of State funds used to operate the programs prior to receipt of the federal funds. In reviewing ledger balances, it was noted that it took three to 18 days to expend federal revenues. There were excessive cash balances for the Title I, Special Education, and Vocational Education programs. The interest liability for these programs was $100,462, $45,336, and $28,402, respectively. The Department responded that they will continue to review and refine their cash management policies.

**Program Expend. Approval** Approval of Expenditures for Title I, Goals 2000, and Innovative Education Program Strategies - Program expenditures are to be reviewed and approved by personnel familiar with the specific program requirements prior to approval by the Bureau of Internal Operations. The following items were noted:

* Eleven of 45 expenditures tested for Title I were not approved.
* Six of 44 expenditures tested for Goals 2000 and Local Education Systematic Improvement Grants were not approved.
* Five of 42 expenditures tested for the Innovative Education Program Strategies Program were not approved.

The Department responded that beginning July 1, 1998, all expenditures for these programs will be reviewed and approved by the respective bureau chief before submission to the Bureau of Internal Operations for payment.



**Allocation of Funds** Allocation of Funds for Vocational Education - The special education counts for each school district are used to determine a portion of the special education allocation for each district. For 19 of the 25 districts tested, the counts used in the allocation did not reconcile to the special education documentation. The Department responded that the responsibility for allocation of vocational education funds has been transferred from the Bureau of Technical and Vocational Education to the Bureau of Internal Operations effective August 1997. As a part of this relocation of duties, written procedures have been completed and will be used in FY 1999 to address this issue.

**Internal Control** Internal Control Procedures

* Contractual Agreements
* Thirty-five of 45 contracts were not properly authorized prior to the execution date.
* Four of five contracts for meals were not approved prior to the execution date.
* Three of 20 documents requiring documentation for sole source did not have the appropriate documentation attached.
* Subrecipient Audit Monitoring - The Department is required to review and follow up on audits of contracts with subrecipients of federal awards that exceed $300,000. One audit was not reviewed by anyone in the Department. In addition, many bureaus within the Department had no written policy to provide review and follow-up procedures.
* Supervisor Signature for Payroll - Employee timesheets are to be authorized by a supervisor, which is evidenced by a signature. Five of 25 timesheets tested did not have evidence of approval.
* Written Policies and Procedures - The Department does not have a formal policy regarding security for data processing equipment and software in case of a disaster.
* Accessibility to Safe - The Department has a safe in the Bureau of Internal Operations where undistributed warrants and cash received are kept. There is currently only one key which is kept in a location where all employees have access to it.
* Fixed Asset Approvals - All fixed asset additions are to be approved with a signature by either Lee Tack or Roger Stirler. Eleven of 25 purchases selected lacked proper approval.

The Department provided a response for each internal control item. Each of the items has been reviewed and/or resolved.

**Statutory Requirements** Statutory Requirements and Other Matters

* Chapter 256.41, Code of Iowa, requires the Department to create a Youth 2000 Coordinating Council. The Department responded that no appropriation has been provided for this Program by the Legislature. The Auditor stated that the Department should request an appropriation or seek to have the requirement removed from the Code.
* Board Member Appointment - The Department has failed to fill all vacancies and stagger the term of non-board members on the Community College Council and the regional library boards.
* Reports - The Department did not submit a report of a study of the funding for educational programs for children in foster care as required by the 1996 Session Acts. The report was due January 1, 1997. The Department plans to include this item in the study of the rewrite of the school foundation formula.
* Evidence of Financial Responsibility (Bonding) for Cosmetology and Barber Schools - The Department is required to verify that each school obtains and maintains a surety bond of $50,000 or 10 percent of the total tuition collected, whichever is less, for the faithful performance of all contracts and agreements with students made by such schools. There are no procedures in place to ensure all schools are properly bonded. The Department responded that this duty has been transferred to the Secretary of State.

STAFF CONTACT: Mary Shipman (Ext. 14617)

DEPARTMENT OF HUMAN RIGHTS - Audit Report

**Audit Report** The Office of the Auditor of State issued the FY 1997 Audit Report for the Iowa Department of Human Rights (DHR) on June 8, 1998. The Report was received by the Legislative Fiscal Bureau in June 1998.

**Findings** The Report indicated the Office had identified ten audit exceptions at the DHR and included the DHR response and corrective actions to be taken. The exceptions included:



**Cash Management *Cash Management*** - The Common Rule requires grantees to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the grantee, whenever funds are advanced by the Federal government.

* Findings - Testing of fiscal year activity for the Low-Income Home Energy Assistance Program (LIHEAP) indicated excessive balances for the period September 1996 through May 1997. In addition, the department took between nine and twenty days to spend the majority of drawdowns for the TANF program.
* Audit Recommendation - The Department should closely monitor their cash management procedures to ensure compliance with Federal guidelines.
* Department Response - The Department will continue to monitor for cash on hand at the State level in order to minimize time between drawdown and disbursement. Funds will be returned to the federal government when instances such as those mentioned occur. As of March 1998, two additional staff will monitor the cash balances of federal funds daily to make sure there are minimal amounts on hand. The response was accepted.



**Subrecipient Cash Mgmt. *Subrecipient Cash Management*** - The Common Rule requires grantees to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the grantee, whenever advance payment procedures are used. Grantees are to monitor the cash drawdowns by their subgrantees to assure that they conform to the same standards.

* Findings - The Department’s procedures require subrecipient community action agencies (CAAs) to submit monthly cash reports based on their actual and estimated expenditures. The Department monitors advances and payment requests to the 19 CAAs. This process could overstate actual cash needs of the CAAs. For 11 of the 120 monthly cash reports reviewed, the month end balances and requests for funds exceeded actual expenditures for the next two months. This was approximately 9.2% of the reports tested.
* Audit Recommendation - The Department should continue to closely monitor its cash management procedures to ensure compliance with federal guidelines.
* Department Response - For the LIHEAP Weatherization Program, cash advances are based on actual disbursements made by the CAAs, and also their expenditures for the 30 days following the report ending date. It takes approximately 30 days for the CAAs to prepare and submit reports, and the State to review, drawdown funds, and process warrants for payments. One CAA out of 19 overstated their estimated expenditures for several months resulting in excessive funds being advanced to them. Due to this isolated incident, procedures will be revised effective April 1, 1998, the beginning of the new program year. CAAs must submit documentation (photocopies of invoices, timesheets, etc.) for expenditures. If the Weatherization Bureau finds that any CAA is not actually using advanced funds for the subsequent month’s payments, the CAA’s next contracts will be changed to funds being paid by the State on a reimbursement-only basis. The response was accepted.
* Additional Finding - The regular LIHEAP had one subgrantee who double counted applications with payments pending. This resulted in the subgrantee requesting excessive cash and maintaining it until the error was discovered.
* Audit Recommendation - The Department should continue to closely monitor its cash management procedures to ensure compliance with federal guidelines.
* Department Response - If instances are found next program year which begins October 1998 (the current application season ended February 1997), subgrantees found to be out of compliance will be asked to submit a list of applications which are awaiting payment in order to substantiate their funding requests. The response was accepted.

**Subrecipient Monitoring *Subrecipient Monitoring*** - The approved State Plan requires the Department to monitor subgrantee CAAs on a regular basis to ensure regulation compliance. On-site visits are to be conducted throughout the program year. The Department’s program monitoring procedures include the use of a monitoring instrument and retaining the report on file.

* Findings - Nine CAAs had not been visited during the program year and four of those nine had not been visited the preceding year and two had not been visited the preceding two years. Additionally, sufficient documentation of the results of monitoring visits was not maintained for 10 of 10 visits made during the year.
* Audit Recommendation - The Department should take steps to ensure on-site visits are made on a regular basis in accordance with the State Plan. The Department should also take steps to ensure sufficient documentation is maintained in the monitoring files.
* Department Response - The LIHEAP has been monitoring on-site throughout the State FY 1998. However, in May 1998, the Iowa Department of Human Rights (DHR) contracted with an experienced accountant who will also monitor and complete written reports on the LIHEAP subgrantees by July 15, 1998.
* Response Acknowledged - Based upon the Office of Auditor of State review, on-site visits had not been made on a timely basis during FY 1997. In addition, adequate documentation was not maintained for on-site visits made. During the FY 1998 audit, on-site visits made as well as supporting documentation will be reviewed.

**Subrecipient Monitoring *Subrecipient Monitoring*** - The approved agreement with the Iowa Department of Human Services requires the Department to annually monitor subgrantees to determine program and fiscal compliance.

* Finding - The Department did not perform fiscal monitoring of subgrantees.
* Audit Recommendation - The Department should take steps to ensure fiscal monitoring of subgrantees.
* Department Response - Subgrantees are now being fiscally monitored on-site. Since July, 1997, seven of the eleven subgrantees have been visited. The four remaining monitoring trips are scheduled to be completed prior to the end of the current fiscal year. Documentation is on file for the auditors to review. The response was accepted.

**Subrecipient Audit Review *Subrecipient Audit Report Review*** - The Department is required under Office of Management and Budget (OMB) Circular A-133, Audits of State and Local Governments, as it applies to subrecipients, to develop and maintain a subrecipient monitoring system. The Department is responsible for reviewing subrecipient audit reports in a timely manner to ensure that appropriate corrective action is taken within six months after receipt of an audit report showing noncompliance with federal laws and regulations. The Department’s procedures require that each subrecipient CAA submit an audit report to the Department for review to determine whether the CAA complied with federal and program requirements.

* Finding - The Department had 19 subrecipients which received federal funding from the LIHEAP. The Department did not review one audit report submitted, and five of the 19 reports were not reviewed in a timely manner to ensure that corrective action, if any, was taken within six months as required.
* Audit Recommendation - The Department should take steps to ensure timely reviews of subrecipient audit reports and that corrective action is taken.
* Department Response - All FY 1996 audits have been reviewed and corrective action taken as of March 27, 1998. The response was accepted.

**Commission & Council Mtgs***.* ***Commission and Council Meetings*** - The Department includes eight councils and commissions as established under Chapter 216A, Code of Iowa. Chapter 69.15, Code of Iowa, states that an appointed person to a Commission is deemed to have submitted a resignation from office if they do not attend three or more consecutive meetings.

* Findings - The Commission of Community Action Agencies, the Commission of Latino Affairs, the Commission of Persons with Disabilities, and the Commission on the Status of African-Americans had members who did not comply with the attendance requirements in Chapter 69.15,Code of Iowa.
* Audit Recommendation - The Department should continue its efforts to encourage member attendance.
* Department Response - The Department will continue its efforts to encourage member attendance and urge the Governor to fill any vacancies of the various commissions on a timely basis. The response was accepted.
* Additional Findings - The minutes for the Commission on the Status of African-Americans and the Commission on Latino Affairs did not indicate the vote of each member present as required by Chapter 21.3,Code of Iowa.
* Audit Recommendation - Commissions should comply with Chapters 21 and 216A, Code of Iowa.
* Department Response - The minutes for the Commission on the Status of African-Americans and the Commission on Latino Affairs will indicate a vote as being unanimous or the vote of each commission member will be recorded in the minutes. The response was accepted.

**Administrator Evaluations *Administrator Evaluations*** - Chapter 216A.2(8), Code of Iowa, requires the Director to annually evaluate each division administrator after receiving recommendations from the appropriate councils or commissions and submit a written report to the Governor and the commissions.

* Finding - This report had not been completed.
* Audit Recommendation - The Director should prepare the annual evaluations and submit an annual report in compliance with the Code of Iowa.
* Department Response - The Director of the Department has written a letter to the Governor’s Office explaining why the annual evaluations have not been completed. A copy of the letter is available for the auditor’s review. No response to the letter has been received by the Auditor’s Office.
* Response Acknowledged. However, the recommendation remains as stated.



**Reports to General Assembly *Reports to the General Assembly -*** The Commission on the Status of African-Americans has not submitted its detailed annual report to the General Assembly. The report was due August 1, 1996, as required by Chapter 216A.149, Code of Iowa. The Division of Latino Affairs has not submitted a detailed report to the General Assembly for the FY 1996. The report was due February 15, 1997, as required by Chapter 216A.17, Code of Iowa.

* Audit Recommendation - The Divisions should increase efforts to provide a timely detailed report to the General Assembly.
* Department Response - The Commission on the Status of African-Americans report will be submitted by May 1, 1998. A copy of the Division of Latino Affairs was given to the auditors February 23, 1998, and submitted to the General Assembly April 3, 1998. The response was accepted.

As of July 9, 1998, the Commission on the Status of African-Americans has not provided the FY 1996 or FY 1997 reports. The Division on the Status of African-Americans responds that the two reports will be combined with the FY 1998 report and will be available August 1, 1998.

**Federal Funds *Transferring Federal Funds*** - The Department transfers federal revenue from one federal grant to another to cover primarily payroll costs.



* Finding - The Department is inappropriately transferring federal revenue from one federal grant to another to cover expenditures, which may result in unallowable costs. In addition, by doing so, cash management problems are likely to occur.
* Audit Recommendation - The Department should evaluate its procedures for reallocating payroll costs and consider transferring State funds instead of federal funds, if needed.
* Department Response - The Department worked with the Iowa Department of Justice so that as of October 7, 1997, all grant funds can be drawn via electronic transfers. Therefore, it is no longer necessary for the Department to transfer funds between Justice grants while waiting for the arrival of federal warrants in the mail. The response was accepted.

**Program Income *Program Income*** - Neither the approved agreement with the Iowa Department of Human Services nor the approved agreements between the Department and its subgrantees address the use of program income.

* Audit Recommendation - The Department should ensure that all agreements include a provision addressing program income.
* Department response - The agreement for State FY 1999 will include a provision addressing program income. The response was accepted.

STAFF CONTACT: Ron Robinson (Ext. 16256)

Office of the Governor - Audit Report

**Audit Report Findings** The annual audit report for the Office of the Governor for FY 1997 was received by the LFB. The Auditor of State made one finding related to noncompliance and one finding related to reportable conditions.

**Purchase by Another Agency *Purchase by Another Agency* (*Noncompliance*)** - The Iowa Department of General Services (DGS) expended $3,400 for computer equipment for the Office of the Governor without reimbursement from the Office of the Governor.



* Recommendation - The Office of the Governor should follow the proper administrative requirements regarding inter-agency transfers for the acquisition of equipment.
* Response - The Office of the Governor will continue to comply with administrative requirements as stipulated by the Iowa Department of General Services.
* Conclusion - Response acknowledged. Further review of acquisitions for appropriate reimbursement or appropriation transfers will be made in subsequent audits.



**Fixed Assets *Fixed Assets* (*Reportable Conditions*)** - Chapter 7A.30, Code of Iowa, requires that each department and division of State government be responsible for keeping a written, detailed, up-to-date inventory of all real and personal property belonging to the State and under their charge, control, and management. The following conditions were noted:

* Detailed equipment inventory listings were not up to date. Eleven of 17 items selected for observation could not be located, and ten items observed could not be traced back to the fixed asset listing.
* Detailed equipment inventory additions and deletions listings were not up to date or accurate.
* A fixed assets inventory has not been performed in the last three fiscal years.
* Recommendation - The Office of the Governor should take the necessary steps to ensure the fixed asset inventory is updated and accurate, including an inventory performed in accordance with administrative requirements.
* Response - The Office of the Governor is in the process of complying with the recommendations.
* Conclusion - Response accepted.

STAFF CONTACT: Carolyn India Black (Ext. 16765)

Department of Management - Audit Report



**Audit Report Findings** The annual audit report for the Department of Management (DOM) for FY 1997 was received by the LFB. The Auditor of State made one finding related to internal control.



**Fixed Assets Fixed Assets (*Internal Control*)** - Chapter 7A.30, Code of Iowa, requires that each department and division of State government be responsible for keeping a written, detailed, up-to-date inventory of all real and personal property belonging to the State and under their charge, control, and management. The following conditions were noted:

* Detailed fixed asset inventory listings were not up-to-date. Three of the ten selected items located at the DOM were not on the fixed asset listing and three of 25 assets selected from the listing for observation were not properly tagged.
* Fixed asset deletions were not properly authorized, and proper documentation regarding the disposal was not consistently available.
* A fixed assets inventory has not been performed in accordance with the Iowa Administrative Code.
* Recommendation - The DOM should take the necessary steps to ensure the fixed asset inventory is updated and accurate, including the inventory performed in accordance with administrative requirements.
* Response - The DOM is in the process of complying with the recommendations.
* Conclusion - Response accepted.

STAFF CONTACT: Carolyn India Black (Ext. 16765)

Mental Health Institutes - Audit Report



**Audit Report Findings** The FY 1997 annual audit report for the Cherokee, Clarinda, Independence, and Mount Pleasant Mental Health Institutes was received by the Legislative Fiscal Bureau July 7. Reportable conditions include:

**Clarinda Clarinda Mental Health Institute *-*** The Auditor of State reported the following finding related to statutory requirements:

***Supply Inventories:*** The Code of Iowa requires the Institute to provide an accurate listing of all pharmacy and supply inventories on hand at the close of the fiscal year. Several items were incorrectly reported on the inventory listing.

* Recommendation - The Institute should implement procedures to ensure the accuracy of material and supply inventory counts and records of the inventory on hand at year end.
* Response - The Institute began utilizing new inventory software shortly before the close of the fiscal year, and errors are attributable to lack of experience with the software. Staff is now more adept at the program and able to accurately count and track the quantities and costs of inventory supplies.
* Conclusion - Response accepted.

**Cherokee Cherokee Mental Health Institute -**  No reportable conditions.

**Independence Independence Mental Health Institute** - The Auditor of State reported the following findings related to internal control and statutory requirements:

***Rent Revenue:*** Rental units are made available to Institution employees and certain other individuals. Instances were noted in which insufficient documentation was maintained to support the rent income activity and the balance owed by tenants. Instances were also noted in which rental agreements did not exist.

* Recommendation - The Institute should maintain records sufficient to document rent payments owed and subsequent collections and should perform monthly reconciliations. The Institute should also ensure that rental agreements are entered into with all tenants.
* Response - The Institute concurs with the recommendation and will move the responsibility of documentation, record keeping, payment, and collection under the auspices of the business office.
* Conclusion - Response accepted.

***Rental Policies and Procedures:*** The Institute is required to base rental rates for all State-owned property rented to employees on fair market value. A Department of Human Services policy states that the fair market value should be evaluated at least once every two years. The last fair market evaluation made by the Institution on its rental property was performed in FY 1993. The rent actually charged by the Institution as of June 30, 1997, was approximately 30% lower than the fair market value determined in FY 1993. The Institute did not document how it had determined the reduced rental rates.

* Recommendation - The Institute should comply with rental statutes and policies.
* Response - The Institute’s rental rates are based on appraisal rates adjusted for environmental, economical, and internal business perspectives. The rates are currently being reviewed by a local real estate broker in compliance with statutory and policy requirements.
* Conclusion - Response accepted.

**Mount Pleasant Mount Pleasant Mental Health Institute** - The Auditor of State reported findings related to improper usage and billing of cellular telephones and overpayment of a contract employee. Additional details on the findings are listed in the June 26, 1998, edition of the **Fiscal Update**, or may be obtained from the Legislative Fiscal Bureau.

STAFF CONTACT: Deb Anderson (Ext. 16764)

Woodward State Hospital-School - Audit Report



**Audit Report Findings** The annual FY 1997 audit report for the Woodward State Hospital-School (SHS) was received by the Legislative Fiscal Bureau July 7. The Auditor of State reported the following findings related to internal control:

**Payroll/Leave Records *Payroll and Employee Leave Records*** - The SHS’s payroll records are maintained on the State’s centralized payroll accounting system. The centralized system maintains data based upon employee’s approved timecards and authorized leave forms. For the 60 payroll transactions selected for testing, the following findings were noted:

* An employee timecard and approved leave form reported 40 hours of vacation leave taken, however, the hours were not recorded as used on the centralized payroll system.
* An employee approved leave form did not support the total amount of vacation leave used and recorded.
* An employee timecard supported a certain number of hours worked which were understated when totaled for recording on the centralized payroll system.
* Recommendation - The SHS should review control procedures to ensure there is proper supervisory review to minimize recording errors.
* Response - The affected supervisors have received reminders on payroll procedures.
* Conclusion - Response acknowledged. The Auditor of State’s Office will review records to ensure that corrections have been made at the time of the next audit.



**Fixed Assets *Fixed Assets*** - Several items of furniture, fixtures, and equipment purchased during FY 1997 totaling approximately $142,000 were not included as fixed asset additions on the SHS’s fixed asset listing and not properly reported according to Generally Accepted Accounting Principles (GAAP).

* Recommendation - The SHS should maintain the fixed asset listing on a current basis and properly report additions on the SHS’s GAAP reporting package.
* Response - The GAAP reporting package was corrected and resubmitted October 1997.
* Conclusion - Response accepted.

STAFF CONTACT: Deb Anderson (Ext. 16764)

Department of Human Services - Audit Report



**Audit Report Findings** The FY 1997 annual audit report for the Department of Human Services (DHS) was received by the Legislative Fiscal Bureau on June 30. The DHS was audited as part of the State’s Comprehensive Annual Financial Report and the State’s Single Audit Report for FY 1997. Reportable conditions include:

**Social Security Numbers *Recipient Social Security Numbers:*** The Code of Federal Regulations requires that recipients furnish a social security number as a condition of eligibility. The DHS made payments to 37 recipients without a record of a valid social security number. One was identified as an illegal alien, 11 were identified as newly adopted children, eight of the recipient’s numbers were not entered onto the system in a timely manner, and 17 had no explanation.

* Response - The DHS provided a response and corrective action plan including investigation responsibility assigned to the Income Maintenance Steering Team with recommendations due back from the Team by July 1, 1998.
* Conclusion - Response accepted.

**Food Stamps *Food Stamps Reporting:*** As of June 1997, reconciliation of lines nine, ten, and eleven of the FNS-46 report had not been completed since the June 1995 report.

* Response - The DHS responded that the reports are now complete through March 1997, with the exception of October, November, and December 1996. The current reports continue to be submitted with partially reconciled figures. The DHS expects to submit up-to-date reports by July 2000.
* Conclusion - Response acknowledged. The DHS should make timely reconciliations.

**Field Office/Internal Controls *Field Office Internal Controls:*** For FY 1997, 33 offices were visited: 13 county offices, 12 Human Services Area Administrative offices, one part-time office, and seven child support recovery offices. The following reportable conditions were noted, several of which were also reported in the previous year’s audit:

***General Operations and Control Environment:*** The auditor’s identification card was not requested prior to auditor access to office records/food stamps in several offices.

***Food Stamp Controls:*** Various practices including review of logs, changing of locks, transfers in excess of $300, and use of an inventory record were cited.

***Cash Receipts:*** Various conditions involving internal control were cited.

***Cash Disbursements:*** In four of the offices visited, the office listing of invoices was prepared, compared to the County Billing Report, and approved by the same individual.

* Response - The DHS responded to each comment, and stated that for all audit findings, a notice of findings will be sent to Regional Administrators by May 1, 1998, and corrective action responses will be required by July 1, 1998.
* Conclusion - Response accepted.



**Cash Management *Cash Management Over Payroll:*** From review of payroll drawdowns by program, out of 26 pay periods, the auditor cited numerous instances of payroll drawn late or early, or no specific draw made for payroll warrants written, outside the administrative constraints of the Cash Management Improvement Act (CMIA) Agreement.

* Response - The DHS responded that all instances involved federal funds; that USDA funding was drawn on a timely basis, but the CMIA report done on a quarterly basis is off by one pay period; TANF dollars drawn during the first quarter of the year are subject to time constraints of closing out the fiscal year and completion of the CMIA report; and federal funds should be drawn in a method to limit both federal and State cash burden. As of March 1, 1998, the procedures have been reviewed and the timing/consistency of draws have been and will continue to be improved.
* Conclusion - Response accepted.

**Cash Disbursements *Cash Disbursements:*** In four of the offices visited, the office listing of invoices was prepared, compared to the County Billing Report, and approved by the same individual.

* Response - The DHS responded to each comment and stated that for all audit findings, a notice of findings will be sent to Regional Administrators by May 1, 1998, and corrective action responses will be required by July 1, 1998.
* Conclusion - Response accepted.

**Payroll/Timesheet *Payroll (Timesheet Approval):*** Eight of 46 timesheets reviewed lacked proper approval.

* Response - The DHS defined an interim process to ensure supervisor approval. By October 1998, the DHS will use an electronic payroll system which requires supervisory approval before a paycheck is issued.
* Conclusion - Response accepted

**EBT System *Electronic Benefits Transfer (EBT) System:*** The EBT Pilot Project allows recipients of Family Investment Program (FIP) and Food Stamp benefits to receive their benefits electronically. When a case file with FIP or TANF benefits has no activity for 60 days and a zero balance, it is to be removed from the system. The system automatically cancels the benefits, but there are no procedures in place to verify if cases are removed properly or timely.

* Response - The DHS is in the process of selecting a vendor to expand EBT statewide by July 2000. The Request for Proposals requires a method to verify dormant accounts.
* Conclusion - Response acknowledged. Until the new system is in place, the DHS needs to ensure the cases are reviewed in a timely manner.

**Foster Care Clearing Acct *Foster Care Clearing Account Activity:*** The Account is used by the DHS to accumulate and account for funds received on behalf of individuals participating in the Foster Care Program. During FY 1997, the DHS could not adequately support Supplemental Security Income (SSI) deposits, which appear to be understated by $174,328, the amount of the checks returned to sender. Also, the auditors described excessive delay (more than two months) in distribution of foster care governmental income, with total receipts held for an excessive period being $1,185,040.

* Response - The DHS stated several facets of a corrective action plan, including development of a new computer based system to better handle unexpected volume, to be implemented by July 1, 1998.
* Conclusion - Response accepted.



**Foster Care *Foster Care (Title IV-E):*** During case file testing of 35 files, the auditor found two delays in development of the case plan, five delays in the re-evaluation of the case plan, three cases with lack of supervisor signatures on the case plan, and one agreement not signed by a parent. Additionally, the Employees’ Manual requires one unannounced visit to every foster care home/facility annually and every home/facility to be licensed. Documentation was not provided to support visits of eight foster care homes/facilities or licensure of 13 homes/facilities in FY 1997.

* Response - The DHS will assign investigative responsibility, with appropriate and specific corrective action to be implemented.
* Conclusion - Response accepted.

**Purchase of Services *Purchase of Services Contracts - Contract Monitoring:*** The Iowa Administrative Code Section 441, Chapters 150 and 152, requires monitoring and annual site visits for Purchase of Services contractors and Rehabilitative Treatment and Support (RTS) services providers. During FY 1997, five of 19 providers reviewed were noted as not having an on-site visit performed since December 1994; on-site visits for two of the 19 Purchase of Service providers were completed after the auditor requested supporting documentation from the project manager; documentation could not be located to prove that one on-site visit took place; and two of two out-of-state RTSS providers did not receive on-site visits.

* Response - The DHS explained a corrective action plan to establish two distinct processes for Purchase of Service and RTS service provider visits annually.
* Conclusion - Response accepted.

**Claim Denials *Monitoring of Peer Review Organization Medicaid Claims Denials:*** The DHS does not have a system in place to ensure these claims are adjusted per Iowa Foundation for Medical Care (IFMC) claim denial, and no controls are in place to prevent the resubmission of adjusted denied claims.

* Response - The DHS described transition to a new Medicaid Management Information System. As of July 1, 1997, Consultec’s Deputy Project Director receives the adjustments weekly and has the adjustment unit impose those adjusted claims directly.
* Conclusion - Response acknowledged. DHS should implement a system which ensures the timely adjustment of claims received from IFMC.

**Provider Files *Fiscal Agent (Unisys Corp.) - Provider Files:*** Providers of medical services to Medicaid eligible recipients are required to submit an application and provider agreement to obtain initial approval. An application or agreement was not obtained for three of 53 providers reviewed. Agreements for 25 of 53 providers were not available due to the extended period that those providers had been in the program.

* Response - The DHS explained that providers involved in the Iowa Medicaid program since the mid 1980s have not been required to re-enroll with new fiscal agents. During implementation of the current fiscal agent, the DHS calculated the costs associated with re-enrolling all providers and decided that the additional money would not warrant that procedure. The RFP approved by the Health Care Financing Administration (HCFA) allowed providers to continue without re-enrolling. The DHS detailed their process of random checks and file corrections for providers enrolled since 1988.
* Conclusion - Response acknowledged. The DHS should maintain current files for all providers supporting the approval of the provider and their services.

**Reportable Conditions *Other Reportable Conditions:*** The Report detailed the following other conditions, with all corresponding DHS responses accepted:

* Compliance with OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments concerning salaries charged to more than one program.
* Monitoring of federal award subrecipients.
* Suspension and debarment requirements that no agreement for purchase of goods or services be made with any debarred or suspended party.
* Unsupported payments to eligible recipients without receipt of supporting files.
* Cash management of federal funds with excessive positive cash balances, including Family Support payments to states, TANF, Adoption Assistance, and Social Services Block Grant funds.
* Retroactive claims verification.
* Reconciliation of child support recovery expenditures, revenue, daily distribution reports, and fees and costs to IFAS.
* Supporting documentation for child day care provider reimbursements and dates of service.
* Reevaluation of Foster Care Adoption Assistance subsidy agreements in a timely manner.
* Medical Assistance claims received and paid for services provided after a client’s death (total of $36,385 owed to the DHS) and not yet recouped.
* Medicaid waiver files missing required documentation.
* Third party liability for Medical Assistance claims.
* Various internal control, cash management, fixed asset, Code of Iowa compliance, and other miscellaneous reporting issues.

**More Information** Additional details on the findings may be obtained from the Legislative Fiscal Bureau.

STAFF CONTACT: Margaret Buckton (Ext. 17942) Deb Anderson (Ext. 16764)

Department of Public Health - Audit Report



**Audit Report Findings** The annual audit report for the Department of Public Health (DPH) for FY 1997 was received by the LFB. The Auditor of State made two findings related to internal control and one finding related to statutory requirements.

**Segregation of Duties *Segregation of Duties* (*Internal Control*)**

* An employee of the Department can initiate and approve payroll transactions on the Human Resource Information System (HRIS).
* An employee of the Board of Nursing who is responsible for preparing purchase orders may also approve the claims.
* Recommendation - Adequate segregation of duties should be established so that the same person does not initiate a transaction and also approve the transaction.
* Response - The Department acknowledges that one of the two employees in the personnel area has department head access to the HRIS system; however, other safeguards are in place to ensure adequate internal controls. The payroll clerk (who enters payroll) does not pick up the finals or the warrants from the Department of Revenue and Finance. In addition, the warrants are reviewed by the personnel assistant prior to being distributed. The procedures for ordering supplies by purchase order and paying the claims has been changed.
* Conclusion - Response acknowledged. However, in instances where it is not possible to adequately segregate incompatible duties such as initiating and approving a transaction, it is important to increase the review of that work by supervisory personnel.

**Cash Receipts *Cash Receipts* (*Internal Control*)**



* An initial list of cash receipts is not prepared at the time mail is opened. Instead, employees open the mail in the various divisions and examining boards, identify the coding and type of receipt, and then route the receipts to the cashier.
* Checks received in the mail at various divisions are not restrictively endorsed immediately upon receipt.
* Documentation is not maintained to support the payment of refunds of fees in the Bureau of Vital Records.

Recommendation - The Department should review procedures to improve internal control over cash receipts. At a minimum, (a) an initial list of cash receipts should be prepared by the mail opener, and an independent reconciliation be made of the initial listing to the final deposit with the cashier, (b) checks should be restrictively endorsed upon receipt, and (c) adequate documentation should be maintained to support refund transactions.

Response - The Department will review current procedures and improve our current process for items (a) and (b) above. Effective March 23, 1998, a

copy of the letter or request from the Vital Records’ customers will be attached to the claim voucher when requesting a refund of fees.

Conclusion - Response accepted.



**Annual Report *Annual Report* *(Statutory Requirements and Other Matters)*** - The Department is required to submit an annual report to the Governor and General Assembly in November of each year concerning the Department’s operations. The Department did not submit this annual report for FY 1996 until March 1997. The annual report for FY 1997 was submitted by November 30, 1997. The Department has revised the procedures for ensuring compliance with the Code of Iowa. No response is necessary.

STAFF CONTACT: Valerie Thacker (Ext. 15270)

1998 Session Fiscal Report



***Fiscal Report*** The LFB recently released the *1998 Session Fiscal Report*. This document contains a summary of fiscal information and legislation passed by the 1998 Session. The document provides information on General Fund and non-General Fund appropriations, receipts, and bill summaries which have a significant fiscal impact on the State of Iowa.

Included in the document is the following information:

* Appropriations summary.
* General Fund balance sheet.
* Summaries of all appropriations acts.
* A summary of LFB reports.

**Copies** Copies of the *Report* have been mailed to each legislator.

STAFF CONTACT: Mary Shipman (Ext. 14617)

Weekly Medical Assistance Expenditures in the Department of Human Services



**Medical Asst. Program** For the week ending July 6, 1998, FY 1998 General Fund expenditures for the Medical Assistance Program in the Department of Human Services were $3.8 million (117.8% of budget). This is $570,000 above the weekly budget established by the Department. Year-to-date Medical Assistance General Fund expenditures are $363.5 million, which is $1.7 million (0.5%) above the amount budgeted for the fiscal year-to-date.

**Expenditures Monitored** The LFB will continue to monitor Medical Assistance Program expenditures and will provide regular updates to members of the General Assembly. More information is available from the Fiscal Bureau.



STAFF CONTACT: Margaret Buckton (Ext. 17942)