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**NEWS RELEASE**

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FOR RELEASE March 17, 2010

Auditor of State David A. Vaudt today released a report on Aging Resources of Central Iowa (ARCI) for the period July 1, 2005 through June 30, 2009. The review was requested by the Iowa Department on Aging (IDA) as a result of concerns with payments to selected vendors for goods and/or services not yet received which appeared to be in non-compliance with policies established by IDA.

ARCI is 1 of 13 Area Agencies on Aging (AAAs) which receive funding from IDA. The AAAs provide goods and services to elders who have been identified with economic or social need, ensure elders in their area have reasonably convenient access to information and referral services and provide adequate and effective opportunities for elders to express their views on policy development and program implementation.

Vaudt reported ARCI had a practice of prepaying expenses by establishing accounts with certain vendors and purchasing gift cards with funds available at the end of the fiscal year in an effort to avoid returning unspent program funds to IDA. ARCI avoided returning \$180,422.91 to IDA for fiscal years 2006 through 2009 and at least \$4,000.00 prior to fiscal year 2006 by establishing the prepaid accounts. Vaudt reported it was not possible to determine if additional amounts had been prepaid prior to fiscal year 2006. Of the \$184,422.91 total, \$143,422.91 were payments to vendors to establish accounts from which future goods or services could be purchased. The \$184,422.91 also includes \$41,000.00 for the purchase of gift cards which were to be distributed to clients at a future date. The prepayments made by ARCI are summarized in the following table. As illustrated by the table, \$81,299.14 of the \$143,422.91 paid to vendors for future goods or services and \$6,900.00 of gift cards remained unspent as of June 30, 2009.

Fiscal Year	Original Amount			Amount Remaining at June 30,	
	Gift Cards	Payments to Vendors	Total	Gift Cards	Payments to Vendors
Prior to 2006*	\$ -	4,000.00	4,000.00	##	3,020.00
2006	12,500.00	27,640.00	40,140.00	##	30,586.00
2007	-	31,782.91	32,000.00	##	49,657.24
2008	17,500.00	18,000.00	35,500.00	##	41,824.61
2009	11,000.00	62,000.00	73,000.00	6,900.00	81,299.14
Total	\$ 41,000.00	143,422.91	184,422.91		

\* - Additional amounts may have been prepaid during this period, but could not be identified.

## - ARCI did not maintain an inventory of the gift cards prior to May 2008. In addition, ARCI was unable to provide a June 30, 2008 balance.

The balance of gift cards and payments to vendors remaining at June 30, 2009 total \$88,199.14. While these funds should have been returned to IDA at the end of the appropriate fiscal year, available records show the accounts established with the vendors were subsequently used for program purposes. However, it was not possible to determine how the gift cards were used. Vaudt reported ARCI was unable to provide supporting documentation for the prepayment of certain expenses during fiscal year 2006 and the distribution and inventory of gift cards prior to May 2008.

At the request of IDA, ARCI repaid \$67,137.87 to IDA and contacted 10 of the vendors which had received prepayments and requested any unspent portion be returned. As a result of the request, \$44,894.95 was returned to ARCI from 9 of the 10 vendors contacted.

Vaudt also reported the \$184,442.91 prepaid to vendors included \$171,922.91 of State funds and \$12,500.00 of Federal funds, all of which ARCI received through IDA.

IDA policy states the funding awarded to AAAs is available for use for the fiscal year July 1 through June 30 annually and all purchases of goods and services are to be in compliance with Federal regulations. Specifically, Title 45 of the Code of Federal Regulations states expenditures incurred during a given period are to be for goods and/or services received from or performed by the vendor. Because the prepayments made by ARCI were not for goods and/or services received during the given fiscal year, the prepayments identified do not comply with either State or Federal regulations.

The report includes recommendations to strengthen overall operations. Vaudt made recommendations to IDA to ensure allowability of vendor payments is reviewed on a periodic basis during on-site visits and to implement procedures requiring supporting documentation be maintained by the AAAs for information submitted to IDA.

Copies of the report have been filed with the Iowa Department on Aging, Aging Resources of Central Iowa and the Attorney General's Office.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/index.html>.

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**A REVIEW OF  
AGING RESOURCES OF CENTRAL IOWA  
AS REQUESTED BY THE  
IOWA DEPARTMENT ON AGING**

**FOR THE PERIOD  
JULY 1, 2005 THROUGH JUNE 30, 2009**

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Auditor of State's Report

To the Director of the Iowa  
Department on Aging:

As a result of concerns regarding certain prepayments of expenses and at your request, we conducted a review of Aging Resources of Central Iowa (ARCI). We have applied certain tests and procedures to selected financial transactions of ARCI for the period July 1, 2005 through June 30, 2009. Based on a review of relevant information and discussions with ARCI and Iowa Department on Aging (IDA) staff, we performed the following procedures:

- (1) Evaluated internal controls for IDA and ARCI to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained detailed listings of expenditures from ARCI and scanned all disbursements for reasonableness and to determine if all prepayments had been identified.
- (3) Examined supporting documentation for certain expenditures to determine if they were appropriate, properly approved and supported by adequate documentation.
- (4) Reviewed ARCI's sources of funding to determine if State and/or Federal funding was used for the prepayment of expenses.
- (5) Reviewed the timing of the prepayments and compared them to when ARCI received reallocated funds from IDA.
- (6) Reviewed selected expenditures to determine if the client receiving services completed an application for assistance and if the application identified a need.
- (7) Determined if client applications were approved prior to the provision of services.

These procedures identified \$184,422.91 spent by ARCI from its unused funds from IDA in order to avoid returning the unspent balance. Of this amount, \$180,422.91 was spent at the end of fiscal years 2006 through 2009. The remaining \$4,000.00 was spent prior to fiscal year 2006. We are unable to determine if additional funds were spent by ARCI prior to fiscal year 2006 in an effort to avoid returning unspent funds.

Of the \$184,422.91 total, \$143,422.91 was paid to vendors to establish accounts from which future goods or services could be purchased. An additional \$41,000.00 was used to purchase gift cards which were to be distributed to clients at a future date.

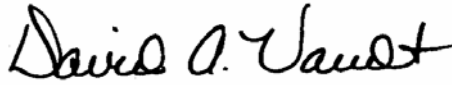
Only \$81,299.14 of the payments to vendors and \$6,900.00 of the gift cards remained as of June 30, 2009. While these funds should have been returned to IDA at the end of the appropriate fiscal year, available records show the accounts established with the vendors were subsequently used for program purposes.

Because adequate records were not available, we are unable to identify the items purchased from vendors during fiscal year 2006 and how gift cards were distributed prior to May 2008. In addition, we are unable to determine what was purchased with the gift cards. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Review Summary and **Exhibit A** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of Aging Resources of Central Iowa, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Iowa Department on Aging, Aging Resources of Central Iowa and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Iowa Department on Aging and Aging Resources of Central Iowa during the course of this review.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

January 29, 2010

A Review of  
Aging Resources of Central Iowa  
as Requested by the  
Iowa Department on Aging

Review Summary

**Background Information**

There are 13 Area Agencies on Aging (AAAs) located throughout Iowa which receive funding through the Iowa Department on Aging (IDA). As required by section 231.33 of the *Code of Iowa*, each AAA is to develop and administer an area plan assessing the types and levels of services needed by older persons in the planning and service area, as well as the effectiveness of other public or private programs serving those needs. The AAAs enter into sub-grants or contracts in order to provide all services established by the plan. Each AAA is also overseen by an advisory council.

In accordance with the *Code*, all AAAs are required to give preference in delivery of service to elders with the greatest economic or social need, to ensure elders in the planning and service area have reasonably convenient access to information and referral services and to provide adequate and effective opportunities for elders to express their views on policy development and program implementation to the AAAs. The AAAs are also to designate community focal points and conduct outreach efforts to identify elders with the greatest economic or social needs and inform them of the availability of services under the area plan. The AAAs assist elders in gaining access to eligible services, including the services identified below. In addition, the AAAs assist elders with basic living needs, including rent, mowing, gas for vehicles and groceries.

- Adult day care
- Chore services
- Companion and respite care
- Congregate meals
- Consultations about other problems
- Employment assistance
- Health aides
- Home delivered meals
- Home repair
- Legal assistance
- Meal sites
- Modifying home disabilities
- Nursing and homemaker services
- Senior centers
- Transportation

Aging Resources of Central Iowa (ARCI) is the AAA which provides services to citizens of Boone, Dallas, Jasper, Madison, Marion, Polk, Story and Warren Counties. ARCI is funded primarily by grants received from IDA, the Federal government and private donations.

Each fiscal year, IDA prepares Notice of Grant Award (NGA) letters detailing the State and Federal funding to be received for that year, which are sent to each AAA. Additional NGAs are subsequently prepared and issued, as needed, to reflect any changes in funding levels throughout the fiscal year. In April of each fiscal year, AAAs submit an “AAA Reallocation of State and Federal Funds” form. This form documents the budgeted amounts, expenditures through March 31, any amounts to be returned to IDA and any additional funding requests by funding source.

For the amounts to be returned to IDA and additional funding requested, the AAAs provide their best estimate based on fiscal year expenditures to date and expected needs for their area for the remaining 3 months of the fiscal year. According to representatives of IDA and ARCI, supporting documentation for the amounts reported is neither maintained nor required to be submitted to IDA.

Any funds returned to IDA by the AAAs are pooled and reallocated to those AAAs requesting additional funds from IDA. If more funding is requested than is available, IDA prorates the available funding to meet the needs of each AAA as best as possible. This reallocation occurs in May or June of each fiscal year. The Iowa Administrative Code (IAC) 321-5.11(2) states AAAs receiving reallocated funds shall obligate them by the end of the fiscal year in which they are reallocated. While the term “obligate” has not been defined by IDA, IDA representatives stated



they have provided guidance to the AAAs which makes it clear funds are to be used to provide goods and services to recipients prior to the end of the fiscal year. Therefore, any additional funding reallocated to and received by the AAAs can be applied to eligible goods and/or services purchased and received between July 1 and June 30. IAC 321-5.3(1) also states, in part, funding detailed on the NGAs sent by IDA are available for use by each AAA for the fiscal year July 1 through June 30. While the payment from IDA may not be received prior to June 30, the expenditures must be incurred prior to June 30 for goods and/or services received prior to June 30. In addition, at the end of each fiscal year, the AAAs must return any remaining funds to IDA.

We obtained ARCI's reallocation forms for the period July 1, 2005 through June 30, 2009 to determine additional funds requested, if any. **Table 1** summarizes the additional funding ARCI requested by fiscal year.

**Table 1**

<b>Fiscal Year</b>	<b>Amount Requested</b>
2006	\$ 50,000.00
2007	50,000.00
2008	100,000.00
2009	75,000.00
Total	\$ 275,000.00

In addition, according to representatives of IDA, IDA's administrative team evaluates IDA's State and Federal funding throughout the fiscal year in comparison to actual expenditures. As a result, IDA may identify additional funds which can be made available for other uses. Therefore, IDA often provides an additional allocation to the AAAs. However, this usually does not occur until after the "AAA Reallocation of State and Federal Funds" forms have been submitted by the AAAs. After the AAAs receive any additional funding, they are encouraged, but are not required, to resubmit the "AAA Reallocation of State and Federal Funds" form.

IDA is also responsible for monitoring the use of funds to ensure compliance with laws and regulations. Monitoring is performed either on-site or as a desk review. Each AAA receives an on-site monitoring review from IDA on a 3-year rotating basis. During the years an on-site review is not performed, a desk review is performed by IDA. During on-site visits, IDA reviews program compliance on a client basis, but does not necessarily review financial compliance, such as allowability of total expenditures. For example, a selection of client applications would be reviewed to ensure the clients were eligible to receive goods and/or services and the goods and/or services provided were in compliance with State and Federal regulations. However, the accounting records would not be reviewed to ensure payments to vendors were for goods and/or services received by specific clients during the fiscal year. For the desk reviews, IDA evaluates the reports submitted by the AAAs for compliance with State and Federal regulations.

As previously stated, the AAAs assist elders in gaining access to eligible services, including lift chairs and building ramps to access doors. In accordance with IAC 321-5.15(8), IDA and/or AAAs are to use either an informal or formal competitive selection process for vendors and maintain sufficient supporting documentation. In addition, goods and services purchased are to be received or rendered by June 30<sup>th</sup> of the fiscal year in order for the AAAs to retain any remaining balance and not return funds to IDA.

During the week of September 21, 2009, IDA received an inquiry from a vendor which had received a \$10,000 payment for services not yet rendered to ARCI. The vendor was concerned with the propriety of the payment. IDA contacted ARCI and, through a series of communications, confirmed ARCI had prepaid the vendor for services not yet performed or identified. In addition,

IDA learned ARCI had provided other vendors with payments for goods and/or services not yet received at the end of fiscal year 2009. On October 1, 2009, IDA contacted the Office of Auditor of State regarding the prepayment of expenses for the provision of client services by ARCI.

As a result of the concerns identified, IDA requested the Office of Auditor of State conduct a review of certain transactions processed by ARCI. We performed the procedures detailed in the Auditor of State's report for the period July 1, 2005 through June 30, 2009.

### **Detailed Findings**

These procedures identified \$184,422.91 spent by ARCI from its unused funds from IDA in order to avoid returning the unspent balance. Of this amount, \$180,422.91 was spent at the end of fiscal years 2006 through 2009. The remaining \$4,000.00 was spent prior to fiscal year 2006. We are unable to determine if additional funds were spent by ARCI prior to fiscal year 2006 in an effort to avoid returning unspent funds.

Of the \$184,422.91 spent by ARCI, \$143,422.91 was paid to vendors to establish accounts from which future goods or services could be purchased. An additional \$41,000.00 was used to purchase gift cards to be distributed to clients at a future date.

Only \$81,299.14 of the prepayments to vendors and \$6,900.00 of the gift cards purchased remained as of June 30, 2009. While these funds should have been returned to IDA at the end of the appropriate fiscal year, available records show the accounts established with the vendors were subsequently used for program purposes.

Because adequate records were not available, we were unable to identify the items purchased from vendors paid during fiscal year 2006 and how gift cards were distributed prior to May 2008. In addition, we are unable to determine what was purchased with the gift cards. A detailed explanation of each finding is included in the following paragraphs.

### **PREPAYMENT OF EXPENSES**

As previously stated, IAC 321-5.3(1) states funding received by the AAAs is available for use for the fiscal year July 1 through June 30. In addition, at the end of each fiscal year, the AAAs must return any remaining funds to IDA. The funding received by AAAs is also to be expended in accordance with Federal regulations. Specifically, Title 45 of the Code of Federal Regulations specifies the expenditures incurred during a given period are to be for goods and/or services received from or performed by the vendor. Because the prepayments made by ARCI were not for goods and/or services received during the fiscal year, the \$184,422.91 identified does not comply with either State or Federal regulations.

We reviewed the audited financial statements of ARCI prior to beginning our fieldwork. However, the prepaid expenses reported in the financial statements did not equal the prepaid expenses included in our review. According to a representative of ARCI's independent auditing firm, the prepaid expenditures reported in the financial statements included office rent and insurance. The representative also stated ARCI's auditors were unaware of ARCI's practice of establishing prepaid accounts with vendors because those amounts were recorded and presented as expenditures for goods and/or services received. While office rent and insurance are common examples of prepaid expenses, they are not similar to the types of expenses addressed by this review. Office rent, for example, is a short-term expense incurred during the normal course of operations with a defined service and time period. The prepaid expenses addressed by this review are not for a defined good or service, time period or recipient.

We inquired of ARCI representatives when the practice of establishing prepaid accounts had begun. According to a representative of ARCI, this practice was started in approximately fiscal

year 2002. However, because supporting documentation prior to fiscal year 2006 was not readily available, we are unable to determine the amount of prepayments made prior to July 1, 2006.

The prepayments identified include payments ARCI made to vendors to establish accounts from which future goods or services could be purchased and purchases of gift cards which were to be distributed to clients at a future date. The prepayments identified are summarized by fiscal year in **Table 2**. The **Table** also includes the amount of additional funds requested and received by ARCI each fiscal year. As illustrated by the **Table**, the amount of prepayments ARCI made at the end of fiscal years 2006, 2007 and 2009 was a significant portion of the additional funding ARCI requested at the end of the year from IDA. In fact, as illustrated by the **Table**, the amount of prepayments exceeded the additional funds ARCI received at the end of fiscal years 2006, 2007 and 2009. As a result, ARCI used not only all its additional funds to purchase prepaid goods and services, ARCI also used some of its original unspent program funds. As a result, it is clear a substantial portion of the additional funds requested and received by ARCI were not needed before the end of the fiscal year.

**Table 2**

Fiscal Year	Prepayments			Additional IDA Funds Requested	Additional IDA Funds Received
	Payments to Vendors	Gift Cards	Total		
Prior to 2006*	\$ 4,000.00	-	4,000.00	-	-
2006	27,640.00	12,500.00	40,140.00	50,000.00	29,035.00
2007	31,782.91	-	31,782.91	50,000.00	9,091.00
2008	18,000.00	17,500.00	35,500.00	100,000.00	71,645.00
2009	62,000.00	11,000.00	73,000.00	75,000.00	57,068.00
Total	\$ 143,422.91	41,000.00	184,422.91	275,000.00	166,839.00

\* - As previously stated, we are unable to determine if additional prepayments were made during this period.

During the course of our review, we discussed the practice of prepaying vendors for goods and/or services not yet received with ARCI representatives to determine the rationale for making these payments. As previously stated and as illustrated by **Table 2**, ARCI requested additional funding in each fiscal year for the period reviewed. According to ARCI representatives, “We historically have requested additional Senior Living Funds due to the unmet needs in our service area.”

Specifically, the representatives stated ARCI could have provided the entire amount of reallocated funds received to assist clients with utility bills in arrears. However, ARCI instead determined the funds should be used to establish prepaid accounts at certain vendors in anticipation of a potential future need. According to ARCI representatives, a broader range of clients could be served through establishing prepaid accounts at several vendors providing a variety of goods and/or services. However, this does not appear to be the best use of taxpayer dollars and, as previously stated, appears to be a mechanism to avoid the return of funding to IDA.

We also received a response from ARCI’s legal counsel regarding the use of the funds at the end of the fiscal year. According to ARCI’s legal counsel, “We obligated the funds for use in a general area for services rendered over the course of the year in accordance with the statutory requirements regarding funds remaining at the end of the year.” We disagree with that position. For funds to be obligated, there must be an identified good or service to be received by the recipient by the end of the fiscal year.

As stated in Iowa Administrative Code (IAC) 321-5.15(8), “When the estimated one-year value of the contract is equal or greater than \$5,000 but less than \$50,000 or when the estimated

multi-year 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 agreements with the vendors receiving prepayments using an informal bid process; however, no supporting documentation was maintained to provide an explanation of how the vendors were selected or how the prepayment amount was determined.

According to ARCI’s legal counsel, bid requirements were not applicable because the balances would be used for individual transactions, each of which would be less than \$5,000.00. Because some payments to the vendors exceeded the \$5,000.00 bid threshold, the bid requirements were applicable. However, as confirmed by ARCI’s legal counsel, ARCI had not received goods or services for the payments at the time the payments were made. Therefore, the payments should not have been made.

**Payments to vendors** - We obtained a summary of vendor names and prepayment amounts from ARCI. By comparing the listing provided to ARCI’s accounting records, we identified 4 vendors which had not been included in the summary provided by ARCI. The additional prepayments identified total \$4,500.00 and range from \$500.00 to \$3,000.00. The vendors with whom accounts were established are listed in **Exhibit A**. The **Exhibit** also includes the expenses and remaining balances by vendor at the end of each fiscal year for the period July 1, 2005 through June 30, 2009.

According to representatives of ARCI, each vendor receiving a prepayment maintained a ledger documenting the charges against the payment and the remaining balance, if any. In addition, ARCI relied solely on the vendors for this information and did not maintain separate ledgers or other supporting documentation to monitor the prepaid accounts established. According to a representative of 1 of the vendors, it was never clear when the prepaid account was to be used. The vendor contacted ARCI each time to determine whether to use the prepaid account.

As previously stated, \$143,422.91 was paid to vendors to establish accounts from which future goods or services could be purchased. However, the prepayments made by ARCI for the period July 1, 2005 through June 30, 2009 total only \$139,422.91. The remaining \$4,000.00 is a payment ARCI made to Parkview Pharmacy. According to a representative of ARCI, this expenditure occurred prior to fiscal year 2006; however, the vendor was not used by any of ARCI’s clients. Therefore, the vendor returned the balance in full during fiscal year 2007. Because the prepayment to the vendor occurred prior to fiscal year 2006, the \$4,000.00 has not been included in **Exhibit A**.

Of the \$143,422.91 of payments to vendors identified, all but 2 payments were issued in June of a fiscal year. The remaining 2 payments were issued to Choice Medical in May 2007. As previously stated, any funds remaining at the end of the AAAs’ fiscal year are to be returned to IDA. It appears the prepayments made by ARCI were used to “spend down the funds” in order to avoid returning unspent program funds to IDA.

In addition, according to a memorandum to IDA from ARCI, prepaid accounts were used “in order to best serve older clients in emergency situations or in situations where a quick response was needed because the older client was in crisis.” However, as illustrated by **Exhibit A**, it took several years for some of the prepaid accounts established to be exhausted. Also, on several occasions, ARCI increased the balance of the prepaid accounts by making additional payments to the vendor even though the prepaid account already contained a considerable balance.

**Exhibit A** illustrates the remaining balance of the prepaid accounts increased significantly between the end of fiscal years 2006 and 2007 and again between the end of fiscal years 2008 and 2009. In addition, the number of vendors with whom prepaid accounts were established increased from 4 in fiscal years 2007 and 2008 to 10 at the end of fiscal year 2009.

**Gift card purchases** - ARCI purchased \$41,000.00 of gift cards at the end of fiscal years 2006 through 2009. According to ARCI representatives, the gift cards were to be distributed to ARCI's clients for items such as food and gas. **Table 3** summarizes the gift cards purchased by vendor for fiscal years 2006 through 2009. At June 30, 2009, \$6,900.00 of the gift cards were unused and held by ARCI. Of that amount, \$5,000.00 of the cards were purchased from Fareway and \$1,900.00 were purchased from Kum & Go.

**Table 3**

Vendor	Fiscal Year				Total
	2006	2007	2008	2009	
Casey's	\$ 2,000.00	-	5,000.00	-	7,000.00
Fareway Stores, Inc	7,500.00	-	5,000.00	5,500.00	18,000.00
Hy-Vee Inc	-	-	5,000.00	3,000.00	8,000.00
Kum & Go	1,000.00	-	2,500.00	2,500.00	6,000.00
Quick Trip	2,000.00	-	-	-	2,000.00
Total	\$12,500.00	-	17,500.00	11,000.00	41,000.00

During our review, we were unable to determine if the gift cards purchased prior to May 2008 were properly inventoried and distributed because adequate records were not available. For the gift cards tested subsequent to May 2008, no discrepancies were identified. We were unable to determine if the items purchased with the gift cards were allowable because adequate records were not available.

**Repayments** - Because the prepayment of expenses is not in compliance with IDA guidelines and all unused funds should be returned to IDA at the end of each fiscal year, IDA requested ARCI remit the amount of prepayments as of June 30, 2009. On October 2, 2009, IDA received a \$67,137.87 check from ARCI as a partial repayment of funds used for prepayments and the purchase of gift cards. On several occasions, we asked ARCI representatives which fund sources were used for the repayment to IDA. In response, ARCI representatives only stated, "to determine the actual source at this time would only be a guess" and "until a final resolution has been determined, we will not be able to finalize the accounting transaction."

ARCI should have recorded the payment to IDA in its accounting records and should be able to identify which State, Federal or other funding source was used to repay the funds.

**Table 4** summarizes total prepayments and gift card purchases, the amount ARCI has repaid and the remaining balance.

**Table 4**

Description	Amount
Prepayments to vendors	\$ 143,422.91
Vendor gift cards	41,000.00
Total prepayments	184,422.91
Less: Repayment	67,137.87
Net prepayments	\$ 117,285.04

On September 30, 2009, IDA also requested ARCI recover any remaining balances resulting from the prepayments. As a result of this request, ARCI sent a letter on October 5, 2009 to the vendors receiving prepayments and requested the vendors repay any balance remaining. By January 19, 2010, ARCI had received \$44,894.95 from 9 of the 10 vendors contacted. The repayments received are listed in **Table 5**.

**Table 5**

<b>Vendor</b>	<b>Date</b>	<b>Amount</b>
A-1 Home Health	10/27/09	\$ 3,410.98
Cedar Valley Mobility	01/19/10	5,615.00
Choice Medical	10/13/09	7,987.50
Curley's Furniture	10/13/09	2,751.00
Des Moines Water Works	10/13/09	454.98
Hammer Medical Supply	11/17/09	10,000.00
Hammer Medical Supply	12/31/09	1,747.38
Modern Optical	10/13/09	4,194.00
Rhiner's Plumbing	10/27/09	5,816.61
Siddall Moving & Storage	10/27/09	2,917.50
Total		<u>\$ 44,894.95</u>

We determined 8 of the 9 vendors returning funds were vendors which had received prepayments in fiscal year 2009. The remaining vendor had received a prepayment in fiscal year 2007. Except for Parkview Pharmacy, all other prepayments made prior to fiscal year 2009 had either been expended prior to ARCI's request or not returned by the vendor. The only 2 vendors with whom a prepaid account still exists as of February 18, 2010 are Midwest Lawn Plus and ActivStyle, with balances remaining of \$4,671.10 and \$250.00, respectively.

**Funding sources** – We reviewed ARCI's accounting records to determine the source(s) of funding used for the prepayments. Based on our review, \$130,922.91 of the prepayments were made using State funds. We determined the remaining \$12,500.00 of prepayments were made from a program funded by both State and Federal funds. The account code for the program included \$4,415.32 of State funds and \$116,869.13 of Federal funds. Based on the summary obtained from ARCI, we determined the \$12,500.00 prepayment was 100% Federally funded.

#### **ADDITIONAL INFORMATION**

**Contract provisions** - We obtained ARCI's area plan for fiscal year 2009 from IDA and reviewed the contract provisions and requirements. We determined the provision in the plan regarding record retention and access does not specify the Office of Auditor of State should have access to all relevant accounting records and supporting documentation. Because AAAs receive both State and Federal funding, IDA, the Office of Auditor of State and any other authorized representative of the State or Federal government should have access to the accounting records. In addition, as previously stated, it is the responsibility of IDA to monitor the use of the State and Federal funding provided to the AAAs and, as part of that responsibility, should be able to engage an outside party to provide any assistance, as necessary.

**Legal fees** - ARCI engaged an attorney to assist with resolution of the concerns identified by IDA. We did not determine the amount of legal expenses incurred or what source of funding was used to pay the legal expenses. However, these expenses are not allowable under the guidelines for the State and Federal funding received by ARCI. Therefore, any legal expenses incurred by ARCI as a result of this review must be paid from other funding sources.

**Unused inventory** - We determined ARCI had an inventory of 15 air conditioning units at June 30, 2009 which cost at least \$3,989.00. **Table 6** summarizes the air conditioner purchases ARCI made, based on its accounting records. As illustrated by the **Table**, the 3 largest purchases were made at the end of a fiscal year. It is unclear why additional air conditioners were purchased in July 2007 and August 2008 when at least 8 air conditioners remained in inventory at June 30, 2007. When we asked why the air conditioners were purchased, we received a response from

ARCI's legal counsel which stated the need for the units is sporadic and ARCI wanted to make sure it had enough in case the summer was warm.

**Table 6**

<b>Date of Purchase</b>	<b>Vendor</b>	<b>Number of Units</b>	<b>Total Cost</b>
06/12/06	Jerry's True Value	10	\$ 2,299.90
06/23/06	Menard's	40	7,198.80
05/17/07	Home Depot	40	7,960.01
07/19/07	Nebraska Furniture Mart	2	1,002.00
08/25/08	Jerry's True Value	5	1,395.00
	Total	97	\$ 19,855.71

In addition, we identified 3 purchases of pocket talkers (assistive listening devices) during fiscal years 2006 through 2008. **Table 7** summarizes the purchases ARCI made, based on its accounting records. According to ARCI representatives, they had an inventory of 80 pocket talkers at June 30, 2009. The 80 pocket talkers were purchased for \$9,099.75. As illustrated by the **Table**, the first 2 purchases were made at the end of fiscal year 2006. When we asked why so many pocket talkers were purchased, we received a response from ARCI's legal counsel which stated the last order received was a really good deal. The re-order point is 5-10. Also, an ARCI representative stated there was an increase in the trend of people needing the pocket talkers.

**Table 7**

<b>Date of Purchase</b>	<b>Vendor</b>	<b>Number of Units</b>	<b>Total Cost</b>
06/12/06	Sound Solution	25	\$ 3,500.00
06/30/06	Hearing Planet	25	2,937.25
10/08/07	Hearing Planet	50	5,462.50
	Total	100	\$ 11,899.75

While ARCI does not have a written inventory policy, according to ARCI's legal counsel, its practice is to maintain "a detailed, perpetual inventory register...for all inventory items (pocket talkers, prepaid gift cards and air conditioners.) The register notes all additions to the inventory, each unit issued (by serial number, if applicable), and the remaining balance." However, when we requested records of this nature, we were provided current balances and a list of purchases, but no inventory list maintained in the manner described was provided.

Based on the timing of the purchases and the remaining inventory amounts on hand, it appears ARCI may have made the purchases to reduce program funds on hand at the end of a fiscal year to avoid returning funds to IDA. While IDA's policy does not address inventory of goods, when we spoke with IDA representatives, they indicated using program funds to stockpile equipment was not an acceptable use of funds.

## **Recommended Control Procedures**

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 that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide that the actions of one individual will act as a check of those of another and provide a level of assurance that 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 IDA and ARCI.

- A. 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 AAAs pay only for goods or services that have been received and they are paid from the proper fiscal year.

- B. 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.

- C. 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 \$184,422.91 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 \$67,137.87, leaving a net amount of \$117,285.04 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.

- D. 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.

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.

- E. 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.

- F. 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.

**Exhibit**

A Review of  
Aging Resources of Central Iowa

Prepayments and Remaining Balances by Fiscal Year  
For the period July 1, 2005 through June 30, 2009

<u>Vendor</u>	<u>Balance as of June 30, 2005</u>	<u>June 30, 2006</u>			<u>June 30, 2007</u>		
		<u>Prepayment Amount</u>	<u>Expenses</u>	<u>Remaining Balance</u>	<u>Prepayment Amount</u>	<u>Expenses</u>	<u>Remaining Balance</u>
^ A-1 Home Health	\$ -	5,360.00	436.00	4,924.00	5,000.00	1,721.42	8,202.58
ActivStyle	-	-	-	-	1,782.91	-	1,782.91
@ Cedar Valley Mobility	3,020.00	-	(362.00)	3,382.00	5,000.00	1,026.00	7,356.00
Choice Medical	-	-	-	-	13,000.00	2,900.00	10,100.00
Community Housing	-	2,280.00	-	2,280.00	-	2,280.00	-
Curley's Furniture	-	-	-	-	-	-	-
Des Moines Water Works	-	-	-	-	-	-	-
Hammer Medical Supply	-	20,000.00	-	20,000.00	7,000.00	4,784.25	22,215.75
Midwest Lawn Plus	-	-	-	-	-	-	-
Modern Optical	-	-	-	-	-	-	-
Rhiner's Plumbing	-	-	-	-	-	-	-
Siddall Moving	-	-	-	-	-	-	-
Total		<u>\$ 27,640.00</u>	<u>74.00</u>	<u>30,586.00</u>	<u>31,782.91</u>	<u>12,711.67</u>	<u>49,657.24</u>

^ - Because supporting documentation was not available for the vendor prior to June 2006, only \$80.00 of the \$436.00 of expenses was supported.

@ - Negative expenses represent vendor credits for goods returned.

<b>June 30, 2008</b>			<b>June 30, 2009</b>		
<b>Prepayment Amount</b>	<b>Expenses</b>	<b>Remaining Balance</b>	<b>Prepayment Amount</b>	<b>Expenses</b>	<b>Remaining Balance</b>
4,000.00	4,044.80	8,157.78	5,000.00	3,809.00	9,348.78
-	907.51	875.40	-	562.40	313.00
-	874.00	6,482.00	-	689.00	5,793.00
3,000.00	6,900.00	6,200.00	10,000.00	6,904.00	9,296.00
-	-	-	-	-	-
-	-	-	4,000.00	-	4,000.00
-	-	-	2,000.00	-	2,000.00
11,000.00	13,106.32	20,109.43	15,000.00	10,492.17	24,617.26
-	-	-	5,000.00	68.90	4,931.10
-	-	-	6,000.00	-	6,000.00
-	-	-	10,000.00	-	10,000.00
-	-	-	5,000.00	-	5,000.00
<b>18,000.00</b>	<b>25,832.63</b>	<b>41,824.61</b>	<b>62,000.00</b>	<b>22,525.47</b>	<b>81,299.14</b>

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A Review of  
Aging Resources of Central Iowa

Staff

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