



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

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NEWS RELEASE

FOR RELEASE _____

July 13, 2009

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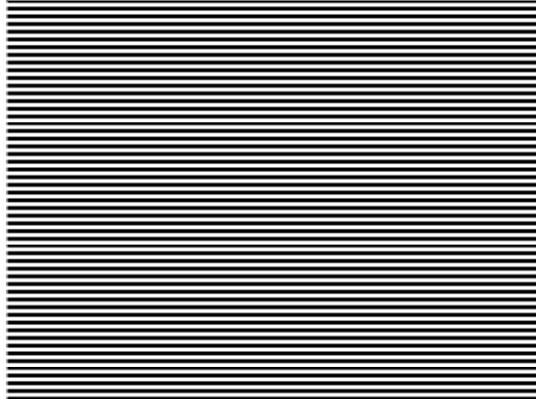
Auditor of State David A. Vaudt today released a report on the Iowa Department of Human Rights for the year ended June 30, 2008.

The Department's purpose is to promote opportunities, advocate the rights, improve the conditions of poverty and study the changing needs and problems of all Iowans.

Vaudt recommended the Department follow established policy and procedures to ensure subrecipient audit reports are reviewed in a timely manner. In addition, the Department should follow established policy to ensure program and fiscal monitoring reviews are performed for all subrecipients. The Department should review contract requirements and implement procedures to ensure federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Human Rights, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF HUMAN RIGHTS**

JUNE 30, 2008

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



David A. Vaudt, CPA
Auditor of State





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July 7, 2009

To Mr. Preston Daniels, Director of the
Iowa Department of Human Rights:

The Iowa Department of Human Rights is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2008.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include those reported in the State's Single Audit Report and the State's Report on Internal Control. These recommendations have been discussed with Department personnel and their responses to the recommendations are included in this report.

The Iowa Department of Human Rights' responses to the findings identified in our audit are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Human Rights' responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 9 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor
Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

June 30, 2008

Findings Reported in the State's Single Audit Report:

CFDA Number: 93.568 – Low-Income Home Energy Assistance
Agency Number: G07B1IALIEA
Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-HHS-379-12

- (1) Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in federal awards are completed within nine months of the subrecipient's fiscal year end. The Department has established a policy to perform timely reviews of the audit reports within six months of receipt and send out letters of findings as appropriate.

All subrecipient audit reports received had been reviewed, but one was not reviewed in a timely manner.

Recommendation – The Department should follow the established policy to ensure subrecipient audit reports are reviewed in a timely manner.

Response and Corrective Action Planned – The Department will continue to follow established policies to ensure the timely review and resolution of the audits.

The one audit cited for not being reviewed within six months of receipt was reviewed within those six months, but the subrecipient, the City of Des Moines, was unable to answer our audit questions due to the flooding that occurred during the summer of 2008. The City's community development staff were evacuated from their offices near the river and were unable to access their financial records for several weeks, so the reconciliation was not completed within six months, and this delayed by two months the issuance of our final acceptance letter to the City.

Conclusion – Response accepted.

CFDA Number: 93.568 – Low-Income Home Energy Assistance
Agency Number: G07B1IALIEA; G08B1IALIEA
Federal Award Year: 2007, 2008

State of Iowa Single Audit Report Comment: 08-III-HHS-379-13

- (2) Program and Fiscal Monitoring – The Department is required to perform fiscal monitoring of each subrecipient who received Low-Income Home Energy Assistance Program funding. However, one fiscal monitoring review was not performed during the program year.

Recommendation – The Department should follow the established policy to ensure fiscal monitoring reviews are performed for all subrecipients.

Response and Corrective Action Planned – Numerous attempts were made to schedule on-site fiscal monitoring visits with this subrecipient only to have the meeting times changed or cancelled. In fact, a Department fiscal monitor made the 200-plus mile

Report of Recommendations to the Iowa Department of Human Rights

June 30, 2008

trip to the subrecipient's office only to have their fiscal officer refuse to meet with him due to a scheduling conflict. No monitoring was accomplished by Department staff.

The unresponsiveness and non-cooperation of this subrecipient's fiscal officer was a new occurrence, and has resulted in the Iowa Department of Human Rights directing any and all communications to the director and board of this non-profit agency.

This subrecipient was monitored on-site February 23-24, 2009 by two fiscal staff members and the program manager. Copies of their subsequent letters and reports will be made available to the Office of the Auditor of the State for review.

Conclusion – Response accepted.

CFDA Number: 93.568 – Low-Income Home Energy Assistance
Agency Number: G08B1IALIEA
Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-HHS-379-14

- (3) Subrecipient Monitoring over Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of these funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received. OMB Circular A-133 requires the Department to establish similar procedures for its subrecipients, ensuring any interest earned on advances to subrecipients in excess of \$250 is promptly, but at least quarterly, returned to the federal agency. The contracts between the Department and its subrecipients, require Low-Income Housing Energy Assistance Program (LIHEAP) funds be deposited into an interest bearing account upon receipt and allows the subrecipient thirty days to spend the advance. This is not consistent with effective cash management procedures and the Department has not established monitoring procedures to ensure any interest earned on federal funds in excess of \$250 is returned to the federal agency.

The Department currently advances funds to Community Action Agencies based on monthly reporting of receipts and disbursements. Five of nineteen Community Action Agencies had average ending monthly balances of LIHEAP funds ranging from \$4,316 to \$77,932. Interest over \$250 may have been earned on unspent funds during the month, but no interest was remitted to the federal agency.

Recommendation – The Department should review its contract requirements and develop and implement procedures to ensure federal funds are drawn in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances. The Department should also establish monitoring procedures to ensure any interest earned in excess of \$250 is returned to the federal agency.

Response and Corrective Action Planned - The Iowa Department of Human Rights/Division of Community Action Agencies (DCAA) will continue to monitor cash on hand by subrecipients through use of a Cash Flow Reconciliation section in the monthly advance report required by DCAA. The reconciliation shows how much money was advanced, how much money had been expended and the percent of money expended, by line item. The reconciliation provides a tool for subrecipients and DCAA to monitor cash on hand at the end of the month.

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DCAA also established additional payment policies beginning October 2008 (FFY09) by including the following provisions in the SPECIAL CONDITIONS, Section 10.0 Condition of Payment, subrecipient contracts:

- 10.5 Reports must accurately reflect Expenditures To Date (payments actually made), Obligated Expenditures (actual funds will be paid out within the next 30 days), as well as accurate estimates of LIHEAP Approvals will be paid within 14 business days of receipt of funds.
- 10.6 When requesting LIHEAP Regular Assistance funds, the Contractor may be required to submit a list of approved clients. Payments must be made to vendors on behalf of approved clients within 14 business days of the Contractor's receipt of funds.
- 10.7 At any time the DCAA reviews the Contractor's monthly reports and determines the cash on hand exceeds actual expenses, less payments not yet received, the Contractor will, upon request, return the excess cash to DCAA within 10 working days.

To determine if subrecipients are compliant, the accountant reviews the amounts of funds expended when the monthly reports are received at DCAA. The 14 business days normally extend beyond the end of the month but the end-of-month report gives DCAA an estimate of how the funds are being expended.

The actual 14-day audit is done by the accountant requesting the agencies to disclose how much Regular Assistance had been expended at the close of business on a specific day (14th business day).

If it appears there are excess funds on hand at the close of business on the 14th business day, the information is forwarded to the program coordinator. He either requests a refund or waives the refund based on additional information collected from the agencies, i.e., agency anticipates making a payment within a couple days to pay vendors for approved client applications.

DCAA also included the following language in subrecipient contracts beginning in October 2008 to ensure interest earned on federal money in excess of \$250 is returned to the Federal Agency:

SECTION 11.0 INTEREST EARNED

- 11.1 In accordance with Section 22 of OMB Circular A-110, Contractor shall maintain advances of Federal funds in an interest bearing account. All interest earned on advances of Federal funds shall be remitted annually to the Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$250 per year, based on the Contractor's fiscal year may be retained by Contractor for administrative expenses. Contractors with electronic funds transfer (EFT) capability should use electronic medium to remit interest.
- 11.2 The Contractor will report the total of annual remittance made to the Department of Health and Human Services to the Agency in writing. The report should include total amount remitted and the date of the remittance.

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- 11.3 It is the responsibility of the Contractor to control the amount of funds on hand by making expenditure predictions as accurate as possible and processing payments to clients/vendors as expeditiously as feasible.

The Department will monitor subrecipients' compliance with the above contract provisions, including interest earned, reported, and remitted during annual on-site visits.

Conclusion – Response accepted.

CFDA Number: 93.568 – Low-Income Home Energy Assistance
Agency Number: G06B1IALIEA
Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-HHS-379-15

- (4) Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of these funds. They also minimize the amount of state and other federal funds used to supplant programs until federal funds are received.

A review of the Department's records identified two instances where the cash balance was in excess of \$100,000 for twelve to twenty-four business days.

Recommendation – The Department should develop and implement procedures to ensure federal funds are drawn down in amounts sufficient to cover current needs and are disbursed in a timely manner without carrying excessive daily balances.

Response and Corrective Action Planned – One of the two instances involved refunds to the state of monies advanced to Community Action Agencies (CAAs) for heating assistance payments for low-income clients. The computer program used by ten CAAs to process and approve assistance applications malfunctioned. Since the CAAs were not able to make payments for approved clients in a timely manner, the Iowa Department of Human Rights required the affected agencies to return advanced funds.

There was a fairly quick turn around time between the Department's receipt of refunds from the CAAs, the repair of the computer program, the submittal of revised advance funds requests from the CAAs, and the repayments of funds by the Department to the CAAs. If the Department had returned funds to the U.S. Department of Health and Human Services (HHS), waited to have HHS credit the Department's account, and then redrawn the funds from HHS again, payments for heating assistance for low-income clients would have been delayed even longer.

However, the Iowa Department of Human Rights will continue to diligently monitor the balances of LIHEAP funds on hand at the state level to reduce the number of instances where excessive dollars are on hand.

Conclusion – Response accepted.

June 30, 2008

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

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

- (a) The GAAP Package was submitted September 19, which was not timely.
- (b) During the accrual period, the Department reduced revenues by \$2,501,677 in fiscal year 2008 to properly recognize them in fiscal year 2009. When a Department adjusts revenue reported on I/3 in this manner, the balances are to be reported in section 2 of the GAAP package. An entry is made by DAS – SAE to reclassify the negative accounts receivable as deferred revenue. The Department coded the transactions on I/3 as accounts payable rather than a reduction to accounts receivable, resulting in an overstatement of accounts receivable and accounts payable. This was properly adjusted for reporting purposes.

Recommendation – The Department should ensure the GAAP package is submitted timely. In addition, proper accounting procedures should be followed when adjusting revenues on the I/3 system during the accrual period.

Response – Under normal circumstances the GAAP package is compiled and the I/3 documents prepared by two fiscal employees of the Iowa Department of Human Rights. During the fiscal year close-out period in September 2008, one of these employees was on extended leave. In the ensuing rush to complete the task of adjusting revenues between fiscal years, the remaining staff member coded the initial transaction incorrectly as an accounts payable. This error carried forward as this form became the document template and was continually reused.

The Iowa Department of Human Rights will work diligently to ensure the GAAP package is submitted timely and information is properly recorded on the I/3 system for fiscal year 2009.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

No matters were noted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

Report of Recommendations to the Iowa Department of Human Rights

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Staff:

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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Daniel W. Henaman, Assistant Auditor
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