



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ August 31, 2009

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Department of Human Services – Case Management Unit for the year ended June 30, 2008.

The Unit helps individuals with mental retardation, chronic mental illness or developmental disabilities gain access to appropriate living environments, needed medical services and interrelated social, vocational and educational services.

The Unit had gross revenues totaling \$14,478,445 for fiscal year 2008, a 14% increase over fiscal year 2007, and included fees for service of \$14,477,179. The Unit's expenditures and service fee refunds for the year totaled \$14,359,988, a 13% increase over the prior year. The increase in revenues and expenditures is due primarily to an increase in the number of clients served and an increase in the cost of care.

A copy of the audit report is available for review in the Iowa Department of Human Services – Case Management Unit, in the Office of Auditor of State and on the Auditor of State's website <http://auditor.iowa.gov/reports/reports.htm>.

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**IOWA DEPARTMENT OF HUMAN SERVICES –  
CASE MANAGEMENT UNIT**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2008**

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**Iowa Department of Human Services – Case Management Unit**

**Officials**

Name

Title

**State**

Honorable Chester J. Culver  
Richard Oshlo  
Glen Dickinson

Governor  
Interim Director, Department of Management  
Director, Legislative Services Agency

**Agency**

Charles J. Krogmeier  
Sally Cunningham  
Jeanne Nesbit

Director, Department of Human Services  
Deputy Director, Field Operations  
Division Administrator, Division of Child Support  
Recovery, Case Management and Refugee Services  
Bureau Chief, Case Management Unit

Diane Diamond

**Iowa Department of Human Services – Case Management Unit**



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Independent Auditor's Report

To the Council Members of the  
Iowa Department of Human Services:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Case Management Unit as of and for the year ended June 30, 2008, which collectively comprise the Unit's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Department of Human Services – Case Management Unit's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Iowa Department of Human Services - Case Management Unit are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the State of Iowa that is attributable to the transactions of the Iowa Department of Human Services - Case Management Unit. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Iowa Department of Human Services – Case Management Unit as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2009 on our consideration of the Iowa Department of Human Services – Case Management Unit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Unit has not presented Management's Discussion and Analysis which is to introduce the basic financial statements by presenting certain financial information as well as management's analytical insights on information the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iowa Department of Human Services – Case Management Unit's basic financial statements. Other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 27, 2009

## **Basic Financial Statements**

**Exhibit A**

Iowa Department of Human Services – Case Management Unit  
 Governmental Fund Balance Sheet and Statement of Net Assets (Deficit)

June 30, 2008

	General Fund	Adjustments (Note 5)	Statement of Net Assets
Cash	\$ 584,091	-	584,091
Accounts receivable	1,431,996	-	1,431,996
Prepaid expenditures/expenses	445	-	445
Capital assets, net of accumulated depreciation	-	101,456	101,456
<b>Total assets</b>	<b>\$ 2,016,532</b>	<b>101,456</b>	<b>2,117,988</b>
Accounts payable	\$ 582,010	-	582,010
Salaries payable	83,085	-	83,085
Due to other state agencies	277,723	-	277,723
Third party payor settlement payable	433,235	-	433,235
Deferred revenue	152,426	(152,426)	-
Compensated absences and OPEB:			
Due within one year	-	872,253	872,253
Due after one year	-	965,439	965,439
<b>Total liabilities</b>	<b>1,528,479</b>	<b>1,685,266</b>	<b>3,213,745</b>
<b>Fund Balance/Net Assets</b>			
Unreserved fund balance	488,053	(488,053)	-
<b>Total liabilities and fund balance</b>	<b>\$ 2,016,532</b>		
Net assets:			
Invested in capital assets		101,456	101,456
Unrestricted (deficit)		(1,197,213)	(1,197,213)
<b>Total net assets (deficit)</b>		<b>\$ (1,095,757)</b>	<b>(1,095,757)</b>

See notes to financial statements.

Iowa Department of Human Services – Case Management Unit

Statement of Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance and Statement of Activities

Year ended June 30, 2008

	General Fund	Adjustments (Note 6)	Statement of Activities
Revenues:			
Fees for service:			
Medicaid	\$ 12,092,827	108,293	12,201,120
Merit Behavioral	2,274,027	23,683	2,297,710
Counties	110,325	(1,085)	109,240
Miscellaneous	1,266	(130)	1,136
Gross revenues	14,478,445	130,761	14,609,206
Less: service fee refunds	12,029	-	12,029
Net revenues	14,466,416	130,761	14,597,177
Expenditures:			
Personal services	11,705,641	878,800	12,584,441
Travel and subsistence	516,384	-	516,384
Supplies and materials	124,844	-	124,844
Depreciation	-	49,938	49,938
Contractual services	1,444,300	-	1,444,300
Equipment and repair	556,455	(105,747)	450,708
Claims and miscellaneous	335	-	335
Total expenditures/expenses	14,347,959	822,991	15,170,950
Excess of revenues over expenditures	118,457	(118,457)	-
Change in net assets	-	(573,773)	(573,773)
Fund balance/net assets (deficit) beginning of year	369,596	(891,580)	(521,984)
Fund balance/net assets (deficit) end of year	\$ 488,053	(1,583,810)	(1,095,757)

See notes to financial statements.

Iowa Department of Human Services – Case Management Unit

Notes to Financial Statements

June 30, 2008

**(1) Summary of Significant Accounting Policies**

The Iowa Department of Human Services – Case Management Unit (Unit) began operations in 1989 to provide services designed to help consumers with mental retardation, chronic mental illness or developmental disabilities gain access to appropriate living environments, needed medical services and interrelated social, vocational and educational services.

The basic operations of the Unit are primarily financed by Iowa’s Medicaid program. Other sources of financing are the client’s county of legal settlement, the State of Iowa and the clients themselves.

The Unit’s financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the Unit’s accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Iowa Department of Human Services – Case Management Unit has included all funds. The Unit has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Unit are such that exclusion would cause the Unit’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the Unit to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Unit. The Unit has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide and Fund Financial Statements

The financial statements on pages 8 and 9 combine both an entity-wide perspective and a governmental fund perspective.

The General Fund comprises the Iowa Department of Human Services – Case Management Unit’s governmental fund. This fund is the general operating fund of the Unit and the difference between assets and liabilities of the fund is referred to as “fund balance.”

The entity-wide financial statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all of the activities of the Unit. Governmental activities are those which normally are supported by taxes and intergovernmental revenues.

The Statement of Net Assets (Deficit) presents the Unit's assets and liabilities, with the difference reported as net assets (deficit). Net assets are reported in two categories:

Invested in capital assets consists of capital assets net of accumulated depreciation.

Unrestricted net assets consists of net assets not invested in capital assets, as defined in the preceding category, and not having constraints placed on them from external sources or imposed by law through constitutional provisions or enabling legislation.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Unit considers revenues to be available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

D. Capital Assets

Capital assets, which include equipment, are reported in the entity-wide Statement of Net Assets (Deficit) at historical cost. Donated capital assets are reported at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Unit as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Depreciation is computed for equipment using the straight-line method over 5 years. The entity-wide Statement of Activities reports depreciation expense.

E. Compensated Absences and Other Post Employment Benefits (OPEB)

Unit employees accumulate a limited amount of earned but unused vacation, compensatory and sick leave hours for subsequent use, for payment of the employer portion of insurance premiums upon retirement or for payment upon termination, death or retirement. A liability is recorded when incurred in the entity-wide Statement of Net Assets (Deficit). Unit employees accrue vacation, sick leave and compensatory leave at rates specified in the Code of Iowa and/or

collective bargaining agreements. The liabilities recorded for compensated absences are based on current rates of pay and current insurance rates.

**(2) Deposits**

The Iowa Department of Human Services – Case Management Unit’s deposits with the Treasurer of State throughout the period and at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

**(3) Capital Assets**

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance			Balance
	Beginning	Additions	Deletions	End of
	of Year			Year
Capital assets:				
Equipment	\$ 86,631	105,747	(17,484)	174,894
Less accumulated depreciation:				
Equipment	40,984	49,938	(17,484)	73,438
Capital assets, net	\$ 45,647	55,809	-	101,456

**(4) Changes in Compensated Absences and Other Post Employment Benefits (OPEB)**

Changes in compensated absences and other post employment retirement benefit obligations for the year ended June 30, 2008 are summarized as follows:

	Compensated	OPEB	Total
	Absences		
Balance beginning of year	\$ 958,892	-	958,892
Increases	1,598,240	102,830	1,701,070
Decreases	(822,270)	-	(822,270)
Balance end of year	\$ 1,734,862	102,830	1,837,692
Due within one year	\$ 872,253	-	872,253

Sick Leave Insurance Program (SLIP) - Included in the accrued compensated absences liability for the year ended June 30, 2008 is the cost of a voluntary termination benefit program entitled Sick Leave Insurance Program (SLIP). The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the state’s group health insurance plan after their retirement.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

**If the sick leave balance is:**

**The conversion rate is:**

Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee's SLIP account. Each month, the Iowa Department of Human Services - Case Management Unit will pay 100 percent of the employer's share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Iowa Department of Human Services - Case Management Unit will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, until the employee is eligible for Medicare, the employee waives the benefit or until the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2008, five employees have retired and received benefits of \$14,884 under the SLIP program.

Other Postemployment Retirement Benefits - The Iowa Department of Human Services - Case Management Unit implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. This Statement establishes when other postemployment benefit liabilities are recorded under the accrual basis of accounting.

As a part of the State of Iowa, the Iowa Department of Human Services - Case Management Unit participates in the State of Iowa postretirement medical plan (OPEB). The OPEB Plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$220,000,000 for the State of Iowa as of June 30, 2008. The Iowa Department of Human Services - Case Management Unit's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2008. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Iowa Department of Human Services - Case Management Unit recognized a net OPEB liability of \$102,830 for other postemployment benefits, which represents the Iowa Department of Human Services - Case Management Unit's portion of the State's net OPEB obligation. The Iowa Department of Human Services - Case Management Unit's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Iowa Department of Human Services - Case Management Unit compared to full time equivalent employees of the State of Iowa.

**(5) Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (Deficit)**

The differences result from the long-term economic resources focus of the Statement of Net Assets (Deficit) versus the current financial resources focus of the Governmental Fund Balance Sheet.

When capital assets to be used in governmental activities are purchased, the costs of those assets are reported as expenditures in the governmental fund. However, the Statement of Net Assets (Deficit) includes those capital assets, net of accumulated depreciation, among the assets of the Unit as a whole.

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets are offset by deferred revenues in the governmental fund and are not included in fund balance.

Long-term liabilities applicable to the Unit's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. However, they are reported in the Statement of Net Assets (Deficit).

The effects of these differences are summarized as follows:

Capital assets, net of accumulated depreciation	\$ 101,456
Deferred revenue	152,426
Compensated absences and OPEB	<u>(1,837,692)</u>
Total	<u>\$ (1,583,810)</u>

**(6) Explanation of Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities**

The differences result from the long-term economic resources focus of the Statement of Activities versus the current financial resources focus of the governmental fund.

When capital assets to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental fund. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreased by the amount of financial resources expended, \$105,747, whereas net assets decreased by the amount of depreciation expense, \$49,938.

Because fees for service of \$152,426 will not be collected for several months after the Unit's year end, they are not considered "available" revenues in the governmental fund. In addition, the governmental fund reports revenue in the current year for \$21,665 deferred in prior years because it was not considered available at that time.

Current year deferred revenue	\$ 152,426
Prior year deferred revenue	<u>(21,665)</u>
Increase in deferred revenue	<u>\$ 130,761</u>

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. These expenses consist of compensated absences and OPEB totaling \$120,792.

The effects of these differences are summarized as follows:

Capital outlay	\$ 105,747
Depreciation expense	(49,938)
Increase in deferred revenue	130,761
Increase in compensated absences and OPEB	<u>(878,800)</u>
Total	<u>\$ (692,230)</u>

**(7) Pension and Retirement Benefits**

The Iowa Department of Human Services – Case Management Unit contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Unit is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The Commission’s contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$519,027, \$450,329 and \$442,252, respectively, equal to the required contributions for each year.

**(8) Operating Leases**

The Iowa Department of Human Services – Case Management Unit has leased various office facilities throughout the State of Iowa. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. The leases expire between June 30, 2008 and June 30, 2013 and require various minimum annual rentals. Certain leases are renewable for additional periods. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2008:

Year Ending June 30,	Minimum Rental Payments
2009	\$ 391,398
2010	211,049
2011	115,886
2012	15,141
2013	<u>4,346</u>
Total	<u>\$ 737,820</u>

Rental expense for the year ended June 30, 2008 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$401,676.

**(9) Risk Management**

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

**Required Supplementary Information**

Iowa Department of Human Services – Case Management Unit

Budgetary Comparison Schedule

Required Supplementary Information

Year ended June 30, 2008

	Original/ Final Budget	Actual	Final to Actual Variance
Revenues:			
Fees for service:			
Medicaid	\$ 11,595,858	12,092,827	496,969
Merit Behavioral Counties	2,468,239	2,274,027	(194,212)
Miscellaneous	127,249	110,325	(16,924)
Total revenues	9	1,266	1,257
	<u>14,191,355</u>	<u>14,478,445</u>	<u>287,090</u>
Expenditures:			
Personal services	12,393,675	11,705,641	688,034
Travel and subsistence	360,004	516,384	(156,380)
Supplies and materials	102,001	124,844	(22,843)
Contractual services	1,277,896	1,444,300	(166,404)
Equipment and repair	50,986	556,455	(505,469)
Claims and miscellaneous	3	335	(332)
Service fee refunds	6,797	12,029	(5,232)
Total expenditures	<u>14,191,362</u>	<u>14,359,988</u>	<u>(168,626)</u>
Excess (deficiency) of revenues over (under) expenditures	(7)	118,457	118,464
Balance beginning of year	<u>1,844,841</u>	<u>369,596</u>	<u>(1,475,245)</u>
Balance end of year	<u>\$ 1,844,834</u>	<u>488,053</u>	<u>(1,356,781)</u>

See accompanying independent auditor's report.

Iowa Department of Human Services – Case Management Unit  
Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

Budgetary control is exercised over the Iowa Department of Human Services – Case Management Unit through the budgetary process prescribed in Chapter 8 of the Code of Iowa. Each department of the State prepares estimates of expenditures and income for each ensuing fiscal year. These estimates are transmitted to the Department of Management which prepares and submits a tentative budget to the Governor. After holding public hearings, the Governor prepares and transmits the budget to the Iowa Legislature. The Legislature appropriates funds to the various departments based on the budget as adjusted through the appropriation process. The Iowa Department of Human Services – Case Management Unit does not receive a State appropriation and is primarily funded by service fees. The Unit generated additional service fee revenues and expended those funds for allowable program expenditures.

The budget for the General Fund is adopted on a basis consistent with U.S. generally accepted accounting principles. There were no material violations of finance-related legal and contractual provisions.

**Iowa Department of Human Services – Case Management Unit**

**Other Supplementary Information**

**Schedule 1**

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## Iowa Department of Human Services – Case Management Unit

## Schedule of Cash Flows

Year ended June 30, 2008

Cash flows from operating activities:	
Cash received for service provided	\$ 13,336,325
Cash paid to suppliers for goods and services	(1,510,391)
Cash paid to employees for services	(12,700,220)
Net cash used for operating activities	<u>(874,286)</u>
Cash beginning of year	<u>1,458,377</u>
Cash end of year	<u><u>\$ 584,091</u></u>
<b>Reconciliation of excess of revenues over expenditures to net cash used for operating activities:</b>	
Excess of revenues over expenditures	\$ 118,457
Adjustments to reconcile excess of revenues over expenditures to net cash used for operating activities:	
(Increase) in accounts receivable	(171,652)
Decrease in due from other state agencies	3,713
(Increase) in prepaid expenditures/expenses	(271)
Increase in accounts payable	373,463
(Decrease) in salaries payable	(443,932)
Increase in due to other state agencies	220,117
(Decrease) in third party payor settlement payable	(1,104,942)
Increase in deferred revenue	130,761
Net cash used for operating activities	<u><u>\$ (874,286)</u></u>

See accompanying independent auditor's report.



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

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Council Members of the  
Iowa Department of Human Services:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Case Management Unit as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements listed in the table of contents, and have issued our report thereon dated July 27, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Department of Human Services – Case Management Unit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Department of Human Services – Case Management Unit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Department of Human Services – Case Management Unit's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iowa Department of Human Services – Case Management Unit's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Iowa Department of Human Services – Case Management Unit's financial statements that is more than inconsequential will not be prevented or detected by the Iowa Department of Human Services – Case Management Unit's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Iowa Department of Human Services – Case Management Unit’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, we do not believe the deficiency in internal control described in the accompanying Schedule of Findings is a material weakness.

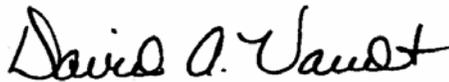
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Department of Human Services – Case Management Unit’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

The Iowa Department of Human Services – Case Management Unit’s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Unit’s response, we did not audit the Unit’s response and, accordingly, we express no opinion on it.

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 Services – Case Management Unit and other parties to whom the Iowa Department of Human Services – Case Management Unit 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 Iowa Department of Human Services – Case Management Unit during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 27, 2009

Iowa Department of Human Services – Case Management Unit

Schedule of Findings

Year ended June 30, 2008

**Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCY:**

Financial Reporting – State 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 for disclosure in the statewide Comprehensive Annual Financial Report (CAFR). The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The GAAP package amounts reported by the DHS Case Management Unit for accounts receivable were understated by \$133,855 and accounts payable were overstated by \$18,419. These amounts have been reported properly on the DHS Case Management Unit's year end financial report.

Recommendation – The Unit should ensure correct information is provided in the GAAP package for statewide CAFR financial reporting.

Response – DHS Targeted Case Management (TCM) reported two pieces of accounts receivable information for the DHS GAAP package. The first was for actual FY08 revenues received during July and August of FY09. This number is reported directly out of I/3 during September based upon actual data from the prior two months. The \$133,855 variance was a comparison between the July/August actual amount and the June 30<sup>th</sup> ending balance in TCM's accounts receivable system. The second item is an estimate of revenues to be received after August 31<sup>st</sup> but before the following June 30<sup>th</sup>. For this amount, TCM is proposing a change in methodology for GAAP reporting. Given the timing differences and uncertainty in predicting these receipts, in the future, TCM will report the entire balance of the accounts receivable and an allowance for doubtful accounts.

Regarding the payable issue, TCM also reports annually an estimated cost settlement for the DHS GAAP package. During FY08, this amount was overstated by \$18,419 due to estimated revenues from the Brain Injury Waiver and Habilitation Services procedure codes being included in the total. Per Iowa Medicaid Rules, revenue totals for these procedure codes are not currently calculated within the cost settlement. Going forward, TCM will document this issue in its internal work procedures and in future years, these revenues will be excluded from the DHS GAAP package estimate.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

Iowa Department of Human Services – Case Management Unit

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Dorothy O. Stover, Staff Auditor  
Tracey L. Gerrish, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a prominent initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State