



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

State Auditor's Funding Reform Proposal  
(Updated with Agency-Specific Figures)

**How is the Auditor of State Funded?** Our appropriation is about 10% of our budget. The rest of our budget is generated by collecting statutory fees and billing for the work we perform. However, under Iowa Code 11.5B, we are only allowed to bill for certain state agencies' audits. And, our appropriation does not cover the other state agencies' audit costs for which we are not allowed to bill.

**What are We Proposing?** We should bill all state agencies equally for audit work. We do *not* believe this will change how much money goes annually into audits—at least not at first. That is because we would receive our funding by billing state departments and agencies for those formerly unbillable audits, but they would pay those bills from their own appropriations. Overall, it will reduce costs for agencies currently billed while creating new costs for the agencies that are currently unbilled.

**Why Should We Make that Change?**

1. It will treat all state departments and agencies equally.
2. It will ensure audit effort is focused where it is *needed* rather than where it is *billable*.
3. It will provide every entity with a financial incentive to manage their spending and compliance, to keep costs down for themselves (and thus taxpayers).
4. It will reduce the State Auditor's complicated staff scheduling, improving efficiency.
5. It will reduce the risk of adverse federal dollar audit findings.

**What Controls Remain on AOS?**

1. It is hard to make the argument that we want to limit accountability and improvement. And, there is already no limit on our work, yet we do an appropriate amount.
2. We would accept a hard FTE cap with no zipper clause. It would allow the legislature on an annual basis to ensure we are not doing too much. Because most major audits last more than a year, if a large audit comes up, we should be able to increase the cap without too much of a limitation.
3. In addition, AOS has proposed having our billing rates set through Administrative Rule. This would allow both the legislature and the Governor's office to have oversight of the billing rates through the administrative rule committee.

**What will be the effect on state agency budgets?** We estimate we will reduce our hourly billing rate for state agencies by 15%. The numbers on the following spreadsheet are rough estimates. They will change depending on AOS expenses and agency audit needs (as they do now every year for billable agencies). As the spreadsheet shows, the State is estimated to see a positive financial benefit from this change. Any appropriation allocated to the State Auditor will help further reduce the hourly billing rate for all state agencies as well as government subdivisions that hire the State Auditor.

Public Defense (Camp Dodge)	-9,160.62	-7,743.19	-8,011.15	Revenue	-83,027.18	-85,900.41
Homeland Security and Emergen	-21,896.46	-18,508.42	-19,148.92	Secretary of State	-16,651.75	-17,228.00
Public Health	-152,729.59	-129,097.72	-133,565.26	Governor's Office of D	-6,663.03	-6,893.61
Public Safety	-5,054.13	-4,272.11	-4,419.95	29C.20 Claims	-9,563.45	-9,894.40
Board of Regents	-14,803.44	-12,512.90	-12,945.92	Treasurer of State	-89,180.47	-92,266.64
Iowa Lottery Authority	-93,085.08	-78,682.01	-81,404.87	Treasurer - Daily Work	-19,819.42	-20,505.29
Secretary of State	-660.48	-558.29	-577.61	Iowa Centennial Memc	-2,585.11	-2,674.57
Governor's Office of Drug Contro	-272.81	-230.60	-238.58	Treasurer - UST	-23,726.94	-24,548.03
Transportation	-469,531.86	-396,881.14	-410,615.56	Veteran's Affairs	-12,949.58	-13,397.71
Treasurer - UST	-4,250.07	-3,592.45	-3,716.77	Non-Billable Performa	-57,551.83	-59,543.46
Iowa Vet's Home	-80,693.83	-68,208.07	-70,568.47	Corrections - Institutio	-215,231.89	-222,680.18
University of Iowa	-698,030.38	-590,024.05	-610,442.35	Combined Judicial Rep	-3,786.64	-3,917.68
Iowa State University/ISU Reven	-565,904.99	-478,342.44	-494,895.90	First Judicial District, W	-16,093.22	-16,650.14
University of Northern Iowa	-298,868.71	-252,624.72	-261,367.02	Second Judicial District	-15,753.15	-16,298.30
Iowa Braille & Sightseeing	-31,976.01	-27,028.36	-27,963.70	Third Judicial District, S	-11,833.25	-12,242.75
Iowa School for the Deaf	-41,150.98	-34,783.69	-35,987.41	Fourth Judicial District	-11,469.15	-11,866.05
Judicial - Clerks of Court	-467,837.58	-395,449.01	-409,133.87	Fifth Judicial District, D	-21,008.57	-21,735.59
CBC	-22,556.94	-19,066.70	-19,726.52	Sixth Judicial District, C	-17,318.78	-17,918.11
Justice-AG Victims Advocate BE	-3,503.43	-2,961.35	-3,063.83	Seventh Judicial District	-12,282.55	-12,707.60
Economic Development - NJTP	-6,016.14	-5,085.26	-5,261.24	Eighth Judicial District,	-12,646.65	-13,084.30
Human Services - DSH - AC01	-9,634.44	-8,143.70	-8,425.52	<b>Total</b>	<b>-1,602,089.52</b>	<b>-1,657,531.23</b>
Human Services - DSH Interim -	-488.18	-412.65	-426.93			
HLSEM-Emergency Communica	-13,941.94	-11,784.70	-12,192.52	<b>\$400K Approp, \$72.81/hr</b>		
ISU, Ames - CNDE	-6,332.03	-5,352.27	-5,537.49	Savings to Billable Age	910,163.5	
ISU, Ames - CALT	-8,787.30	-7,427.64	-7,684.68	Newly Billable Agency	-1,602,089.5	
Substance Abuse TU-CI BE	-1,407.12	-1,189.39	-1,230.55	Remove FY19 Approp	986,193	
<b>TOTAL</b>	<b>-5,882,264.57</b>	<b>-4,972,101.05</b>	<b>-5,144,164.97</b>	Final Savings to State	294,267.0	
*audit costs based on 3-year average of hours required				<b>\$0 Approp, \$75.34/hr</b>		
*hourly rates set by dividing FY20 est total expenses by est average hrs billed				Savings to Billable Age	738,099.6	
*all include federal dollars (which can be reimbursed)				Newly Billable Agency	-1,657,531.2	
*all numbers subject to change				Remove FY19 Approp	986,193	
				Final Savings to State	66,761.4	

Already Billed Agency	FY20: \$86.15/hr	\$400K Approp, \$72.82/hr	\$0 Approp, \$75.34/hr	Currently Unbilled Agency	\$400K Approp, \$72.82/hr	\$0 Approp, \$75.34/hr
Administrative Services	-259,340.22	-219,212.47	-226,798.51	Iowa State Fair	-64,833.83	-67,077.46
Agriculture & Land Stewardship	-106,179.88	-89,750.65	-92,856.55	Justice (AG)	-29,286.02	-30,299.49
Iowa Corn Promotion Board	-10,969.77	-9,272.41	-9,593.29	Department for the Blind	-19,042.43	-19,701.41
Iowa Egg Council	-6,475.61	-5,473.64	-5,663.06	Campaign Finance Dis	-5,315.86	-5,499.82
Iowa Turkey Marketing Council (	-2,857.31	-2,415.20	-2,498.78	Civil Rights Commissio	-10,158.39	-10,509.93
Justice (Attorney General)	-7,250.96	-6,129.02	-6,341.12	Corrections	-20,584.03	-21,296.36
Iowa Department For The Blind	-6,131.01	-5,182.36	-5,361.70	Cultural Affairs	-19,989.09	-20,680.83
Civil Rights Commission	-445.11	-376.24	-389.26	Economic Development	-84,604.46	-87,532.27
DAS-OCIO	-31,932.93	-26,991.95	-27,926.03	Economic Development	-18,909.17	-19,563.54
Commerce - ABD	-52,479.71	-44,359.52	-45,894.62	Iowa Finance Authority	-42,599.70	-44,073.90
Commerce - Banking	-13,726.57	-11,602.65	-12,004.17	College Aid Commissio	-46,883.70	-48,506.15
Commerce - Credit Union	-10,136.98	-8,568.49	-8,865.01	Education - IPTV	-57,709.85	-59,706.95
Commerce - Insurance	-18,048.43	-15,255.79	-15,783.73	Iowa Department on A	-17,161.49	-17,755.38
Commerce - PLD	-14,458.84	-12,221.62	-12,644.56	ICN	-72,213.41	-74,712.42
Commerce - Utilities	-20,173.46	-17,052.02	-17,642.12	ICN	-42,648.49	-44,124.38
Corrections (Agency & Prisons le	-1,234.82	-1,043.75	-1,079.87	Governor	-10,462.05	-10,824.10
Cultural Affairs	-1,780.43	-1,504.95	-1,557.03	Human Rights	-32,404.90	-33,526.30
Economic Development	-55,021.13	-46,507.71	-48,117.15	Inspections & Appeals	-44,456.61	-45,995.07
Education - Public Instruction	-267,668.05	-226,251.74	-234,081.38	Judicial	-44,966.35	-46,522.45
Education - Voc Rehab	-47,267.63	-39,953.91	-41,336.55	Judicial - Retirement D	-16,578.93	-17,152.66
College Aid Commission	-3,977.26	-3,361.86	-3,478.20	Law Enforcement Acad	-8,131.81	-8,413.22
Education - IPTV	-760.99	-643.24	-665.50	Legislature	-21,651.57	-22,400.84
Iowa Department on Aging	-603.05	-509.74	-527.38	Management	-13,253.24	-13,711.88
Workforce Development	-318,424.76	-269,154.86	-278,469.20	Parole Board	-5,534.32	-5,725.84
Human Rights	-13,137.88	-11,105.05	-11,489.35	Peace Officer Retirement	-18,168.59	-18,797.33
Human Services (Agency & Institi	-1,051,475.11	-888,780.24	-919,537.26	Public Employment Re	-4,915.35	-5,085.45
Inspections & Appeals	-30,181.22	-25,511.27	-26,394.11	Public Defense (Camp	-47,478.64	-49,121.68
Judicial	-760.99	-643.24	-665.50	Homeland Security-Em	-54,724.23	-56,618.01
Natural Resources	-334,807.62	-283,002.79	-292,796.35	Public Information Boa	-5,085.02	-5,260.99
IPERS	-165,982.33	-140,299.87	-145,155.07	Public Safety	-63,195.38	-65,382.31



DEPARTMENT OF HEALTH & HUMAN SERVICES

Program Support Center  
Financial Management Portfolio  
Cost Allocation Services

90 7<sup>th</sup> Street, Suite 4-600  
San Francisco, CA 94103-6705  
PHONE: (415) 437-7820  
EMAIL: [CAS-SF@psc.hhs.gov](mailto:CAS-SF@psc.hhs.gov)

October 26, 2020

Jay Cleveland, Chief Operating Officer  
State Accounting Enterprise  
Iowa Department of Administrative Services  
Hoover State Office Building, 3<sup>rd</sup> Floor  
Des Moines, IA 50319

Dear Mr. Cleveland,

This letter is in response to Marlys Gaston, Deputy Auditor of State's, email requesting our office to provide formal correspondence summarizing the results of our review of the Fiscal Year Ended (FYE) June 30, 2019 Statewide Cost Allocation Plan (SWCAP). The FY 2019 SWCAP was based upon the actual costs for FYE June 30, 2017.

Since Federally supported awards are performed within the individual operating agencies, there needs to be a process whereby these central services costs can be identified and assigned to benefitting activities on a reasonable and consistent basis. The central services cost allocation plan provides this process. In accordance with 2 CFR Part 200, Appendix V, each state is required to submit a Plan to the Department of Health and Human Services for each year in which it claims central costs under Federal awards. The Plan will include all central services costs (either as a billed or an allocated service). For the billed services, the Plan should include a description of the service, a schedule of current rates and a schedule comparing the total revenues (including imputed revenues) generated by the service to the allowable costs of the service. In addition, the revenues must consist of all revenues generated by the service, including unbilled and uncollected revenues. If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing full imputed revenues associated with these users must be provided.

During our review of the SWCAP, we determined that the Office of Auditor of State (OAS), a billed service, did not bill certain State agencies, and the State and Local agencies were not billed at the same rates. As a result, we imputed revenues for the unbilled and uncollected services. Initially, OAS explained that they are not providing audit services on a "centralized basis", and OAS is not allowed by State code to allocate CAFR audit costs by direct billing or by other means to all agencies in the State. It was stated that OAS has a vendor relationship with the other State agencies when it comes to audit services. Additionally, it was said that approximately 10% of the OAS budget comes from State appropriation. The remainder of OAS revenues come from (i) billings to certain (not all) State agencies and local governments for audit services, (ii) from filing fees collected when local governments file their reports with the OAS office, and (iii) from periodic examination fees collected from smaller cities within the State that perform AUPs in accordance with the Iowa Code. Further, it was explained that the Local

Jay Cleveland, Chief Operating Officer

Page 2 of 2

October 26, 2020

Governments can choose their auditor. They can hire OAS to perform their annual audit or they can hire a private CPA firm. Since the Local governments are not obligated to choose OAS, OAS initially had a concern about whether the administrative costs incurred should be billed to the local governments.

On May 1, 2020, we e-mailed our explanation of the Federal requirements for OAS's billed services, with references to the HHS Implementation Guide for State, Local and Indian Tribal Governments (ASMB C-10) – see Attachment. We subsequently explained to OAS that an adjustment was made to include the imputed revenue for unbilled and uncollected services. As a result of this adjustment, the Federal share of the excess balance was estimated to be \$60,000 for FYE June 30, 2017. The Federal share was calculated using a Federal Financial Percentage (FFP) of 10%. The FFP was provided by a representative of the Iowa Department of Administrative Services during a prior proposal review. In order to identify the actual FFP by fiscal year, OAS should calculate the Federal share based upon the Federal share of the actual billings by customer (state department or local government). The issue of unbilled and uncollected revenues continues to exist, as a result, the excess fund balance continues to grow. It was estimated that the cumulative Federal share of the excess retained earnings would increase to \$350,000 by FYE June 30, 2019.

In our letter dated August 26, 2020 (which the State counter-signed), approving the State's SWCAP, we identified an excess retained earnings balance for OAS as of June 30, 2017. The excess retained earnings resulted from our adjustment included the imputed revenues for the unbilled and uncollected services. We did not request the State to provide a refund for the Federal share of the excess balance. Instead, the State has agreed to refund the Federal share if the excess balance is not eliminated by FYE June 30, 2022.

OAS representatives informed us that without the legislature's approval, they will not be able to bill all State agencies or bill the Local governments the same rate as the State agencies. It is our understanding that in February 2020, the OAS representative submitted a proposal to the legislature that will reduce their appropriation and require OAS to bill all State agencies for their audit and single audit work. If the legislature does not approve the OAS proposal, OAS will be required to refund the Federal share of any excess retained earning balance as of FYE 2022 and subsequent years.

We will continue to communicate and work with the State on any issues identified during our annual Plan review. If there are any questions regarding this letter, please contact Karen Wong of my staff at 415-437-7820.

Sincerely,

Arif Karim, Director  
Cost Allocation Services