OFFICE OF AUDITOR OF STATE
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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
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FOR RELEASE August 27, 2014

Auditor of State Mary Mosiman today released an audit report on the Iowa Department of Human Services – Targeted Case Management Unit (Unit) for the year ended June 30, 2013.

The Unit helps individuals with intellectual disabilities, 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 revenues totaling $20,786,842 for the year ended June 30, 2013, an 11% increase over the prior year. The Unit's expenses for the year ended June 30, 2013 totaled $20,640,590, an increase of 6.8% over the prior year.

A copy of the audit report is available for review in the Iowa Department of Human Services – Targeted Case Management Unit, in the Office of Auditor of State and on the Auditor of State's website at http://auditor.iowa.gov/reports/1460-4010-B001.pdf.

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IOWA DEPARTMENT OF HUMAN SERVICES –
TARGETED CASE MANAGEMENT UNIT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2013

Table of Contents

Iowa Department of Human Services – Targeted Case Management Unit
State of Iowa

Officials

Name	Title
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Charles M. Palmer	Director, Department of Human Services

Agency

Sally Titus	Deputy Director of Programs and Services
Richard Shults	Division Administrator, Division of Mental Health and Disability Services
Diane Diamond	Bureau Chief, Targeted Case Management Unit

Iowa Department of Human Services – Targeted Case Management Unit

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Targeted Case Management Unit (Unit), as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Unit's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Unit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Unit's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the 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 – Targeted Case Management Unit as of June 30, 2013, and the respective changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the Iowa Department of Human Services – Targeted Case Management Unit are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa attributable to the transactions of the Iowa Department of Human Services – Targeted 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, 2013, and the changes in its financial position for the year ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and Budgetary Comparison Information on pages 7 through 11 and 23 and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2014 on our consideration of the Iowa Department of Human Services – Targeted 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 in considering the Iowa Department of Human Services – Targeted Case Management Unit's internal control over financial reporting and compliance.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 29, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION AND REPORTING ENTITY

Management of the Iowa Department of Human Services – Targeted Case Management Unit (Unit) provides this "Management's Discussion and Analysis" of the Unit's annual financial statements. This narrative overview and analysis of the financial activities of the Unit is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Unit's financial statements which follow the discussion.

The Iowa Department of Human Services – Targeted Case Management Unit (DHS-TCM) operates as a Medicaid service provider and uses prospective cost-related rates to establish reasonable estimates for providing case management services to consumers. At the end of each fiscal year, the Unit conducts a final cost settlement with the Iowa Medicaid Enterprise (IME) based on actual revenues received and costs incurred.

The Unit first offered services in 1989 when Iowa began initial efforts to provide services to individuals with mental health disorders and disabilities in their own homes and in the community. The primary focus of a community-based service approach is to provide supportive services necessary for individuals with disabilities to live in the least restrictive setting possible, preferably at home with their families and a part of their own communities. The Unit has 229 employees and 33 offices spread across Iowa. During fiscal year 2013, the Unit connected 6,212 citizens to services necessary to their health, safety and well-being.

The Unit's advisory board meets at least three times annually to review operations. Voluntary inclusion on the advisory board is open to those who are officials in contracted counties, provider agency staff, members and member guardians.

2013 FINANCIAL HIGHLIGHTS

- The Unit had total revenues of $20,786,842 during fiscal year 2013 from a combination of fees for service, an 11% increase over fiscal year 2012.
- The Unit had expenses of $20,640,590 during fiscal year 2013, an increase of 6.8% over fiscal year 2012.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Unit's financial activities.

The Entity-wide Financial Statements consist of a Statement of Net Position (Deficit) and a Statement of Activities. These provide information about the activities of the Unit as a whole and present an overall view of the Unit's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as identifying amounts which remain for future spending.

The financial statements also include Notes to Financial Statements and Required Supplementary Information which explain some of the information in the financial statements and provide more detailed data.

REPORTING THE UNIT'S FINANCIAL ACTIVITIES

Entity–wide Financial Statements

One of the most important questions asked about the Unit's finances is, "Is the Unit as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position (Deficit) and the Statement of Activities report information about the Unit as a whole and about its activities in a way which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position (Deficit) presents all of the Unit's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Unit's net position may serve as a useful indicator of whether the financial position of the Unit is improving or deteriorating.

The Statement of Activities presents information showing how the Unit's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items which will not result in cash flows until future fiscal years.

The Unit's governmental activities are displayed in the Statement of Net Position (Deficit) and the Statement of Activities. Governmental activities include administrative costs and payments for contractual services.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position.

The Unit's combined net position decreased compared to a year ago. Our analysis below focuses on the net position and the change in net position of the Unit's governmental activities.

Net Position of Governmental Activities		
	June 30,	
	2013	2012
Assets	$ 7,134,589	6,076,909
Current liabilities	(5,635,107)	(4,267,878)
Noncurrent liabilities	(5,211,909)	(5,667,710)
Net position (deficit)	$ (3,712,427)	(3,858,679)

Change in Net Position of Governmental Activities		
	June 30,	
	2013	2012
Revenues	$ 20,786,842	18,725,481
Expenses	20,640,590	19,328,646
Change in net position	146,252	(603,165)
Net position (deficit) beginning of year	(3,858,679)	(3,255,514)
Net position (deficit) end of year	$ (3,712,427)	(3,858,679)

Net position of the Unit increased approximately 4% (negative $3.7 million at June 30, 2013 compared to negative $3.9 million at June 30, 2012). This increase was due, in part, to lower costs associated with cost settlements and a decrease in compensated absences and other postemployment benefits.

BUDGETARY HIGHLIGHTS

The Unit's receipts were $571,482 less than budgeted receipts, a variance of 3%. Since the Unit is reimbursed for the services it provides and operates in a cost settlement environment, receipts correlate directly with costs incurred. As explained in the following paragraph, expenditures were 8% lower than budgeted. Therefore, the Unit's receipts were a comparable percentage below budget.

Expenditures during the year ended June 30, 2013 exceeded the amounts budgeted for travel and subsistence, supplies and materials, contractual services, equipment and repair and claims and miscellaneous because of the Unit's policy to use the budget as a projection tool and not to amend the budget throughout the year. Expenditures exceeded amounts budgeted primarily due to the additional costs for travel and contractual services for necessary training due to new federal regulations. While the Unit's expenditures for these categories exceeded budgeted amounts, the Unit's overall costs were 8% lower than what was budgeted. This was primarily due to not filling vacant positions during fiscal year 2013. Unit management decided not to fill all vacant positions due to the unknown effects of pending legislation for Integrated Health Homes which will phase in beginning in fiscal year 2014 in five pilot counties.

CAPITAL ASSETS

The Unit's investment in capital assets for its governmental activities at June 30, 2013 was approximately $290,000, net of accumulated depreciation of approximately $265,000, leaving a net book value of approximately $25,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In fiscal year 2013, the Financial Team prepared for the challenge of the Atypical Code Conversion, a project undertaken by the Iowa Medicaid Enterprise (IME) due to provisions in the 1996 Federal Health Insurance Portability and Accountability Act (HIPAA) which requires standardized coding for reporting and billing for health care transactions by all entities. To comply, the Unit prepared these codes for implementation on July 1, 2013 to ensure billing was not interrupted. All Case Managers were trained to use the new codes as well. This also required transitioning from a multi-rate billing structure to one consolidated rate for all services in fiscal year 2014.

Senate File 446 (fiscal year 2014 Health and Human Services Appropriations Act) required the IME to establish a reimbursement methodology with limits for case management services in fiscal year 2014. To comply, the IME implemented a cap on indirect costs. The limitation is total indirect costs cannot exceed 23% of total direct costs.

The definition of direct costs include FTE positions which provide direct support and assistance to consumers and covers expenses associated with direct support salaries, benefits and payroll taxes, as well as 100% of staff travel, including meals and lodging. Indirect costs are defined as the salaries, benefits and payroll taxes associated with FTE positions which provide assistance and support to direct support staff. Indirect costs also include expenses such as office rent and utilities, office supplies, telephone and internet, postage and shipping, staff development and training, equipment costs and depreciation.

Historically, there was no cap on the amount spent on indirect costs. Therefore, this new mandate required an analysis of what actual indirect percentage existed in the DHS-TCM's cost structure and of what indirect costs could be decreased or eliminated.

The DHS-TCM's fiscal year 2013 Projected Cost Report included indirect costs that were an estimated 28% of direct expenses, or 5% above the cap. The DHS-TCM estimated the indirect cost rate for fiscal year 2013 was 24.38%, which would have been 1.38% above the new cap. If the cap had been in effect in fiscal year 2013, the DHS-TCM would not have been reimbursed for an estimated $230,000 of indirect expenses.

Since 84% of the DHS-TCM's costs are salaries and benefits, staff levels have the greatest impact on the direct versus indirect composition. Staff levels and turnover have to be continually monitored to ensure the cap requirement is maintained.

The limitation on indirect costs coincided with the transition of 602 consumers to Integrated Health Homes (IHHs), which resulted in several resignations, transfers and retirements. Since these positions were considered "direct," the loss of them had a negative impact on the DHS-TCM's ability to maintain indirect spending. This could have encouraged more spending on direct staff positions and travel if indirect spending had not been reduced for fiscal year 2014.

In fiscal year 2014, the IME also mandated new rounding rules for billing case management services with a 15-minute unit of service. The rules require the minutes spent on all billable activities during a calendar day for each consumer must be added together for a daily total. The total minutes are divided by 15 to determine the number of full 15-minute units per consumer per day. The remainder is rounded according to these guidelines:

- One to seven minutes are rounded down to zero units,
- Eight to 14 minutes are rounded up to one unit and
- The number of full units and the number of rounded units are added together to determine the total number of units for that day.

The DHS-TCM's billing software, Sigmund, does not currently have the ability to perform this new method of rounding and Sigmund estimates it will cost an estimated $50,000 to make the software changes to permit the rounding process. It will also require significant re-training of Case Managers in relation to documenting and inputting their time.

The DHS-TCM has written a program to identify which consumers have billable units which need to be adjusted. Manual corrections are then made by the Financial Team to each service affected. The adjustments are performed on a monthly basis at the time billing is completed in order to ensure compliance with the new rounding requirement. This process initially took financial staff an estimated 35 hours each month to perform in preparation for billing.

Beginning July 1, 2013, adults with a Chronic Mental Illness (CMI) and children with a Severe Emotional Disturbance (SED) who are enrolled in Medicaid and receive targeted case management services will be enrolled in an Integrated Health Home (IHH) program in five counties, including Dubuque, Linn, Polk, Warren and Woodbury. Individuals receiving these services in the remaining counties will be transitioned to IHHs over the next 12 to 18 months. An IHH program is a team of professionals who work together to provide whole-person, patient-centered coordinated care. The IHHs will be administered by Magellan Behavioral Care (MBC) and provided by community-based IHHs. The IHHs provide care coordination for all aspects of an individual's life and for any care transitions the individual experiences.

The Iowa Department of Human Services (DHS) estimates 16% of those who will be served by IHHs currently receive targeted case management services, including 22% of adults with a CMI and 5% of children with an SED. A six-month transition period will be established for individuals assigned to an IHH who currently receive targeted case management services so responsibilities can be safely transferred from the Unit to the IHHs. The Unit will work diligently to assist these individuals and their families to ensure the transition period is as seamless as possible. After the transition period, individuals assigned to an IHH will not be permitted to access the Medicaid service, "Targeted Case Management," but will receive all of their care coordination through an IHH.

Unit management has made and will continue to make financial, staffing and budget decisions which will accommodate these changes.

CONTACTING THE UNIT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our consumers, providers and citizens of the State of Iowa with a general overview of the Unit's finances and to show the Unit's accountability for the money we receive. If you have questions about the report or need additional financial information, contact the Iowa Department of Human Services – Targeted Case Management Unit, 401 SW 8th Street, Suite Q, Des Moines, IA 50309.

Basic Financial Statements

Iowa Department of Human Services – Targeted Case Management Unit

Governmental Fund Balance Sheet and Statement of Net Position (Deficit)

June 30, 2013

	General Fund	Adjustments (Note 5)	Statement of Net Position
Cash	$ 3,882,854	-	3,882,854
Accounts receivable	2,822,162	-	2,822,162
Cost settlement receivable	301,300	-	301,300
Prepaid expenditures/expenses	102,855	-	102,855
Capital assets, net of accumulated depreciation	-	25,418	25,418
Total assets	7,109,171	25,418	7,134,589
Current liabilities:			
Accounts payable	834,709	274,855	1,109,564
Due to other state agencies	52,608	-	52,608
Deferred revenue	312,087	(312,087)	-
Cost settlement payable	3,075,266	-	3,075,266
Compensated absences	-	1,397,669	1,397,669
Total current liabilities	4,274,670	1,360,437	5,635,107
Noncurrent liabilities:			
Accounts payable	-	282,846	282,846
Cost settlement payable	2,798,082	-	2,798,082
Compensated absences	-	1,128,419	1,128,419
OPEB liability	-	1,002,562	1,002,562
Total noncurrent liabilities	2,798,082	2,413,827	5,211,909
Total liabilities	7,072,752	3,774,264	10,847,016
Fund Balance/Net Position (Deficit)			
Committed fund balance	36,419	(36,419)	-
Total liabilities and fund balance	$ 7,109,171		
Net position (deficit):			
Invested in capital assets		25,418	25,418
Unrestricted		(3,737,845)	(3,737,845)
Total net position (deficit)		$ (3,712,427)	(3,712,427)

See notes to financial statements.

Iowa Department of Human Services – Targeted Case Management Unit

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

Year ended June 30, 2013

	General Fund	Adjustments (Note 6)	Statement of Activities
Revenues:			
Fees for service:			
Medicaid	$ 18,152,000	(14,832)	18,137,168
Merit Behavioral	2,317,666	282,390	2,600,056
Counties	49,814	(196)	49,618
Total revenues	20,519,480	267,362	20,786,842
Expenditures/expenses:			
Personal services	17,511,638	(127,939)	17,383,699
Travel and subsistence	497,963	-	497,963
Supplies and materials	151,545	-	151,545
Depreciation	-	47,523	47,523
Contractual services	2,120,382	-	2,120,382
Equipment and repair	421,314	4,282	425,596
Claims and miscellaneous	13,882	-	13,882
Total expenditures/expenses	20,716,724	(76,134)	20,640,590
Excess (deficiency) of revenues over (under) expenditures/expenses	(197,244)	197,244	-
Change in net position	-	146,252	146,252
Fund balance/net position (deficit) beginning of year	233,663	(4,092,342)	(3,858,679)
Fund balance/net position (deficit) end of year	$ 36,419	(3,748,846)	(3,712,427)

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The Iowa Department of Human Services – Targeted Case Management Unit (Unit) began operations in 1989 to provide services designed to help consumers with intellectual disabilities, 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 and the State of Iowa.

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 – Targeted 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 13 and 14 combine both an entity-wide perspective and a governmental fund perspective.

The General Fund comprises the Iowa Department of Human Services – Targeted 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 Position (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 Position (Deficit) presents the Unit's assets and liabilities, with the difference reported as net position (deficit). Net position (deficit) are reported in two categories:

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

Unrestricted net position (deficit) consists of net position 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Unit considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. 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 Position (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 Postemployment 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 Position (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.

F. Fund Balance

In the governmental fund financial statement, the fund balance is classified as follows:

Committed – Amounts which can be used only for the specific purposes determined by a formal action of the State's highest level of decision-making authority. The Iowa Legislature and Governor represent the State's highest level of decision-making authority. Formal action consists of legislation passed by both the House and Senate and signed by the Governor and is required to establish, modify or rescind a limitation.

(2) Deposits

The Unit's deposits with the Treasurer of State throughout the year and at June 30, 2013 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, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets:				
Equipment	$ 332,021	-	(41,862)	290,159
Less accumulated depreciation	254,798	47,523	(37,580)	264,741
Capital assets, net	$ 77,223	(47,523)	(4,282)	25,418

(4) Changes in Compensated Absences and Other Postemployment Benefits (OPEB)

Changes in compensated absences and other postemployment benefit obligations for the year ended June 30, 2013 are summarized as follows:

Benefit	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Compensated absences	$ 1,544,783	1,391,172	1,408,173	1,527,782	1,251,206
SLIP	959,974	106,977	14,797	1,052,154	171,315
SERIP	858,718	-	354,865	503,853	250,003
Net OPEB liability	850,815	151,747	-	1,002,562	-
Total	$ 4,214,290	1,649,896	1,777,835	4,086,351	1,672,524

Sick Leave Insurance Program (SLIP) - Included in the accrued accounts payable and compensated absences liability for the year ended June 30, 2013 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 Unit will pay 100% 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 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, the employee is eligible for Medicare, the employee waives the benefit or 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 SLIP account will be forfeited. All SLIP program benefits are financed on a pay-as-you-go basis. Amounts calculated for this program are included in the compensated absences liability for current employees and $53,848 is included in accounts payable for retirees.

For the year ended June 30, 2013, five retired employees received benefits of $14,797 under the SLIP program.

<u>State Employee Retirement Incentive Program (SERIP)</u>

On February 10, 2010, the Governor signed into law a State Employee Retirement Incentive Program (SERIP) for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and terminate employment no later than June 24, 2010.

Participants in SERIP will receive the following incentives:

1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed $2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant's last pay check.

2) Health insurance – A minimum of five years of State contributions toward the premiums of a State-sponsored health insurance plan, either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.

3) Unused vacation leave and years of service incentive – Cash payments, including the entire value of the participant's accrued but unused vacation leave and, for participants with at least ten years of State employment, $1,000 for each year of State employment, up to 25 years of employment. The total unused vacation leave and years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

SERIP is financed on a pay-as-you-go basis by the Unit. Twenty-one employees retired under this program and the amounts due have been recorded as accounts payable. The liability for the expected future health insurance benefits at June 30, 2013 is $264,310 and the liability for the unused vacation leave and years of service incentive payments at June 30, 2013 is $239,543.

Other Postemployment Benefits - As a part of the State of Iowa, the Unit participates in the State of Iowa postretirement medical plan (OPEB Plan). 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 $233.2 million for the State of Iowa as of June 30, 2013. The 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, 2013. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Unit recognized a net OPEB liability of $1,002,562 for other postemployment benefits, which represents the Unit's portion of the State's net OPEB obligation. The Unit's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the 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 Position (Deficit)

The differences result from the long-term economic resources focus of the Statement of Net Position (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 Position (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 current-period expenditures. Those assets are offset by deferred revenues in the governmental fund and are not included in fund balance.

Certain liabilities applicable to the Unit's governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities. However, they are reported in the Statement of Net Position (Deficit).

The effects of these differences are summarized as follows:

Capital assets, net of accumulated depreciation	$ 25,418
Deferred revenue	312,087
Accounts payable	(557,701)
Compensated absences and OPEB	(3,528,650)
Total	$(3,748,846)

(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, the governmental fund balance decreases by the amount of financial resources expended. For the year ended June 30, 2013, no financial resources were expended for capital assets. However, net position decreased by the amount of depreciation expense, $47,523.

Because fees for service of $267,362 were collected during the current fiscal year for previous year's revenues, they are now considered "available" revenues in the governmental fund.

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 other postemployment benefits totaling $4,086,351.

The effects of these differences are summarized as follows:

Depreciation expense	$ (47,523)
Increase in deferred revenue	267,362
Loss on disposal of equipment	(4,282)
Decrease in compensated absences and other postemployment benefits	127,939
Total	$ 343,496

(7) Pension and Retirement Benefits

The 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.

For the year ended June 30, 2013, plan members are required to contribute 5.78% of their annual covered salary and the Unit is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The Unit's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were $1,058,991, $904,159 and $733,204, respectively, equal to the required contributions for each year.

(8) Operating Leases

The 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, 2013 and June 30, 2018 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, 2013:

Year Ending June 30,	Minimum Rental Payments
2014	$ 545,168
2015	455,164
2016	349,021
2017	208,669
2018	72,190
Total	$ 1,630,212

Rental expense for the year ended June 30, 2013 for all operating leases, except those with terms of a month or less that were not renewed, totaled $565,441.

(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).

(10) Contingencies

The Unit reports revenues at estimated net realizable amounts for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the year the related services are rendered and such amounts are adjusted in future years as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

(11) Subsequent Event

The Unit served 862 children in 87 counties in the Children's Mental Health (CMH) and 1,428 adult and children in Chronic Mental Illness (CMI) Programs during the fiscal year ended June 30, 2013. Iowa Medicaid Enterprise (IME) made the decision to phase out the Unit's serving of CMH and CMI consumers as IME implements Integrated Health Homes (IHHs) over the course of the next three years. Phase 1 of this implementation was completed in December 2013, with the transfer of 602 consumers to IHHs from Dubuque, Polk, Linn, Warren and Woodbury counties. By July 1, 2016, the Unit will no longer serve CMH or CMI consumers.

Required Supplementary Information

Iowa Department of Human Services – Targeted Case Management Unit

Budgetary Comparison Schedule

Required Supplementary Information

Year ended June 30, 2013

	Original/ Final Budget	Actual	Final to Actual Variance
Revenues:			
Fees for service:			
Medicaid	$ 18,189,896	18,152,000	(37,896)
Merit Behavioral	2,770,462	2,317,666	(452,796)
Counties	120,002	49,814	(70,188)
Miscellaneous	10,602	-	(10,602)
Total revenues	21,090,962	20,519,480	(571,482)
Expenditures:			
Personal services	19,516,241	17,511,638	2,004,603
Travel and subsistence	410,929	497,963	(87,034)
Supplies and materials	144,122	151,545	(7,423)
Contractual services	2,070,184	2,120,382	(50,198)
Equipment and repair	384,120	421,314	(37,194)
Claims and miscellaneous	-	13,882	(13,882)
Service fee refunds	4	-	4
Total expenditures	22,525,600	20,716,724	1,808,876
Excess (deficiency) of revenues over (under) expenditures	(1,434,638)	(197,244)	1,237,394
Balance beginning of year	233,663	233,663	-
Balance end of year	$ (1,200,975)	36,419	1,237,394

See accompanying independent auditor's report.

Budgetary control is exercised over the Iowa Department of Human Services – Targeted 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 – Targeted 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.

Total expenditures during the year ended June 30, 2013 were under the amount budgeted by $1,808,876. The Unit's policy is to use the budget as a projection tool and not to amend the budget throughout the year.

OFFICE OF AUDITOR OF STATE
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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 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, the financial statements of the governmental activities and the major fund of the Iowa Department of Human Services – Targeted Case Management Unit (Unit) as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Unit's basic financial statements, and have issued our report thereon dated July 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Unit's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Department of Human Services – Targeted Case Management Unit's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Department of Human Services – Targeted Case Management Unit's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Department of Human Services – Targeted 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 which are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Unit's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Department of Human Services – Targeted 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.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins
WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 29, 2014

Iowa Department of Human Services – Targeted Case Management Unit

Schedule of Findings

Year ended June 30, 2013

<u>Findings Related to the Financial Statements:</u>

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Dorothy O. Stover, Senior Auditor
Ryan D. Baker, Staff Auditor
Megan E. Irvin, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State