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NEWS RELEASE

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FOR RELEASE February 10, 2011

Auditor of State David A. Vaudt today released a report on the Charter Agency Initiative (Initiative) administered by the Department of Management (DOM). The review was conducted for the period July 1, 2003 through June 30, 2008 to determine whether the program met the intent of the legislation and whether any cost savings, additional revenue and/or process improvements were achieved as a result of the performance goals established for the 6 participating agencies.

The Initiative was implemented as a measurable way to reinvent state government operations in order to provide improved services more efficiently and effectively. Under the Initiative, 6 state agencies were designated as charter agencies. These agencies were the Alcoholic Beverages Division (ABD) of the Department of Commerce, the Department of Corrections (DOC), the Department of Human Services (DHS), the Department of Natural Resources (DNR), the Department of Revenue (IDR) and the Iowa Veterans' Home (IVH).

Section 7J.1 of the *Code of Iowa* established certain benefits and rule flexibility to be granted to the charter agencies. These included the ability to waive administrative rules, the ability to award employee bonuses and exemption from obtaining Executive Council approval for out-of-state travel. Each charter agency was required to establish an annual agreement which specified the performance goals to be achieved, as well as specific benefits and rule flexibility granted to the charter agency. These benefits and flexibilities included eligibility for grant funds from DOM, the ability to retain 50% of unspent year-end appropriations, exemption from across-the-board appropriation reductions, the ability to convert contract employees to state employees and the ability to purchase outside of contracts established by the General Services Enterprise (GSE) within the Department of Administrative Services (DAS).

According to Section 7J.1(3) of the *Code*, the fiscal year 2004 operating appropriations for the 6 participating charter agencies were to be reduced. The reduced appropriations, along with any additional revenue generated attributable to the reinvention process as required by the *Code*, were to achieve an overall savings target of $15 million annually. For fiscal years 2004, 2005 and 2006, overall savings of $22,412,358, $19,559,981 and $53,699,881, respectively, were reported by DOM. Overall savings were never compiled or reported by DOM for fiscal years 2007 and 2008. These overall savings reported by DOM included increased revenues generated by the Iowa Lottery for 2004, 2005 and 2006. The Iowa Lottery, however, was not one of the charter agencies. When the Iowa Lottery's increased revenues are excluded, the overall savings amounts reported by DOM are reduced to $14,012,358, $16,436,583 and $20,794,796 for fiscal years 2004 through 2006, respectively. However, except for increased revenues, limited, if any, documentation was available to support the overall savings reported by DOM. Furthermore, the increased revenues included in the overall savings by DOM were not generated as a result of the Initiative as required by the *Code*. Therefore, it does not appear the 6 charter agencies met the $15 million target in any year.

As previously stated, each charter agency established performance goals to be achieved during the Initiative. However, those goals were not directly associated with specified revenue increases and/or expenditure savings of the charter agencies. As a result, Vaudt reported it was not possible to determine the impact of the charter agency goals on the overall savings reported by DOM. In addition, the revenue increases reported by DOM, while supported, were not a direct result of the Initiative, but rather were a result of functions within the daily operations of the charter agencies. Except for IDR, the only expenditure savings reported by DOM was the reduction to the appropriation of each charter agency. Neither DOM nor the charter agencies quantified additional expenditure savings resulting from the performance goals, if any.

As previously stated, the charter agencies were granted certain benefits and rule flexibility, including the ability to award performance bonuses. Vaudt reported a review of payroll for each of the charter agencies identified $118,204 of performance bonuses from fiscal years 2004 through 2007 awarded to Directors of charter agencies. In addition, the Directors of 2 charter agencies allocated a total of $3,900 of performance bonuses to employees within their agency.

Section 7J.1 of the *Code* also required the Governor to prepare a report to be submitted by January 15, 2008 regarding the operation and effectiveness of the charter agency legislation, as well as any cost savings associated with the Initiative. The report was to include the Governor's recommendations regarding whether the Initiative should continue beyond the June 30, 2008 sunset established by the Legislature. However, this report was never prepared.

As previously stated, each charter agency was required to establish an annual agreement to specify the performance goals to be achieved. Based on our review of the performance goals identified for fiscal years 2004 through 2007, it appears a significant number could have been accomplished regardless of the charter agency designation. The number of goals identified by each charter agency and the number of those for which charter agency status was not required are summarized below.

	Number of Goals	
Charter Agency	**Identified**	**Charter Agency Status not Required**
Alcoholic Beverages Division (Commerce)	4	4
Department of Corrections	34	33
Department of Human Services	31	30
Department of Natural Resources	36	35
Iowa Department of Revenue	24	13
Iowa Veterans' Home	21	18
Total	150	133

Each agency was required to report the results of the performance goals identified in quarterly reports submitted to DOM. However, sufficient supporting documentation was not maintained for a significant number of the performance goals. In addition, on several occasions, the charter agencies reported results of projects which were not part of the established agreement under the Initiative.

The quarterly reports also contained descriptions of the amount of charter agency grant funds the charter agency applied for. The reports also identified the project(s) the charter agency grant funds were to be used for. In total, DOM was appropriated $3 million to be used for charter agency grant fund projects. Of that amount, approximately $2,853,000 had been awarded and used by the charter agencies through fiscal year 2007. The amount of grant funds awarded to each charter agency is summarized as follows:

Charter Agency	**Grant Fund Amount**
Alcoholic Beverages Division (Commerce)	$ 600,000
Department of Corrections	422,000
Department of Human Services	843,000
Department of Natural Resources	328,000
Iowa Department of Revenue	460,000
Iowa Veterans' Home	200,000
Total	$ 2,853,000

Although the 6 charter agencies reported cost savings and revenue increases for fiscal years 2004 through 2006, it does not appear the Initiative met the intent of the General Assembly. Concerns identified include:

- Only 3 agencies reported revenue increases and 1 of those agencies accounted for 88% of the total amount reported.
- Revenue increases reported resulted from daily operations and were not a direct result of the Initiative.
- Of the cost savings reported, only 25% were actual cost reductions. The remainder was appropriation reductions, of which 35% was returned to the charter agencies as grant funds.

Vaudt recommended several improvements to the administration of the Initiative should a similar performance-based program be considered in the future. These recommendations include ensuring performance goals established include measurable cost savings and/or revenue components, ensuring only those performance goals resulting directly from the program are included in any required reports and ensuring sufficient supporting documentation is maintained for any cost savings and/or additional revenue reported.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at: http://auditor.iowa.gov/specials/0860-8990-B0P4.pdf .

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**A REVIEW OF THE
CHARTER AGENCY INITIATIVE
ADMINISTERED BY THE
DEPARTMENT OF MANAGEMENT**

**FOR THE PERIOD
JULY 1, 2003 THROUGH JUNE 30, 2008**

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To the Governor, Members of the General Assembly
and the Director of the Department of Management:

In conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Charter Agency Initiative (Initiative) administered by the Department of Management (DOM) from fiscal year 2004 through fiscal year 2008. We reviewed the performance goals established by each charter agency along with the results reported by the agencies to determine if additional revenue was generated or cost savings were achieved. In conducting our review, we performed the following procedures:

(1) Interviewed representatives from each charter agency to determine their understanding of the Initiative.

(2) Obtained the annual agreements and quarterly reports for each charter agency.

(3) Identified the performance goals established in the annual agreements for each charter agency.

(4) Identified the amount, if any, of cost savings and/or additional revenue reported by the charter agencies for each performance goal and obtained supporting documentation to determine if the amounts reported could be independently verified.

(5) Evaluated the performance goals to determine if charter agency status was necessary for accomplishment of the goals.

(6) Identified the grant fund projects established in the annual agreements for each charter agency to determine the amount of grant funds awarded and expended.

(7) Reviewed the amounts of cost savings and/or additional revenue reported by the charter agencies to determine if the overall revenue target was achieved for each fiscal year.

(8) Reviewed the amounts appropriated to each charter agency to determine if the appropriations were increased or decreased in each fiscal year and reviewed appropriation activity throughout the fiscal years to determine if the charter agencies were exempt from across-the-board appropriation reductions.

(9) Identified the salary for each charter agency Director to determine the amount, if any, of performance bonuses awarded.

(10) Obtained and reviewed employee salaries at each charter agency to determine if any of the charter agency Directors awarded performance bonuses to employees.

(11) Evaluated the number of full-time equivalent employees (FTEs) at each charter agency to determine if the number of FTEs increased or decreased for each fiscal year.

(12) Reviewed the year-end General Fund balances for each charter agency to determine if the proper percentage was retained and carried forward into the next fiscal year.

(13) Identified any administrative rules which had been waived to determine the reason for the waiver and if the action required charter agency status.

(14) Reviewed the revenues generated by each charter agency to determine the amount, if any, of capital asset sales.

(15) Evaluated the benefits and rule flexibility specified in the annual charter agency agreements to determine if they were offered solely to charter agencies and whether they should be offered to all state agencies. In addition, determined whether cost savings identified and reported by the charter agencies were a direct result of the benefits and rule flexibility granted.

(16) Reviewed the amount appropriated to DOM to determine the amount, if any, of funds expended for the Initiative.

(17) Obtained and reviewed out-of-state travel claims for the administrator of the Performance Results Team within DOM to determine if they were properly approved and if the travel was related to the Initiative.

(18) Evaluated other performance-based programs administered by DOM to determine if those programs duplicated the objective of the Initiative.

Based on these procedures, we determined the Initiative did not generate the cost savings or additional revenue reported. The charter agency designation was not necessary for the accomplishment of a vast majority of the performance goals established for the 6 charter agencies and supporting documentation was not available for most of the amounts reported. In addition, several performance goals focused on process improvements with no associated cost savings or additional revenue goals. We have developed certain recommendations and other relevant information we believe should be considered by the Governor, the General Assembly and the Department of Management should a similar program be considered in the future.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Department of Management and each of the 6 charter agencies throughout the engagement.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 3, 2010

Executive Summary

During the 2003 Legislative session, the Legislature established the Charter Agency Initiative (Initiative). According to the vendor who assisted with the Initiative, the project allowed agencies to exchange management "freedom" for accountability. According to Section 7J.1 of the *Code of Iowa*, the purpose of the charter agency designations was to grant the agencies additional authority while reducing total appropriations. As a result of the Initiative, 6 entities were designated as charter agencies, as follows:

- Alcoholic Beverages Division (ABD) of the Department of Commerce,
- Department of Corrections (DOC),
- Department of Human Services (DHS),
- Department of Natural Resources (DNR),
- Department of Revenue (IDR) and
- Iowa Veterans' Home (IVH).

The charter agencies were granted certain benefits and rule flexibility as a result of receiving charter agency status. These benefits included exemption from full-time equivalent (FTE) limitations, the ability to award employee performance bonuses and the ability to waive or suspend administrative rules. Charter agencies were also exempt from across-the-board appropriation reductions and were allowed to retain 50% of their unspent appropriations. In addition, an overall savings target of $15 million was established for each fiscal year.

The legislation also included a sunset provision of June 30, 2008. A bill proposed in 2006 granting the Governor continued authority to designate additional charter agencies, thereby removing the sunset, was not approved. Because no legislation to reauthorize charter agencies beyond June 30, 2008 was adopted, the Initiative ended at June 30, 2008.

Our review was conducted to determine whether:

- cost savings and/or additional revenue were achieved,
- process improvements occurred as a result of the performance goals established by the 6 charter agencies,
- the program was administered efficiently, effectively and in compliance with the requirements of the charter agency legislation and
- the Initiative, or a similar performance-based program, should be considered for future implementation.

Overall – Each charter agency was required to enter into an annual performance agreement (agreement) which specified measurable organizational and individual goals in key operational areas of the agency. The agreements were to be signed by the Governor and the Director of each charter agency. However, we identified several agreements which did not contain the appropriate signatures. The agreements also established each agency's specific goals to reduce operating costs and/or generate additional revenue and specified certain benefits and rule flexibility to be granted to each charter agency.

In total, appropriations were reduced approximately $2 million in fiscal year 2004. However, $3 million was appropriated to the Department of Management (DOM) that same fiscal year to be used as charter agency grant funds for the 6 charter agencies over the course of the Initiative. In addition, although charter agencies were allowed to retain 50% of their unspent appropriations, this was a benefit allowed all state agencies at the time. While other state agencies were required to restrict any funds retained for training and technology, charter agencies were allowed to expend the funds retained as deemed necessary. However, if other statutory language existed which superseded the charter agency legislation, the charter agencies were not necessarily able to retain the 50% allowed.

As previously stated, a $15 million savings target was to be achieved through the reduction of operating costs and the generation of additional revenue on an annual basis. Although the Iowa Lottery (Lottery) was not a charter agency, according to documentation provided by DOM staff, "during legislative negotiations, it was agreed that future Lottery total transfers to the General Fund in excess of the fiscal year 2003 baseline could be counted toward" the $15 million savings target. Without the contribution from the Lottery, the target was not achieved for fiscal year 2004. In addition, although the overall target was to be $15 million for each fiscal year, the overall savings target listed by DOM for fiscal year 2007 was $9.5 million for the 6 charter agencies. However, after including the Lottery, the overall savings target became $15.5 million.

In addition, although each charter agency established specific performance goals, those goals were not directly associated with specified revenue increases and/or expenditure savings. As a result, it was not possible to determine the impact of the performance goals on the overall savings reported by DOM. The revenue increases reported by DOM, while supported, were not a direct result of the Initiative, but rather were a result of functions within the daily operations of the charter agencies. In addition, except for IDR, the only expenditure savings reported by DOM was the reduction to the appropriation of each charter agency. Neither DOM nor the charter agencies quantified additional expenditure savings resulting from the performance goals, if any.

Also, as previously stated, the 6 charter agencies were granted certain benefits and rule flexibility, such as exemption from FTE limitations, the ability to award employee performance bonuses and the ability to waive or suspend administrative rules. The *Code* identified several overarching benefits and rule flexibility which were described in greater detail in the agreements established by the charter agencies. We reviewed the salary paid to each charter agency Director to determine if performance bonuses were awarded. We identified $118,204.38 in performance bonuses awarded to charter agency Directors for fiscal years 2004 through 2007. We also identified $3,900 in performance bonuses awarded by the Directors to employees within their agencies. Several of the letters authorizing the payment of the performance bonuses to the Directors indicated the Director was already at the top of the pay range established for the positions. Therefore, the performance bonuses were processed as retention bonuses.

We also identified 7 instances in which rule waivers and suspensions were used by charter agencies. Specifically, on 4 occasions, charter agencies waived personnel rules in order to correct employee pay, recognize and reward an employee for assuming additional duties and expand internship appointment. On 3 occasions, charter agencies waived procurement rules in order to purchase software, purchase additional services from an existing vendor without competitive bid and extend an existing vendor contract. However, a waiver request to purchase additional services from an existing vendor without competitive bid was denied by DOM.

Of the 39 benefits specified in the agreements, we determined 19 were offered solely to charter agencies. However, we determined 12 of the remaining 20 would have provided benefits to overall State operations and, therefore, should have been offered to all state agencies.

The 6 charter agencies were also required to submit periodic reports documenting their success in achieving their established goals. The reports were to include information regarding the agencies' expenditures and the number of filled FTEs during the preceding fiscal year. However, none of the charter agencies included this information. We reviewed the quarterly reports submitted to DOM by the charter agencies and attempted to verify the results reported. However, the results of the Initiative were frequently not reported in a manner that identified a quantifiable cost savings or increased revenue amount. In addition, the quarterly reports often contained information which was not related to the goals established for the Initiative.

The legislation establishing the Initiative included a reporting requirement for the Governor. A report was to be prepared and submitted by January 15, 2008 regarding the operation and effectiveness of the Initiative, as well as any associated cost savings. The report was to include the Governor's recommendations regarding whether the Initiative should continue beyond the June 30, 2008 sunset. However, the Governor did not submit the required report.

As previously stated, DOM was appropriated $3 million for the charter agency grant fund, which was established to provide support for innovation by the charter agencies. A charter agency seeking a grant from the fund was to complete an application process, as designated by the Director of DOM. However, according to representatives of the charter agencies, a formal application process was not developed. For fiscal years 2004 through 2007, approximately $2,853,000 in grant funds was provided to the 6 charter agencies. No grant funds were disbursed in fiscal year 2008.

DOM also received approximately $6.35 million for reinvention initiatives in fiscal year 2004. These funds were to be used for the contract with Public Strategies Group (PSG), the consulting firm hired to help launch the charter agency program. However, the Initiative was only 1 phase of the reinvention efforts taking place in Iowa at the time of the PSG contract. Therefore, we were unable to determine which portion of the fees paid to PSG was related to the Initiative. In total, we identified $6,163,177.75 of payments to PSG for fiscal years 2004 through 2007.

We also reviewed other performance-based programs administered by DOM to determine if the objectives of those programs duplicated the objectives of the Initiative. We identified 3 other programs which appeared to have the same basic purpose. These programs were the Accountable Government Act, Iowa Excellence and the Lean program. We determined the charter agencies were reporting some of the same performance goal results under each of the 4 programs.

<u>Individual Charter Agencies</u> – As previously stated, each charter agency was required to develop an annual agreement which specified the performance goals to be achieved. Quarterly reports were then provided to DOM to report the results of the performance goals included in the agreement. In total, charter agencies identified 150 performance goals for fiscal years 2004 through 2007. Based on our testing, we determined charter agency status was not necessary for 133 of the 150 performance goals. See the "Individual Charter Agencies" section of this report for a detailed description of the performance goals established by each charter agency.

The findings we identified during our review include the following:

- 53 instances in which the agencies reported performance goals which had not been established in the agreement,
- 70 instances in which the agencies did not report performance goals which were established in the agreement,
- 45 instances in which the agencies reported performance goals were not achieved,
- 121 instances in which sufficient supporting documentation was not provided for reported results,
- 10 agreements which did not contain the proper signatures and
- program administration issues, such as the Governor not submitting a report required by the *Code* and inclusion of the Lottery, which was not a charter agency, in the overall savings target.

This report also includes items for further consideration in administration of the Initiative should a similar program be approved in the future.

Conclusion – The results of the Charter Agency Initiative were not determined in accordance with the Initiative's authorizing legislation and documentation of reported results was not maintained. As a result, the Initiative did not achieve its intended purposes.

While the authorizing legislation established an overall savings target of $15 million per year through reduced appropriations to the charter agencies along with additional revenues generated for the State's General Fund which could be attributed to the reinvention process by DOM (emphasis added), no documentation was maintained to distinguish between additional revenues resulting from the reinvention process and those resulting from other factors. Based on our review, the revenue increases were not a result of the reinvention process. In addition, the overall savings reported by DOM included increased revenues generated by the Iowa Lottery. However, the Iowa Lottery was not a charter agency.

Additionally, no documentation was maintained to determine whether reported cost savings were achieved as a result of the reinvention process or resulted from other factors. In addition to being required by the authorizing legislation, determination of the savings achieved through individual components of the reinvention process would have been useful in determining whether any of the individual components of the reinvention process should have been extended to agencies other than charter agencies to achieve additional cost savings for the State while still providing adequate accountability over agency operations.

Moreover, charter agency status was not necessary for the charter agencies to achieve the vast majority of the performance goals established in their annual agreements. This demonstrates the charter agencies were not prevented from achieving their performance goals due to the operating rules and guidelines applicable to all other State agencies. Therefore, the charter agencies would have been able to achieve nearly all of their performance goals without charter agency status.

Objectives, Scope and Methodology

Objectives

Our review was conducted to determine whether the program met the intent of the legislation and whether any cost savings, additional revenue and/or process improvements were achieved as a result of the performance goals established by the 6 charter agencies. We also reviewed the requirements of the charter agency legislation to determine whether the program was administered efficiently and effectively.

Scope and Methodology

To gain an understanding of the Charter Agency Initiative (Initiative), we:

- interviewed representatives from each charter agency to determine their understanding of the program's intent,
- reviewed the charter agency annual agreements (agreements) and quarterly reports to identify the performance goals established and determine if all performance goals were reported and all required information was included,
- identified the performance goals reported as achieved to determine if the cost savings, additional revenue or process improvements reported were a direct result of the state agencies receiving charter agency status or whether the goals could have been accomplished without that designation and to determine if appropriate supporting documentation was available for all performance goals,
- identified projects for which each charter agency received grant funds and determined if those projects were a direct result of the state agencies receiving charter agency status,
- reviewed the appropriations to each charter agency to determine if the amounts increased or decreased each fiscal year,
- reviewed the overall savings target of $15 million to determine if the target had been achieved each fiscal year,
- reviewed payroll for each charter agency to determine if performance bonuses were awarded to any of the Directors and/or employees and if the number of full-time equivalent employees (FTEs) at each charter agency increased or decreased for each fiscal year,
- reviewed the year-end General Fund balance to determine if the proper percentage was retained by each charter agency,
- identified any administrative rules waived or suspended by the charter agencies and evaluated the benefits and rule flexibility specified in the agreements to determine if they were offered solely to charter agencies,
- reviewed the amount appropriated to the Department of Management (DOM) to determine what portion, if any, was expended for the Initiative and
- evaluated other performance-based programs administered by DOM to determine if those programs duplicated the objectives of the Initiative.

To perform our testing, we summarized the performance goals, which included both the performance targets and special projects, and charter agency grant fund projects included in the agreements and determined if supporting documentation was available. If supporting documentation was provided, we determined if it could be independently verified. We also discussed the performance goals with representatives of the charter agencies to determine if the goals could have been achieved without charter agency designation.

We also reviewed the requirements included in the charter agency legislation and the benefits and rule flexibility specified in the agreements to determine if all requirements had been complied with and if the benefits and rule flexibility offered to charter agencies had been properly applied.

Charter Agency Initiative

The Charter Agency Initiative (Initiative) was presented to the Legislature in March 2003 by Public Strategies Group (PSG) during the formulation of the fiscal year 2004 State budget. At that time, the General Assembly was seeking approximately $100 million of budget reductions. As part of that effort, the Initiative was introduced as "freedom in exchange for accountability."

Legislation introduced and passed during the 2003 legislative session established the Initiative, effective July 1, 2003, and included a sunset provision of June 30, 2008. A bill proposed in 2006 granting the Governor continued authority to designate additional charter agencies, thereby removing the June 30, 2008 sunset, was not approved. As a result, the Initiative was not authorized beyond the June 30, 2008 sunset.

The intent of the General Assembly was to save State funding by reducing General Fund appropriations for each charter agency. In addition, the Initiative was established to reduce expenses incurred by the charter agencies and increase their revenues by allowing the agencies to operate with more autonomy.

Chapter 7J of the *Code of Iowa* was created as a result of the legislation. According to section 7J.1, the purpose of the charter agency designations was to grant the agencies additional authority while reducing the total appropriations to the agencies. Section 7J.1 also granted the Governor the authority to designate state agencies as charter agencies. Effective July 1, 2003, 6 entities volunteered to be designated as charter agencies, as follows:

- Alcoholic Beverages Division (ABD) of the Department of Commerce,
- Department of Corrections (DOC),
- Department of Human Services (DHS),
- Department of Natural Resources (DNR),
- Iowa Department of Revenue (IDR) and
- Iowa Veterans' Home (IVH).

The primary components of the Initiative, established by the Legislature in Chapter 7J of the *Code*, include:

- Annual performance agreements,
- Overall savings target of $15 million per year through reduced appropriations to the charter agencies along with additional revenues generated for the State's General Fund which could be attributed to the reinvention process as determined by DOM,
- Flexibility with administrative rules regarding:
  - salary/bonus payments for charter agency Directors and employees,
  - appropriations and asset management, including sale or lease of capital assets, retention of unspent appropriations at fiscal year-end and exemption from across-the-board appropriation reductions,
  - personnel management,
  - procurement and general services,
  - information technology,
  - other administrative rules and
  - Appeal Board requirements regarding payment of prior year claims.
- Reporting requirements and
- Charter agency grant fund.

We spoke with representatives from each charter agency to determine their understanding of the intent of the Initiative. We attempted to speak with representatives from ABD regarding this issue, but our phone calls were not returned. According to the representatives who were willing to speak with us, the intent of the Initiative was to:

- DOC – create an entrepreneurial spirit to lead to process improvements.
- DHS – allow participating agencies greater benefits and rule flexibility to achieve goals or particular special projects.
- DNR – operate in an entrepreneurial manner. Charter agencies were created to reduce costs, increase revenues and improve quality and efficiencies for Iowans. However, the representative also stated the intent appeared to change over the 5 years the Initiative was in effect and the potential of the Initiative was not fully realized over its duration.
- IDR – give the charter agencies opportunities to operate as they saw fit with more flexibility. The IDR representative also stated charter agencies had the ability to generate additional positions in order to create additional revenue. The program gave each charter agency the ability to operate in a manner similar to a private business rather than a state agency.
- IVH – give the charter agencies modified rules or greater rule flexibility. The rule flexibility allowed omitting steps a normal agency had to follow. For example, a charter agency did not follow the same process for out-of-state travel. Prior to becoming a charter agency, the process would take approximately 1 month. Specifically for IVH, Federal funds were received 1 year earlier than originally anticipated for the development of a few buildings. The receipt of those funds caused the need for many employees to travel to other states to view similar facilities. Another specific example the IVH representative provided was the ability of charter agencies to reduce the amount of time to create new positions. Prior rules required approval from the Department of Administrative Services (DAS), which was a longer process.

Each of the components of Chapter 7J of the *Code* is discussed in the following paragraphs. Implementation of the components at each participating charter agency is discussed in detail in a separate section of this report. Concerns identified related to each charter agency are included in **Findings A** through **D**.

Annual Performance Agreements – Section 7J.1(2) of the *Code* required the Governor and each charter agency Director to enter into an annual performance agreement (agreement) which specified measurable organizational and individual goals for the Director in key operational areas of the agency. Section 7J.1(2) of the *Code* also specified the Governor could remove a Director of a charter agency for misconduct or for failure to achieve the performance goals set forth in the agreement. The agreements were to be signed by the Governor and the Director of each participating agency. However, we identified several which were not properly signed by either or both parties. See **Finding E**.

The agreements also established each agency's specific goals to reduce operating costs and/or generate additional revenues and specified certain benefits and rule flexibility to be granted to each charter agency. Copies of select pages from an agreement, including the benefits and rule flexibility, are included in **Appendix A**. During the period the Initiative was in effect, the benefits and rule flexibility included in the agreements were modified. The changes are also summarized in **Appendix A**.

The benefits and rule flexibility specified in the agreements were not the same for all charter agencies. For example:

- For the 80% retention of all new revenues requirement, the fiscal years 2005 through 2007 agreements for DHS and DNR stated, "If the current practice permits retaining greater than 80% of new revenue, the current practice is permitted." This statement was not included in the agreements of the other 4 charter agencies.
- DNR's fiscal year 2004 agreement stated the retention of information technology staff, hardware and software through fiscal year 2004 was to be revisited prior to July 1, 2004. This statement was not included in the agreements of the other 5 charter agencies.

- DOC's fiscal year 2004 agreement did not include the provision for evaluating existing out-sourced state work activities as in the agreements of the other 5 charter agencies, but did include a provision to "award employee performance bonuses consistent with Charter Agency legislation." In addition, DOC's fiscal year 2004 agreement did not include either the provision to award "exceptional job performance" pay to contract covered employees with the approval of the labor union or to award "extraordinary duty" pay.

The agreements also included an additional terms and conditions section. The fiscal year 2004 agreements included a provision stating DOM recognized its responsibility to ensure the $15 million charter agency goal was achieved through a combination of cost reduction and revenue maximization efforts on an annual basis for a period of 5 years. It also stated the identified financial commitment in the 4 years subsequent to fiscal year 2004 was contingent upon maintaining at least the fiscal year 2004 baseline budget plus annual adjustments. If those funding amounts were not maintained, the agreement could be renegotiated and the amounts and expectations could be changed. This statement was removed from the agreements for fiscal years 2005 through 2007.

The agreements for fiscal years 2005 through 2007 included the following additional terms and conditions, which were not been included in the 2004 agreements:

1) The Directors were allowed to use operational funds for training and travel within the existing budget to promote achievement of goals and projects.
2) The Directors were not to be restricted by current state guidelines regarding employee recognition. The Directors were allowed to recognize or reward individuals and/or teams for their significant contributions toward the achievement of goals and projects.
3) The Directors were allowed to pursue collaborative partnering opportunities with outside agencies to benefit the operations of their agencies and the State.

In addition, the agreements for fiscal years 2004 through 2007 included a provision stating amendments could be made by mutual agreement of the parties at any time. However, we did not identify any amendments made to the agreements for those fiscal years.

Reduced Appropriations – According to section 7J.1(3) of the *Code*, it was the intent of the General Assembly the State General Fund fiscal year 2004 operating appropriations to charter agencies would be reduced from the appropriations which would otherwise have been enacted. The reduced appropriations, along with any additional revenue generated for the State's General Fund resulting from the Initiative, was to achieve an overall target of $15 million.

We were unable to obtain documentation of the amount the agencies would have been appropriated for fiscal year 2004 had they not been designated as a charter agency. As a result, we compared the amounts appropriated to the charter agencies for fiscal year 2004 to the amounts appropriated for fiscal year 2003. The appropriation amounts are summarized in **Table 1**. Of the increases and decreases shown in the **Table**, we are unable to determine what portion, if any, was a result of being designated as a charter agency.

Table 1

Agency	FY03 Appropriation*	FY04 Appropriation*	Increase/ (Decrease)
ABD	$ 1,803,044	1,789,292	(13,752)
DOC	185,816,674	192,154,156	6,337,482
DHS	135,217,640	135,909,714	692,074
DNR	15,905,231	15,489,070	(416,161)
IDR	25,338,458	24,976,712	(361,746)
IVH	14,445,694	14,205,741	(239,953)
Total	$ 378,526,741	384,524,685	5,997,944

* - As found in the 2002 and 2003 Acts of the General Assembly for fiscal years 2003 and 2004, respectively.

As illustrated by the **Table**, 4 of the 6 charter agencies' fiscal year 2004 appropriation were less than their fiscal year 2003 appropriation. DOC and DHS received a larger appropriation in fiscal year 2004. However, representatives of DOC provided us documentation showing the fiscal year appropriation was $500,000 less than the amount which would have otherwise been appropriated. The increase shown in the **Table** was primarily related to the appropriations for various DOC facilities. For DHS, the non-institutional appropriations decreased $1,044,979 from fiscal year 2003 to fiscal year 2004.

In addition, total fiscal year 2004 appropriations for the charter agencies, excluding DOC and DHS institutions, were $2,029,656 less than fiscal year 2003 appropriations. However, not all of the appropriation reductions were a direct result of the agencies receiving charter agency status. According to representatives from the charter agencies:

- ABD – The agency's primary objective was to increase revenues and the appropriation reduction was not related to ABD's charter agency designation.
- DHS – Of the $1,044,979 non-institutional appropriation reduction, $1 million was a direct result of becoming a charter agency.
- DNR – The fiscal year 2004 appropriation was reduced $50,000 as a result of receiving the charter agency designation. We determined an additional $37,933 was reduced from DNR's appropriation during fiscal year 2004. According to a DNR representative, the reduction was for an across-the-board appropriation reduction. However, charter agencies were to be exempt from all across-the-board appropriation reductions and the reduction is not recorded in the State's accounting system as an across-the-board reduction. Based on the information recorded in the State's accounting system, it appears the amount reduced from DNR's appropriation was combined with amounts from other agencies and transferred to the Department of Public Safety.
- IDR – The decrease in the fiscal year 2004 appropriation primarily related to the restructuring of the agency resulting from the formation of DAS.
- IVH – The agency agreed to contribute $1.3 million from the fiscal year 2004 appropriation. That amount was transferred out in fiscal year 2004 and became a permanent reduction in subsequent fiscal years. The transaction is recorded in the State's accounting system as a Legislative reduction.

An Issue Review issued by the Legislative Services Agency (LSA) in January 2004 reported an appropriation reduction which included a $15 million decrease for charter agencies. However, according to the Issue Review, $10.6 million was returned to the charter agency budgets in return for increased revenue the agencies agreed to generate. We are unable to determine how this amount was calculated. Based on the amounts reported by LSA, the net reduction to the appropriations for the charter agencies totaled only $4.4 million. In addition, DOM received an appropriation of $3 million to fund the charter agency grant fund. Further details about the charter agency grant fund are provided in a later section of this report.

According to section 7J.1(3c) of the *Code*, charter agencies were allowed to retain 50% of all unencumbered or unobligated balances of appropriations at the end of the fiscal year. However, in some cases, other statutory language existed which took precedence over the charter agency legislation. As a result, some charter agencies' participation in this benefit was restricted.

The ability to retain 50% of unencumbered or unobligated appropriation balances was not a benefit offered solely to charter agencies for fiscal years 2004 through 2007. However, non-charter agencies were required to use the amounts retained for training and technology while the use of the amounts retained by the charter agencies was unrestricted. DOM prepared a summary of the amounts retained by each charter agency for fiscal years 2004 through 2007. We were able to obtain supporting documentation for the amounts reported by DOM. **Table 2** summarizes the amounts DOM reported as retained by each charter agency for fiscal years 2004 through 2007.

Table 2

Charter Agency	Amount of Unencumbered or Unobligated Appropriations Retained for Fiscal Years Ended June 30, 2004	2005	2006	2007	Total
ABD	$ 20,533.28	70,789.50	-	-	91,322.78
DOC	204,014.45	67,029.30	35,201.10	76,359.22	382,604.07
DHS**	1,918,613.79	348,318.67	1,780,000.41	70,883.24	4,117,816.11
DNR	-	-	-	2.31	2.31
IDR	411,506.22	391,130.67	245,496.03	198,863.84	1,246,996.76
IVH**	-	9,636.84	-	-	9,636.84
Total	$ 2,554,667.74	886,904.98	2,060,697.54	346,108.61	5,848,378.87

** - DHS and IVH were affected by other statutory language which precluded an appropriation unit from retaining unspent funds.

Savings Target – As previously stated, a $15 million savings target was to be achieved through the reduction of operating costs and the generation of additional revenue on an annual basis. According to documentation received from DOM, $1,750,000 of grant funds were initially reserved to ensure the Initiative would meet its overall fiscal year 2004 commitment. Once it was determined the target had been achieved, those funds were made available to the charter agencies as grant funds.

In addition to the Initiative, during fiscal year 2004, the Iowa Lottery (Lottery) became a separate authority. It had previously been under the purview of IDR. According to documentation provided by DOM staff, "during legislative negotiations, it was agreed that future Lottery total transfers to the General Fund in excess of the fiscal year 2003 baseline could be counted toward" the $15 million savings target. However, legislation was enacted during the 2003 session of the General Assembly which specifically authorized the Governor to designate the Iowa Lottery as a charter agency. Because the Governor did not do so, the Lottery was not a charter agency. See **Finding F**.

The amount of cost savings and/or additional revenue contributed by each charter agency, as reported by DOM, is summarized in **Tables 3** and **4** by fiscal year. The **Tables** only include fiscal years 2004 through 2006. We were unable to obtain the information for fiscal years 2007 and 2008. According to a DOM representative, no one updated the financial information after a staff member left DOM's employment to work for PSG. See **Finding F**. DOM did not maintain supporting documentation for the amounts reported. However, we were able to compare the information presented by DOM to the amounts reported by the charter agencies in the quarterly reports. We attempted to verify the information provided in the quarterly reports by the charter agencies but were often unable to review appropriate supporting documentation. Additional information about the verification attempts is presented in a later section of this report.

Table 3

Charter Agency	Overall Expenditure Reductions Reported for the Fiscal Years Ended June 30, 2004	2005	2006	Total
ABD	$ -	-	-	-
DOC	500,000	500,000	500,000	1,500,000
DHS	1,000,000	1,000,000	1,000,000	3,000,000
DNR	50,000	100,000	-	150,000
IDR	683,073	560,368	1,531,565	2,775,006
IVH*	1,300,000	1,300,000	1,300,000	3,900,000
Total	$ 3,533,073	3,460,368	4,331,565	11,325,006

* - This amount was reported by DOM as an increased revenue amount. However, we have included it as an expenditure reduction because it is the reduction to IVH's appropriation, which would decrease the amount of funds available for expenditures.

Table 4

Agency	Overall Revenue Increases Reported for the Fiscal Years Ended June 30, 2004	2005	2006	Total
Charter:				
ABD	$ 9,690,915	11,600,939	13,977,602	35,269,456
DOC	-	-	-	-
DHS	-	-	-	-
DNR	154,665	#	231,000	385,665
IDR	633,705	1,475,276	2,254,629	4,363,610
IVH	##	-	-	-
Subtotal	10,479,285	13,076,215	16,463,231	40,018,731
Lottery**	8,400,000	3,123,398	32,905,085	44,428,483
Total	$18,879,285	16,199,613	49,368,316	84,447,214

- Data was not provided for DNR for fiscal year 2005; therefore, it is not included in the total.

- According to IVH's quarterly reports, it generated $316,301 of additional revenue during fiscal year 2004. However, DOM did not report this amount.

** - The majority of the increase in fiscal year 2006 related to TouchPlay sales.

As illustrated by the **Tables**, the amount of expenditure reductions and revenue increases reported for fiscal year 2004 totaled $3,533,073 and $10,479,285, respectively, for the 6 charter agencies. The combined total of $14,012,358 was less than the overall savings target of $15 million established by the *Code*. However, with the $8.4 million of increased revenue reported by the Lottery, DOM reported the overall savings target of $15 million was achieved. In addition, although the overall savings target was to be $15 million for each fiscal year, the overall savings target listed in the report prepared by DOM was $9.5 million for fiscal year 2007 for the 6 charter agencies. However, after taking the Lottery into consideration, the overall savings target was listed as $15.5 million. As previously stated, although the Lottery was considered a separate authority, it was not a charter agency. See **Finding F**.

In addition, although each charter agency established specific performance goals, those goals were not directly associated with specified revenue increases and/or expenditure savings. As a result, it was not possible to determine the impact of the performance goals on the overall savings reported by DOM. The revenue increases reported by DOM, while supported, were not a direct result of the Initiative, but rather were a result of functions within the daily operations of the charter agencies. In addition, as illustrated by **Table 3**, except for IDR, the only expenditure savings reported by DOM was the reduction to the appropriation of each charter agency.

According to section 7J.1(3b) of the *Code*, charter agencies were allowed to retain 100% of the proceeds from capital asset sales. However, according to a DOM representative, none of the charter agencies had any capital asset sales during fiscal years 2004 through 2007.

In addition, according to the agreements, charter agencies had the ability to retain 80% of new revenues generated. However, according to a DOM representative, except for DNR's on-line nature store, no other charter agencies had new revenue applicable to this provision. The DOM representative stated "new revenue" was to be generated by a source from which revenue had not previously been received. According to an IVH representative, "new revenue" was not sufficiently defined to enable the charter agencies to take advantage of that benefit.

Benefits and Rule Flexibility – The charter agency designation granted a number of special benefits and rule flexibility to the participating agencies. The *Code* identified several overarching benefits and rule flexibility which were described in greater detail in the agreements established between the Governor and each charter agency. Among the benefits and rule flexibility specified by the *Code*, charter agencies were granted exemption from FTE limitations, the ability to award employee performance bonuses and the ability to waive or suspend administrative rules. As previously stated, **Appendix A** includes the list of benefits and rule flexibility granted to the charter agencies. Each of the benefits and rule flexibility is discussed in more detail in the following paragraphs.

- Section 7J.1(2c) of the *Code* allowed the Governor to authorize the payment of a bonus to a Director of a charter agency in an amount not to exceed 50% of the Director's annual rate of pay, based upon the Governor's evaluation of the Director's performance in relation to the goals set forth in the agreement.

  We reviewed the salary paid to each charter agency Director to determine if any performance bonuses were awarded to them. **Table 5** summarizes the bonuses identified for each charter agency Director by fiscal year.

Table 5

Charter Agency	Fiscal Year 2004	2005	2006	2007	Total
ABD	$ 1,409.70	4,612.25	5,692.44	1,942.03	13,656.42
DOC	29,949.56	21,000.20	16,673.47	15,507.11	83,130.34
DHS	-	3,086.40	1,304.40	701.67	5,092.47
DNR	-	2,624.80	6,500.97	4,972.18	14,097.95
IDR	-	1,920.00	307.20	-	2,227.20
IVH	-	-	-	-	-
Total	$ 31,359.26	33,243.65	30,478.48	23,122.99	118,204.38

  During our review, we determined several of the letters authorizing the payment of the performance bonus stated the Director was at the top of the pay range for the position. As a result, the increase was processed as a retention bonus.

  We also identified 3 significant merit increases for the Administrator of ABD. The percentages of the increases were 8.00%, 10.58% and 10.00% for fiscal years 2004 through 2006, respectively.

- Section 7J.1(2d) of the *Code* allowed a Director of a charter agency to authorize the payment of bonuses to employees of the charter agency in a total amount not to exceed 50% of the Director's annual rate of pay, based upon the Director's evaluation of the employees' performance.

  We identified performance bonuses awarded to employees at 2 charter agencies. In fiscal year 2004, the Director of DNR allocated $1,900.00 among 4 employees and, in fiscal year 2005, the Director of DHS allocated $2,000.00 among 10 employees. We did not identify any performance bonuses awarded for the Initiative in either fiscal year 2006 or 2007.

- Section 7J.1(4a) of the *Code* granted charter agencies exemption from limitations relating to the number of employees or the pay grade assigned to their employees, including any limitation on the number of FTE positions as defined by Section 8.36A of the *Code*.

  Based on a review of the payroll information for each charter agency, 5 of the 6 agencies increased the number of FTEs from fiscal year 2003 to fiscal year 2007. IVH, DOC and DHS had increases of 77 (10.5%), 102 (3.4%) and 587 (11.7%), respectively.

  - According to an IVH representative, 30 Resident Treatment Workers (RTWs) were added, as well as several pharmacy staff.
  - According to a DOC representative, expansive hiring was conducted as a result of the Oakdale expansion.
  - We attempted to contact a representative of DHS; however, no response was received.

  IDR significantly decreased its number of FTEs, from 473 in fiscal year 2003 to 362 in fiscal year 2007. According to an IDR representative, the decrease was primarily related to the restructure caused by the formation of DAS when a number of IDR's positions were moved to the new agency.

We also compared the number of FTEs at each charter agency to the FTE limitations established by the Legislature and determined 3 charter agencies legally exceeded the established limits. For fiscal year 2007, ABD and DHS exceeded the FTE limitation by 30 (83.3%) and 229 (6%), respectively. For ABD, the primary reason for the increased FTEs was the resumption of warehouse operations from the contracted vendor.

The FTE limitation was not available for DOC after fiscal year 2004; however, the number of FTEs in fiscal year 2007 exceeded the fiscal year 2004 limitation by 48. **Table 6** summarizes the FTE limitations and actual FTEs employed by each charter agency for fiscal year 2007.

Table 6

Charter Agency	FTE Limitation	Actual FTEs Employed	Difference (Over)/Under
ABD	36.00	66.00	(30.00)
DOC	**	3,079.00	**
DHS#	3,792.97	4,022.00	(229.03)
DNR	1,113.63	945.00	168.63
IDR	392.64	362.00	30.64
IVH	874.55	813.00	61.55

** - An FTE limitation was not established for DOC in fiscal year 2007.

- The State Resource Centers do not have an established FTE limitation. Therefore, they have been excluded from the actual FTEs.

The *Code* also allowed charter agencies to temporarily waive or suspend the provisions of any administrative rule if strict compliance with the rule impacted the ability of the charter agency requesting the waiver or suspension to perform its duties in a more cost-efficient manner. In addition, the following requirements had to be met:

1) the rule posed an undue financial hardship on the charter agency,
2) waiver or suspension of the rule did not prejudice the legal rights of any person,
3) substantially equal protection of public health, safety and welfare had to be afforded by other means and
4) waiver or suspension did not result in a violation of due process, state or federal law or a violation of the state or federal constitution.

According to a DOM representative, the waiver requests were typically approved through e-mail by DOM and none of the rules had to be reviewed and approved by the Administrative Rules Review Committee (ARRC) because of the type of waivers requested. We identified 7 instances in which rule waivers and suspensions were used by charter agencies. The specific rules waived are discussed in the following paragraphs.

- Section 7J.1(4b) of the *Code* allowed charter agencies to waive any personnel rule and exercise the authority granted to the Human Resources Enterprise (HRE) within DAS relating to personnel management concerning employees of the charter agency, subject to any restrictions on such authority as to employees of the charter agency covered by collective bargaining agreements. Copies of applicable rules are included in **Appendix B**.
    - In October 2004, IVH waived DAS-HRE Rule 11-53.4(7) to correct an error regarding an employee's rate of pay.
    - In January 2005, DOC waived DAS-HRE Rule 581-4.7(1)a, Pay Increase Eligibility Periods, to provide psychiatric services at the Iowa State Penitentiary.

- In March 2005, DHS waived DAS-HRE Rule 53.8(3), Extraordinary Duty, and DAS-HRE Rule 53.4(7), Retroactive Pay, to recognize and reward an employee for assuming additional duties over an extended period of time.
- In December 2006, DHS implemented a waiver to expand DAS-HRE Rule 57.6(8A), Internship Appointment, to apply to the educational residency for the physician assistant program at the Cherokee Mental Health Institute (MHI). The waiver applied to approximately 4 individuals per year who were enrolled in the program.

- Section 7J.1(5) of the *Code* allowed charter agencies to waive any administrative rule regarding procurement, fleet management, printing and copying or maintenance of buildings and grounds and exercise the authority of DAS as related to the State's physical resources.
  - In June 2005, DHS waived DAS procurement rules to purchase an automated voice response system and a software license. According to DHS, no other methods of purchasing these items were available and the purchases saved more than $58,000.
  - In August 2006, DHS requested a waiver of DAS competitive procurement rules to purchase data matching services from a vendor already under contract. DHS projected the procurement would save approximately $179,070 in the 1st year and $27,640 in each subsequent year. However, according to a representative of DHS, the waiver request was denied by DOM.
  - In February 2008, DNR waived Iowa Administrative Code (IAC) 106.11(8A) to extend the contract with the vendor developing its electronic licensing system for a period of up to 10 years. A copy of IAC 106.11(8A) is included in **Appendix B**.

We did not identify any waivers requested by the charter agencies for the following provisions.

- Section 7J.1(6) of the *Code* allowed charter agencies to waive any administrative rule regarding the acquisition and use of information technology and the ability to exercise the powers of DAS related to information technology.
- Section 7J.1(8) of the *Code* allowed charter agencies exemption from the requirement of obtaining Executive Council approval for claims for expenses of attending conventions, out-of-state travel requests and memberships in professional organizations.
- Section 7J.1(9) of the *Code* allowed charter agencies exemption from the requirement of obtaining State Appeal Board approval for payment of prior year claims from funds other than the General Fund of the State.

Of the waivers used by the charter agencies, all state agencies had the ability to waive certain requirements, such as payroll corrections, payment of extraordinary duty pay and extension of the duration of contracts. See the "Items for Further Consideration" section of this report.

In addition, charter agencies were exempt from across-the-board appropriation reductions through fiscal year 2006.

We evaluated the benefits and rule flexibility granted to charter agencies to determine if they were offered solely to charter agencies and if they should have been offered to all state agencies. Of the 39 benefits specified in the agreements, we determined 19 were offered solely to charter agencies, including the ability to receive grant funds from DOM, exemption from across-the-board appropriation reductions, the ability to award performance bonuses and exemption from FTE limitations. In addition, of the remaining 20, we determined 12 would have provided benefits to overall State operations and, therefore, should have been offered to all state agencies, including retention of 80% of new revenues generated, DOM support for legislative changes and the ability to convert contract employees to state employees. Others were already available to all state agencies, such as the ability to make travel arrangements directly with vendors. See the "Items for Further Consideration" section of this report.

Reports – In accordance with section 7J.1(10a) of the *Code*, written reports were to be submitted by the Directors of the charter agencies by December 31 each year to track their success in achieving their established goals. The reports were to include information regarding the agencies' expenditures and the number of filled FTEs during the preceding fiscal year. Rather than the annual reports required by the *Code*, the charter agencies submitted quarterly reports to DOM which DOM staff used to compile year-to-date progress on achieving the $15 million overall savings target on a fiscal year basis. The reports also included progress on the goals listed in each charter agency's agreement. However, none of the quarterly reports we reviewed provided information regarding the agencies' expenditures or the number of filled FTEs for the preceding fiscal year. See **Finding F**.

We reviewed the quarterly reports submitted to DOM by the charter agencies and attempted to verify the results reported. The results of the Initiative were frequently not reported in a manner which identified a quantifiable cost savings or increased revenue amount. Rather, the results often addressed the efficiency and effectiveness of certain segments of the agencies' operations. The findings of our review are discussed in detail for each charter agency in a later section of this report.

Several charter agency publications referred to the "halo effect", which was used to describe those projects for which the state agency did not need charter agency status. However, state agency personnel felt having the charter agency designation encouraged a creative and entrepreneurial spirit which allowed the creation and implementation of those projects. Examples of the projects considered part of the "halo effect" were identified in a publication posted on the charter agency website. The publication included:

- ABD – development of 3 major on-line systems to better serve its customers.
- DOC/IVH – the partnership to renovate an old kitchen area for an outpatient clinic.
- DOC/DHS – consolidation of pharmacy purchases.
- DOC – cooperation with a local racetrack and the Animal Rescue League to create a thoroughbred retirement farm to provide work opportunities and rehabilitation for inmates, as well as a safe haven for retired racehorses.
- DOC – leaders increasing discussion about "running their business." According to DOC representatives, "Charter Agencies gave us the confidence to try something new – trying to run like a business." For example:
  - work with consultants was underway to save money,
  - a Kaizen event was held on procurement, delivery and inventory processes and
  - work continued with DAS and others on purchasing.
- DHS – significant revision to the administration of the Medicaid program. Instead of hiring 1 contractor to administer the program, DHS became the general contractor and sought bids for each of the 8 major functions within Medicaid. According to DHS, Iowa is both saving money and providing better services to Medicaid clients.
- DNR – creation of the on-line nature store which sells outdoor recreation, conservation and wildlife-related clothing to raise awareness and additional revenue.

Another separate document prepared by DHS also reported projects which were identified as "halo effects" from the Initiative. The projects listed included implementation of the Iowa Medicaid Enterprise (IME), the Preferred Drug List (PDL), Food Assistance enrollment, the Title IV-E penetration rate, the child welfare data dashboard, Iowa Care, child welfare redesign and the Illinois Interstate Child Support Office. Several of these projects were mandated by federal or state requirements. See the "Items for Further Consideration" section of this report.

In a report dated January 24, 2008, DOM recommended the Initiative sunset be eliminated or extended an additional 5 years. In addition, the report stated the Governor should have the ability to designate additional charter agencies and apply some rule flexibility to all Executive Branch agencies, including the ability to change the status of "direct report" managerial positions to "at will" positions, award increased pay for increased credentials to non-contract employees or to contract covered employees with the approval of the labor union, purchase goods and services outside General Services Enterprise (GSE) contracts, make travel arrangements directly with vendors and no longer seek approval from the Executive Council for out-of-state travel. The report also identified the benefits which DOM felt should remain as rule flexibility only for charter agencies, including retention of 50% of their unspent General Fund appropriation, retention of 80% of all new revenue generated, the ability to charge other governmental agencies for services and exemption from appropriated FTE limitations.

On February 22, 2008, the Directors of the charter agencies held a meeting to develop a proposal to be submitted to the Legislature regarding the extension and expansion of the Initiative. DAS also participated throughout the meeting because it was believed the Initiative had benefited DAS as well. However, the minutes from the meeting do not specify those benefits.

According to the minutes of the meeting, the following issues were discussed:

- The new approach by charter agencies had resulted in changes to requirements for all state agencies in a variety of areas at no cost to the State.
- DAS expressed support for the continuation and expansion of the Initiative.
- The most significant rule flexibility was the elimination of the FTE limit. All of the charter agencies were able to better provide results and save money, or generate revenue, due to removal of this limitation.
- There are several reasons for continuation of the Initiative, including the positive results achieved, the support of the existing charter agencies, the creation of a safe learning environment and the creation of an entrepreneurial and creative spirit within the staff of the charter agencies. Discontinuation of the Initiative would be an indication to the Directors of the charter agencies status quo was acceptable.

The proposed criteria for continuation of the charter agency designation included, but was not limited to, having a commitment to improve service delivery, customer satisfaction and productivity, participate in innovation-in-government pilot projects to achieve enhanced operational efficiency, participate in quarterly innovation-in-government exchanges and develop the expertise to apply any flexibilities granted.

Section 7J.1(10b) of the *Code* required the Governor to prepare a report due January 15, 2008 regarding the operation and effectiveness of the charter agency legislation, as well as any cost savings associated with the Initiative. The report was to include the Governor's recommendations regarding whether the Initiative should continue beyond the June 30, 2008 sunset date established by the Legislature. However, according to a representative of DOM, the required report was not submitted. See **Finding F**.

<u>Grant Funds</u> – Section 7J.2 of the *Code* established a charter agency grant fund to be administered by DOM. The fund was established to provide support for innovation by the charter agencies. Innovation purposes specified by the *Code* included, but were not limited to, training, development of outcome measurement systems, management system modifications and other modifications associated with the transition to charter agency status. DOM received a $3 million appropriation for the charter agency grant fund.

A charter agency seeking a grant from the fund was to complete the application process designated by the Director of DOM. According to representatives of the charter agencies, a formal application for requesting grant funds was not developed by DOM. As a result, the requests for grant funds submitted to DOM by the charter agencies were not prepared on a consistent basis. See the "Items for Further Consideration" section of this report.

Table 7 summarizes the grants issued by DOM to the charter agencies for fiscal years 2004 through 2007. Detailed information about the projects funded by the grants is included in the "Individual Charter Agencies" section of this report.

Table 7

Charter Agency	Fiscal Year 2004	2005	2006	2007	Total
ABD	$ 300,000	285,000	15,000	-	600,000
DOC	-	147,250	275,000	-	422,250
DHS	-	363,308	420,129	60,000	843,437
DNR	205,000	123,000	-	-	328,000
IDR	270,000	190,000	-	-	460,000
IVH	100,000	75,000	24,475	-	199,475
Total	$ 875,000	1,183,558	734,604	60,000	2,853,162

We also reviewed the expenditures from the charter agency grant fund for fiscal years 2004 through 2009. In addition to the grant disbursements made to the charter agencies summarized in the above **Table**, we also identified other expenditures from the grant fund. In fiscal year 2007, $10,000 was provided to DAS-HRE to hold a Kaizen event benefiting DAS and $16,710 was expended by DOM to hold a Kaizen event benefiting DOM. However, neither agency was a charter agency.

In fiscal year 2008, we identified 2 expenditures totaling $19,038 paid to a consulting firm used for the Lean program (discussed in the following paragraphs) and meal purchases totaling $561 for 23 State employees for a charter agency event. According to supporting documentation, the charter agency grant fund had a balance of approximately $115,856 at the end of fiscal year 2008.

Because the Initiative sunset on June 30, 2008, we reviewed expenditures from the grant fund for fiscal year 2009 to determine the subsequent disposition of these funds. We identified a transfer of $73,470 to DNR which appears to be related to the Initiative. In addition, there were 4 expenditures totaling $43,554 for events held under the Lean program to the same consulting firm receiving payments in fiscal year 2008.

According to the DOM accountant who prepared these transactions, he is not involved in the decision-making process to determine where to record these expenditures. He was instructed to disburse funds for these events and record the transactions to the charter agency grant fund by those he reported to. When asked if these disbursements reduced the amount of grant funds available for the charter agencies, he replied they did. It does not appear the $89,863 of expenditures identified for fiscal years 2007 through 2009 meet the intent of the Initiative. See **Finding F**.

OTHER INFORMATION

Reinvention Initiatives – DOM received approximately $6.35 million of appropriations in 2003 for reinvention initiatives during fiscal year 2004. According to a DOM representative, this funding was related to the PSG contract. PSG provided some assistance to charter agencies, but PSG was paid from the DOM contract and not by the charter agencies. At the time PSG was hired, the Charter Agency Initiative was only 1 phase of the reinvention activities taking place in Iowa. Therefore, according to a DOM representative, it is not possible to separately identify how much was paid to PSG for the Charter Agency Initiative only. Other initiatives DOM undertook with PSG included child welfare redesign, the formation of DAS and other smaller projects.

According to the Innovations Award Program application prepared by DAS and PSG in fiscal year 2004 for the Initiative, PSG had delivered approximately 60% of its contracted outcomes and had been paid 60% of its maximum fee, or $800,000.00. The application also stated if all PSG deliverables were met and if evaluations for performance pay achieved a perfect score, PSG could earn as much as $1.5 million for the project. In addition, the application included approximately 800 staff hours required for training, workshops and inter-department collaborations as part of the "start-up" costs of the Initiative. However, it specified no new government staff was hired for the project. We were unable to determine if DOM was provided funding for the staff hours identified.

We identified total payments to PSG of $6,163,177.75 during fiscal years 2004 through 2007. A publication found on the charter agency website stated, "Because Iowa had no money lying around to pay a consultant, the Request for Proposal (RFP) required bidders to propose ways to make the contract self-funding. PSG of St. Paul did so and won the competition. Charter agencies was 1 of the partnership's 3 main fiscal year 2004 projects, along with Child Welfare Redesign and a project to improve the local-state government relationship." It is not apparent how the contract could be considered "self-funding" when the payments to the vendor were made from funds appropriated to DOM from the General Fund. See **Finding F**. **Table 8** summarizes the payments made by fiscal year.

Table 8

Fiscal Year	Amount
2004	$ 4,785,000.00
2005	959,040.00
2006	220,000.00
2007	199,137.75
Total	$ 6,163,177.75

<u>**Other Initiatives**</u> – We reviewed other performance-based programs administered by DOM to determine if the objectives of those programs duplicated the objective of the Charter Agency Initiative. We identified 3 other programs which existed at the time the Initiative was implemented and appeared to have the same basic purpose. These programs are the Accountable Government Act, Iowa Excellence and the Lean program. See the "Items for Further Consideration" section of this report. Each program is described in the following paragraphs.

- The Accountable Government Act requires each state agency to prepare an annual performance report stating its progress in meeting performance targets and achieving its goals consistent with its strategic and performance plans. The annual performance report is to include a description of how the agency reallocated human and material resources in the previous fiscal year. DOM, in conjunction with the state agencies, developed guidelines for the annual performance reports including, but not limited to, a reporting schedule. The state agencies are allowed to incorporate the annual performance report into other reports submitted to DOM. The annual performance reporting was to be used to improve performance, strategic planning and policy decision making, allocation of human and material resources, recognition of superior performance and information provided to Iowans about their return from investment in state government.
- Iowa Excellence is an enterprise-wide effort to improve customer service and reduce costs in state government. The areas addressed include how customers and their requirements are identified, the agency develops employees and encourages innovation and learning, day-to-day operations are managed and improved and results are achieved.
- The Lean program is a collection of principles, methods and tools used to improve the speed and efficiency of any process by eliminating waste. According to DOM's Office of Lean Enterprise (DOM-OLE) website, state government successfully implemented more than 60 business process improvement (BPI) events in 18 different departments during the 1st 3 years of implementation.

  According to the DOM-OLE website, only 5% of activities add value for the customer for most processes, which means 95% are either necessary, non-value adding activities or waste. The DOM-OLE website also states eliminating waste is the greatest potential source of improvement in process performance and customer service. Benefits of using

Lean include eliminating or dramatically reducing backlogs, reducing lead time by more than 50% and decreasing the complexity of processes.

DOM received a $108,000 appropriation and 1 FTE for Lean in fiscal year 2007 and was to use a portion of its $3,031,168 appropriation and 37.50 FTEs received in fiscal year 2008 for the Lean program.

Kaizen and 5S events are 2 tools used for the Lean program. According to the DOM-OLE website, Kaizen is a highly focused, action-oriented event focusing on improving a specific process while a 5S event is a process and method for creating and maintaining an organized, clean, high-performance workplace. The DOM-OLE website summarizes the number of Kaizen and 5S events held by state agencies, as well as the topic of the event.

We determined the Kaizen and 5S events reported by DNR for the Lean program were the same as the events DNR reported for the Charter Agency Initiative. We also determined several of the charter agencies held Kaizen events in order to achieve performance goals included in their annual charter agency agreement.

According to a publication issued by PSG after the 1st year of the Charter Agency Initiative, a representative of a charter agency stated the various DOM initiatives should be more closely aligned.

Out of State Travel – We also reviewed the out-of-state travel of the Administrator of DOM's Performance Results Team to determine if the travel was properly approved and related to the Initiative. We identified 8 travel claims for out-of-state travel for fiscal years 2007 and 2008. The travel was to attend and participate in certain conferences and events related to efforts undertaken by DOM.

Of the 8 travel claims identified, we determined 4 had not been properly approved by the Executive Council. According to a representative of the Executive Council, the only out-of-state travel exempt from Executive Council approval is travel included in the individual's normal job duties. However, the 4 travel claims identified do not appear to fall within the normal job duties of the Performance Results Team Administrator. In addition, 2 of the 8 travel claims were related to the Lean program. However, the expenditures were recorded as an expense of the Initiative. See **Finding F**.

CHARTER AGENCY INITIATIVE RESULTS

Although DOM reported cost savings totaling $11,325,006 and revenue increases totaling $84,447,214 for fiscal years 2004 through 2006, it does not appear the Initiative met the intent of the General Assembly. The Lottery accounted for $44,428,483, or 52.6%, of the revenue increases reported. However, the Lottery was not a charter agency. In addition, only 3 charter agencies reported revenue increases, and 1 of those charter agencies accounted for $35,269,456, or 88.1%, of the total revenue increases reported by charter agencies for fiscal years 2004 through 2006. In addition, the revenue increases reported resulted from functions which are part of the daily operations of the agencies, such as increased sales, which were not a direct result of the Initiative. Limited, if any, supporting documentation was available for the amounts reported.

Of the $11,325,006 expenditure reductions reported, only $2,775,006 represented cost savings. The remaining $8,550,000 was the appropriation reductions agreed to by the 6 charter agencies. Although the individual charter agencies' appropriations were reduced, $2,793,162 was returned to the charter agencies through grant funds through fiscal year 2006. As a result, the net appropriation reduction for fiscal years 2004 through 2006 was only $5,756,838. In addition, the cost savings reported resulted from functions which are part of the daily operations of the agencies, such as IDR reducing interest expense by issuing tax refunds more timely. Limited, if any, supporting documentation was available for the cost savings reported.

In addition, although the charter agencies established performance goals in the agreements, the charter agency designation was not necessary for the accomplishment of the majority of those goals. Also, a significant number of the goals established did not have measurable cost savings or additional revenue associated with them, but rather focused on process improvements. On several occasions, the performance goals established were not achieved and the results of the goals were not always included in the quarterly reports. However, results of goals not related to the Initiative were often reported. The agreements also granted specific benefits and rule flexibility to the charter agencies. However, several of those were not exclusive to charter agencies.

See the "Individual Charter Agencies" section of this report for detailed discussion of each charter agency's goals, reported cost savings and/or additional revenue generated and grant funds received.

Individual Charter Agencies

The following sections describe the performance goals established in the agreements for each charter agency, consisting of performance targets and special projects. The agreements also include the grant funds received and the benefits and/or rule flexibility utilized by the charter agencies. The results of our testing are also summarized in the following sections.

The number of goals included in the agreements varied from year to year for each agency. Some of the goals were repeated by the agencies from year to year, but other times they were not. In addition, some agencies identified "sub-parts" to the goals listed in the agreements. We considered each "sub-part" as a separate goal for each individual fiscal year for our evaluation purposes.

We reviewed each quarterly report (report) issued by the charter agencies to determine if the charter agency designation was necessary for the achievement of the goals listed in the individual agreements. We also attempted to verify any progress and/or results reported by the agencies in meeting the goals. To verify the results reported, we requested appropriate supporting documentation.

The 6 charter agencies all reported additional information, such as rule flexibility used and other advantages of the charter agency designation. Most of the items reported did not have a direct impact on the Initiative or its results and the type of information reported was not consistent from agency to agency. Because we focused on the performance goals established in the agreements for each charter agency, we did not verify the additional information presented. However, based on the nature of the information reported, it does not appear the charter agency designation was necessary for the majority of the items included.

Information included in the following sections is from the charter agencies' 4^{th} quarter report of each fiscal year, unless otherwise stated.

ALCOHOLIC BEVERAGES DIVISION (ABD), DEPARTMENT OF COMMERCE

Quarterly Reports – For fiscal years 2004 through 2007, ABD identified 4 separate goals to achieve as a charter agency. The 4 goals are discussed in detail in **Appendix C**. We determined charter agency status was not necessary for any of the goals identified. See **Finding D**.

Appropriate supporting documentation was not provided to support the progress reported by ABD for the goals in the reports. See **Finding B**.

In addition to progress reported for goals included in the agreements, ABD also periodically included information in the reports which was not related to goals established in the agreements. The additional information is also summarized in **Appendix C**. See **Finding A**.

Additional Terms and Conditions – The additional terms and conditions section of the fiscal year 2004 agreement stated, providing the agency met its revenue commitment goal (discussed in **Appendix C**), the Administrator would have the authority to expend funds from the Beer and Liquor Control Fund to pay for operational improvements, office retrofit completion, equipment, supplies, travel and employee pay raises and bonuses. However, it is unclear how this extends the Administrator's authority beyond that which he already had.

Benefits and Rule Flexibility – ABD also included information in the reports regarding the specific benefits and/or rule flexibility granted the charter agencies in the agreements.

In the fiscal year 2004 report, ABD reported the elimination of the FTE cap allowed ABD to hire warehouse employees and truck drivers. Due to the timing constraints, ABD also utilized several sole source emergency providers for equipment and supplies to expedite the resumption of direct warehouse operations. For example, ABD executed a sole source contract with Brown Truck Leasing Corporation (Brown) in May 2004. According to a representative of ABD, the previous company went out of business and the Division sole-sourced this contract to minimize the effect of the transition between companies. The contract specified Brown was to submit an invoice on a monthly basis for the established rate ($1,293.79/mo. and $383.99/mo.) and mileage ($.059/mile and $.017/mile) for 11 cabs and 14 trailers, respectively. The initial term of the contract was May 31, 2004 to September 1, 2004 and was to automatically renew on a month-to-month basis.

In accordance with the agreement and as illustrated by **Appendix A**, if a sole source contract was to be used, the charter agency was to maintain "audit worthy" documentation. However, no supporting documentation was available. Because "audit worthy" documentation was not maintained, we are unable to determine if ABD achieved the best price for the service received. See **Finding B**.

ABD also reported using the ability of charter agencies to retain 50% of the Division's unspent funds. For fiscal years 2004 and 2005, $20,533 and $70,790 was retained, respectively. ABD reported these funds assisted, in part, in upgrading the safety and appearance of the facility.

Charter Agency Grant Funds – The additional terms and conditions section of the fiscal year 2004 agreement stated ABD was to receive $300,000 of grant funds for information technology improvements. ABD also received $285,000 of grant funds in fiscal year 2005, for a total of $585,000 in fiscal years 2004 and 2005. In response to an inquiry from DOM in September 2005, ABD provided a spreadsheet which summarized the use of the grant funds received as follows:

- $289,322 for the implementation of on-line liquor licensing. The new system would enable ABD to reduce the redundancies inherent in the previous system, reduce paper forms, make the licensing process quicker and easier for its customers and stakeholders and provide instant licensing information to the public and stakeholders.

  The system would allow business owners to complete their license applications 24 hours a day, 7 days a week and allow electronic access to stakeholders for the purposes of noting application approvals and supplying mandated certificates. In addition, residents, ancillary businesses, such as dram shop insurance companies and bonding companies, and law enforcement officials would have access to the licensing records for informational purposes and for developing mailing and/or contact lists 24 hours a day, 7 days a week.

The electronic system would also save ABD and its customers and stakeholders the price of postage and handling of paper documents. In addition, ABD licensing specialists would be able to devote additional effort to screening applicant qualifications as opposed to entering information from paper documents into a computer system.

In the 3rd quarter, fiscal year 2005 report, ABD reported meeting with a volunteer group of local authorities to participate in the pilot launch of the new system. As of June 21, 2005, the project was 80% complete.

- $116,578 for the implementation of electronic beer and wine tax reporting. The new system would enable wholesalers to report and pay gallon excise taxes on-line, automatically compare shipment notices sent by suppliers to receipt notices submitted by wine and beer wholesalers, reduce the amount of time spent by business owners completing and mailing monthly paper tax forms and allow business owners to send electronic files containing tax statements or submit their tax statements using the website. The project was 70% complete.
- $101,730 to replace most of the desktop and notebook computers which were approaching 5 years of use. The equipment to be replaced could not host or operate the new e-systems being developed. As of the 3rd quarter, fiscal year 2005 report, the new equipment had been ordered, received and installed, with the exception of several printers.

ABD also reported grant funds received in fiscal year 2004 would be used for the implementation of a sales and inventory management system for the warehouse and the $285,000 awarded in fiscal year 2005 would be used for the development of an on-line ordering system. However, based on the spreadsheet provided by ABD, these projects were not undertaken. Grant funds expended by ABD in fiscal years 2004 and 2005 totaled $507,630. Therefore, ABD had a balance of available grant funds of $77,370 to be used for the completion of the on-line licensing and tax systems. This amount agrees with correspondence between DOM and ABD provided to us by ABD. We also confirmed with DOM the $507,630 was provided to ABD.

ABD reported meeting with the Information Technology Enterprise of DAS (DAS-ITE), which indicated a willingness to assist ABD in developing software programs for the on-line licensing and electronic beer and wine tax reporting systems. However, DAS-ITE indicated the on-line ordering and sales and inventory management systems were beyond its expertise. As of the fiscal year 2004 report, DAS-ITE had started identifying program flow charts and technical requirements to produce the licensing and tax reporting systems and was helping ABD develop the bid specifications for the ordering system. As of the 3rd quarter, fiscal year 2005 report, DAS-ITE had developed sample screens showing each step of the licensing process and the flow processes were being developed and reviewed.

In addition, ABD reported being able to decrease operating expenses through the use of technology. ABD also reported the development of the 3 e-file systems resulted in more efficiency and a reduction in staff. According to a representative of ABD, all the projects could have been done without having charter agency status; however, the Division needed the grant funds to implement the systems. See **Finding D**. ABD could not provide supporting documentation to demonstrate operating costs were reduced or additional revenue was generated as a result of implementation of the on-line systems. See **Finding B**.

Based on documentation provided by ABD, it appears ABD also used grant funds to conduct 2 Kaizen events in fiscal years 2006 and 2007 which addressed improvements to the customer order process from the time of placement to actual delivery and processes within the accounting area to enhance customer service. We observed an e-mail from DOM to ABD which stated $15,000 was disbursed in fiscal year 2006 for this purpose. We also observed ABD's related proposal requesting the $15,000. We confirmed with DOM the $15,000 was provided to ABD.

We identified another proposal prepared by ABD requesting $13,866 of grant funds to be used to provide consulting support for a week-long Kaizen process improvement event to improve the liquor order and inventory management process in order to realize efficiencies and improve customer service. ABD requested the grant funds to provide the professional consulting services necessary for the development and implementation of the event, Kaizen event consultation and follow-up. However, based on supporting documentation provided by DOM, the $13,866 was never provided to ABD.

Additional Information – In February 2007, ABD submitted a follow-up report to the Office of the Governor which cited both intangible and tangible advantages to charter agency status. The intangible advantages listed by ABD included:

- creating an entrepreneurial and creative spirit which allowed staff to promote the exchange of ideas and process improvements.
- being viewed by other non-charter departments as having a "special" designation. ABD staff believed the charter agency designation helped facilitate quicker responses and services from other state agencies.
- having other states view the charter agency program as a progressive and bold concept. ABD belongs to 2 national organizations comprised of the 50 state alcohol beverage commissions and/or boards. Several other states had heard of the charter agency program and approached ABD to learn about the concept.
- receiving national recognition from the Ash Institute for Democratic Governance and Innovation at the John F. Kennedy School of Government in partnership with the Council for Excellence in Government for Iowa's charter agency concept.

The tangible advantages listed by ABD included:

- the ability to apply for charter agency grants to use for technological improvements, innovations and process improvements, retain 50% of unspent funds to be used in subsequent years, evaluate the existing outsourced state work activities for cost-effectiveness and service delivery quantity, add interns to the Division's workforce and make employee travel arrangements outside of any state contracts to allow for "best price" comparisons.
- exemption from the FTE cap, which allowed the Division to hire employees as needed to support operations, eliminating Executive Council approval for out-of-state travel and exemption from the across-the-board appropriation reduction in fiscal year 2005.
- the coordination and active lobbying of the Legislature on behalf of charter agency legislation by DOM.

The only disadvantage listed by ABD was the belief sometimes held by customers and/or stakeholders that ABD could ignore all laws and rules to satisfy a customer need.

DEPARTMENT OF CORRECTIONS (DOC)

Quarterly Reports – For fiscal years 2004 through 2007, DOC identified 34 separate goals to achieve as a charter agency. We determined charter agency status was not necessary for 33 of the 34 goals identified. See **Finding D**. Those 33 goals are discussed in detail in **Appendix D**. The only goal for which DOC needed to be a charter agency was its commitment to generating additional revenue. This goal is discussed in detail below.

Appropriate supporting documentation was not provided to support the progress reported by DOC for certain goals in the reports. See **Finding B**.

We also identified a few instances when DOC reported on a goal which was not included in the agreement for the respective fiscal year. The additional information is summarized in **Appendix D**. See **Finding A**.

Charter Agency Goal: Additional Revenue Commitment – The fiscal year 2004 agreement established a commitment to generate $500,000 for the State's General Fund by reducing operating costs or generating additional revenue. The commitment was contingent upon DOC receiving the benefits and rule flexibility itemized in the agreement. The $500,000 amount was to remain fixed for each of the 4 years subsequent to fiscal year 2004. In fiscal years 2005 through 2007, the commitment remained in the agreement but was modified to only include the reduction of operating costs.

In the fiscal year 2004 report, DOC stated the $500,000 reduction was applied proportionally among the appropriations to its facilities, central office and Community Based Corrections (CBCs). According to DOC, each location used its charter agency rule flexibility to achieve proportionate levels of cost savings. However, no supporting documentation was available to show the cost savings by DOC location. The same statements were included in the 2nd quarter, fiscal year 2005 report. No results were reported in the fiscal year 2006 or 2007 reports. See **Finding A**. Because an appropriation reduction was used to satisfy this commitment, this goal is directly related to the charter agency designation. As previously stated, each of the charter agencies received a reduced appropriation as part of receiving charter agency status.

Benefits and Rule Flexibility – DOC also included information in the reports regarding the specific benefits and/or rule flexibility granted the charter agencies in the agreements. In the fiscal year 2004 report, DOC itemized the following benefits and/or rule flexibility:

- Purchased a replacement vehicle in less than 1 week which would have previously taken 15 months. The vehicle was purchased from the DAS contract so the price paid was the same. Another publication found on the charter agency website stated the purchase occurred in 2 days and would have previously taken 8 months.
- Expanded inmate labor market (i.e., increased use of offenders in various work opportunities such as offset printing in Mitchellville). DOC signed an agreement with DAS to provide printing services to state agencies. DAS-GSE Printing would provide volume copying and DOC would provide offset printing through the Mitchellville facility with the use of inmates. With each agency providing specific services, more effective and efficient service could be offered.
- Replaced old telemedicine machines with new technology patterned after the University of Iowa.
- Created environment to review new ways of providing basic health services for offenders. DOC issued an RFP for providing pharmacy services at a better cost. Instead of issuing an RFP for a single-source provider of all pharmaceutical needs, DOC requested bids from multiple public and private sector providers, while reserving the right to accept portions of any bid submitted. DOC also used sole source contracts for pharmacy drug interactions.
- Worked with DAS-HRE to develop methods to obtain electronic certificates of eligibles.
- Received control from DAS over those job classifications which pertained specifically to DOC.

- Exempt from across-the-board appropriation reductions in fiscal years 2004 and 2005.

Charter Agency Grant Funds – The fiscal year 2004 report stated DOC applied for grant funds to help improve the following areas: collections, the Iowa Corrections Offender Network (ICON), sales and medical. However, according to supporting documentation provided by DOM, no charter agency grant funds were provided to DOC in fiscal year 2004. See **Finding C**.

According to supporting documentation provided by DOM, $147,250 of grant funds was provided to DOC in fiscal year 2005. The 2nd quarter, fiscal year 2005 report stated DOC received grant funds to help improve ICON, release planning and pharmacy. Funds received were used for expanding ICON's data sharing capacity with other public safety firms, a Kaizen event to be held with various stakeholders for release planning in the 4th quarter of fiscal year 2005 and pharmacy discussions with DAS-GSE and DHS about cost-saving opportunities.

The 2nd quarter, fiscal year 2005 report obtained from IVH also had a grant fund allocation summary listing 3 areas for which DOC was to use grant funds, as follows:

- $35,000 for a small consulting contract to conduct a study of the feasibility of a centralized pharmacy between DHS and DOC, which could also ultimately include IVH and the University of Iowa Hospitals. Potential results would be to save significant amounts of drug costs.
- $150,000 for additional programming by the existing contractor for development of a portion of the ICON system to improve data research capabilities. This improvement would result in much better information on offenders and data on which programs work for which inmates and which programs do not.
- $25,000 to hold a Kaizen event on parole processing time. The Board of Parole was to be engaged with DOC on this project. Improvement to parole processing time would result in paroling inmates a week quicker, which increases the availability of beds to reduce overcrowding and ease capacity issues.

However, this report is not consistent with DOC's report or the supporting documentation provided by DOM. See **Finding C**.

According to supporting documentation, DOC received $275,000 in grant funds in fiscal year 2006 for transformation projects, which is consistent with the documentation provided by DOM. However, DOC never reported on the use of those funds in its reports. See **Finding C**. The fiscal year 2007 agreement included a special project which referred to continuation of the implementation schedule of the transformation projects.

The fiscal year 2007 report included progress on the goal to continue the implementation schedule for transformation projects. DOC addressed the following areas in the report:

- Procurement – standardization of products and menus, review of product and distribution contracts, core list pricing, quality compliance procedures and optional purchasing alignments and partnerships. For this project, DOC partnered with DHS, IVH and DAS to apply Lean principles, which resulted in National Institute of Governmental Purchasing Certification training to change the process for contracts, upgrades in the functionality of Iowa's accounting system and continued work on prime vendor contracts.
- Central Records – hired a Chief Records Officer for centralized oversight and coordination. This project realigned duties of records staff across the system to maximize efficiencies through specialization.
- Accounting and Finance – process redesign for offender pay, offender identification, electronic file management, Big Bank and Central Bank. An offender kiosk and electronic mail system were also being investigated.
- Energy Management – most DOC facilities were participating in a 3rd party natural gas procurement fund. DOC was also working to incorporate natural gas purchasing by using an "on-line auction" process. DOC was conducting a green government inventory of facility practices and was going to formalize "best practices" for green initiatives.

- Waste Reductions – identified opportunities to purchase energy more efficiently and to purchase renewable energy.
- Food Service – the ICON Food Service module was completed and Food Service Management software was being tested. The central food warehouse project team was formed to begin development of a central food distribution system.
- Pharmacy – standardization of formulary, packaging, centralized purchasing, pharmacy and inventory management.
- Information Technology – formed a group comprised of both CBC and institutional staff. Issues to be addressed included improving communication, establishing standardization, improving documentation and establishing a documentation process, establishing policy and procedures, reviewing staff levels and providing training needs.
- Maintenance and Remodeling/Transportation – projects delayed.

<u>Additional Information</u> – In addition to the charter agency reports, DOC issued another separate annual performance report which included information related to charter agency performance goals. The fiscal year 2005 performance report acknowledged DOC volunteered to become a charter agency. It further stated, through utilization of charter agency rule flexibility, DOC met its goal of reducing operating costs by $500,000. Based on a review of supporting documentation, this goal was achieved through the appropriation reduction related to DOC receiving the charter agency designation. According to the report, DOC also achieved the goal of increasing the amount of non-General Fund support into the operating budget by 2%, or $175,000. Based on the charter agency reports, it is unclear whether this increase was in comparison to fiscal year 2003 or fiscal year 2004. However, it appears the baseline year was to be fiscal year 2003. In that case, the supporting documentation provided does not support achievement of the goal. See **Appendix D** for further discussion of this goal.

The fiscal year 2005 performance report also stated DOC was not able to reduce the salary dollars redirected to support expenditures due to fixed costs, such as food and fuel. According to the report, DOC was successful, however, in generating significant savings in the cost of pharmaceuticals. A charter agency pilot program in which 4 institutions participated in a pharmaceutical purchasing contract resulted in those institutions not experiencing cost increases and, instead, spending only 74% of the total amount spent the prior year.

DOC also reported on resource reallocations in the fiscal year 2005 performance report stating DOC utilized its status as a charter agency to change the way it conducted business in several areas. Resources conserved as a result of those efforts were utilized to meet the ever-rising fixed costs driven by operating facilities "twenty-four-seven" with ever-increasing offender caseloads. Historically, fixed costs, such as food, fuel and pharmaceuticals, exceeded budgeted expenditures, thereby diverting funds from personnel to support. However, DOC reported efficiencies were produced in fiscal year 2005, resulting in the ability to fill critical positions in order to not only provide the necessary level of offender supervision but to operate facilities and programs in a constitutionally compliant manner.

In the fiscal year 2006 performance report, DOC reported on the reinvention of operations through the utilization of best practices to manage resources in the most cost effective manner. It referenced the charter agency transformation projects, which redesigned operations and processes and realigned fiscal and human resources utilizing rule flexibility through charter agency status. Several processes and functions were streamlined, standardized and centralized, as appropriate, to reduce redundancy. According to the fiscal year 2006 performance report, $148,526 was saved by the Inmate Records project as a result of changes in the computation of jail credits. In addition, the performance report for both fiscal years 2006 and 2007 reiterated the allocation of resources conserved, as in the fiscal year 2005 performance report. The fiscal year 2007 performance report also discussed progress made toward meeting national standards.

DEPARTMENT OF HUMAN SERVICES (DHS)

Quarterly Reports – For fiscal years 2004 through 2007, DHS identified 31 separate goals to achieve as a charter agency. We determined charter agency status was not necessary for 30 of the 31 goals identified. See **Finding D**. Those 30 goals are discussed in detail in **Appendix E**. The only goal for which DHS needed to be a charter agency was its cost reduction commitment. This goal is discussed in detail below.

Appropriate supporting documentation was not provided to support the progress reported by DHS for certain goals in the reports. See **Finding B**.

On several occasions, DHS included information in the reports which was not related to goals established in the agreements. **Appendix E** includes a summary of the additional information. See **Finding A**.

Charter Agency Goal: Cost Reduction Commitment – The fiscal year 2004 agreement included a $1 million General Fund cost reduction commitment contingent upon receiving the benefits and rule flexibility itemized in the agreement. The $1 million was to remain fixed for each of the 4 years subsequent to fiscal year 2004. According to the fiscal year 2004 report, the commitment was achieved through an appropriation reduction. However, no results were included in the reports for fiscal years 2005 through 2007. See **Finding A**. Because an appropriation reduction was used to satisfy this commitment, this goal is directly related to the charter agency designation. As previously stated, each charter agency received a reduced appropriation as part of receiving charter agency status.

Additional Terms and Conditions – The additional terms and conditions section of the fiscal year 2004 agreement stated DHS would have the ability to work with DAS-GSE to mutually determine how to improve the content, frequency and timing of DAS-GSE progress updates on DHS' infrastructure and capital construction projects. DHS would also be given the ability to negotiate and, when applicable, reimburse DAS-GSE for more intensive project management services than currently offered to assure quality, timeliness and expectations for projects are being achieved. However, no further discussion of these additional terms was included in any of DHS' reports. As a result, we were unable to determine whether DHS utilized these abilities. See **Finding A**.

Benefits and Rule Flexibility – DHS also included information in the reports regarding the specific benefits and/or rule flexibility granted charter agencies in the agreements. In the fiscal year 2004 report, DHS itemized the following benefits and/or rule flexibility:

- Established 1 new position classification and converted 5 contract positions to FTEs, resulting in an annualized cost reduction of $210,000. The fiscal year 2007 report also stated DHS continued to review the use and cost effectiveness of contract employees in comparison to FTEs.
- Boosted morale through the exemption from the centralized travel agency mandate. The fiscal year 2007 report expanded on this rule flexibility, stating the ability to make travel arrangements directly with vendors often resulted in reduced costs. In addition, the rule flexibility to approve out-of-state travel internally reduced paperwork and approval time.
- Expedited a competitive bid, collapsing the time to award a contract, in order to identify ways to maximize Federal matching funds. According to the report, this benefited Iowans by decreasing the need for State dollars.
- Expedited the implementation of rule changes to facilitate simplified income reporting for Food Assistance. According to the report, this was beneficial to Iowans because it reduced the frequency of mandated reporting from monthly to semi-annually.
- Expedited the contracting process related to Title IV-E improvement efforts, which helped achieve the target of increasing eligibility.

- Purchased outside of DAS-GSE contracts, which resulted in 1 institution saving $211.57. According to the fiscal year 2007 report, DHS also participated in the Strategic Sourcing Initiative related to office supplies.
- Used sole source contracts for a limited number of contracts, which assisted in expediting contract awards. In accordance with the agreement and as illustrated by **Appendix A**, if a sole source contract was to be used, the charter agency was to maintain "audit worthy" documentation. However, supporting documentation was not available. Because "audit worthy" documentation was not maintained, we are unable to determine if DHS achieved the best price for the services received. See **Finding B**.
- Exempt from across-the-board appropriation reductions in fiscal years 2004 and 2005.

The fiscal year 2007 report also included several additional benefits and/or rule flexibility used by DHS, as follows:

- Received support from DOM and the Office of the Governor in re-engineering projects (i.e., Kaizen or Gallery Walk) when requested, including support in negotiations with external consultants.
- Collaborated with DOM to support elimination of the $.07 grocer fee paid in Iowa related to the Food Assistance program which would save $506,495 in State funds and an equal amount of Federal funds. However, this fee was not eliminated in 2007.
- Received support from DOM in working with DAS-HRE regarding the use of workforce employment rule flexibility, including special pay and appointment actions. DHS reported using exceptional job performance, special-duty pay, extraordinary duty pay and advanced appointment rates in 2007 but did not specify the amounts disbursed.
- Modified the Deputy Superintendent classification, in conjunction with DAS-HRE and DOC, to allow DHS to use a classification previously restricted to DOC and re-established the Social Work Associate classification, in conjunction with DAS-HRE.
- Anticipated utilizing the rule flexibility related to classifications during 2008 for the Institutional Medical Director-Superintendent classification so DHS could attract candidates to be both Superintendent and Medical Director. However, if a Superintendent candidate was hired who was also a physician, the individual would also be required to serve as the Medical Director. Because of this requirement, DHS believed the position warranted a higher classification and pay grade than currently available, but the related salary increase was not reported.
- Established the Bureau of Policy Analysis and Appeals and increased oversight by adding a Bureau Chief position. The report did not include the costs associated with the creation of the Bureau or the additional position.
- Changed the status of "direct report" managerial positions to "at-will" positions during 2008. DHS started the process in 2007 in order to convert a vacant position to "at-will" by elevating the position to a Division Administrator.
- Hired 3 unpaid interns in 2007 and overlapped employment days as certain key employees retired. However, DHS did not expand this rule flexibility beyond that already provided for by DAS-HRE rules.
- Pursued reduced copying and paperwork expenses. However, the cost savings were not identified in the report.

<u>Charter Agency Grant Funds</u> – The fiscal year 2004 agreement stated DHS would receive $450,000 from the grant fund to support charter agency activities. According to the fiscal year 2004 report, DHS was awarded $20,000 for revenue maximization for health care services to low-income Iowans. DHS hired Maximus to review the State's health-related expenditures within and outside of DHS to identify ways in which to maximize revenues. Maximus reviewed DOC, DHS, IVH, the Department of Education (DE), the Department of Public Health (DPH) and

the Regents Institutions and submitted a report. DHS then worked with the other state agencies to pursue any available Federal funding opportunities resulting from the analysis.

DHS was also awarded $140,000 to perform an information technology (IT) evaluation of the aging legacy IT systems developed and financed over the years as a result of specific Federal initiatives. An outside firm was engaged to review the IT systems and make recommendations for future planning needs and issues. A written analysis and set of recommendations was provided to DHS' IT staff, who then prepared a strategic vision and plan based upon the findings. According to the fiscal year 2004 report, DHS also initiated the implementation of transferring the data warehouse to a common platform and linking it to other administrative information systems.

In addition, DHS was awarded $290,000 for work process enhancements to identify and pursue improvements throughout the agency. According to the fiscal year 2004 report, this work was to be developed and pursued later in the year. The nature of the consultation involvement that would be necessary had not yet been identified or engaged.

According to a DHS representative, none of the grant funds awarded were drawn in fiscal year 2004. This is consistent with supporting documentation provided by DOM.

None of the DHS reports for fiscal year 2005 includes information regarding charter agency grant funds. See **Finding C**. However, the 2nd quarter, fiscal year 2005 report obtained from IVH included a charter agency grant summary for all 6 charter agencies. According to this report, DHS received grant funds for the following projects:

- $110,000 to be used for a clinical outcome monitoring and data collection system, with installation to begin at the juvenile institutions. The system was to provide a functional assessment for all clients to show actual outcomes and determine what benefited the client and what did not. The assessment results were to be used to improve services.
- $25,000 to hire Kaizen consultants to implement process improvements for waiver eligibility. There were 6 waiver processes which took from 40 days to 110 days to complete. Therefore, individuals would remain at higher levels of care longer than necessary, were delayed in being properly placed, etc. Implementation of process improvements would result in reduced costs, reduced waiting lists and more appropriate treatment for patients.
- $50,000 for a consulting contract in relation to the mental health and developmental disabilities redesign case rate study. The study evaluated whether it would be more efficient and effective to pay counties using a case rate instead of the current formula, given the limited funds.
- $198,000 for programming and website changes for electronic funds deposits for employers. The new system would allow employers to transmit child support payments directly through an on-line transfer, resulting in recipients receiving the funds faster at a lower cost for employers.
- $90,000 to provide training for 3 physician assistants (PAs) for the residency program in psychiatry. This resulted in more services being provided, primarily in rural areas where psychiatric resources are scarce.

The 2nd quarter, fiscal year 2005 IVH report also included a proposal to seek a Federal system of care grant and establish a Home and Community Based Services (HCBS) waiver for community-based alternatives to custody relinquishment for children and families. However, no grant fund amount was listed. Total grant funds listed for DHS for fiscal year 2005 were $473,000.

DHS provided a summary of grant fund projects for fiscal years 2004 through 2007. However, the 5 grant fund projects listed for fiscal year 2005 were not consistent with those included in the summary obtained from IVH. See **Finding C**. The 5 grant fund projects listed in the summary provided by DHS were:

- $142,356 to create a website for employers to use for electronic child support payments. The website became operational July 19, 2005.

- $90,000 to improve access to rural mental health services. This amount agrees with the report provided by IVH.
- $48,000 for a waiver to minimize custody relinquishment to gain care. The Dubuque service area was selected as the site for the Federal grant. However, DHS learned in September 2005 the Federal grant was not awarded.
- $74,952 for a quality assurance and improvement initiative.
- $8,000 for child welfare flexible funding opportunities. DHS contracted with 2 consulting firms to submit a Federal Title IV-E waiver which was submitted October 21, 2005.

Total grant funds listed by DHS for fiscal year 2005 were $363,308. This amount is consistent with supporting documentation provided by DOM. According to a DHS representative, none of the projects would have been implemented without the grant funds.

None of the charter agency grant fund activity was included in the fiscal year 2006 report. See **Finding C**. However, DHS included 7 projects on the grant fund summary. The 1st project listed was work simplification and streamlining and training for child welfare redesign for which $150,000 was received. DHS contracted with the Center for the Support of Families to revise the child welfare manual to be published in February 2006. Next, DHS listed the child welfare flexible funding opportunities for which $16,000 was received. DHS also reported receiving $49,550 for the mental health and developmental disabilities redesign case rate study.

In addition, DHS listed the behavioral health information system for the MHIs and resource centers for which $44,659 was received. According to the summary, DHS also received $11,500 to hold a Kaizen event for the interstate compact for the placement of children (ICPC), which is an agreement among all 50 states to coordinate the transfer of children across state lines for the purpose of placement. The funds were used to provide professional consulting services necessary for the Kaizen event. The 6th project listed was expediting the payment of child support to caregivers for which $124,912 was received. Finally, $23,508 was received for income management (IM) supervisor training. Grant funds listed by DHS for fiscal year 2006 totaled $420,129, which agrees with the supporting documentation provided by DOM.

The fiscal year 2007 report included a summary of charter agency grant activity for both fiscal years 2006 and 2007. The grant fund summary provided by DHS listed 4 grant fund projects for fiscal year 2007. The 1st project listed was to automate tracking of grievances and agency complaints. However, DHS did not track the costs of the project. As a result, the $13,000 in grant funds received was reallocated to the Institution Management Information Systems (MIS) project. DHS also received $11,290 to provide consulting support for a Kaizen event addressing the child abuse registry appeal process. An additional $11,350 was received to hold a Kaizen event related to the Polk County support staff. DHS planned to purchase a vacant building and relocate staff within the next 1 to 2 years. Finally, DHS received $37,360 for an Institution MIS project for the behavioral health information system. Total charter agency grant funds listed by DHS for fiscal year 2007 were $60,000, which agrees with the supporting documentation provided by DOM.

We did not receive supporting documentation for any of the grant fund projects completed by DHS for fiscal years 2005 through 2007. See **Finding B**.

<u>Additional Information</u> – In addition to the charter agency reports, DHS issued another separate annual performance report which included information related to charter agency performance goals. The fiscal year 2005 report stated 20,184 children were enrolled in Hawk-I, which was 5% above the target of 19,212. DHS also reported an average of 87,098 households per month received food assistance, an increase of 13,920, or 19%. In June 2005, 209,331 individuals received assistance, which was an increase of 22,116, or 11.8%. The annual performance report stated 90.7% of children had not been re-abused within 6 months of a prior abuse, with a target of 89.3%. DHS also reported on the percentage of children who did not re-enter foster care within 12 months of their last foster care episode, which had a target of 80%. According to the annual performance report, this goal was achieved at 77.2%. Although these goals were in the

fiscal year 2005 agreement, no results were included in the fiscal year 2005 charter agency reports. See **Appendix E** for further discussion of these goals.

The fiscal year 2006 annual performance report included the same information as the charter agency reports for the food and nutrition and re-abuse prevention goals. However, for 3 of the goals, different target and/or actual information was presented in the annual performance report. For the foster care goal, DHS established the same target percentage but stated a different actual percentage of 89.1%. For the Hawk-I enrollment goal, DHS established a target of 21,009; however, the same actual enrollment number was reported. Finally, the target listed for child support collections was 64%, with achievement at 64.7%. Both of these percentages differ from the charter agency reports.

DEPARTMENT OF NATURAL RESOURCES (DNR)

Quarterly Reports – For fiscal years 2004 through 2007, DNR identified 36 separate goals to achieve as a charter agency. We determined charter agency status was not necessary for 35 of the 36 goals identified. See **Finding D**. Those 35 goals are summarized in **Appendix F**. The remaining goal was DNR's commitment to reduce operating costs and generate additional revenue. This goal is discussed in detail below.

Appropriate supporting documentation was not provided to support the progress reported by DNR for 1 goal in the reports for each fiscal year from 2004 through 2007. See **Finding B**.

We identified instances in which DNR reported information in the reports which was not related to a goal established in the agreement. The additional information is summarized in **Appendix F**. See **Finding A**.

Charter Agency Goal: Revenue Commitment – The fiscal year 2004 agreement established a revenue commitment of $150,000, contingent upon receiving the benefits and rule flexibility itemized in the agreement. DNR also committed to reducing General Fund operating costs by $50,000. The $200,000 total was to remain fixed for each of the 4 years subsequent to fiscal year 2004. However, the fiscal year 2005 agreement modified the goal to $200,000 in additional General Fund revenue by implementing the following:

- marketing the Pollution Prevention Intern Program (PPIP) to other states and counties and investigating the development of an intern training center and Center for Sustainable Studies,
- marketing customized Geographical Information Systems products to counties, other governmental agencies and landowners,
- marketing natural resources engineering and realty services to county conservation boards and other governmental agencies, including Federal, and
- decreasing the cost of subsidizing polluters.

The fiscal year 2005 agreement also stated DNR committed to reducing $100,000 in General Fund operating costs. The agreements for fiscal year 2006 and 2007 included the same revenue commitment as fiscal year 2005; however, the commitment to reduce operating costs was removed.

The reduction of operating costs resulted from an appropriation reduction which was required only of charter agencies. However, it was not necessary for DNR to be a charter agency to achieve the goal of generating additional revenue. DNR had the ability to generate additional revenue in these areas prior to becoming a charter agency.

According to the fiscal year 2004 report, DNR's General Fund appropriation was reduced by $50,000 to satisfy the operating costs portion of the goal. This was a direct result of DNR's charter agency status. All charter agencies agreed to receive a reduced appropriation for participation in the Initiative. To achieve the revenue commitment of $150,000, DNR hoped to increase sales from the State Forest Nursery (Nursery) by at least 200,000 trees. Marketing plans to increase sales and research new products were conducted. However, DNR sales at the Nursery for the season were estimated to be $3.54 million, which was approximately 8% lower than the previous season. According to the report, the drop in sales, which was also experienced by the private sector, was likely caused by several factors, including higher commodity prices causing more producers to keep land in crop production and subsidizing Federal cost-share programs which were not funded to the extent expected.

DNR also utilized sales of forest products to meet the revenue commitment. In fiscal year 2004, DNR generated $76,500 from timber sales, lumber sales from Yellow River State Forest and firewood sales. DNR also anticipated implementing sales of other DNR products, such as aerial photos, books, maps and parks-related promotional goods from environmental, conservation and recreation areas. The enabling administrative rule was not presented before the ARRC until early August 2004 and was approved effective August 11, 2004. Therefore, no revenue was generated from sales of DNR products in fiscal year 2004.

In a separate document dated July 19, 2004, DNR acknowledged the proposed increase in sales from the Nursery was not successful and the product sales project was still pending. However, DNR asked the revenue commitment still be considered fulfilled because the collection of penalties had increased by $128,165. According to DNR, when the increased amount of penalties was combined with the increase in forest products sales of $26,500, it generated an additional $154,665, which exceeded the revenue commitment. However, the collection of penalties was not a direct result of the Initiative, but instead was part of the agency's normal operations.

Results of this goal were not reported in the fiscal years 2005 through 2007 reports. See **Finding A**. According to a DNR representative, achievement of this goal may not have been possible without charter agency status. The DNR representative also stated the goals could not have been achieved without the benefits and rule flexibility allowed by the charter agency designation. Specifically, the agency created an extra 15 FTEs, used alternative travel providers and sole source contracts and was exempt from across-the-board appropriation reductions. However, it is unclear how these benefits and rule flexibility relate to achievement of the revenue commitment.

<u>Additional Terms and Conditions</u> – The additional terms and conditions section of the fiscal year 2004 agreement also stated DNR would receive $100,000 to establish an internal departmental revolving loan fund for charter agency related activities. Based on supporting documentation provided by DOM, DNR did receive $100,000 from the grant fund in fiscal year 2004. However, we were not provided sufficient supporting documentation to determine if the distribution was used to establish the internal loan fund. See **Finding B**.

In addition, DNR was to submit a business plan which reflected increased General Fund revenues and provided justification for an additional commitment of $200,000 from the charter agency grant fund. We were unable to determine if the business plan was completed. However, based on the supporting documentation received from DOM, the $200,000 was not provided to DNR. In addition, the Director was to receive the authority and gubernatorial support to determine additional species hunting opportunities and seasons. Because this authority was not referred to in subsequent reports, we are unable to determine if the authority was granted.

<u>Benefits and Rule Flexibility</u> – DNR also included information in the reports regarding the specific benefits and/or rule flexibility granted the charter agencies in the agreements. In the 3rd quarter, fiscal year 2004 report, DNR itemized the following benefits and/or rule flexibility:

- Used a sole source contract. Prior to development of the volunteer monitoring program, IOWATER, the Iowa Environmental Council (IEC) and the Natural Resources Conservation Service (NRCS) collaborated to develop citizen monitoring programs. As part of these efforts, the Des Moines-based media relations company, Boddy Media Group, Inc. (Boddy) was hired to develop training materials on watershed leadership and media relations. When IOWATER started in 1999, IEC and NRCS decided to combine the citizen monitoring programs with the State program and suggested the materials developed by Boddy should be incorporated into IOWATER. Therefore, IEC and NRCS continued the contract with Boddy and provided funding for writing 3 chapters of the IOWATER Level 1 Manual, developing training materials for workshops and presenting media relations and leadership materials at 12 training workshops during the spring and summer of 2000.

  Following the successful use of Boddy during the 2000-2002 training sessions, the IOWATER Advisory Committee decided the portion of the training workshops, including the component contributed by Boddy, should be continued. The DNR contract covers the expense for the media training and working with the public sections of the IOWATER workshops. Because Boddy developed the chapters and training modules, the Advisory Committee and DNR believed no other organization had the background, intellectual rights or capability to provide the necessary training to IOWATER volunteers.

- Used alternate travel providers and saved money on those transactions. For example, DNR paid $444 on Yahoo Travel for a round-trip flight from Des Moines to San Antonio. The equivalent flight was priced at $656 by Short's Travel. In addition, DNR found a trip on American Airlines for $508 using Orbitz. The equivalent flight was priced at $687 by Short's Travel, including a $20 booking fee. Although DNR provided these flights as examples, the agency did not report a total amount of savings for any given fiscal year.
- Eliminated M-40 forms for hiring interns. According to DNR, hiring an intern could previously take up to 10 days to process. An approval from DNR management was required before the paperwork could be sent to DAS-HRE for approval and processing. As a charter agency, the hiring process simply required DNR management approval. As a result, once interviews were complete and a selection was made, the approval could be obtained in 1 day.
- Created an additional 15 FTEs and eliminated the use of contract employees and the associated administrative costs. As a result, DNR realized a savings of $38,280.89. The conversion also eliminated supervisor duplication. According to a representative of DNR, no supporting documentation was retained for the 15 FTEs or the cost savings reported.
- Conducted a Kaizen event the 1st week of March 2004 in the wastewater section of the Water Quality Bureau. The cost of this event, approximately $25,000, was paid by PSG as part of the support offered to DNR as a charter agency.

<u>Charter Agency Grant Funds</u> – According to the fiscal year 2004 report, DNR received $205,000 in grant funds. This amount is consistent with supporting documentation provided by DOM. Of this amount, $100,000 was to be used to create a revolving loan fund which would be used for several entrepreneurial projects, including approximately $70,000 to $80,000 to construct cabins in a state park and $20,000 to $30,000 for inventory for the new on-line nature store. The revolving loan fund was to be repaid from the rental of the cabins and profits from sales of the on-line nature store.

An additional $90,000 was received to fund a Kaizen officer to eventually replace the outside consultant at the BPI events, which would save $25,000 for every event. In addition, the Kaizen officer was to develop and coordinate training for DNR staff regarding Kaizen and other process improvement techniques.

A final $15,000 was received to partially fund a Kaizen event for the Department of Cultural Affairs (DCA). However, DCA was not designated as a charter agency. See **Finding F**.

The status of the projects was also detailed in the fiscal year 2004 report, as follows:

- At Honey Creek Destination Park (Honey Creek), 4 cabins were under construction and scheduled for completion in the fall of 2004. The agreement with DOC for the provision of inmate labor for construction of the cabin components was being finalized. The agreement was to be complete by the end of July 2004.
- The on-line nature store was waiting for enabling administrative rules to be adopted.
- A Kaizen officer was hired and Kaizen events were planned for the following areas: leaking underground storage tanks (USTs) in July 2004, National Pollutant Discharge Elimination System (NPDES) permits in September 2004, air quality complex permits in October 2004, grant management in November 2004, manure management in January 2005, construction permits and sovereign lands in March 2005 and land acquisition in May 2005.
- Results from the DCA Kaizen event included process improvements in the U.S. Department of Housing and Urban Development requirements.

According to supporting documentation provided by DNR, $123,000 of grant funds was received in fiscal year 2005 for 1 attorney and 1 paralegal to reduce or eliminate the backlog and reduce negotiating and enforcement of lead time by at least 25% for the Legal Bureau. A BPI had been scheduled for Legal Services to streamline the process and adjust staffing in order to promote voluntary environmental compliance. The supporting documentation provided by DOM also listed $123,000 of grant funds distributed to DNR in fiscal year 2005.

Department of Revenue (IDR)

Quarterly Reports – For fiscal years 2004 through 2007, IDR identified 24 separate goals to achieve as a charter agency. We determined charter agency status was not necessary for 13 of the 24 goals identified. See **Finding D**. Those 13 goals are discussed in detail in **Appendix G**. According to IDR representatives, the 11 remaining goals could not have been achieved without charter agency designation. These goals are discussed in detail below.

Appropriate supporting documentation was not provided to support the progress reported by IDR for any of the goals in the reports. See **Finding B**.

We identified several instances in which IDR reported information in the reports which was not related to a goal established in the agreement. The additional information is summarized in **Appendix G**. See **Finding A**.

Charter Agency Goals: As previously stated, IDR representatives stated the following goals could not have been achieved without charter agency designation. According to the representatives, IDR needed the flexibility of reassigning staff and filling staffing needs in order to fulfill the goals. However, because of the temporary nature of reassigning duties, there was no documentation to review which related the staff reassignments to the Initiative. Therefore, we are unable to determine how, or if, IDR actually reassigned staff to achieve the goals identified.

- Non-General Fund Support – The agreements for fiscal years 2004 and 2005 included a goal to increase the non-General Funds supporting the operating budget by 2%. According to the fiscal year 2004 report, IDR applied for and received $414,000 from the Pooled Technology Account and also applied for and received money from the charter agency grant fund to support 6 new positions. The fiscal year 2005 report stated the goal was accomplished through the Tax Gap program. According to IDR, the goal was achieved in both years, with $10.7 million collected in fiscal year 2004 and $13.4 million collected in fiscal year 2005, which represent an increase of approximately 25%.
- Electronically Filed Individual Returns – The agreements for fiscal years 2004 and 2005 included a goal to increase the share of individual income tax returns filed electronically to 80% by 2007. The fiscal year 2006 agreement included a goal for 68% to be filed electronically. According to the fiscal year 2004 report, Iowa ranked 1st in the nation in the percentage of income tax returns filed electronically in 2003 for tax year 2002. In addition, early indications for tax year 2003 suggested increased utilization of electronic filing. However, data would not be complete until the end of year. The fiscal year 2005 report stated 64% of individual income tax returns had been filed electronically. That percentage rose to 67% in the fiscal year 2006 report. IDR stated, at 67%, Iowa was still 1st in the nation among non-mandated states. According to the fiscal year 2007 report, 69% of individual income tax returns had been filed electronically. Therefore, the goal was not achieved by fiscal year 2007. See **Finding A**. According to a representative of IDR, this goal resulted in cost savings; however, no supporting documentation was available to quantify the amount. See **Finding B**.
- Disbursements through Electronic Funds Transfer (EFT) – The fiscal year 2004 agreement also included a goal to increase the number of EFTs for the disbursement of state payments by 5%. However, results of this goal were not included in the fiscal year 2004 report. As a result, we are unable to determine if the goal was achieved for that fiscal year. See **Finding A**. According to an IDR representative, this goal would have a positive financial impact in the form of cost savings.
- Refund Processing Time – The fiscal year 2004 agreement included a goal to issue 90% of all individual income tax refunds within 60 days of receiving a taxpayer's return. This goal was revised in the fiscal year 2005 agreement to within 45 days. According to the fiscal year 2004 report, IDR issued 93% of refunds within 60 days for calendar year 2003. However, data for fiscal year 2004 was not available at the time the fiscal year 2004 report was prepared.

The fiscal year 2005 report stated IDR issued 94% of refunds within 60 days in fiscal year 2004. However, the data for fiscal year 2005 was not available at the time of report preparation. An updated or revised report was never submitted. As a result, we are unable to determine whether the goal was fulfilled for either fiscal year. See **Finding A**.

Based on the data reported by IDR, it appears the goal was achieved for fiscal year 2004. According to a representative of IDR, this goal resulted in savings because interest paid was reduced.

The agreements for fiscal years 2006 and 2007 modified the goal to process 95% of electronic refunds within 14 days and 90% of paper refunds within 60 days. According to the fiscal year 2006 report, IDR processed 97.4% of electronic refunds within 14 days and 96% of paper refunds within 60 days. The fiscal year 2007 report also stated 97.4% of electronic refunds were processed within 14 days; however, results were not provided for the processing of paper refunds. See **Finding A**.

- <u>Collection Efforts</u> – The fiscal year 2004 agreement included a goal to maintain collection efforts in order to resolve 60% of net tax dollars billed within 365 days. According to the fiscal year 2004 report, 58% of net tax dollars billed were resolved within 365 days in fiscal year 2003. However, no data was presented for fiscal year 2004. As a result, we are unable to determine whether the goal was fulfilled for that fiscal year. See **Finding A**.

- <u>Return on Investment (ROI)</u> – The agreements for fiscal years 2004 through 2006 included a goal to maintain an ROI for audit staff productivity of at least $8.00 for every $1.00 spent for enforcement. This goal was revised in the fiscal year 2007 agreement to an ROI of $9.00 for every $1.00 spent. According to the fiscal year 2004 report, IDR achieved an ROI of $8.53 to $1.00 for fiscal year 2003. However, data for fiscal year 2004 was not available at the time the fiscal year 2004 report was prepared.

  The fiscal year 2005 report stated an ROI of $8.60 to $1.00 had been achieved for fiscal year 2004. However, data for fiscal year 2005 was not available at the time of report preparation. A separate performance report issued by IDR stated the ROI for fiscal year 2005 was $9.31 to $1.00. The fiscal year 2006 report stated the goal had been achieved with an ROI of $9.28 to $1.00. In fiscal year 2007, this increased to $10.13 to $1.00.

- <u>Taxpayer Services</u> – The agreements for fiscal years 2004 and 2005 included a goal to respond to 95% of taxpayer service contacts within 24 hours. According to the fiscal year 2004 report, the quarterly percentages for the 1st through 3rd quarters were 96.1%, 98.5% and 98.6%, respectively. Data for the 4th quarter was not available. The fiscal year 2005 report stated the percentage was 96.2% for the 4th quarter of fiscal year 2005.

- <u>Statistical Reports</u> – The agreements for fiscal years 2004 and 2005 included a goal to reduce the length of time required to complete the quarterly and annual statistical reports to 60 days or less, following receipt of corrected tax files. The fiscal year 2004 report states the "target was 100% year-to-date in less than 60 days." However, because of the lack of sufficient supporting documentation, it is not clear whether the report only includes the target or if IDR intended this to mean the actual percentage was 100%. According to the fiscal year 2005 report, IDR achieved 100% as of June 30th for calendar year 2005. In addition, according to a representative of IDR, this had a positive financial impact because IDR was able to obtain results more timely. However, no cost savings or additional revenue was reported as a result of this goal.

- <u>Data Warehouse</u> – The agreements for fiscal years 2004 through 2007 included a goal to expand utilization of the data warehouse. The agreements for fiscal years 2006 and 2007 further stated the expansion would lead to collections of $14 million and $16 million, respectively. According to the fiscal year 2004 report, additional data was uploaded to the data warehouse to provide additional mining opportunities.

  The fiscal year 2005 report stated an additional data source had been added to the data warehouse in order to better identify businesses required to file and pay Iowa taxes which were not. Results of this goal were not presented in either the fiscal year 2006 or 2007 report. As a result, we are unable to determine whether the goal was achieved in either of those fiscal years. See **Finding A**. According to an IDR representative, this goal had a positive financial impact in the form of increased collections.

- Revenue and Refund Estimates – The agreements for fiscal years 2004 and 2005 included a goal to increase resources in order to provide more accurate revenue and refund estimates. According to the fiscal year 2004 report, IDR added 1 FTE. The fiscal year 2005 report stated the Tax Research and Program Analysis Section had undertaken 2 projects during the past year to improve the forecasting of General Fund revenues and refunds. For the 1st project, IDR contracted with the Statistics Department at Iowa State University (ISU) for assistance in improving the models used to estimate the impact of proposed state and federal individual income tax legislation. The 2nd project established a working arrangement with faculty in the Economics Department at ISU for assistance in the development of a state structural macroeconometric model and associated revenue forecasting models. The arrangement involved a staff member working 1 day per week at ISU. In support of the effort, the Economics Department provided office space and established an advisory group consisting of faculty from both the Economics and Statistics Departments.

- Revenue Commitment – The fiscal year 2004 agreement also included a commitment to generate $1 million of additional revenue and interest savings the 1st year and $1.5 million in the subsequent 4 years, contingent upon receiving the benefits and rule flexibility itemized in the agreement. The measurement of interest savings was to be based upon accrual accounting principles. Consistent with the fiscal year 2004 agreement, the agreements for fiscal years 2005 through 2007 included a revenue commitment of $1.5 million.

  According to the fiscal year 2004 report, IDR identified 2 methods for achieving its additional revenue target. The 1st method was to reduce the amount of interest paid on refunds by issuing refunds more quickly. IDR planned to use the timelines for issuing refunds from fiscal years 2002 and 2003 as a baseline to evaluate the fiscal year 2004 timeline. For example, if IDR issued refunds within an average of 8 months in fiscal year 2003 and 6 months in fiscal year 2004, the State would save an average of 1.2%. That percentage would then be multiplied by the amount of tax refunded to determine the interest savings. The fiscal year 2004 report stated, as of June 30, 2004, $683,073 was saved in interest payments.

  The 2nd method was assessments from audit programs. IDR identified the new examiners hired and assigned them an audit program IDR would not have been able to do without the additional hiring. The revenue collected from these new audit programs would then be included in the calculation of the $1 million target. The fiscal year 2004 report stated, as of June 30, 2004, $633,705 was collected through assessments from audit programs. In total, IDR reported $1,316,778 was generated through collections from audit programs and interest savings. However, sufficient supporting documentation was not provided for the amounts reported. See **Finding B**.

  The fiscal year 2005 report stated IDR had achieved $560,368 in interest savings and $1,475,276 in additional collections. Results of the revenue commitment were not presented in the fiscal year 2006 report. See **Finding A**. However, supporting documentation provided by IDR showed $1,901,797 in additional revenue collections had been generated and interest paid had been reduced by $1,884,397. Another separate report showed $2,254,629 in additional revenue collections and $1,531,565 in reduced interest paid for fiscal year 2006. We are unable to determine which of these amounts, if any, are accurate. See **Finding C**.

  According to the fiscal year 2007 report, IDR generated $4,990,100 through additional collections and interest savings on corporate tax refunds. In addition, $3,106,062 was generated through collections resulting from a property transfer audit program and interest savings on sales and use tax refunds.

- Electronic Processing – The fiscal year 2007 agreement included a goal to receive 1,767,766 documents, or 40% of all documents processed, electronically. According to the agreement, this goal was modified from the number of individual income tax returns filed electronically in order to include the E-File and Pay system. However, results of this goal were not presented in the fiscal year 2007 report. See **Finding A**. According to a representative of IDR, this goal resulted in cost savings; however, no savings amount was reported and no supporting documentation was available. See **Finding B**.

- Debt Collections – The fiscal year 2007 agreement included a goal to upgrade the enterprise debt collections services to provide for additional collection dollars. According to the fiscal year 2007 report, IDR implemented a significant upgrade to the collection software. In addition, total collections in fiscal year 2007 were $148 million ($25 million in non-tax collections and $123 million in tax collections), an increase of $32 million from fiscal year 2006.

Benefits and Rule Flexibility – IDR also included information in the reports regarding the specific benefits and/or rule flexibility granted the charter agencies in the agreements. In the fiscal year 2004 report, IDR listed the following:

- Ability to award increased pay to a new hire in the Revenue Auditor series to compensate for attainment of the Certified Public Accountant certification,
- Creation of 1 new FTE. IDR created an additional Revenue Examiner position in the Compliance Division. That position, when fully trained, can return approximately $800,000 to the General Fund,
- Ability to make travel arrangements on-line when savings are available. For example, a roundtrip airline ticket to Indianapolis in February 2004 would have cost $318.40 from Short's Travel; however, IDR was able to purchase the ticket on-line for $218.40 and
- Exemption from across-the-board appropriation reductions.

In addition, in the fiscal year 2005 report, IDR stated a sole source contract was negotiated with subject matter experts for property tax litigation. The fiscal year 2007 report included Iowans' increased capabilities of utilizing electronic tax systems. Without an FTE limitation, IDR was able to increase FTEs in order to establish positions providing customer services related to the successful implementation of business e-File.

Also in the fiscal year 2007 report, IDR cited the successful recruitment of candidates for the Fiscal Analyst positions and ability to offer a salary commensurate with market rates. IDR also sponsored process redesign projects using both Kaizen and Zoom processes, extended existing contracts, as appropriate, to maximize the benefits and retained 50% of the unspent year-end appropriation, which totaled $198,861.

Charter Agency Grant Funds – The additional terms and conditions section of the fiscal year 2004 agreement stated IDR was to receive $270,000 of grant funds to support activities in fiscal year 2004. In addition, funding in the amount of $270,000 for fiscal year 2005 activities would be requested through the appropriation process. If no funds were appropriated for this purpose, grant funds would continue to be provided for fiscal year 2005. IDR also had the ability to revise and increase the amount of grant funds requested in the subsequent year "to insure the commitment to generate revenue." IDR was also given the opportunity to compete for money allocated to the grant fund to be utilized for additional reinvention projects.

Through the Governor's recommendation and legislative actions, IDR was appropriated $270,000 for fiscal year 2005 to continue to fund 6 FTE positions. Therefore, the fiscal year 2004 allocation of $270,000 was the only grant fund distribution to IDR for that purpose. This agrees with the supporting documentation provided by DOM.

According to the fiscal year 2004 report, the $270,000 in grant funds received was utilized to increase tax revenue collections and reduce the interest paid on tax refunds. The report also stated initially grant funds of $500,000 were awarded for fiscal years 2004 and 2005. Of that amount, $225,098 was reserved to fund the same 6 FTEs for fiscal year 2005. In addition, a total of $4,902 was reserved to fund office supplies and communications expenses for each of the 2 fiscal years.

In fiscal year 2005, IDR received $190,000 of grant funds for the same purpose. This is consistent with the supporting documentation provided by DOM. Supporting documentation provided by IDR stated $1,575,644 in additional revenue collections was generated and interest paid was reduced by $460,000. However, these amounts are not consistent with the amounts included in the report. See **Finding C**. IDR did not receive additional grant funds in either fiscal year 2006 or 2007.

According to a representative of IDR, the additional revenue collected and reduced interest would not have been achieved without charter agency status because the grant funds were used to fund the examiner positions. In addition, the new audit programs allowed for faster processing of corporate, sales and use tax refunds, which saved interest, and additional examination programs for individual income tax were also completed. During fiscal year 2006, 2 of the positions funded with grant funds were dedicated to field refund reviews. Historically, field refund reviews extended over 20 months. In fiscal year 2006, IDR established a target of 12 months, which was exceeded by almost 7 months.

<u>Additional Information</u> – IDR also included information in separate performance reports issued related to the Initiative. In fiscal year 2005, IDR reported on the receipt of the Harvard University John F. Kennedy School's award for "Innovation in American Government", along with the other 5 charter agencies. In addition, IDR reported the state individual income tax model had been updated and enhanced and a federal individual income tax model had been created. The fiscal year 2005 performance report also included a target for the ratio of revenue collected to revenue established. IDR reported 5 new examiners had generated $1.4 million in revenue and saved $600,000 in interest in fiscal year 2005 under the Initiative.

IOWA VETERANS' HOME (IVH)

Quarterly Reports – For fiscal years 2004 through 2007, IVH identified 21 separate goals to achieve as a charter agency. We determined charter agency status was not necessary for 18 of the 21 goals identified. See **Finding D**. Those 18 goals are discussed in detail in **Appendix H**. The 3 goals for which IVH needed to be a charter agency are discussed in detail below.

Appropriate supporting documentation was provided to support the progress reported by IVH for the goals identified. According to a representative of IVH, in general, data is submitted to the Centers for Medicare and Medicaid Services (CMS) quarterly. CMS then compiles the data and returns a report to IVH which is exported into a separate spreadsheet. This spreadsheet is the source for much of the data reported under the charter agency goals.

We were unable to obtain a copy of the fiscal year 2004 agreement for IVH; however, we did obtain copies of the charter agency reports for that fiscal year. Therefore, the results of each goal have been provided for fiscal year 2004 in the following paragraphs. See **Finding E**.

We identified several instances in which IVH included information in the reports which was not related to goals established in the agreements. The additional information is summarized in **Appendix H**. See **Finding A**.

Charter Agency Goals:

- Revenue Commitment – The fiscal year 2005 agreement included a commitment to generate $1.3 million in fiscal year 2005 by reducing operating costs and/or increasing revenues, contingent upon receiving the benefits and rule flexibility itemized in the agreement. The $1.3 million was to remain fixed for each of the 3 years subsequent to fiscal year 2005. The agreements for fiscal years 2006 and 2007 also included the $1.3 million commitment.

  According to the fiscal year 2004 report, the goal was achieved for that year. IVH generated an additional $316,301 in revenues for the first 9 months of the fiscal year. As stated previously, this is not consistent with the amount reported by DOM. See **Finding C**. According to IVH, 2 additional units had been certified for Medicaid over the course of several months, which would produce $1.3 million of additional revenue by the end of fiscal year 2004. In addition, IVH established an "expeditious admission" process which allowed admission of an appropriate applicant directly from the hospital. IVH was also researching eligibility for certain current residents who may qualify for Title XIX. Certification of an additional 147 beds had also been completed. According to the report, IVH was considering empowering department heads to more easily prioritize expenses and identify cost-saving measures within their departments to reduce operating costs.

  According to the 1st quarter, fiscal year 2005 report, IVH established procedures which were leading to increased revenues. With the certification of an additional 147 beds, the number of residents on Title XIX increased from 269 in October 2003 to 296 in October 2004. The 3rd quarter report stated IVH continued to see increased revenue from Title XIX with the number of residents increasing from a monthly average of 262 in the 3rd quarter of fiscal year 2004 to a monthly average of 294 in the 3rd quarter of fiscal year 2005. The final fiscal year 2005 report only stated the $1.3 million appropriation reduction was applied. The appropriation reduction was a direct result of IVH's participation in the Initiative. However, none of the other actions taken required charter agency status to accomplish the results obtained. See **Finding D**.

- Community Re-Entry – The fiscal year 2006 agreement included a goal to implement a community re-entry program by June 2006 for the domiciliary residents to assist qualified participants in re-integrating into the community through relocation job placements and follow-up services. To improve these services to residents, IVH was developing partnerships with the local Iowa Workforce Development (IWD) Center and the Vocational Rehabilitation specialists at Marshalltown Community College (MCC). The fiscal year 2007 agreement expanded on this goal to establish a target of 10 IVH residents participating in the community re-entry program and also extended the deadline for the program to December 31, 2007. It further stated the enhanced program would allow the inclusion of life and job skills classes for those who did not qualify for the community re-entry program. Results of this goal were not presented in the fiscal year 2006 report. See **Finding A**.

According to the fiscal year 2007 report, the goal was achieved with 19 residents participating in the first phase of the community re-entry program, "Living in Balance." This program taught the participants the skills needed to live independently, including budgeting, problem solving, interpersonal skills, job seeking skills, job retention skills and the use of community resources. The second phase of the program placed those participants who successfully completed phase 1 into the workforce through targeted job placement in order for the person to gain real world job experience. According to a representative of IVH, this goal had a positive financial impact because the movement of residents to the community reduces the need for support for those individuals who return to work. However, the amount of cost savings was not identified. According to IVH representatives, creation of charter agencies allowed IVH the necessary FTEs to staff the new community re-entry program. We are unable to determine how, or if, IVH actually reassigned staff to achieve the goal identified.

- Employee Survey – The fiscal year 2007 agreement included a target of 80% of IVH employees responding positively to job satisfaction on the fiscal year 2007 employee surveys. According to the fiscal year 2007 report, this goal was not achieved, with an actual percentage of 78%. See **Finding A**. According to a representative of IVH, this goal does not have a financial impact but relates to employee job satisfaction. In addition, charter agency status allowed IVH to create an employee recognition program which resulted in positive job satisfaction figures.

Charter Agency Grant Funds – The fiscal year 2004 report stated IVH received $100,000 in grant funds, which is consistent with supporting documentation provided by DOM. Of that amount, $5,000 was to be used for training, $20,000 was to be used for the purchase of IT hardware, $31,050 was to be used for IT software and $43,950 was to be used to supplement 55% of 2 FTEs. The funds were to be used to develop and implement a computerized record system to more efficiently monitor resident health status. As of the date of the report, $2,584 in salary costs and $62,914 for hardware and software costs had been expended. Additional hardware and staff time were required to complete the project. Some IT hardware was ordered prior to June 30 but did not arrive by the last day of the fiscal year.

The fiscal year 2004 report also stated IVH was going to request reverted grant funds be returned to IVH in fiscal year 2005 to complete the project. We were unable to determine if any grant funds were reverted to DOM and subsequently returned to IVH. Based on supporting documentation provided by DOM, no funds were returned to the charter agency grant fund from IVH.

In addition, the supporting documentation received from IVH also stated $100,000 in grant funds was received in fiscal year 2004. However, it described different uses for the funding than included in the reports and also indicated the entire $100,000 had been spent by IVH. See **Finding C**. According to the supporting documentation, IVH used $48,000 to update the inventory system, $490 to provide 2 IT employees training in the use of the software to aid in the design and analysis of the proposed changes, $38,000 to convert the resident bank, billing and admission system to a newer architectural platform and $14,000 to purchase a new server to support the regulatory system and databases being built to manage the electronic record system. In addition, tablet personal computers and laptops were purchased to allow the health care providers to be more mobile with the patient information used.

According to the 1st quarter, fiscal year 2005 report, IVH received $50,000 in grant funds. Of that amount, $25,000 was received to sponsor 8 Certified Nursing Assistants (CNAs) who wished to attend the Licensed Practitioner Nurse (LPN) program at MCC, Des Moines Area Community College (DMACC) or Hawkeye Technology (now Hawkeye Community College.) Funds were to be used to pay for tuition and materials for the 1-yr program. The shortage of qualified nursing staff had an impact on IVH's ability to provide services to veterans and there were 16 LPN vacancies. By developing qualified candidates from existing staff, IVH was providing advancement opportunities as well as reducing initial training and orientation time.

The 3rd quarter, fiscal year 2005 report stated IVH received $82,500 in grant funds. Originally, IVH received $25,000 to sponsor 8 CNAs for the LPN program at MCC, DMACC or Hawkeye Technology. In December, IVH was notified by DOM an additional $25,000 had been allocated for this education program. The students were in various parts of the program from prerequisites to the 2nd semester. In January 2005, the first 3 candidates began the program at MCC. In addition, 5 employees were taking program prerequisites at MCC and an additional 5 employees were starting the LPN program in the fall of 2005. According to supporting documentation provided by DOM, $75,000 in grant funds was provided to IVH in fiscal year 2005. See **Finding C**.

In fiscal year 2006, IVH was awarded $25,000 to hold a Kaizen event in partnership with DNR. The purpose of the event was to improve the medication administration process. An evaluation group was looking at the entire process, beginning with the written order until the delivery of the medication to the resident. The purpose of the evaluation was to determine which segment of the multi-step, multi-department process to focus on. A pre-event meeting was held with staff from DNR and an outside consulting firm in March 2005 and a team was selected from a nursing care unit to address the medication administration process. In addition, staff from the pharmacy and other stakeholders supplemented the team. The objectives of the project were to increase optimal use of the medical cart space while reducing medication inventory and maintain state and federal compliance while reducing narcotics paperwork. In addition, residents would receive their medications in a timely and accurate manner and the med pass would be streamlined. Improvements made were to be carried out on a trial basis by the host unit and then implemented facility-wide. According to supporting documentation provided by DOM, only 70%, or $16,975, was provided to IVH in fiscal year 2006 for this purpose. See **Finding C**.

Also, in fiscal year 2006, IVH was awarded and received an additional $7,500 for the costs of compiling the data and publishing the facility-developed "Quality of Life" survey for residents. This survey was to be made available to all long-term care facilities. This amount is consistent with the supporting documentation provided by DOM.

<u>Benefits and Rule Flexibility</u> – IVH also included information in the reports regarding the specific benefits and/or rule flexibility granted the charter agencies in the agreements. In fiscal year 2004, IVH reported on the following:

- employee recognition. IVH awarded 2 employees a monetary bonus of $100 each for outstanding effort at producing an IVH informational video which not only showcased IVH, but the community of Marshalltown as well.
- collaborative partnering. IVH worked with the local hospital on the development of a daycare program for employees. The local hospital surveyed its employees to determine the level of interest in a joint venture with IVH. Survey results indicated, although staff was interested in a daycare, they were not interested in a location on the IVH campus. Therefore, IVH was proceeding with plans to establish a daycare for its employees on campus.
- collaborative partnering. IVH worked with the U.S. Department of Veterans' Affairs (DVA) on the implementation of a Computerized Patient Record System to determine the feasibility of adapting DVA's format. These efforts were abandoned when IVH discovered its software could not be supported by DVA and, due to the age of the software, it was cost prohibitive to contract with a consultant. In addition, it became apparent there was not a mechanism to adapt DVA's software to allow for the importing of other resident data collected. Instead,

IVH worked with an outside firm to determine the feasibility of expanding and adapting the existing software to be used as the foundation for an electronic record.

- support from PSG at no cost. PSG worked extensively with IVH's quality council to clarify roles and expectations and provide direction and support. In addition, PSG, in conjunction with the Interim Director of IVH, planned and facilitated a leadership retreat to clarify IVH's strategic direction.
- ability to change status of positions. IVH revised its table of organization and identified 3 additional "at will" positions: Adjutant, Performance Improvement Manager and Director of Employee Services. The Commandant and Medical Director positions were already identified as "at will".
- exemption from FTE limitation. This allowed IVH to support the Nursing Department's initiative to maintain staff scheduled units and decrease overtime costs.
- exemption from across-the-board appropriation reductions.

In fiscal year 2006, IVH reported on the development of an employee recognition program for employees reaching specified years of service milestones, establishment of an educational grant program for qualified RTWs to be funded for the LPN program and funding of 3 Kaizen improvement projects to develop improved work process for medication administration, work order completion and medical trips.

<u>Additional Information</u> – In February 2007, IVH submitted a follow-up report to the Office of the Governor which cited the advantages and disadvantages of having charter agency status. The advantages listed by IVH included:

- exemption from FTE limitations,
- exemption from across-the-board appropriation reductions,
- exemption from Executive Council approval for travel,
- flexibility to reward employees,
- retention of proceeds from the sale of fixed assets,
- ability to purchase vehicles to meet IVH's needs instead of using vehicles purchased by DAS,
- ability to use sole source contracts,
- ability to purchase goods outside of State contracts if savings can be documented and
- receipt of charter agency grant funds totaling $199,475.

The disadvantages identified by IVH were the inequity of the amount contributed by the various charter agencies when compared to their entire budget and the amount of funds needed to be a charter agency exceeding all financial benefits. The report also included a section for IVH to identify what the agency had to agree to as a charter agency in which IVH cited the appropriation reduction of $1.3 million for each of the 5 fiscal years, for a total of $6.5 million.

Changes suggested by IVH included allowing all agencies to participate without a fee or for an equitable fee, removing the requirement to have union approval for non-contract staff awards, clarifying if net budgeting agencies can retain "50% of the unspent General Fund appropriation" or if they are limited to $500,000 in accordance with the statute and clarifying the word "new" in the statement "retain 80% of all new revenues generated."

Findings and Recommendations

As previously stated, we reviewed each report issued by the charter agencies to determine if charter agency status was necessary for the achievement of the goals listed in the individual agreements. We also attempted to verify any progress and/or results reported by the agencies in meeting the goals. To verify the results reported, we requested appropriate supporting documentation. The following paragraphs summarize our findings as well as other concerns identified.

Because some goals repeat from year to year, the number of instances identified in **Tables 9** through **13** may include the same goal over several fiscal years. As a result, the **Tables** do not include a Total column. Adding the number of instances identified would be misleading.

FINDING A – Goals

Each charter agency established goals to accomplish for each fiscal year. These goals were defined in the annual charter agency agreement. Throughout each fiscal year, each charter agency reported its progress and achievements in quarterly reports.

We identified several instances in which the charter agencies reported progress in the reports on goals which were not included in the respective agreements. **Table 9** summarizes the number of instances identified by charter agency for each fiscal year.

Table 9

Charter Agency	Fiscal Year 2004	2005	2006	2007
ABD	3	3	-	1
DOC	7	6	-	-
DHS	1	6	2	18
DNR	-	1	-	-
IDR	-	-	-	-
IVH	-	2	3	-
Total	11	18	5	19

Because we were unable to locate the fiscal year 2004 agreement for IVH, we were unable to determine whether there were goals reported which were not in the agreement.

We also identified several instances in which the charter agencies did not include progress in the reports on a goal which had been established in the respective agreements. **Table 10** summarizes the number of instances identified by charter agency for each fiscal year.

Table 10

Charter Agency	Fiscal Year 2004	2005	2006	2007
ABD	1	1	-	-
DOC	2	6	7	1
DHS	2	7	9	-
DNR	-	-	6	1
IDR	5	1	5	5
IVH	-	4	5	1
Total	10	19	32	8

The 1st quarter, fiscal year 2005 report prepared by DOC was identical to the report prepared for the 4th quarter of fiscal year 2004. In addition, although a cumulative report was prepared for fiscal year 2005, DOC only reported on special projects and not the performance targets established in the agreement. We also identified 1 goal, established in DOC's fiscal year 2007 agreement, which was not pursued until fiscal year 2008.

Of the 2 shown in **Table 10** for DHS for fiscal year 2004, 1 goal was not reported because, according to a DHS representative, the agency was unaware the goal had been included in the agreement. In addition, in fiscal year 2004, DHS did not report on the additional terms and conditions established in the agreement. In addition, in fiscal year 2005, DHS only reported progress for special projects, not performance targets, in the charter agency reports. However, the results of the performance targets were included in performance reports required under other performance-based programs. In fiscal year 2006, 5 of the 9 special projects were reported in performance reports required under other performance-based programs. However, those reports were not issued in accordance with the reporting deadlines established in the *Code* for charter agencies.

For DNR, the fiscal year 2005 reports did not contain any information regarding cost savings or additional revenue generated for 3 goals included in the agreement. We also identified 1 goal in fiscal year 2006 for which this occurred. As stated previously, we were unable to locate the fiscal year 2004 agreement for IVH. As a result, we are unable to determine if the goals established in the agreement were properly reported.

As a result of our procedures, we also identified several goals established in the charter agency agreements which were reported as not achieved during the respective fiscal year. **Table 11** summarizes the number of instances identified by charter agency for each fiscal year.

Table 11

Charter Agency	Fiscal Year 2004	2005	2006	2007
ABD	-	-	-	-
DOC	2	3	2	2
DHS	1	4	2	4
DNR	4	1	2	3
IDR	1	1	2	1
IVH	2	3	3	2
Total	10	12	11	12

In addition, in fiscal year 2005, DOC did not provide sufficient information for 1 goal to allow a determination of whether the goal had been fulfilled. We also identified 2 DHS goals in fiscal year 2005 for which this occurred. According to a DHS representative, 1 of the goals was not achieved, but the report indicated it had been fulfilled.

DNR did not provide sufficient information in the fiscal year 2005 reports for 3 goals to allow a determination of whether the goals had been fulfilled. In addition, according to a DNR representative, 1 of the 2 goals not achieved in fiscal year 2006 was not to be fulfilled until fiscal year 2008. We also identified 5 IDR goals, 2 in fiscal year 2004 and 3 in fiscal year 2005, and 1 IVH goal in fiscal year 2005 for which sufficient information was not provided. In addition, according to an IVH representative, 1 goal was not to be fulfilled until fiscal year 2008.

Although DOM staff used the quarterly reports submitted by the charter agencies to summarize the overall results of the Initiative, no review of the information reported was performed to ensure completeness or accuracy of the information.

Recommendation – Agencies participating in performance-based programs with reporting requirements should report progress on all performance targets and/or special projects established in the performance agreement. In addition, the agency responsible for oversight of the program should ensure participating agencies are complying with the reporting requirements established. Any performance targets and/or special projects which have not been established as part of the performance-based program should not be included in subsequent performance reports.

In addition, agencies participating in performance-based programs should ensure the performance targets and/or special projects established can be achieved in the stated fiscal year. If a goal needs to span multiple years, established milestones should be established to allow the agency to track progress and ensure the goal will be completed by the established deadline.

FINDING B – Supporting Documentation

As stated previously, each charter agency reported the progress and achievements related to the goals established in its agreement. The quarterly reports were submitted to DOM and were used to assess the overall accomplishment of the Initiative. Progress for some of the goals could be quantified into monetary savings and/or a percentage change in a performance measurement while other goals had a qualitative impact.

We attempted to obtain supporting documentation for the progress reported by each charter agency in its reports. However, we were unable to obtain appropriate supporting documentation in several instances. Therefore, we are unable to determine if the progress reported in the quarterly reports was accurate. **Table 12** summarizes the number of instances identified by charter agency for each fiscal year.

Table 12

Charter Agency	Fiscal Year 2004	2005	2006	2007
ABD	1	4	1	1
DOC	3	3	1	1
DHS	9	10	16	14
DNR	1	1	1	1
IDR	14	12	9	8
IVH	6	2	2	-
Total	34	32	30	25

IVH provided inconsistent supporting documentation for 1 goal; therefore, we are unable to determine the actual results or if the goal had been achieved. In addition, ABD and DHS did not provide any supporting documentation for additional revenue, cost savings and/or process improvements resulting from grant fund projects reported for fiscal years 2005 through 2007. Also, DNR did not provide supporting documentation for the creation of the internal revolving loan fund.

In addition, in accordance with the agreements, if a sole source contract was to be used, the charter agency was to maintain "audit worthy" documentation. Because "audit worthy" documentation was not maintained for sole source contracts established by ABD and DHS, we were unable to determine if the best prices were obtained for the services received.

<u>Recommendation</u> – Appropriate supporting documentation should be maintained for all progress and/or accomplishments reported on specified performance targets and/or special projects. The agency responsible for oversight of the performance-based program should periodically review the supporting documentation to ensure progress and/or accomplishments are being reported accurately.

FINDING C – Reporting

As stated previously, we attempted to verify the progress reported in each charter agency's reports with appropriate supporting documentation. As a result of this procedure, we identified a few instances in which the information was incorrectly reported, as follows:

- ABD – In fiscal year 2005, 1 of 4 goals was incorrectly reported in the report for 2 of 4 quarters. In addition, the majority of the information presented in the fiscal year 2005 reports was carried forward from the fiscal year 2004 reports without appropriate updates to the information.

- DOC – In fiscal year 2004, 2 goals reported as achieved in the reports were not achieved according to the supporting documentation provided. The fiscal year 2004 report also included results of grant fund projects although no grant funds were received in that fiscal year. In addition, both DOC and IVH reported the grant funds received by DOC in fiscal year 2005. However, the results reported were not consistent. In addition, for 2 goals, the fiscal year 2004 results were reported in fiscal year 2005. The fiscal year 2006 report did not include the results of the grant fund projects.
- DHS – Neither the fiscal year 2005 nor 2006 report included the results of the grant fund projects. The fiscal year 2005 projects were reported by IVH; however, results were not consistent with the grant fund summary provided by DHS.
- DNR – In fiscal years 2004 through 2006, the information provided in the reports was not consistent with the supporting documentation provided by representatives of DNR for 2 goals, 1 in each year.
- IDR – In fiscal year 2005, supporting documentation provided did not agree with the reports for the grant fund projects. In addition, in fiscal year 2006, supporting documentation provided did not agree with a separate performance report prepared for that fiscal year.
- IVH – In fiscal years 2004 and 2005, the supporting documentation provided for the grant fund projects was inconsistent with the reports and, in fiscal year 2006, the amount reported did not agree with the amount provided by DOM. In addition, in fiscal year 2005, no 4th quarter report was prepared. In addition, for 1 goal in fiscal year 2007, the supporting documentation was not consistent with the results reported.

As previously stated, DOM staff did not review the reports submitted by the charter agencies for reasonableness or accuracy.

Recommendation – Each agency should review the information presented in the performance reports to ensure accuracy. In addition, the agency responsible for oversight of the performance program should review the information presented for reasonableness and perform appropriate follow-up.

FINDING D – Charter Agency Status

As part of our procedures, we assessed each goal to determine if the charter agency designation and the benefits and rule flexibility which accompanied that designation were necessary in order for the charter agency to achieve progress on the given goal.

We identified numerous instances in which the charter agency designation was not necessary for the respective agency to achieve the established goal. **Table 13** summarizes the number of instances identified by charter agency for each fiscal year.

Table 13

Charter Agency	Fiscal Year 2004	2005	2006	2007
ABD	2	4	1	1
DOC	11	14	12	7
DHS	9	15	16	16
DNR	12	9	10	12
IDR	12	9	6	6
IVH	7	12	9	4
Total	53	63	54	46

In addition, DHS related several of its goals to child welfare redesign and/or mental health and developmental disabilities redesign and attributed the accomplishment directly to receiving charter agency status due to the grant funds received. However, child welfare redesign and mental health and developmental disabilities redesign were both legislatively mandated and would have had to be completed regardless of DHS' status as a charter agency. Also, IVH did not need the charter agency designation for the generation of additional revenue.

Recommendation – Oversight and participating agencies in a performance-based program should ensure the goals established specifically relate to the overall objective of the program and do not represent goals the agency would want to achieve regardless of the performance-based program being implemented.

FINDING E – Annual Agreements

As stated previously, each charter agency had an annual agreement which included the goals to be achieved each fiscal year and was to be signed by the Governor and the Director of the respective charter agency. We identified several agreements which did not have the proper signatures, as well as other errors and/or inconsistencies. The following agreements did not have 1 or both signatures:

- ABD – The fiscal year 2004 agreement was not signed by the Governor and the fiscal year 2006 agreement was not signed by either the Governor or the Administrator.
- DOC – The fiscal year 2004 agreement was not signed by the Governor and the fiscal year 2006 agreement was not signed by either the Governor or the Director.
- DHS – The fiscal year 2006 agreement was not signed by the Governor.
- DNR – The fiscal year 2004 agreement was not signed by either the Governor or the Director.
- IDR – The fiscal year 2004 agreement was not signed by the Governor and the agreements for fiscal years 2006 and 2007 were not signed by either the Governor or the Director.
- IVH – The fiscal year 2006 agreement was not signed by either the Governor or the Commandant.

In addition, the fiscal year 2004 agreement for ABD included a goal of $1.25 million in additional revenue. However, the supporting documentation provided by the agency stated the target was $2 million. According to a representative of ABD, the goal was changed after the agreement was signed but a written amendment was not completed.

DHS' fiscal year 2007 agreement only established 6-month goals. According to a representative of DHS, 6-month goals were established because of the change in gubernatorial administration from Governor Vilsack to Governor Culver. However, the agreement was not amended subsequent to the administration change to establish 12-month goals. In addition, DHS' fiscal year 2007 agreement indicated sufficient information was not available to establish quantified monetary savings or percentage change for 2 goals.

Also, IVH's fiscal year 2004 agreement could not be located.

Recommendation – After an annual agreement has been established, any changes to the goals should be documented with a formal, written amendment. In addition, all agreements should be reviewed to ensure all required signatures have been obtained.

FINDING F – Program Administration

Several benefits and rule flexibility were established in the *Code* and agreements which applied to all charter agencies. We identified the following non-compliance and/or areas for improvement:

a. The report from the Governor, due January 15, 2008, was not submitted as required. According to a representative of DOM, the minutes from the meeting held in February 2008 among the Directors of the charter agencies and DAS was the only documentation regarding an overall analysis of the Initiative and recommendation for its continuance or termination.

b. In fiscal year 2004, IDR was not exempted from the across-the-board appropriation reductions as specified in the *Code*.

c. None of the quarterly reports included information regarding the agencies' expenditures or filled FTEs as required by the *Code*.

d. DOM did not report the results of the overall savings target beyond fiscal year 2006.

In addition, although the Lottery was not a charter agency, the additional revenue generated by the Lottery was included in the overall savings target of $15 million for charter agencies. Without the Lottery, the savings target was not achieved in fiscal year 2004. Also, we identified 1 Kaizen event, funded by grant funds, which was held by DCA. Although the grant funds were provided to DNR, the Kaizen event benefited DCA, which was not a charter agency.

We also identified 9 expenditures totaling $89,863 disbursed from the charter agency grant fund which did not appear to meet the intent of the Initiative.

According to the RFP, the Initiative was to be "self-funding"; however, a planned repayment of the funds disbursed to PSG was not established to ensure this requirement was met.

In addition, of the 8 out-of-state travel claims tested for the Performance Results Team Administrator within DOM, 4 did not have Executive Council approval and 2 conferences attended were for the Lean program, not the Charter Agency Initiative.

<u>Recommendation</u> – The agency responsible for oversight of the performance-based program should ensure participating agencies, as well as other specified entities, comply with all reporting and program requirements. In addition, program expenditures should be independently reviewed and approved to ensure the expense meets both the intent and the requirements of the program.

Items for Further Consideration

As a result of our review, we identified the following items for further consideration by the General Assembly and DOM should a similar performance-based program be implemented in future fiscal years.

- Measurable cost savings and/or additional revenue goals should be established as part of performance goals which extend beyond the normal course of operations for the participating agencies. Performance goals focusing on process improvements should quantify the cost savings or additional revenue to be achieved. Sufficient supporting documentation should be maintained for all cost savings and/or additional revenue reported resulting from performance goals established under the performance-based program.
- Several benefits and rule flexibility were offered to the charter agencies for their participation in the Initiative. However, some of those identified in the agreement or waiver process were available to all state agencies, not just the charter agencies. As the Initiative progressed, there was no evaluation of the overall objective or the benefits and rule flexibility offered to determine if the Initiative was working as intended. If a particular benefit produces positive results, the oversight agency responsible for the program should consider whether the benefit should be expanded to include all state agencies.
- Throughout the course of the Initiative, DOM and the 6 participating agencies referred to the "halo effect" to describe improvements reported which were only indirectly attributable to obtaining charter agency status. Although these actions did not require charter agency designation and the accompanying benefits and rule flexibility, the charter agencies reported certain changes would not have happened in the pre-charter agency environment. According to representatives from the charter agencies, the Initiative had the effect of prompting creativity and an assertiveness in employees that would not have happened otherwise.

  In addition, representatives of the charter agencies acknowledged reporting on any accomplishments achieved during the respective fiscal years in the charter agency reports, regardless of whether the actions taken or improvements made were a result of receiving the charter agency designation.

  The agency responsible for oversight of a performance-based program should ensure program objectives are clear and any goals established are measurable and can be related directly to the benefits derived under the program. Participating agencies should only report on those accomplishments or improvements which can be shown as directly resulting from the performance-based program. In addition, sufficient supporting documentation should be maintained for all accomplishments or improvements reported.
- As part of the Initiative, grant funds administered by DOM were made available to each charter agency. Although charter agencies had to request the funding, DOM did not have a standardized application for grant funds. If such an option is made available to agencies participating in a performance-based program in the future, the state agency charged with oversight of the grant funds should implement a standardized application process to ensure the funds are used properly and all agencies participating have equal opportunity to obtain the funds.
- We identified 3 other performance-based programs which appear to duplicate the objective of the Charter Agency Initiative. These programs are the Accountable Government Act, Iowa Excellence and the Lean program. In addition, we determined the results of certain goals reported under the Initiative were also reported as results of goals established under the other 3 performance-based programs identified.

  The oversight agency responsible for administering a performance-based program should ensure the objectives are not duplicative of a program which already exists. When considering the implementation of a performance-based program, the General Assembly should determine whether an existing program is meeting, or is intended to meet, the same objective as the new program being proposed.

- Several reports and other publications were available on the charter agency website describing the objectives of the Initiative and specific achievements of individual charter agencies. However, we identified several items reported in these materials which were not included in the charter agency agreements or reports submitted by the 6 charter agencies. Because these items were not reported, we are unable to determine the accuracy of the information presented or determine if cost savings or additional revenue were achieved as a result of the actions described. Specifically:
  - DOC – Reported ability to reclassify a position within a few days. Prior to becoming a charter agency, this would have taken a couple months to achieve. Reported the contracting flexibility allowed enabled the agency to yield a 40% reduction in the cost of generic pharmaceuticals and a 17% reduction in the cost of non-generic pharmaceuticals. DOC reported becoming a charter agency enabled it to create an employee recognition method and reduce copying/paperwork expenses via the use of electronic signatures, etc. In addition, DOC reported the ability to add 225 beds on time and under budget at the Clarinda Lodge and purchase software compatible with the operating system for drug interactions.
  - DHS – Created an employee recognition method.
  - DNR – Eliminated the backlog of 600 air quality construction permits in 6 months and reduced the time for corrective action decisions on leaking USTs from 1,124 days to 90 days. In addition, all goals were accomplished without sacrificing environmental standards or quality. DNR also worked with IDR to collect outstanding administrative penalties of approximately $500,000 and, in less than 6 months, approximately $50,000 had been collected. The Nature Store was established and, in its 1st year, sales exceeded $25,000. Profits from the Nature Store benefit DNR's parks fund.
  - IDR – More than 41% of its employees were eligible for an early out initiative. Being a charter agency allowed IDR to employ replacements and overlap positions as employees retired. In addition, an individual hired to analyze property tax systems throughout the Midwestern states was lured away from the State of Minnesota because of IDR's ability to flex the salary range to match the market before the individual interviewed. Also, in fiscal year 2004, IDR reported the ability to retain $600,000, the equivalent of 12 FTEs, because it was not subject to across-the-board appropriation reductions.
  - IVH – Collaborated with DPH, using charter agency grant funds, to address obesity through wellness grants. In addition, IVH had 2 staff on the state task force for wellness. Also, IVH was able to create a music therapist position weeks sooner than prior to becoming a charter agency.

  The agency responsible for oversight of a performance-based program should ensure publications available for public use are accurate and only report achievements directly resulting from the program being reported and not another measure. Independent verification should be performed for the data reported and, if necessary, supporting documentation should be obtained.

- Statistics presented in publications about the Initiative were not always consistent with the statistics reported by the charter agencies in the quarterly reports. For example, 3 different publications listed the percentage of IVH residents experiencing moderate to severe pain falling from 15.5% to 7.7%, 18.5% to 9.0% and 15.5% to 6.8% for the same fiscal year. In addition, the additional revenue of $544,186 and reduced interest payments of $645,255 reported by IDR do not agree with the fiscal year 2004 quarterly reports.

  The agency responsible for oversight of a performance-based program should ensure publications available for public use are accurate and consistent with the internal results reported by the participating agencies.

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Appendices

Copy of Select Pages of Charter Agency Annual Agreement

The Department of Management (DOM) will assure that Charter Agencies:

1. May apply to receive grants from the remaining funds in the Charter Agency grant fund.
2. Retain 50 percent of unspent year-end General Fund appropriation (from agency operations) balance for five (5) years, beginning with fiscal year 2004.
3. Are exempt from across-the-board General Fund appropriation cuts for fiscal year 2006.
4. Retain 80 percent of all new revenues generated, subject to statutory compliance.
5. May work with the Department of Administrative Services (DAS) and Public Strategies Group (PSG) to develop and implement pilot projects.
6. Benefit from DOM support of legislative changes to further enhance Charter Agency ability to simplify administrative processes and generate revenue.
7. May actively market program-related goods and services to Iowans and seek alternate and innovative revenue sources.
8. May charge other governmental agencies for services, following DOM consultation with DAS that indicates the DAS lacks the capacity to provide the service.
9. May propose increases in fees that are commensurate with and directly related to improving services to citizens.
10. May reduce copying and paperwork expenses via use of electronic signatures, record keeping, and transactions where legal authority permits.
11. Are exempted from appropriated full-time equivalent (FTE) limitations for a period of five (5) years, beginning with fiscal year 2004.
12. May evaluate existing "outsourced" state work activities for cost-effectiveness and service delivery quality.

[DAS Human Resources Enterprise-related]

13. May convert PEO (Merit Resources) positions to state FTEs, consistent with collective bargaining agreements and Human Resource Enterprise (HRE) rules.

14. May change the status of "direct report" managerial positions to "at will" positions. Affected employees must agree to the change voluntarily in writing for the change to occur.

15. May increase overlap employment days.

16. May add interns to their workforces.

17. May award "exceptional job performance (performance bonus)" pay to non-contract covered employees or to contract covered employees with the approval of the labor union. This applies to individual employees as well as to employee "teams."

18. May award "special-duty" pay or "extraordinary duty" pay. Special duty pay applies when an employee is temporarily assigned to a vacant position in a higher class. Extraordinary duty pay applies when an employee is temporarily assigned work duties in a higher class.

19. May create any position in any classification provided that duties are consistent with established classification and filled in compliance with collective bargaining agreements and HRE rules.

20. May award increased pay for increased credentials to non-contract employees or to contract covered employees with the approval of the labor union.

[DAS General Services Enterprise/Information Technology Enterprise--related]

21. May purchase goods and services outside General Services Enterprise (GSE) contracts provided the charter agency can document the cost benefit. Charter agencies purchasing Information Technology Enterprise (ITE) services independently must document that the purchase complies with ITE enterprise technical standards. Charter agencies will periodically report on the nature and value of these goods and services to DAS. Charter agencies will pay the Iowa Code-required one (1) percent purchase fee.

22. May sell or lease capital assets and retain proceeds and may utilize the GSE as an agent in the sale of capital assets.

23. May make their travel arrangements directly with vendors, with appropriate audit-worthy documentation.

24. May, with appropriate audit-worthy documentation, use sole source contracts.

25. May, through addendum, extend contracts beyond the current allowable renewal term.

Copy of Select Pages of Charter Agency Annual Agreement

26. Implement and enforce contract "liquidated damages" clauses.

27. Utilize streamlined contracting requirements for capital projects.

28. May work closely with GSE to implement design and construction work on capital projects.

[DAS State Accounting Enterprise-related]

29. Are required to initial the "batch sheet" (only) as part of the pre-audit process.

30. Utilize a simplified procurement card "coding" system that does not require coding of purchases at the detailed expenditure (objective) level when the bill is paid.

31. Are no longer required to file travel claims when expenses are paid by an outside entity.

32. Are exempted from the requirement to submit pre-contract questionnaires for contracts valued at less than $1,000.

33. Are exempted from the requirement to submit pre-contract questionnaires for corporate or governmental vendors, provided that information on the questionnaire is still obtained to meet audit requirements.

Additional Explanatory Notes

Changes to these benefits and rule flexibility from fiscal year 2004 through fiscal year 2007 included:

- Removing "$3 million" from the grant fund flexibility after fiscal year 2004 to state "remaining funds."
- Extending the exemption from across-the-board appropriation reductions to fiscal year 2006 and then removing the exemption from the fiscal year 2007 annual agreement.
- Removing DOM support of the fiscal year 2005 full salary adjustment funding from the agreements for fiscal years 2005 through 2007.
- Removing the ability to opt out of the Iowa Excellence Program from the agreements for fiscal years 2005 through 2007.
- Removing the benefit regarding the receipt of support at no cost from PSG from the agreements for fiscal years 2005 through 2007.
- Removing the benefit regarding the retention of all existing information technology staff from the agreements for fiscal years 2005 through 2007.
- Adding the clause "where legal authority permits" to the benefit regarding the use of electronic signatures and record keeping to the agreements for fiscal years 2005 through 2007.
- Removing the benefit regarding the utilization of the employee performance evaluation system from the agreements for fiscal years 2005 through 2007, except for the DHS and IDR agreements, which extended the benefit through July 2005.
- Removing the benefit regarding the vehicle administrative fee from the agreements for fiscal years 2005 through 2007.

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Copies of the Administrative Rules Waived

53.4(7) *Pay corrections.* An employee's pay shall be corrected if it is found to be in violation of these rules or a collective bargaining agreement. If the correction is the result of an error or omission, the pay may be corrected within 12 pay periods following the date the employee's pay was incorrectly set or the transaction that should have occurred was omitted. Corrections shall be made on the first day of a pay period.

a. *Retroactive pay.* An employee may receive retroactive pay for a period of up to 90 calendar days preceding the date the error was corrected or the omission occurred. Requests for retroactive pay beyond 90 calendar days or which extend into a previous fiscal year must be submitted to the state appeal board.

b. *Overpayment and underpayment.* If an error results in an employee's being overpaid for wages, except for FICA, state and federal income taxes and IPERS contributions shall be collected. Also, premiums for health, dental and life insurance benefits that have been underpaid shall be subject to collection. An employee may choose to repay the amount from wages in the pay period following discovery of the error, have the overpayment deducted from succeeding pay periods not to exceed the number of pay periods during which the overpayment occurred, or the employee or appointing authority may submit an alternate repayment plan to the director. The director shall notify the appointing authority of the decision on the alternate repayment plan. The appointing authority shall submit the repayment plan on forms prescribed by the department beginning with the document correcting the employee's pay. If the employee terminates, the amount remaining shall be deducted from wages, vacation payout, applicable sick leave payout and any wage correction payback from IPERS.

11—53.8(8A) Temporary assignments. Requests to provide employees with additional pay for temporary assignments shall first be submitted in writing to the director for review and indicate the reason and period of time required, if applicable. This pay may exceed the maximum for the employee's class. If temporary assignments are terminated or the duties removed, the additional pay shall also end.

53.8(1) *Leadworker.* An employee who is temporarily assigned lead work duties, as defined in rule 11—50.1(8A), may be given additional pay of up to 15 percent.

53.8(2) *Special duty.* An employee who is temporarily assigned to a vacant position in a class with a higher pay grade may be given additional pay equal to that provided in paragraph *"a"* or *"b"* of subrule 53.6(6), whichever is applicable.

53.8(3) *Extraordinary duty.* An employee who is temporarily assigned higher level duties, including supervisory duties, may be given additional pay in step or percent increments.

53.8(4) *Effect on within grade increases.* Temporary assignments shall not affect an employee's eligibility for within grade pay increases, and the additional pay amount shall be recalculated whenever a within grade pay increase is granted. The class to which the employee is temporarily assigned shall be controlling for purposes of overtime, shift differential, standby and call back pay.

Copies of the Administrative Rules Waived

11—57.6(8A) Internship appointment. The director may authorize an appointing authority to make an internship appointment to an established position, or if funds are available, to an unauthorized position.

57.6(1) Internship appointments shall expire upon attainment of a degree.

57.6(2) Employees with internship status shall have no rights of appeal, transfer, demotion, promotion, reinstatement, or other rights of position, nor be entitled to vacation, sick leave, or other benefits of state employment, nor shall credit be given for future vacation accrual purposes.

57.6(3) Successful completion of an internship appointment of at least 90 calendar days shall authorize the appointee to be on promotional or all-applicant lists. Only persons formally enrolled in the department's intern development program are eligible to be on promotional lists. Successful completion shall be as determined by the director at the time of enrollment.

11—106.11(8A) Duration of service contracts.

106.11(1) Each service contract signed by a state agency shall have a specific starting and ending date.

106.11(2) State agencies shall not sign self-renewing service contracts that do not have a specific ending date.

106.11(3) A service contract should be competitively selected on a regular basis so that a state agency obtains the best value for the funds spent, avoids inefficiencies, waste or duplication and may take advantage of new innovations, ideas and technology. A service contract, including all optional renewals, shall not exceed a term of six years unless the state agency obtains a waiver of this provision pursuant to rule 106.16(8A).

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Copies of the Administrative Rules Waived

Administrative Code Bulletin: April 22, 1998

581--4.7(19A) Within grade increases.

4.7(1) General. An employee may receive a periodic step or percentage increase in base pay that is w in the pay grade and pay plan of the class to which assigned upon completion of a minimum pay incease eligibility period.

a. Pay increase eligibility periods. The minimum pay increase eligibility period for employees paid from pay plans without steps shall be 52 weeks, except that it shall be 26 weeks for new hires and employees who receive an increase in base pay as a result of a promotion, reclassification or pay grade change. Minimum pay increase eligibility periods for employees paid from pay plans with steps shall be the number of weeks in the pay plan that corresponds to the employee's step.

b. Noncreditable periods. Except for required educational and military leave, periods of leave without pay exceeding 30 calendar days shall not count toward an employee's pay increase eligibility period.

c. Reduction of time periods. The director may authorize a reduction in pay increase eligibility periods for classes where there are unusual recruitment and retention circumstances.

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Summary by Charter Agency

ALCOHOLIC BEVERAGES DIVISION (ABD), DEPARTMENT OF COMMERCE

Goals from the Annual Agreements

Additional General Fund Revenue – The fiscal year 2004 agreement included a revenue commitment of $1.25 million and also specified ABD would receive credit for the additional sales tax revenue generated. The $1.25 million was to remain fixed for each of the fiscal years subsequent to fiscal year 2004. ABD also listed the methods to be used to increase the net General Fund revenue, which included:

- implementing a variable wholesale liquor market program,
- increasing the investment in supplier-discounted products,
- increasing the split case fee,
- selling Division assets,
- decreasing operating expenses through the utilization of technology and
- leasing office or warehouse space to other state agencies with the approval of DOM.

The agreement also specified any additions to the above had to be approved by DOM in an addendum to the agreement. Although the fiscal year 2004 agreement stated the revenue commitment was to remain fixed, the commitment was revised in fiscal year 2005 to $5 million over the amount generated in fiscal year 2003. (Fiscal year 2003 was used as the base year for all 4 fiscal years reviewed.) The revenue commitment was also made contingent upon ABD receiving the benefits and rule flexibility itemized in the agreement. The stipulation ABD would receive credit for the additional sales tax revenue generated remained in the agreement. No further revisions were made.

The fiscal year 2004 report stated ABD transferred an additional $9 million over the amount transferred in fiscal year 2003 to the General Fund through June 2004. ABD attributed the increase to various factors, including:

- Wholesale liquor sales increased 10.3%, or $12.5 million. The variable wholesale liquor mark-up program was initiated within the vodka category effective March 1, 2004. According to representatives of ABD, this program increased the annual profit while lowering the price of premium liquor products. They also stated the program would probably not have been implemented if ABD had not been a charter agency. The implementation of the program required a change to the section within the *Code* establishing the price ABD is to charge. ABD was unable to provide sufficient supporting documentation to quantify the effect of the program. See **Finding B**.
- ABD aggressively pursued the addition of higher priced premium and super-premium products to the Division's product portfolio to complement the current consumer trend to purchase high profile/high profit spirit products. In addition, a new product price catalog was developed to be circulated to all on-premises consumption licensees (bars and restaurants). The catalog is produced at no cost to the Division, informs on-premises licensees of the new products available and draws attention to the premium and super-premium products. Prior to the new catalog, only off-premises retailers and wholesalers were formally notified of new product listings.
- ABD increased efforts to minimize the number of out-of-stock product situations by monitoring inventory levels daily and emphasizing to liquor suppliers the importance of receiving timely shipments. The Division held a Kaizen event which resulted in collaboration with the industry to reduce stock-outs. According to representatives of ABD,

this improvement would probably not have been made without charter agency status because ABD would not have been able to hire a professional consultant for the Kaizen event without the charter agency grant funds received.

- According to the fiscal year 2004 report, an additional \$234,000 was generated by increasing the investment in supplier-discounted product. However, according to representatives of ABD, an additional \$117,000 was generated. We were unable to obtain supporting documentation to determine which amount was correct. See **Finding B**. Representatives of ABD also stated a case study was being conducted to determine if the split case fee should be increased.
- ABD transferred surplus assets to Iowa Prison Industries or to auction and also identified unused warehouse space, which was leased to the Lottery, resulting in additional revenue of approximately \$70,000. ABD also leased office space to the Professional Licensing Division of the Department of Commerce. Supporting documentation for the rental income received from the Lottery was not provided. See **Finding B**.
- ABD left 2 positions vacant in order to accrue unspent budget dollars, which enhanced the ability to transfer additional revenue to the General Fund.

ABD also reported over \$788,000 in additional sales tax was collected, which was not included in the \$9 million previously reported. Although the factors identified above contributed to the decreased operating costs and/or increased revenues, none of them required charter agency status or were a direct result of ABD receiving charter agency status.

ABD did not issue a report for the 4th quarter of fiscal year 2005; however, according to a comprehensive report issued for the 3rd quarter, ABD had transferred \$37.5 million to the General Fund as of April 2005. We were also unable to locate any reports for fiscal year 2006. We were able to locate a report dated December 15, 2006 which stated ABD had generated an additional \$13,977,602, but detailed information or supporting documentation was not provided. See **Finding B**.

For fiscal year 2007, we could only locate a combined 1st and 2nd quarter report. We also obtained a table from ABD summarizing the revenue activity for fiscal years 2004 through 2007. However, the revenue amounts shown in the table were not consistent with the amounts reported in the combined report. According to the table provided by ABD, from fiscal year 2004 through fiscal year 2007, the Division transferred a cumulative \$51,923,854 more than the amount transferred in fiscal year 2003. However, supporting documentation for all amounts reported in the table was not provided. See **Finding B**.

According to the Administrator of the Division, ABD would not have achieved the additional revenue goal in any of the fiscal years without having charter agency status. The Division would not have had the funds necessary to improve the processes. The amount of liquor sales increased due to the improvements made, such as the new equipment purchased with grant funds and the elimination of the FTE cap, which allowed ABD to add truck drivers and other staff to increase efficiency and customer satisfaction.

<u>Promotion of Economic Growth in Iowa</u> – The fiscal year 2005 agreement included a goal to partner with grape producers and Iowa alcohol plants to help expand their markets. Although this goal was not included in the fiscal year 2004 agreement, the fiscal year 2004 report included information on increasing economic development in the State by exploring ways to partner with companies and use Iowa agricultural products to enhance the production of alcoholic beverages, such as distilled spirits and wine, which could then be sold and taxed by ABD. See **Finding A**. In the 3rd quarter, fiscal year 2005 report, ABD reported hosting the annual National Alcohol Beverage Control Association Administrator's Conference in October 2004. ABD provided each of the 200 attendees with a bottle of "native wine" to expose them to the Iowa industry. The number of manufacturing licenses increased from 12 to 71, which expands the economy and results in a positive financial impact for the State. According to representatives of ABD, the Division worked with the Legislature approximately 4 years ago to

revise the laws related to this issue, which was the biggest obstacle for expansion. These revisions occurred prior to implementation of the Initiative.

Expansion of the Variable Wholesale Liquor Market Program – The fiscal year 2005 agreement included a goal to expand the variable wholesale liquor market program. The agreement stated ABD would collaborate with the industry to accomplish the goal. However, the fiscal year 2005 reports did not contain any information regarding the achievement of this goal. See **Finding A**.

Implement On-Line Licensing and Ordering – The fiscal year 2005 agreement stated ABD would implement on-line licensing and ordering to improve customer service and save money. As of the 3rd quarter of fiscal year 2005, the e-file licensing project was 50% complete and the e-order system was in the planning stages. ABD had also started the implementation of the e-file wholesaler tax reporting system, which was 20% complete. The on-line liquor licensing application system would allow business owners to e-file for liquor, wine and beer permits and the on-line ordering system would allow orders to be placed 24 hours a day, 7 days a week. ABD utilized grant funds for these projects. Additional information about these grant funds are found in the "ABD" section of this report.

Other information reported

In addition to progress reported for goals included in the agreements, ABD also periodically included information in the reports which was not related to goals established in the agreements. See **Finding A**. We identified the following:

- In the fiscal year 2004 report, ABD reported on exploring the conversion of all or part of the State liquor warehouse inventory to "bonded" status to allow suppliers to store products in the warehouse and forego the payment of federal liquor taxes until the product is sold. ABD believed this "early" payment of federal taxes increased the price paid by the Division for liquor products. Designating the Iowa warehouse as bonded would lower the cost to suppliers, resulting in a lower price paid by ABD. However, ABD reported in the 3rd quarter, fiscal year 2005 report it had determined this was not feasible and the project would be eliminated from future reports.
- Also in the fiscal year 2004 report, ABD reported on resuming direct operation of the warehousing and transportation activities in a collaborative effort with DOC. ABD used a combination of state employees and inmate labor from the Iowa Correctional Institute for Women (ICIW) to select customer orders and make deliveries to package liquor stores. ABD stated direct resumption of warehouse activities would result in a $1.5 million reduction in operating expenses during fiscal years 2005 and 2006 and $700,000 thereafter. The 3rd quarter, fiscal year 2005 report stated preliminary results indicated ABD saved approximately $650,000 during the first 9 months of warehousing and transportation operations. We were unable to obtain supporting documentation for the cost savings reported. See **Finding B**.
- In the 3rd quarter, fiscal year 2005 report, ABD reported on the implementation of a new ordering and delivery schedule which would save an estimated $250,000 annually.
- The combined 1st and 2nd quarter, fiscal year 2007 report stated ABD was studying the methods used to receive, store, select and deliver customer orders from the distribution center. The study encompassed both manual processes and complete automation of warehouse processes.

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Summary by Charter Agency

DEPARTMENT OF CORRECTIONS (DOC)

Goals from the Annual Agreements

Non-General Fund Support – Both the agreements for fiscal year 2004 and 2005 included a goal to increase the non-General Funds supporting the operating budget by 2% by December 31, 2003 and 2005, respectively. It is unclear why December 31, 2005, which is in fiscal year 2006, was referenced in the fiscal year 2005 goal. In fiscal year 2005, the goal was contingent upon the receipt of charter agency pooled funds. The fiscal year 2004 report stated the goal was accomplished through Federal collections for offenders and illegal aliens and an ICON payment from a customer. In addition, $5 million had been added to the non-General Fund balances for fiscal year 2004.

The 2nd quarter, fiscal year 2005 reported results were identical to those provided in the fiscal year 2004 report. No results were included in the final fiscal year 2005 report. See **Finding A**. In addition, supporting documentation provided was not consistent with the $5 million reported for either fiscal year. DOC did not have supporting documentation for December 31, 2004 or 2005; however, it evaluated the goal based on the June 30 year-end amounts. Based on DOC's analysis, the fund balances decreased 4.02% from fiscal year 2003 to 2004; therefore, the goal was not achieved in fiscal year 2004. See **Finding A**. The supporting documentation also showed the CBCs' non-General Fund balances increased 5.94% in fiscal year 2005, which exceeded the goal.

Probation Technical Revocation Rate – In fiscal years 2004 and 2005, the agreements included a goal to reduce the probation technical revocation rate to prison by 5%. According to the fiscal year 2004 report, as of March 31, 2004, technical revocations were 17% lower than in fiscal year 2003. In the 2nd quarter, fiscal year 2005 report, DOC reported technical revocations had decreased 6% from fiscal year 2003 to fiscal year 2004. We were unable to determine why the percentage changed from 17% to 6%. No results were included in the fiscal year 2005 final report. See **Finding A**. DOC provided supporting documentation; however, the results were inconsistent with any of the results reported. See **Finding C**. **Table 14** summarizes the number of offenders and corresponding increase or decrease for fiscal years 2003 through 2007.

Table 14

Fiscal Year	Number of Offenders	Increase/ (Decrease)	Percentage Change
2003	1,486	-	-
2004	1,460	(26)	(1.75%)
2005	1,522	62	4.25%
2006	1,525	3	0.20%
2007	1,413	(112)	(7.34%)

We were able to trace the number of offenders reported to sufficient supporting documentation. As illustrated by the **Table**, the goal was not achieved until fiscal year 2007. See **Finding A**. DOC also reported on this goal in a separate performance report submitted to DOM. In that report, DOC reported a decrease of 5.95%, from 487 offenders in fiscal year 2003 to 458 offenders in fiscal year 2004. We were unable to determine which percentages were accurate. However, based on the supporting documentation provided, it appears the numbers reported in the charter agency report are correct. In addition, DOC included the following statement in the supporting documentation provided, "We did not meet the measure result by fiscal year 2005 but in fiscal year 2007 saw a 7.34% reduction. This reduction translates to a $3 million savings based on an average daily cost of $76.59 to house an offender in prison."

Sentence Expiration – The fiscal year 2004 agreement included a goal to hold the rate of growth of offenders being released from prison by sentence expiration to no more than 5% per month. However, DOC did not include the results of this goal in the fiscal year 2004 reports. See **Finding A**. Supporting documentation provided by DOC was not available by month; however, the fiscal year totals were provided for fiscal years 2003 through 2007. DOC also included a statement in the supporting documentation provided which indicated the number of releases had remained static from fiscal year 2003 through fiscal year 2007. **Table 15** summarizes the number of offenders released as reported by DOC by fiscal year.

Table 15

Fiscal Year	Number of Offenders Released
2003	995
2004	991
2005	774
2006	1,092
2007	1,203

As illustrated by the **Table**, for fiscal year 2004, the goal appears to have been achieved. Although DOC reported on fiscal years 2005 through 2007, the goal was only included in the fiscal year 2004 agreement.

Release Recommendations – Both the agreements for fiscal year 2004 and 2005 included a goal to increase the number of staff-initiated recommendations for release to the Board of Parole by 5%. In fiscal year 2006, the goal was modified to "maintain the release recommendation rate to the Board of Parole at the fiscal year 2005 monthly average of 5%" and, in fiscal year 2007, the language was modified to "maintain the release recommendation rate to the Board of Parole at the fiscal year 2006 monthly average of 5% (release recommendations divided by the month-ending prison population) for each month through June 30, 2007." Both the fiscal year 2004 and 2005 reports stated monthly staff referrals were up 17% comparing July 2003 to March 2004. See **Finding C**. The fiscal year 2006 report states the goal was achieved at 5.2% and the fiscal year 2007 report states the goal was exceeded at 8.5%.

DOC provided supporting documentation for all 4 fiscal years reviewed. However, the percentages calculated on the supporting documentation were not consistent with the percentages reported in the reports. See **Finding C**. **Table 16** summarizes the number of offenders recommended for release and corresponding increases as reported in the supporting documentation. This information was not included in the reports prepared by DOC. Data was not provided for fiscal year 2003.

Table 16

Fiscal Year	Number of Offenders Recommended for Release	Increase	Percentage Change
2004	2,339	-	-
2005	2,557	218	9.32%
2006	3,015	458	17.91%
2007	3,251	236	7.83%

As illustrated by the **Table**, the goal was achieved for fiscal years 2005 through 2007. Because data was not provided for fiscal year 2003, we were unable to determine if the goal was achieved in fiscal year 2004. See **Finding A**. Sufficient supporting documentation was provided for the number of offenders recommended for release provided by DOC. DOC also reported on this goal in a separate performance report submitted to DOM, which stated 2,297 offenders were recommended for release during fiscal year 2004, 5,034 offenders were recommended for release during fiscal year 2005 and an increase of 5% was recommended for fiscal year 2006.

Share ICON Data – The fiscal year 2004 agreement included a goal to share ICON data with other criminal justice programs. This goal was modified in fiscal years 2005 and 2006 to state "contingent upon funding for ICON, increase the amount of data in the justice data warehouse to make it available to other agencies and participate in justice system information integration." In fiscal year 2006, DOC also established a goal to develop the ICON dietary system and provide an opportunity for DHS and IVH to participate in the development.

The fiscal year 2004 report stated this was an ongoing initiative. The Criminal Justice Information System (CJIS) was a new advisory board comprised of 12-15 government decision makers to advise the Chief Justice and the Governor on ways to improve data sharing among the criminal justice community. As of the fiscal year 2005 report, the initiative was moving forward with usable data for analysis growing monthly. Prison reports were developed to capture urinalysis tests and results and intervention program admissions and closures, which would eventually be used to evaluate Evidence-Based Practices (EBP).

No information on either the justice system information integration initiative or the progress of the ICON dietary system was included in the fiscal year 2006 report. See **Finding A**. Supporting documentation provided by DOC stated the agency was actively involved in the justice system information integration effort and was the only state agency to date in production with 1 of the CJIS efforts. An example provided was the integration of the ICON system with the Board of Parole dockets. The supporting documentation also stated the ICON dietary system was to be implemented across DOC prisons by the end of fiscal year 2008.

Inmate Work Opportunities – A new goal included in the fiscal year 2005 agreement was to expand inmate work opportunities through the increased use of inmate labor on community service projects and female inmate labor on outside projects. Specifically, the goal was to increase the use of inmate labor on community service projects by 10% by June 30, 2005. Although this goal was not included in the fiscal year 2004 agreement, the fiscal year 2004 report stated inmate work hours had increased more than 30% to 124,954 hours worked, which was an increase of 44,954 hours from the previous year. See **Finding A**. No results were provided in the final fiscal year 2005 report. See **Finding A**. However, the 2nd quarter report stated inmates worked 293,438 hours on community service projects during the 1st half of fiscal year 2005, which was an increase from the previous year's quarterly average. Because final results were not reported for fiscal year 2005, we were unable to determine if the goal had been achieved for that year. See **Finding A**.

Documentation provided by DOC reported a total of 579,688 inmate work hours for fiscal year 2004 and 615,175 inmate work hours for fiscal year 2005. The documentation also included hours for fiscal year 2006; however, this goal was not included in the fiscal year 2006 agreement. See **Finding A**. Using the documentation provided, it appears total hours increased 6.1% from fiscal year 2004 to fiscal year 2005. However, we were unable to locate sufficient supporting documentation for the hours provided. See **Finding B**. For fiscal year 2004, DOC could only locate support for February 1, 2004 through June 30, 2004. In addition, the supporting documentation provided for fiscal year 2005 did not equal the hours reported by DOC. A separate performance report submitted to DOM also included community service project hours. However, the 645,063 inmate work hours reported for fiscal year 2005 do not agree with the supporting documentation provided by DOC.

The 2nd part of the goal was to increase the use of female inmate labor on outside projects by 10% by June 30, 2005 to allow female inmates to learn new skills and earn money. As previously stated, this goal was not included in the fiscal year 2004 agreement. However, the fiscal year 2004 report stated the goal had been reached and exceeded. See **Finding A**. DOC reported a 50% increase in female inmate labor, including a work agreement related to printing services and the ABD warehouse project which gave female offenders access to non-traditional jobs to provide them with a greater chance of success in the private sector when released. The fiscal year 2004 report also stated the projects in which inmates, both female and male, were involved included jobs in institutions, other government agencies, the private sector and community service.

The 2nd quarter, fiscal year 2005 report included identical information to that reported in the fiscal year 2004 report. See **Finding C**. No results for this goal were included in the final fiscal year 2005 report. See **Finding A**. Additional documentation provided by DOC listed 94,193 work hours for fiscal year 2004 and 100,259 work hours for fiscal year 2005. However, the fiscal year 2005 report stated the fiscal year 2004 baseline was 81,725 work hours and the documentation provided by DOC summarizing the work hours for fiscal year 2005 totaled 94,193. Using the numbers provided by DOC, female work hours increased 6.44% from fiscal year 2004 to fiscal year 2005, which does not meet the goal. However, using the numbers included on the fiscal year 2005 report, female work hours increased 15.26%, which exceeds the goal. We were unable to determine which calculation was correct. Therefore, we could not determine if the goal had been achieved in fiscal year 2005. See **Finding A**.

<u>Availability of Mental Health Services</u> – The fiscal year 2005 agreement also included a goal to enhance the availability of mental health services for offenders. To accomplish this, DOC was to continue to seek the support of DHS to improve mental health services to mentally ill offenders and provide 16 hours of training related to mentally ill offenders to all new DOC employees. Although this goal was not included in the fiscal year 2004 agreement, the fiscal year 2004 report included a goal to develop a plan to work with DHS to improve mental health services to mentally ill offenders. See **Finding A**. The report stated this was an ongoing initiative with 10% of all DOC officers to have received training by June 30, 2004. The report further stated, as of March 31, 2004, 132 officers had received training, which represented all new officers hired in the previous 18 months. In addition, 20% of existing officers had been trained. The fiscal year 2004 report also included a goal to begin discussions to increase effective treatment programs for substance abuse offenders and offenders with mental health needs, which was also described as an ongoing initiative.

The fiscal year 2005 report stated the initiative was moving forward. DOC was sending a nurse trainee to participate in the mental health practitioner program at the Cherokee MHI, which would provide specialized training in mental health treatment. The report also stated 100% of new DOC employees had received 16 hours of training related to mentally ill offenders. During the 1st 3 quarters of fiscal year 2005, all officers attended the required pre-service training which provided training related to mentally ill offenders. However, supporting documentation provided by DOC stated new employee training only provided 4 hours of mental health training and 4 hours of suicide training. We corroborated this statement with a representative of DOC. Because the supporting documentation does not agree with the charter agency report, we are unable to determine if the goal was achieved. See **Finding A**.

<u>Incident Rate</u> – The fiscal year 2006 agreement included a goal related to the rate of incidences of supervised offenders harming the public or staff. Specifically, the goal was to maintain the escape rate from Iowa's medium and maximum security prisons at the fiscal year 2005 rate of zero per 100 institution offenders through June 30, 2006. According to the fiscal year 2006 report, this goal was not achieved, with the rate equaling 2 per 100 institution inmates. See **Finding A**. Supporting documentation provided by DOC states the escape rate for fiscal year 2006 was 5 per 100 institution inmates and a separate performance report submitted to DOM states the escape rate was 3 per 100 institution inmates. See **Finding C**.

The 2nd part of the goal was to maintain the rate of disturbances and serious incidents by offenders in Iowa's prisons at the fiscal year 2005 rate of zero per 100 institution offenders through June 30, 2006. This goal was modified in fiscal year 2007 to decrease the number of staff serious injuries in institutions by 15% from the baseline of approximately 40 in fiscal year 2006 to 34 through June 30, 2007. No supporting documentation was provided for fiscal year 2006. See **Finding B**. However, the fiscal year 2006 report stated the goal had been achieved. The fiscal year 2007 report states 125 incidences, 32 resulting from inmate acts and 93 resulting from work-related injuries and environmental conditions, occurred in fiscal year 2007, which agrees with supporting documentation provided by DOC. Therefore, the goal was not achieved. See **Finding A**.

The fiscal year 2007 report further stated no data was available prior to fiscal year 2006. The baseline of 40 for fiscal year 2006 had been estimated. DOC subsequently revised the methodology for collecting information related to staff injury in fiscal year 2006, changing from a process based on inmate disciplinary reports to a process based on injury data from the institutions' safety officers utilizing Occupational Safety and Health Administration definitions of serious injury. After this change, the fiscal year 2006 actual results were 25 injuries resulting from inmate acts and 107 resulting from work-related injuries and environmental conditions. DOC assumed these numbers were inflated and established the target of "about 40." However, data produced in fiscal year 2007 showed the trends established in fiscal year 2006 were accurate and the initial target was artificially low.

<u>Budget Reallocation</u> – The fiscal year 2006 agreement also included a goal to reallocate .5% of the DOC budget as result of changing the way business is conducted utilizing data-based decisions and EBP by June 30, 2006. The fiscal year 2006 agreement also included a secondary goal of developing case plans which result in assignment of offenders based on EBP and programming interventions. This goal was further modified in the fiscal year 2007 agreement to successfully start implementation of EBP throughout the system, including establishing action plans for each institution and focused implementation in 3 institutions.

According to the fiscal year 2006 report, this goal was not achieved. See **Finding A**. DOC stated accomplishing this goal became a multi-year task. During fiscal year 2006, significant changes were initiated within the pharmacy's operations which were expected to create significant savings for the fiscal year 2008 budget. DOC felt this goal should have started as a "special project" and not a "performance target." There was no report on the progress of the secondary goal in the fiscal year 2006 agreement. See **Finding A**. Supporting documentation provided by DOC stated a Re-entry Case Plan was implemented statewide in fiscal year 2006. In addition, Re-entry Coordinators were hired at each judicial district and at 4 of the institutions. The fiscal year 2007 report stated 9,716 hours of re-entry and EBP training were provided. EBP teams were established at the Central Office and each prison and CBC district. An EBP program assessment was also conducted across CBC and Prison Interventions in 2007, of which 30.9% were assessed at an "excellent" or "promising" level.

<u>Offender Reparation</u> – The fiscal year 2006 agreement included a goal related to institution offenders' reparation to citizens. Specifically, the goal was to maintain the number of hours of inmate labor on community service projects at the fiscal year 2005 baseline of 645,063 work hours for fiscal year 2006. According to the fiscal year 2006 report, this goal was achieved. In fiscal year 2006, offenders performed 659,399 hours of community service, which was a 2% increase over fiscal year 2005.

The 2nd part of the goal was to maintain the amount of restitution paid to victims at the fiscal year 2005 baseline of $821,868 for fiscal year 2006. In fiscal year 2007, this goal was modified to maintain the median percent of restitution paid by CBC offenders at the time of final discharge from supervision at the baseline of 98% in fiscal year 2006. According to the fiscal year 2006 report, the goal was achieved. In fiscal year 2006, $1,013,606 was paid, which was a 23% increase over fiscal year 2005. However, supporting documentation provided by DOC showed $1,094,967 was paid in fiscal year 2006. Although the goal was not in the fiscal year 2007 agreement, the fiscal year 2007 report stated no data was available prior to fiscal year 2006 and listed a fiscal year 2007 target of 30%. Actual results for fiscal year 2007 were 100% at the CBCs and 14% at the institutions. See **Finding A**.

<u>Recidivism</u> – The fiscal year 2007 agreement included the goal of increasing the percentage of medium-risk to high-risk offenders receiving evidence-based interventions for 1 to 4 of the top criminogenic needs from the baseline of near zero in fiscal year 2006 to 20% through June 30, 2007. According to the fiscal year 2007 report, no data was available prior to 2006. Therefore, the baseline of 0% was estimated and the target was set at 20%. By the end of the fiscal year, 11,330 offender re-entry case plans were developed outlining the offenders' criminogenic needs. However, EBP was not implemented until July 1, 2007; therefore, no data would be available until fiscal year 2008. See **Finding A**.

<u>Leadership Development</u> – The fiscal year 2007 agreement also included a goal to implement the key components of the leadership development strategy and plan. According to the fiscal year

2007 report, the goal was to develop the internal capacity to continue to foster transformation efforts by equipping supervisors and managers throughout DOC with the knowledge and understanding of transformation leadership and adaptive leadership qualities needed to manage organizational change.

Additional goals established in the agreements for DOC included (listed under the first year the goal was included in the agreements):

Fiscal year 2004:

- to reduce the revocation rate by 5% for offenders participating in the Federal re-entry "Going Home" grant (also a goal in fiscal year 2005). Results were not provided in either the fiscal year 2004 or 2005 report. See **Finding A**. In addition, supporting documentation provided was not sufficient to determine if the goal had been achieved in either fiscal year. See **Finding B**.
- to provide Cohen Training for mentally ill offenders for 10% of all corrections officers. Results were not provided in the fiscal year 2004 report. See **Finding A**. In addition, sufficient supporting documentation was not provided to determine if the goal had been achieved. See **Finding B**.
- to develop ICON nursing and medical modules (also a goal in fiscal year 2005). The fiscal year 2004 report stated the nursing module was complete and the medical module was to be implemented in October 2004. The fiscal year 2005 report stated the goal had been achieved.
- to develop community-based incarceration alternatives for inclusion in the fiscal year 2005 budget request. The fiscal year 2004 report stated this was done and ongoing.
- to develop a structured decision-making process and policy for consistent management of probation violations (also a goal in fiscal year 2005). The fiscal year 2004 report stated this was ongoing and the fiscal year 2005 report stated the initiative was moving forward.
- the Director further committed to achieving the results outlined in the Director's performance plan. No results were reported for this goal. See **Finding A**.

Fiscal year 2005:

- to begin implementation of plans for EBP. According to the fiscal year 2005 report, all 8 judicial districts were working on EBP plans and training probation and parole officers in Motivational Interviewing (MI). Supporting documentation provided by DOC only included fiscal years 2007 and 2008. See **Finding B**.
- to continue development of cost-saving solutions to medical care. The fiscal year 2005 report stated DOC continued to realize cost savings. According to the report, DOC had saved $200,000 in pharmaceutical costs by renegotiating contracts. In addition, telemedicine visits, which are less costly than face-to-face exams, increased from 313 visits in fiscal year 2003 to 468 visits in fiscal year 2004, an increase of approximately 50%. DOC anticipated a further increase in telemedicine visits during fiscal year 2005.
- to obtain fiscal year 2006 budget funding to increase CBC bed space by 20 beds. According to the fiscal year 2005 report, the goal had been exceeded.

Fiscal year 2006:

- to begin implementation of select Reference Point recommendations. However, results were not included in the fiscal year 2006 reports. See **Finding A**.
- to implement the electronic monitoring and supervision (EMS) requirements for sex offenders mandated in House File 619. Results were not included in the fiscal year 2006 reports. See **Finding A**. Supporting documentation provided by DOC stated the legislative changes, effective July 1, 2005, mandated a minimum of 5 years on EMS for certain offenders committing crimes against minors. Since passage of the law, the number of sex offenders on EMS had greatly increased, from 61 at June 30, 2006 to 512 at September 4, 2007.

- to implement the requirement for increased pretrial supervision of methamphetamine distributors. Results were not included in the fiscal year 2006 reports. See **Finding A**. Supporting documentation provided by DOC showed 263 offenders charged with manufacture, delivery or possession with intent to manufacture or deliver methamphetamines were admitted to pretrial release with services supervision during fiscal year 2006.

Other information reported

We also identified 3 instances when DOC reported on a goal which was not included in the agreement for the respective fiscal year. See **Finding A**. Specifically, the fiscal year 2004 report stated DOC had achieved the goal of obtaining fiscal year 2005 budget funding to increase CBC bed space by 40 beds. DOC also reported on developing work programs in the prisons and communities to achieve 6-hour workdays for offenders. In the fiscal year 2005 report, DOC listed increasing the existing 75% success rate among successful/unsuccessful probation/parole closures as a goal; however, no results were provided.

A Review of the Charter Agency Initiative
Administered by the Department of Management

Summary by Charter Agency

DEPARTMENT OF HUMAN SERVICES (DHS)

Goals from the Annual Agreements

Title IV-E Eligibility – The fiscal year 2004 agreement included a goal to ensure the child welfare system made significant improvements sufficient to overcome the Federal Title IV-E deficiencies and to increase Title IV-E eligible children by 15% by July 1, 2004. The fiscal year 2005 agreement included a goal to maintain the child welfare system improvements in Title IV-E eligibility made during fiscal year 2004, which was modified in the fiscal year 2006 agreement to increase the Title IV-E claiming penetration rate by 1.5% to a target of 43.6%. The fiscal year 2007 agreement modified the goal to a 6-month target of 45.81%, or 2% annualized growth. According to the fiscal year 2004 report, DHS exceeded its target. DHS reported the eligibility rate had increased 47.5% since June 2003, from 27.98% to 41.30% as of June 2004. We were not provided supporting documentation for this calculation; however, it does not calculate to 47.5%. See **Finding B**. The actual increase was 13.32%, which does not meet the established target. See **Finding A**. In addition, the fiscal year 2004 report stated the improvements made resulted in an increase in Federal participation of approximately $8 million. According to a representative of DHS, increased Federal participation occurred in all fiscal years reviewed.

According to the fiscal year 2005 report, combined foster care Title IV-E eligibility averaged 39.57% and 44.98% in March 2004 and 2005, respectively. DHS also implemented staff training, improved systems and a specialized review unit. In addition, DHS was in the process of pursuing a Federal waiver to improve program flexibility and further improve penetration. According to the fiscal year 2006 report, the goal was achieved at 45.36% and the fiscal year 2007 report stated the goal was achieved at 43.98%. However, the 6-month goal established in the agreement was 45.81%. In addition, according to a report requested by DOM, the fiscal year 2007 actual percentage was 44.65%. DHS was unable to provide supporting documentation for the percentages reported. See **Finding B**. According to a representative of DHS, the information gathered to prepare the reports was not retained. In addition, the representative stated charter agency status was necessary for accomplishment of the goal because grant funds were needed for the improvements. However, it appears child welfare redesign had been legislatively mandated. Therefore, the improvements were required regardless of DHS' status as a charter agency.

Preferred Drug List (PDL) – The fiscal year 2004 agreement included a goal to implement a PDL in Medicaid and through this save a total of $20 million of State and Federal funds by January 1, 2005. This goal was modified to a target of $4 million in fiscal year 2005, $8 million in fiscal year 2006 and $4.5 million for 6 months in fiscal year 2007. According to the fiscal year 2004 report, work in this area was continuing. DHS cancelled the initial contract with a vendor due to performance concerns in December 2003 and awarded the contract to the Iowa Foundation for Medical Care (IFMC) in July 2004. DHS also moved forward with the State Maximum Allowable Cost Prescription Drugs Savings project in September 2003. Cumulative savings reached $1,571,017 by April 2004 and were expected to be $1.8 million for the fiscal year.

The fiscal year 2005 report stated the PDL was implemented January 15, 2005 and $1.7 million in savings had been achieved from January through March 2005. No additional results were reported for fiscal year 2005 beyond March. See **Finding A**. According to the fiscal year 2006 report, DHS achieved $18.7 million in savings for the State and combined State and Federal savings of $51.5 million. The fiscal year 2007 report stated DHS achieved $13.26 million in savings for the State and $22.06 million in Federal savings. However, according to a report requested by DOM, the 6-month target was $4,450,675, which was achieved with actual savings of $10,237,753. According to a representative of DHS, the information used to prepare the reports was obtained directly from Medicaid; however, the supporting documentation was not retained. See **Finding B**.

Disease Management – The fiscal year 2004 agreement included a goal to implement disease management in Medicaid, reduce Medicaid costs by $500,000 and preserve health status. The projected future savings would be used for the costs of implementing disease management programs. This goal was modified in the fiscal year 2005 agreement to reduce Medicaid costs by $1 million by the end of fiscal year 2006 by implementing disease management. According to the fiscal year 2004 report, the pilot program for diabetes was implemented October 1, 2003. Cost savings estimates were not available but were to be in the annual performance report. We were unable to determine whether the goal had been fulfilled for fiscal year 2004. See **Finding A**. According to the fiscal year 2005 report, the disease management projects were in the process of being implemented. The IFMC contract had started and a medical director was employed. DHS was unable to provide supporting documentation for any cost reductions. See **Finding B**.

Child Welfare Redesign – The fiscal year 2004 agreement included a goal to lead child welfare redesign so the agency's plans would be complete by October 1, 2003 in order to begin implementation by January 2004 of re-engineered child, youth and family services systems. This goal was expanded in fiscal year 2005 to include conclusion of the analysis and implementation of the redesign of the child welfare system, as appropriate and planned during fiscal year 2005, with a continued focus on the most at-risk children. Implementation was to include the following:

- expansion of the Community Partnership for the Protection of Children (CPPC) initiative to be implemented during fiscal years 2005 through 2007 as funded,
- expansion of family team decision meetings as a primary mechanism for engaging families served, starting with a target population of children age 0-5 years who are victims of child abuse,
- streamlining case flow activities starting in fiscal year 2005 and implemented by the end of fiscal year 2006,
- development of the quality assurance system,
- implementation of the identified minority children and families pilot projects and statewide training and
- implementation of an outcomes-based purchasing system, including contract amendments to include performance measures and tools to collect and report data, with results starting in fiscal year 2006.

The goal included in the agreements for fiscal year 2006 and 2007 was to continue implementation of the redesign of the child welfare system as planned during fiscal year 2005. According to the fiscal year 2004 report, the CPPC model existed in approximately 38 communities at various stages of development and implementation. In addition, family team meetings were being used in all service areas to varying degrees. The Center for Support of Families was awarded a contract to complete the streamlining of case flow activities following DHS' ability to expedite the contract as a charter agency. Full implementation was to be complete January 1, 2005. The existing DHS provider contracts for an outcomes-based purchasing system were to be amended to include the data reporting requirements and deliverables to be made available to providers, such as data reporting tools. The quality assurance system model was developed and approved. Staff development, job descriptions, the implementation guide and other materials were in development. In addition, the Sioux City and Des Moines service areas were awarded small grants to start the minority children and families initiative.

According to the fiscal year 2005 report, 7 new areas were added to expand CPPC to 58 counties. The expansion of family team decision meetings helped reduce the number of children served in shelter care by 113 from the previous year and the average length of stay was reduced by 20%, or 10 days. As a result, the cost of shelter care services was reduced by approximately $3.2 million. Family team meeting protocols were finalized, new Administrative Rules were developed and a defined training program for DHS employees and meeting facilitators was finalized. The 2nd quarter, fiscal year 2005 report stated, although DHS had been using family team meetings as a focused strategy for the past few years, a commitment was made to standardize and formalize the family team meetings and aggressively expand their use as part of the child welfare redesign effort.

The fiscal year 2005 report also stated the proposed DHS model of care was finalized and 12 model-based training sessions to help streamline case activities were held for DHS employees. DHS' IT started making the necessary technology changes and new IT support was purchased and installed to reduce duplicate entries by staff. In addition, a statewide question and answer system was developed to address redesign questions. The quality assurance system model was also finalized and service area quality assurance coordinators were hired. In addition, DHS established service area quality assurance committees and a quality council and the Division of Results-Based Accountability had committed a bureau to the efforts, which was renamed the Bureau of Quality Assurance and Improvement. The initial group of performance measures was finalized for the outcomes-based purchasing system and definitions, report formats and provider comment sections were agreed upon. DHS had also invited all provider agencies to voluntarily participate in a project to develop additional measures for the system.

Results of the goal for fiscal years 2006 and 2007 were not included in the charter agency reports. See **Finding A**. According to a DHS representative, the Legislature removed \$10 million from the budget in addition to the reduced General Fund appropriation. Charter agency status was necessary for the accomplishment of this project as charter agency grant funds were used. However, as previously stated, child welfare redesign was legislatively mandated. Therefore, the improvements were required regardless of DHS' status as a charter agency. DHS was unable to provide supporting documentation for the improvements made or any resulting cost savings. See **Finding B**.

<u>Mental Health and Developmental Disabilities</u> – The fiscal year 2004 agreement included a goal to assist with leadership of the Lieutenant Governor's Mental Health and Developmental Disabilities Commission (Commission), including redesign elements. The goal also stated DHS was to manage the Department of Justice (DOJ) issues at Iowa's 2 resource centers for people with developmental disabilities. The goal in the fiscal year 2005 agreement specified DHS was to assist with the redesign as it pertained to children and youth. The fiscal year 2005 agreement also included a goal to implement the executed agreement with DOJ for each of the resource centers. The fiscal year 2006 agreement expanded the goal to include the redesign as it pertained to adults, children and youth, including a plan to ensure families obtain appropriate and needed services for their children with diagnosed or diagnosable disabilities. The children's plan was to be submitted for the Commission's review by October 19, 2005. Based on this plan, a legislative agenda was to be developed for submission to the Office of the Governor and subsequently to the Legislature.

The goal in the fiscal year 2006 agreement also included implementation of pilot use of the functional assessment tools, Level of Care Utilization System and Child and Adolescent Level of Care Utilization, purchased to assess service needs for adult clients by November 2005. In addition, an adult services and transitions action plan with goals, performance indicators and strategies was to be developed by September 2005. Based on this plan, a legislative agenda was to be developed for submission to the Office of the Governor and subsequently to the Legislature for the 2006 legislative session. The fiscal year 2006 agreement also included development of the data infrastructure to analyze the costs of using the existing mental health and developmental disabilities system and to project the new system costs, including identifying needed data variables by December 2005. The goal also included gathering data from all systems, excluding Medicaid, by December 2005, creating single client data records by September 2006 and collecting data, analyzing results and developing and presenting a report by December 2006.

The fiscal year 2007 agreement expanded the goal to include a partnership with the University of Iowa to identify mental health and disability service EBP, renegotiation of the contract with an outside provider to strengthen the mental health infrastructure and support for the work of the interim legislative committee on mental health. The fiscal year 2007 agreement also included a goal to re-establish the Division of Mental Health and Disability Services and hire an Administrator.

According to the fiscal year 2004 report, the plan for adult services was completed and submitted for review and the plan for serving children was under development and would extend over the next 2 years. The fiscal year 2005 report stated DHS received a charter agency grant to develop an actuarially-based reimbursement approach for allocating state funds. The project design was developed and a consultant was to start work during April 2005. The project was to be completed by June 2005. In addition, a settlement agreement was reached with DOJ and implementation of the conditions of the agreement was in process. However, this was not finalized during fiscal year 2005. Results of this goal were not included in the fiscal year 2006 report. See **Finding A**. The fiscal year 2007 report only included the re-establishment of the Division of Mental Health and Disability Services. In addition, the report stated, within that Division, the Bureaus of Children's Services and Adult Services were re-established. However, in a report requested by DOM, DHS reported on entering into an agreement with the University of Iowa for EBP, on-going renegotiations with an outside provider and on-going support for the work of the interim legislative committee. According to a DHS representative, this project had a positive operational impact as the Legislature agreed to establish mental health and developmental disabilities redesign. However, DHS was unable to provide supporting documentation for the improvements realized. See **Finding B**.

<u>Food and Nutrition Benefits</u> – The fiscal year 2004 agreement also included a goal to increase the number of eligible Iowans receiving food and nutrition benefits by 15% through promotion of the Electronic Benefit Card (EBT) and outreach by April 1, 2004. The goal included in the fiscal year 2005 agreement was to increase the number of eligible Iowans by 8% from the June 2004 number by June 30, 2005. The fiscal year 2006 agreement included a target of 230,264 participants, a 10% increase, and the fiscal year 2007 agreement included a 6-month target of 236,070, a 3.7% increase. The fiscal year 2007 agreement also included a goal to expand the partnership with the Farm Bureau in providing wireless EBT terminals in farmer's markets.

According to the fiscal year 2004 report, DHS had served 187,215 individuals as of the end of June 2004, resulting in a fiscal year 2004 increase of 18.75%, or 29,550 individuals. In addition, the EBT program was implemented statewide. However, DHS could not provide supporting documentation for the numbers reported. See **Finding B**. The fiscal year 2006 report stated the goal was not achieved. See **Finding A**. DHS served 229,199 individuals, which represented only a 9.5% increase.

According to the fiscal year 2007 report, the U.S. Department of Agriculture (USDA) recognized DHS for leading the nation in improving access to food assistance. In addition, the goal was achieved with 240,934 individuals served. However, in a report requested by DOM, DHS stated the 6-month target was 236,625 individuals and the goal was not achieved with actual participants at only 235,877 individuals. In addition, according to a DHS representative, the fiscal year 2007 year-end target was 248,685 individuals, which was not achieved. However, the representative stated DHS had realized cost savings even for those fiscal years in which the goal was not achieved, but a dollar amount was not specified. See **Finding A**. Reports from the Iowa Automated Benefits Calculation system were used to prepare the charter agency reports; however, the information was not retained. See **Finding B**. The fiscal year 2007 report also stated Iowa was recognized as a national leader in providing access to fresh produce through the use of EBT cards at farmer's markets and received the National EBT Council "Project of the Year" award for 2007.

<u>Foster Care</u> – The fiscal year 2005 agreement included a goal to increase the percentage of children who do not re-enter foster care within 12 months of their last foster care episode to 80% by the end of fiscal year 2005 and 83% by the end of fiscal year 2006. However, the fiscal year 2006 agreement included a target of 82%. The fiscal year 2007 agreement also included this goal; however, a target percentage was not specified. See **Finding E**. Results for this goal were not included in the fiscal year 2005 reports. See **Finding A**. According to a DHS representative, the goal was not fulfilled for that fiscal year. See **Finding A**. The fiscal year 2005 information was obtained from the State Child Welfare System (SCWS); however, the data

was not retained. See **Finding B**. According to the fiscal year 2006 report, the data was not directly comparable from fiscal year 2005 to fiscal year 2006. However, DHS stated the goal had been achieved at 80.25%. The results for fiscal year 2006 were adjusted to provide comparability to the prior fiscal year due to IT system changes. Data for the fiscal year 2006 reports was obtained from DHS' Statewide Tracking Assessment Reports (STAR) and Families and Children's Services (FACS) systems but was not retained. See **Finding B**.

The fiscal year 2007 report also stated the goal had been achieved at 90.15%. However, according to a report requested by DOM, the 6-month target was 82%, which was achieved at 88.9%. This goal was a part of child welfare redesign for which charter agency grant funds were received. However, as previously stated, child welfare redesign would have been implemented regardless of DHS' charter agency status.

<u>Re-abuse Prevention</u> – The fiscal year 2005 agreement also included a goal to increase the percentage of children who are safe from re-abuse for at least 6 months following a confirmed report of neglect or abuse to 88% by the end of fiscal year 2005 and 90% by the end of fiscal year 2006. The fiscal year 2006 agreement established a target of 89.7%; however, the agreement also stated, effective March 2005, the population served changed as a result of the child welfare redesign project. The effect of this change was not included in the fiscal year 2005 actual percentages and would not be included until September 2005. This goal was also included in the fiscal year 2007 agreement; however, a target percentage was not specified. See **Finding E**. Results for this goal were not included in the fiscal year 2005 reports; therefore, we are unable to determine whether the goal had been fulfilled for that fiscal year. See **Finding A**. According to a DHS representative, fiscal year 2005 information was obtained from the SCWS; however, the data was not retained. See **Finding B**.

According to the fiscal year 2006 report, the data was not directly comparable from fiscal year 2005 to fiscal year 2006. However, DHS stated the goal had been achieved at 90.5%. Data for the fiscal year 2006 reports was obtained from DHS' STAR and FACS systems but was not retained. See **Finding B**. The fiscal year 2007 report also stated the goal had been achieved at 90.58%. However, according to a report requested by DOM, the 6-month target was 89.7%, which was achieved at 89.9%. This goal was a part of child welfare redesign for which charter agency grant funds were received. However, as previously stated, child welfare redesign would have been implemented regardless of DHS' charter agency status.

<u>Hawk-I Enrollment</u> – The fiscal year 2005 agreement included a goal to increase the number of children enrolled in Hawk-I by 11.8%, to 19,212, from fiscal year 2004. The target was increased to 22,738 children, or 11% growth, in the fiscal year 2006 agreement and 21,719 children was established as a 6-month target in the fiscal year 2007 agreement. Although this goal was not included in the fiscal year 2004 agreement, the fiscal year 2004 report stated Hawk-I enrollment had reached 16,812 children as of May 2004, which was an increase of 8.6% since June 2003. See **Finding A**. According to the fiscal year 2006 report, the goal was not achieved with enrollment at 20,697 children, an increase of only 3.03%, while the fiscal year 2007 report stated the goal had been achieved with enrollment of 21,893 children. See **Finding A**. However, a report requested by DOM stated the goal had not been achieved with actual enrollment totaling 21,325 children. DHS was unable to provide supporting documentation for the enrollment numbers reported. See **Finding B**. However, according to a DHS representative, this goal had a positive operational impact as Hawk-I provides access to health care, wellness and quality of life to Iowa's children.

<u>Long-Term Care</u> – The fiscal year 2005 agreement also included a goal to work in conjunction with DPH, the Department of Elder Affairs and the Department of Inspections and Appeals (DIA) to devise and support changes in the long-term care system which would result in the creation and expansion of additional home and community-based services. As a result, the need for, and reliance on, institutional care by a segment of the population would be reduced. DHS planned to seek foundation and Federal grants to further this effort. According to the fiscal year 2005 report, discussions continued. According to a DHS representative, this resulted in savings for individuals; however, no supporting documentation was available. See **Finding B**.

The fiscal year 2006 agreement included a goal to develop and implement programs, services, assessment tools and a case-mix adjusted payment system to facilitate a rebalancing of the existing long-term care system for the physically and mentally challenged. The rebalancing was projected to expand access to community-based services while reducing the dependence on nursing facilities. The agreement stated the measurable goal for fiscal year 2006 was to develop the case-mix adjusted payment system, implement a standardized assessment and establish a contractor for conducting the assessments by fiscal year end. Results of this goal were not included in charter agency reports. See **Finding A**. However, according to a representative of DHS, a positive operational impact occurred as the case rate study provided flexibility in funding, increased accountability for results and reduced costs. No supporting documentation was available for any cost savings. See **Finding B**.

Behavioral Health Needs – The fiscal year 2005 agreement also included a goal to lead and advocate for necessary changes to the *Code* and regulations and allocation of sufficient financial resources to enable children and youth with major behavioral health needs to be able to access needed services without requiring parents to relinquish child custody and/or seek a Child in Need of Assistance (CINA) petition. The fiscal year 2006 agreement modified the goal to implement and serve children in accordance with the provision of the child custody relinquishment program, which reduces the necessity for parents to relinquish custody and/or seek a CINA petition through the juvenile court system. According to the fiscal year 2005 report, House File 538 passed April 3, 2005 and DHS submitted a Home and Community Based Services (HCBS) Serious Emotional Disturbance Waiver to CMS on April 15, 2005. No results were included for this goal in the fiscal year 2006 reports. See **Finding A**.

Child Support Collections – The fiscal year 2006 agreement included a goal to collect a target of 64.9% of current child support due, which represented 3% growth. The fiscal year 2007 agreement modified the target percentage to 65%. According to the fiscal year 2006 and 2007 reports, the goal was achieved at 69.1% and 68.4%, respectively. However, according to a report requested by DOM, the 6-month target was 66%, which was achieved and exceeded at 67.4%. DHS was unable to provide supporting documentation for the percentages reported. See **Finding B**. According to a DHS representative, this goal has a positive operational impact as it allows for greater customer service.

Iowa Care – The fiscal year 2006 agreement also included a goal to implement the provisions of Iowa Care and recover most, if not all, of the $65 million of Federal funding to offset the loss of Intergovernmental Transfers. This was to be accomplished by implementing a series of initiatives to increase the efficiency, quality and effectiveness of the health care system, increase access to appropriate health care, provide incentives to consumers to engage in responsible health care utilization and personal health care management, reward providers based on quality of care and improved service delivery and encourage the utilization of information technology to the greatest extent possible to reduce fragmentation and increase coordination of care and quality outcomes. However, results of the goal were not included in the fiscal year 2006 report. See **Finding A**. The fiscal year 2007 agreement included a 6-month target of 18,000 Iowans to receive health care coverage through the Iowa Care program. According to the fiscal year 2007 report, although the number of participants increased 1,013 from fiscal year 2006, the goal was not achieved, with actual participants of 17,287. DHS was unable to provide supporting documentation for the number of participants. See **Finding B**. According to a DHS representative, implementation of Iowa Care had a positive financial impact because the State would have lost $65 million in Federal funding.

Monthly Allowance for Medicaid Recipients – The fiscal year 2006 agreement included a goal to develop and implement the Robert Wood Johnson Cash and Counseling (RWJCC) grant-funded program known as "Developing Choices – Empowering Iowans." Medicaid recipients electing to participate are provided a monthly allowance equaling the amount that would be approved under the traditional HCBS for the care authorized. Results of this goal were not included in the fiscal year 2006 reports. See **Finding A**. The fiscal year 2007 agreement included a goal to implement the RWJCC grant-funded program known as "Community Choice" to expand consumer service choices. According to the fiscal year 2007 report, IME successfully implemented the "HCBS Consumer Choices Option" in January 2007. According to a DHS representative, these goals resulted in a positive operational impact in the form of growth to the programs. However, no supporting documentation was provided for the number of participants and/or any changes resulting from implementation of these programs. See **Finding B**.

Additional goals established in the agreements for DHS included (listed under the first year the goal was included in the agreements):

Fiscal year 2004:

- to increase the non-General Funds supporting the operating budget by 2% by December 31, 2003. However, results were not included in the fiscal year 2004 reports. See **Finding A**. According to a representative of DHS, the agency was unaware that specific goal had been established in the agreement.
- to increase Medicaid Federal funding access for Iowa schools by 10%, in collaboration with DE; modified in fiscal year 2005 to increase Medicaid Federal funding access for Iowa's public schools by 5% from the fiscal year 2004 contribution of $5,348,926. According to the fiscal year 2004 report, DHS exceeded the target. Medicaid Federal funding for schools increased 25.53%, from $4,260,927 in fiscal year 2003 to $5,348,926 in fiscal year 2004. DHS was unable to provide supporting documentation for the amounts reported. See **Finding B**. According to a DHS representative, the Federal government changed the program in fiscal year 2005; therefore, there was no data to report for that fiscal year.
- to work directly with DOC to devise joint collaborative means to better serve individuals with serious mental health issues entering the system. According to the fiscal year 2004 report, discussions were ongoing. According to a DHS representative, this resulted in the receipt of a Federal grant; however, no supporting documentation was provided. See **Finding B**.

Fiscal year 2005:

- to develop and implement a call center to support the expansion of the food assistance program utilizing non-General Funds. According to the fiscal year 2005 report, the call center became operational February 1, 2005. In addition, DHS reported receipt of an $800,000 grant from the USDA to support development and operation. According to a DHS representative, this had a positive operational impact on DHS as the food assistance program has expanded since the call center was implemented.
- to fully implement IME and new contracts by June 30, 2005. According to the fiscal year 2005 report, employees and contractors were relocated to the new location February 2, 2005 and the projected timetable for full implementation was on track for June 30, 2005. According to a DHS representative, this goal had a positive operational impact for DHS. As a result of implementation, DHS replaced a single contractor with 8 individual contracts.

Fiscal year 2006:

- to prepare for and process the expected influx of 20,000 additional cases projected to seek benefits at field offices due to the Medicare Part D Prescription Drug Low Income Subsidy Program, including the hiring and training of additional staff by September 2005. Results were not included in the fiscal year 2006 reports. See **Finding A**. However, according to a DHS representative, this goal had a positive operational impact as more people are in the program. No supporting documentation was provided for any increase occurring in fiscal year 2006. See **Finding B**.
- to complete an Iowa Excellence review of 1 program area using the Gallery Walk process proposed by DOM as a streamlined approach to conduct an Iowa Excellence Initiative project during fiscal year 2006. Results were not included in the fiscal year 2006 reports. See **Finding A**. According to a DHS representative, DHS performed the review and, as a result, 2 projects were implemented during fiscal year 2007. However, no supporting documentation was provided to demonstrate either the financial or operational impact of the projects implemented. See **Finding B**.

Fiscal year 2007:

- to implement the electronic medical record for providers in the Medicaid system and, according to the fiscal year 2007 report, the Iowa Medicaid Electronic Record system was developed, implemented and made available for use.
- to implement the Preparation for Adult Living program (PALS). According to the 2007 report, DHS worked with an outside provider and other key child welfare partners to successfully implement PALS and medical insurance for young adults programs during fiscal year 2007. No supporting documentation was provided for the number of participants in and/or the financial impact of implementing these programs. See **Finding B**.
- to implement the child care quality rating (CCQR) system. According to the fiscal year 2007 report, DHS continued emphasis on improving quality of child care services through the CCQR system. However, DHS did not provide supporting documentation to quantify the effects of the CCQR system. See **Finding B**.

Other information reported

On several occasions, DHS also included information in the reports which was not related to goals established in the agreements. See **Finding A**. We identified the following:

- In the 1st quarter, fiscal year 2005 report, DHS included a target percentage of 83% for children exiting foster care to be reunited with their families within 12 months from their last removal and a target percentage of 57.5% for adoptions to be finalized within 24 months of removal from the home. Neither target was reported subsequent to this report.
- The 1st quarter, fiscal year 2005 report also included 4 new projects planned for fiscal year 2005. They were development of a clinical outcome monitoring and data collection system, a Kaizen event for waiver eligibility improvement, implementation of electronic funds payments for child support collections by employers and creation of a physician assistant residency program for 3 mental health PAs to improve access to rural mental health services. Further information was not provided for the first 2 projects. However, the final, fiscal year 2005 report stated the electronic funds payment of child support by employers was moving forward. The website was expected to be available May 10, 2005 for initial viewing, which was to be followed by testing at selected pilot sites through mid-July with official site launch around July 20, 2005. (The site was subsequently launched.) The final fiscal year 2005 report also included further information on the PAs. DHS received $90,000 in grant funds for the project and a residency program had been started at the Cherokee MHI.
- Several additional items were included in the fiscal year 2007 report. DHS reported on a partnership with the Iowa Homeland Security and Emergency Management Division to create the Iowa Individual Assistance Grant Program for low-income Iowans impacted by disaster events. The program was implemented in response to the February 23, 2007 ice and snowstorms. In 2007, $305,031 was provided as grant assistance for the ice and snowstorms. DHS was awarded a Federal grant from CMS for the "Money Follows the Person" program which, according to the report, increased the ability of Iowa to reduce its reliance on institutional care. The report also stated DHS addressed the disproportionality of minority children and disparate outcomes in child welfare in the Des Moines area by sponsoring a training program titled "Undoing Racism".

  DHS also reported on the implementation of the Payment Error Rate Measurement project for Medicaid and the State's Children Health Insurance Program as required by Federal legislation by awarding a contract to an outside vendor. In addition, according to the report, the timeliness of payments to child care providers significantly improved following changes in legislation. The report also stated DHS worked with the Meskwaki Tribal community to develop a Memorandum of Understanding (MOU) regarding child protection and the provision of child and family services during fiscal year 2007. DHS also fulfilled 3 Executive Orders by meeting and conferring with an authorized union representative for independent providers. The report also included progress on providing training for IM supervisors and tracking non-automated Human Resource events.

DHS also included participation in 4 Kaizen events in the fiscal year 2007 report. The first focused on improving the child abuse decision appeal process, the second on an ICPC, the third on the organizational design and workflow of a county office and the final on the grievance resolution improvement process.

The fiscal year 2007 report also included a "Key Results" section which reported on 5 additional targets, including the percentage of children receiving Child Care Assistance (CCA) in a regulated setting with a target of 83% and the percentage of children served by Targeted Case Management who live in their parents' or a relative's home with a target of 85%. According to the report, both goals were met with actual percentages of 83% and 95.11%, respectively.

The section also included the percentage of all patients admitted who show improvement in their ability to function, with a target of 97.5% at each of the 4 MHIs. However, none of the MHIs achieved the target, with reported results of 96.7% for Cherokee MHI, 97% for the Clarinda Psychiatric Program, 97.2% for the Independence Psychiatric Program, 93.4% for the Independence Psychiatric Program for Children and 91.8% for Mt. Pleasant. DHS also reported the percentage of clients treated by the State Resource Center who are not re-admitted within 180 days following moving. The target was established at 85% for both Glenwood and Woodward. Woodward exceeded the target at 100%; however, Glenwood only achieved 77%. Finally, the report included the percentage of consumers with severe and persistent mental illness experiencing 1 or more days of psychiatric hospitalization with a target of 10%. This target was not achieved with an actual percentage of 14%.

The report also included some items which appear to be more informational than goals achieved by DHS, such as the ability to overcome significant data use, sharing issues and restrictions raised by the Social Security Administration which threatened DHS' access to this information. This would have had a direct impact on DHS' ability to determine eligibility.

DHS also reported passing 2 significant Federal program reviews, which specifically recognized DHS for the decreasing rate of re-abuse and readmissions to the child welfare system and the increasing rate of monthly visits and timeliness of welfare investigations. The initial reviews had been conducted in all 50 states 2 years ago, which no state passed. DHS' automated referral system for Medicaid and Hawk-I was also recognized by the Southern Institute on Children and Families, sponsored by the Robert Wood Johnson Foundation, as 1 of 31 national "Promising Practices."

A Review of the Charter Agency Initiative
Administered by the Department of Management

Summary by Charter Agency

DEPARTMENT OF NATURAL RESOURCES (DNR)

Goals from the Annual Agreements

Water Quality Improvement – The fiscal year 2004 agreement included a goal to provide leadership and staff support to organize and hold a Water Quality Summit in Iowa by November 30, 2003. Summit results would lead to a strategy to eliminate the Impaired Water List by 2010. The fiscal year 2005 agreement included a goal to develop a watershed-based plan for water quality improvement to be implemented in fiscal year 2006. The plan and fiscal year 2006 budget were to be presented to the Governor in January 2005. The fiscal year 2006 agreement included a goal to have watershed-based reorganization completed. At the Governor's Water Quality Summit, a consensus was formed around the support for watershed-based planning and improvement. The reorganization would allow DNR to better address environmental protection and monitoring on a watershed basis by creating a watershed assessment and monitoring section. In addition, the reorganization would provide better internal focus on watersheds and, in terms of better service to Iowans, more direct support for local watershed planners. The fiscal year 2007 agreement also included a goal to convene a watershed quality taskforce and develop a work plan and timetable for deliverables. In addition, DNR intended to convene an internal water quality coordination team to focus the water quality and watershed protection efforts.

According to the fiscal year 2004 report, the Water Quality Summit was conducted on November 24-25, 2003. The fiscal year 2005 report stated the watershed-based plan was completed in December 2004. No results were reported in the fiscal year 2006 report. See **Finding A**. According to the fiscal year 2007 report, the internal water quality coordination task force was convened and a final report with timetable was presented to DNR's Director in November 2006. In addition, the internal water quality task force was meeting to review the criteria in order to establish priorities for water quality improvement in 5 types of water bodies. The Director also appointed a special assistant to coordinate all DNR water quality planning activities. According to a representative of DNR, this goal had a positive operational impact by providing education on water quality. An increased understanding was developed across all Bureaus within DNR to develop coordination, delivery and outcomes for water quality improvement.

Nutrient Budget – The fiscal year 2004 agreement included a goal to develop a nutrient budget for each major watershed in Iowa and hold a series of public forums to discuss the data and the importance of the nutrients in Iowa water and the need for better management. This goal was expanded upon in the fiscal year 2005 agreement stating DNR would, with the assistance of internal and external stakeholders, continue to carry out Iowa's nutrient management strategy. Public forums were to be held to inform citizens of nutrient issues, gather input and prepare recommendations for adoption of nutrient standards to be presented to the Governor by September 2006.

According to the fiscal year 2004 report, the necessary information was made available to the 2004 General Assembly. The fiscal year 2005 report stated the nutrient budget, addressing the maximum volume, frequency, concentration and sources of nutrients for each watershed, was complete and published on DNR's website. According to the fiscal year 2005 report, the nutrient budget was only the first step in the development of a comprehensive nutrient management strategy. Another step was the assessment of the available nutrient control technologies required to identify and assess their effectiveness. The Center for Agriculture and Rural Development at ISU was preparing the report, in conjunction with DNR, NRCS and others. The final report was to be complete by the end of April 2005. In addition, DNR also had to develop and adopt administrative rules pursuant to Chapter 17A of the *Code* to establish a water quality standard for phosphorus. According to a DNR representative, this goal had a positive operational impact. However, an amount of cost savings or additional revenue associated with the improvements was not identified.

Renewable Energy Promotion – The fiscal year 2004 agreement included a goal to promote renewable energy use through the Iowa Building Energy Management Program, resulting in at least 2 megawatts of new renewable energy production at taxpayer supported facilities by June 30, 2008. The fiscal year 2005 agreement also included a goal to promote renewable energy and brownfields redevelopment by facilitating the installation of a pilot 7,200-watt solar array in Cedar Rapids to be completed by August 15, 2005. According to the fiscal year 2004 report, the Northwood-Kensett Community School District installed a 250-kilowatt wind turbine which was operational in June 2004. In addition, 2 studies conducted at the Woodward Resource Center and the Independence MHI evaluated biomass energy use. According to the fiscal year 2005 report, the Environmental Protection Commission (EPC) approved the contract for the work in February 2005 and dedication of the New Bohemia solar array was held in September 2005 in Cedar Rapids.

Stakeholder Education – The fiscal year 2004 agreement also included a goal to educate 2,000 stakeholders on renewable energy through workshops, develop a wind energy curriculum for grades 9 through 12 at the Clarion-Goldfield Community School District to be replicated in other school districts and create a wind energy checklist for small producers by December 31, 2003. According to the 3rd quarter, fiscal year 2004 report, 2 wind lessons for the Clarion-Goldfield Community School District were completed and were being shared with other school districts. In addition, the wind energy checklist was complete and available on DNR's website. The 4th quarter, fiscal year 2004 report stated DNR educated approximately 5,000 Iowa stakeholders on renewable energy in calendar year 2003. In addition, in fiscal year 2004, 2,250 Iowa stakeholders were educated on renewable energy, an E85 promotional event was conducted on Earth Day, April 22, 2004, and an event promoting solar energy was conducted May 10, 2004.

Environmental Programs – The fiscal year 2004 agreement included a goal to develop customer service projects leading to stakeholder acceptance and more efficient delivery of DNR environmental programs. According to the 3rd quarter, fiscal year 2004 report, an individual was assigned to the Director's staff to assume the responsibilities of a Kaizen promotion officer. This position would support the Kaizen officer position funded with charter agency grant funds (previously discussed) by driving the strategy of continuous improvement and cultural change to move DNR toward Lean government operations. The wastewater permitting process was redesigned in March through a Kaizen process, which resulted in a 75% decrease in the length of the permitting process, from 28 months to 4.5 months, from submission of the facility plan to approval. Streamlining the process also allowed DNR to eliminate the project backlog by April 1, 2005. In addition, DNR was meeting 100% of the projected schedule for completion of projects by issuing construction permits within 30 days after receiving the final plans and specifications.

The 4th quarter, fiscal year 2004 report stated several customer service projects were underway and DNR was developing the internal capacity to identify and conduct business process improvement (BPI) events. In addition, DNR planned Kaizen events for several other areas, including air quality permits, construction permits and land acquisition. DNR conducted a smaller BPI event in the landfill permitting area resulting in a significant reduction in permit lead time, from 187 days to 30 days. Several individuals were identified to receive training on BPI, courtesy of a cooperative arrangement with Pella Corporation. Also, a discussion with the Iowa Municipal Water Utilities Board was to be conducted in February to discuss reorganization and process improvement in the Water Quality Bureau.

One Stop – The fiscal year 2004 agreement also included a goal to continue efforts to establish an integrated, environmentally-regulated facilities database and tracking system, One Stop, to provide better accountability internally and with the EPA. Specifically, the goal was to finish the 5-year plan and complete a pilot project linking the air and solid waste databases to a central environmental facility by December 31, 2003. According to the fiscal year 2004 report, DNR received notification the project was receiving an additional $300,000 in grant funds through the Network Implementation Grant program to be used to automate the exchange of data between DNR and the EPA. DNR applied for an additional $200,000 to upgrade the wastewater databases. According to a representative of DNR, the goal had a positive operational impact as it resulted in improvements to databases and processes used. However, an amount of cost savings or additional revenue associated with the improvements was not identified.

Help Us Stop Hunger (HUSH) Program – The fiscal year 2004 agreement also included a goal to implement HUSH, a cooperative program with the Food Bank of Iowa, cooperating meat processors and deer hunters. Specifically, the goal was the donation of 1,000 deer from the 2003-2004 hunting season by hunters to local lockers which would process and distribute the deer to the needy of Iowa. The funds to process the meat were to be raised from the private sector and supplemented, if necessary, by the Wildlife Bureau. According to the fiscal year 2004 report, the final count of deer donated to the program was 1,602 and the meat harvested from the donated deer provided 308,000 meals to the needy of Iowa. In addition, DNR stated the harvest of 1,602 deer potentially resulted in the prevention of approximately 112 deer/vehicle incidents which saved approximately $224,000 in insurance claims. In addition, DNR received monetary donations of $71,000. The General Assembly also voted to award $17,000 to DNR to expand the HUSH program for the next hunting season. Supporting documentation provided by DNR showed the number of donated deer was 1,900. However, we were unable to determine which was correct. See **Finding C**.

Inmate Labor – The fiscal year 2004 agreement included a goal to establish an agreement with DOC to provide inmate labor to assist with state park maintenance needs by April 2004. According to the fiscal year 2004 report, this goal was not achieved. See **Finding A**. While DNR had used inmate labor in the past, a formal agreement with DOC was being developed.

The fiscal year 2005 agreement included a goal to avoid $25,000 in costs by providing labor opportunities to inmates. Specifically, DNR was to develop and implement a formal agreement with DOC to assist with DNR's prairie seed program, state forest management, Nursery stock production and construction of cabin components to expand the availability of cabins in state parks. According to the 2nd quarter, fiscal year 2005 report, DNR signed several agreements with DOC, including 2 for work at Nursery sites and 3 related to prairie seed production for certain facilities. The 4th quarter, fiscal year 2005 report stated DNR was working with DOC on several cooperative ventures. A $300,000 contract was signed with DOC for construction and delivery docks at state parks and wildlife areas. No cost savings information was included in the fiscal year 2005 report. See **Finding A**. According to a representative of DNR, any cost savings would have been based on a comparison of the cost for other vendors to the cost of inmate labor. However, DNR was unable to provide supporting documentation for any cost savings. See **Finding B**.

Expansion of BPI Events – The fiscal year 2005 agreement also included a goal to achieve world-class government by expanding BPI events. By June 30, 2005, DNR was to conduct 6 internal Kaizen events which would achieve at least $500,000 in combined avoided costs, increased revenue-to-economy and improved productivity. The Kaizen events would include key customers and representatives from other state agencies. In addition, DNR would train at least 10 staff in Kaizen team leadership, who would then be prepared to assist other state agencies with BPI. Also, depending on budget funding, DNR was to prepare plans to conduct 12 internal events and 12 events in other state agencies in fiscal year 2006 and present fiscal year 2005 BPI results to the Governor by July 15, 2005. The fiscal year 2006 agreement also included a goal to conduct 10 BPI or 5S, organization for efficiency, events. DNR was to continue its internal BPI, as well as its mentoring efforts to other state agencies. According to the fiscal year 2006 agreement, the implementation of BPI would result in at least $750,000 in combined avoided costs, increased revenue-to-economy and improved productivity.

According to the 2nd quarter, fiscal year 2005 report, DNR had conducted 5 Kaizen events as of February 1, 2005 regarding leaking USTs, NPDES permitting, air quality complex permitting, sovereign land construction permitting and manure management plans. DNR also conducted 3 "mini-Kaizens" related to delineation of new work roles with the Iowa Finance Authority (IFA), waste load allocations and the vehicle pool which resulted in a new working agreement with DAS-GSE. According to the 4th quarter, fiscal year 2005 report, a point Kaizen, a 3-day BPI event for a previously reviewed process, was conducted in December 2004 for the State Revolving Fund (SRF) loan financing process in conjunction with IFA. In addition, in March 2005, a point Kaizen was conducted for floodplains permits. Kaizen events were also planned for legal services and land acquisition.

According to the fiscal year 2006 report, the goal was achieved. DNR conducted 5 Kaizen events and 5 5S events. No information on cost savings was included in the fiscal year 2005 or 2006 report. See **Finding A**. According to a DNR representative, significant process improvements were achieved, which resulted in increased revenue-to-economy. However, an amount of cost savings or additional revenue associated with the improvements was not identified.

<u>Model Sustainability</u> – The fiscal year 2005 agreement also included a goal to develop a model sustainability plan by October 2005 for state agencies to use as a standard for their own departmental plans based on an Executive Order requiring all state agencies to develop a sustainability plan with goal reductions in energy, waste, fuel use, etc. The fiscal year 2006 agreement expanded on this goal to complete the sustainability plan. Executive Order 14 required executive branch departments to undertake energy efficiency and renewable energy planning. This effort would improve services by ensuring public dollars were spent responsibly and efficiently, providing more comfortable and user-friendly public spaces and providing for economic benefits to local communities through employment in implementing the projects. The fiscal year 2007 agreement included a goal to convene a sustainable funding committee in order to develop a work plan and timetable for deliverables. A report was due January 15, 2007.

According to the fiscal year 2005 report, a Draft Executive Order was prepared for the Governor's review and Governor Vilsack signed Executive Order 41 on Earth Day, April 22, 2005. No results for this goal were presented in the fiscal year 2006 report. See **Finding A**. The fiscal year 2007 report stated the sustainable funding committee was convened, a preliminary report was delivered January 10, 2007 and a final report was delivered March 1, 2007. An Interim Study Committee (ISC) was appointed to further research the viability of sustainable natural resource funding with the continued support of the Sustainable Funding Advisory Group (SFAG). The ISC held its first meeting November 1-2, 2007 to review and discuss recommendations from the SFAG and hear presentations from peer states on natural resource funding.

According to a representative of DNR, the goal was not fulfilled during fiscal year 2005. See **Finding A**. The strategic plan was scheduled to be completed in fiscal year 2008. A draft was prepared but the final implementation was not complete. Achievement of this goal would result in funding to provide natural resources benefits across Iowa, such as cleaner water, positive economic impacts, sustainable agriculture and soils and outdoor recreation activities.

Additional goals established in the agreements for DNR included (listed under the first year the goal was included in the agreements):

<u>Fiscal year 2004:</u>

- to increase the non-General Funds supporting the operating budget by 2% by December 31, 2003. According to the fiscal year 2004 report, total fiscal year 2002 operations were \$78,965,777. Of that amount, \$15,726,088, or 20%, was supported by the General Fund. Fiscal year 2003 total operations were \$84,449,866. Of that amount, \$15,489,070, or 18%, was supported by the General Fund. Therefore, the goal was achieved.
- to develop and finalize the first Performance Partnership Agreement and Grant with the Environmental Protection Agency. According to the fiscal year 2004 report, the partnership was completed and approved by both parties in December 2003.
- to develop and implement a coordinated program with DOC and meat processors to deliver surplus harvested deer meat for use in the inmate meal program. According to the fiscal year 2004 report, DOC's goal for use of harvested deer meat was 19,000 pounds. The actual amount used was approximately 12,500 pounds. According to supporting documentation provided by DNR, DOC received 226 donated deer in fiscal year 2004 for which DOC paid \$55 each, for a total cost of \$12,430.

- to complete the process improvement planning activity in conjunction with the Iowa Association of Business and Industry resulting in a more efficient air construction permit process by September 2003. According to the fiscal year 2004 report, the 1-year report was given to customers on July 8, 2004. Permit lead time had been reduced to 6 working days from 62 days.

Fiscal year 2005:

- to assist Iowa businesses in competing globally by achieving environmental efficiency and saving $1 million in annual operating costs through the pollution prevention intern program (PPIP) by August 15, 2005. The goal was revised to $1.5 million in savings in the fiscal year 2006 agreement. According to the fiscal year 2005 report, PPIP resulted in more than $4 million in savings through the adoption of environmental efficiencies. The fiscal year 2006 report stated $3,220,617 in savings had been achieved. It appears these savings are to the businesses and not to the State. Sufficient supporting documentation was not provided by DNR. See **Finding B**.
- to conduct change management and leadership training with the Director's staff and Bureau Chiefs by April 2005. According to the fiscal year 2005 report, training was conducted for the Bureau Chiefs January 11, 2005. Ethics training was to be provided on December 20, 2005.
- to complete the web-based purchasing option for hunting and fishing licenses by June 30, 2005. According to the fiscal year 2005 report, this was complete and on the DNR website.

Fiscal year 2006:

- to increase non-point SRF participation by $5 million. The non-point SRF program offers low-cost loans to homeowners, farmers, livestock operators and watershed organizations for water quality improvement projects. According to the fiscal year 2006 report, the goal was achieved with an increase of $7.2 million. However, according to a DNR representative, the goal was exceeded with an increase of $8,394,543. Supporting documentation provided by DNR differs from the charter agency report by $300,000. We were unable to determine which amount is correct.
- at least 70% of underground storage tanks (USTs) would meet significant operational compliance. According to the fiscal year 2006 report, the goal was achieved with 71% of USTs meeting operational compliance.
- to increase mentored hunts to 3 for the season. According to the fiscal year 2006 report, this goal was achieved. DNR was unable to provide supporting documentation for the mentored hunts conducted. See **Finding B**. According to a representative of DNR, a mentored hunt was held November 18-20, 2005 and a depredation hunt was held December 3-4, 2005. Therefore, it appears only 1 mentored hunt was conducted.
- to complete a set of criteria for facility energy projects, a list of prioritized projects, including costs and savings analyses, and a plan for implementation of the projects. However, results of this goal were not included in the fiscal year 2006 report. See **Finding A**. According to a representative of DNR, implementation of these projects would result in cost savings. DNR performed a detailed analysis of project costs, savings per year and the payoff period. This analysis was performed for all facilities and was separated by each location. For example, initial project costs at Big Springs Hatchery were $3,130 but the savings per year was $2,006.
- to complete the establishment and implementation of the electronic deer and turkey check system. Results of this goal were not included in the fiscal year 2006 report. See **Finding A**. According to a representative of DNR, the website was implemented in September 2006.
- to post an employment web page and diversity message by November 1, 2005 in support of the principles of the Vilsack administration. DNR was also to convene an "Advocates for Embracing Diversity" panel to gain input on developing a more welcoming environment for women and minorities, developing a recruitment process to increase qualified women and

minority candidates for employment and creating a long-term initiative to nurture young people for a career in natural resources. Results of this goal were not included in the fiscal year 2006 report. See **Finding A**.

Fiscal year 2007:

- to conduct a groundbreaking ceremony at Honey Creek Destination Park. (The goal did not address construction.) According to the fiscal year 2007 report, the groundbreaking ceremony was conducted October 3, 2006 to initiate Honey Creek construction. According to a representative of DNR, the future revenues of Honey Creek will result in a positive financial impact.
- to present a rule to the EPC proposing nutrient standards for Iowa's lake waters. According to the fiscal year 2007 report, the preliminary report was presented to the EPC in November 2006 and a second planning meeting was conducted in January 2007. In June 2007, the Director appointed a new science advisory committee which has since convened 6 times. DNR anticipated the committee would present a report to the Director in the first quarter of calendar year 2008.
- to apply Iowa's new water quality standards by completing 30% of the recreational use attainability analyses (UAAs) for reclassified Iowa streams. According to the fiscal year 2007 report, DNR completed 100% of the field work for all recreational and aquatic life use assessments (UAs) and UAAs. In addition, DNR prepared formal UA/UAA stream use recommendations, which account for the 37% of facilities affected by the new water quality standards. The recommendations were proposed for adoption in the water quality standards and were approved by the EPC in October 2007.
- to enhance Iowans' understanding of natural resources and environmental protection issues through the new *Iowa Outdoors* magazine. According to the fiscal year 2007 report, *Iowa Outdoors* was in its third issue, subscriptions increased 30% in 9 months and circulation increased 43% from the May/June 2006 issue.
- to improve the environmental protection monitoring for USTs by implementing 3rd party inspections. According to the fiscal year 2007 report, 3rd party inspections were implemented and inspector training was conducted November 14, 2006.
- to prepare and submit an application to the conservation reserve enhancement program to fund $20 million of conservation and water quality enhancements. According to the fiscal year 2007 report, the application was signed and submitted October 10, 2006. According to a representative of DNR, a letter was received June 20, 2007 denying the request.
- to expand Iowa business participation in the national environmental performance track, a voluntary partnership program recognizing and rewarding private and public facilities demonstrating strong environmental performance beyond existing requirements. According to the fiscal year 2007 report, DNR began negotiations with the EPA and was fully investigating the possibilities with various internal and external stakeholders regarding the signing of a memorandum of agreement. However, because no agreement was signed, the goal was not fulfilled. See **Finding A**.
- to implement a cell phone consolidation plan designed to combine cell phone plans and achieve cost savings estimated at $50,000 in the first year. According to the fiscal year 2007 report, DNR had achieved savings of $15,000 as of March 2007. New savings information was to be available July 2008. A memorandum provided by DNR stated the estimated savings for the first year would total $48,101. However, because it was an estimate, we are unable to determine the accuracy of this amount. See **Finding A**. Neither the actual amount nor sufficient supporting documentation was presented for the cost savings. See **Finding B**.
- to improve citizens' access to public files by providing remote records retrieval at the Environmental Services field offices for contaminated sites files. According to the fiscal year 2007 report, this project was complete and searchable files were available to the public on-line.

- to improve internal communication through implementation of a new, comprehensive intranet site. According to the fiscal year 2007 report, the intranet site was established and updated daily based on employee feedback.

Other information reported

We identified 1 instance in which DNR reported information in the reports which was not related to a goal established in the agreement. See **Finding A**. In the fiscal year 2005 report, DNR stated, in conjunction with conservation partners, $30 million in funding would be requested from the NRCS by December 2004. The funding would be used for a Wetland Reserve Enhancement Program (WREP) effort to fund the restoration of 10,000 acres of wetland, grassland and woodland habitats to support long-term recovery and conservation of migratory birds.

The conservation partners, including The Nature Conservancy, the Iowa Natural Heritage Foundation, the Audubon Society, Ducks Unlimited, Pheasants Forever and several county conservation boards, had a history of success working with NRCS and WREP and had pledged more than $7 million to assist in the acquisition, restoration and management of these critical habitats over the next 3 years. Project areas were designated on historically important migration corridors along the Missouri and Mississippi River Floodplains, which also benefit other wildlife species, improve water quality and reduce impacts from flood events. The request was submitted and was denied.

A Review of the Charter Agency Initiative
Administered by the Department of Management

Summary by Charter Agency

DEPARTMENT OF REVENUE (IDR)

Goals from the Annual Agreements

Customer Satisfaction – The fiscal year 2004 agreement included a goal to average a composite customer satisfaction score for web-based applications of 4 or above, which was modified for fiscal years 2006 and 2007 to 4.5. The fiscal year 2005 agreement included a goal to achieve a composite customer satisfaction rating of 90%, demonstrating customers agreed with the services offered (i.e., rating of average or greater satisfaction). According to the fiscal year 2004 report, IDR received a score of 4.4 for calendar year 2003. In the fiscal year 2005 report, IDR stated a score of 4.3 had been achieved for calendar year 2004 and data for calendar year 2005 would be available soon. Because IDR reported the composite score and not the composite customer satisfaction rating, we are unable to determine whether the goal had been achieved for fiscal year 2005. According to the fiscal year 2006 report, the goal was not achieved with a score of 4.2. See **Finding A**. Results of this goal were not included in the fiscal year 2007 report. See **Finding A**.

Electronic Applications – The fiscal year 2004 agreement also included a goal to develop plans for 5 new electronic services by December 31, 2003. The fiscal year 2004 budget request included a funding request to develop new web-based services for increased electronic filing of individual income tax returns and establishing electronic filing for sales, use and other business taxes. In fiscal year 2005, the goal was to continue development of plans for electronic services, including successful implementation of applications supporting electronic filing and payment of business taxes by July 2005. In conjunction with IDR customers, this would potentially reduce errors in tax filings and payments which would reduce follow-up compliance efforts, increase timeliness in availability of data and improve effectiveness to respond to customer inquiries. The fiscal year 2006 agreement included a goal to complete implementation of the withholding, sales and use and motor vehicle fuel applications which support electronic filing and payment of business taxes by June 30, 2006. However, the fiscal year 2007 agreement included a goal to complete implementation of the motor vehicle fuel application by the 3rd quarter of calendar year 2006.

According to the fiscal year 2004 report, plans were underway for development of electronic filing for sales tax and withholding returns, payment of sales tax and withholding through EFT and enhanced web-based file applications. IDR received funding from Iowa Access to continue development of electronic filing services. The fiscal year 2005 report stated the withholding portion was implemented January 1, 2005. Agents could file their returns on-line using 3 different methods of payment: the new E-File and Pay, the old EFT credit or by check. IDR increased FTEs in order to establish enforcement-related positions to assist in implementation. Beginning July 1, 2005, the sales and use tax portion was also implemented. No information related to this goal was presented in the fiscal year 2006 report and the fiscal year 2007 report only included information on the continued operation of the E-File and Pay system. See **Finding A.**

A separate performance report issued by IDR in fiscal year 2006 stated the implementation of E-File and Pay continued with individual and corporate taxes in January 2006 and motor vehicle fuel tax in July 2006. According to a representative of IDR, implementation of these applications resulted in cost savings and gained efficiency by reducing clerical errors and increasing the time saved by checking figures.

Collaboration with Other Agencies – The fiscal year 2004 agreement also included a goal to collaborate with other agencies on successful implementation of an Enterprise Resource Planning system and DAS, monitoring of tax incentive and other economic development initiatives and development of improved economic and revenue forecasting processes. The fiscal year 2005 agreement included a goal to collaborate with other agencies on 6 different projects. The first project was to create a County Endowment Fund (CEF), in conjunction with the Department of Economic Development (DED) and DIA, to provide funding to 90 counties which do not have gambling licenses. The second project was the Central Collections Unit (CCU) which serves as the enterprise collection function for the State. This ongoing project would provide collection services to IDR, Child Support Recovery, the Judicial Branch and the College

Student Aid Commission. According to the agreement, total collections for the customers of the CCU increased from $26.7 million in fiscal year 2001 to $41.9 million in fiscal year 2004. Because the CCU was not part of the fiscal year 2004 goal, neither IDR nor DOM included this increase in the amounts reported for the Initiative.

The third project was to enhance the collection of data and compliance activities related to the taxation of motor vehicles subject to registration with assistance from the Department of Transportation (DOT). This would involve an upgrade to DOT's motor vehicle registration and titling system and would benefit customers and enhance the UT-510 program. In addition, in partnership with DED, IDR intended to enhance the monitoring of tax incentives and other economic development initiatives. In cooperation with DOM and the Legislative Services Agency (LSA), IDR was to develop improved economic and revenue forecasting processes. IDR also was to participate with DAS and other Executive Branch agencies in the completion of the mandated study of the impact of consolidation of technology resources.

In fiscal year 2006, the agreement included a goal to continue the CCU project, the partnership with DED to enhance the monitoring of tax incentives and other economic development initiatives, the collaboration with DOM and LSA to develop improved economic and revenue forecasting processes and participation with DAS and other Executive Branch agencies in the completion of the mandated study of the impact of consolidated initiatives. The fiscal year 2007 agreement included 2 new projects. In partnership with DCA, DED, DE, IWD, the Utilities and Insurance Divisions of the Department of Commerce and the community colleges, IDR was developing a tax credit tracking and analysis system. The design of an enterprise-wide tax credit database was nearing completion, new forms and management procedures for tracking the awarding, transfer and exercise of tax credits were being developed and 2 tax credit evaluation studies had been initiated. In addition, in support of the Revenue Estimating Conference and other state government entities, work had begun on the development of a state economic forecasting model.

Results of this goal were not presented in the fiscal year 2004, 2006 or 2007 report. See **Finding A**. The fiscal year 2005 report stated IDR worked closely with DED to create the CEF and develop procedures for determining county eligibility and a payment mechanism. The first payments from the CEF were to be disbursed in October 2005. In addition, the CCU continued to provide service to each of the agencies listed above. Collections in fiscal year 2005 totaled $40.9 million. A separate performance report issued by IDR stated collections in fiscal year 2005 totaled $38 million. However, we are unable to determine which amount was correct. DOT's motor vehicle registration and titling system was implemented January 1, 2005. IDR would be able to use the system to release motor vehicle registration suspensions on-line in real time. Testing continued on the UT-510 reporting aspect with implementation expected in September 2005. A new staff person had been hired to direct the development of a web-based system for the tracking and analysis of tax credits. In addition, a work group, with representation from DCA, DED, DE, IWD, the Utilities Division of the Department of Commerce and IDR, was organized to provide direction for the design, development and testing of the system. A research project, jointly funded by IDR and LSA, was initiated with the Statistics Department at ISU to improve IDR's capability to evaluate the impacts of proposed individual income tax law changes. An objective of the project was to develop a model both IDR and LSA could use. IDR was also actively involved with the Technology Governance Board and Joint Council of Information Office.

<u>Tax System</u> – The agreements for fiscal years 2004 and 2005 included a goal to generate proposals to simplify the income tax system and significantly modify the property tax system. According to the fiscal year 2004 report, IDR participated on a legislatively mandated Property Tax Committee and worked on a national level to implement the Streamlined Sales Tax Proposal (SSTP). The fiscal year 2005 report stated, in association with the evaluation of proposals to improve the property tax system, IDR employed an intern through the Masters of Public Administration program at ISU to gather information on property tax systems in other Midwestern states and analyze the costs of providing different local government services in Iowa.

The fiscal year 2006 agreement included a goal to implement SSTP beginning October 1, 2005 and collect between $3 million and $5 million in revenues during the first year of implementation. The fiscal year 2007 agreement stated estimates of additional collections for the first year of implementation of SSTP were $2 million to $3 million and, since its initial implementation, $2.7 million had been collected. Results of this goal were not presented in the fiscal year 2006 report. However, a separate performance report issued by IDR stated $2,845,000 had been collected in fiscal year 2006. See **Finding A**. However, additional information provided by IDR showed $5,000,818 had been collected in fiscal year 2006. The fiscal year 2007 report stated SSTP was effective October 1, 2005 and approximately $9.1 million had been collected. However, additional information provided by IDR showed $9,984,530 had been collected in fiscal year 2007. Because sufficient supporting documentation was not available, we are unable to determine which amounts were accurate. See **Finding B**.

Additional goals established in the agreements for IDR included (listed under the first year the goal was included in the agreements):

<u>Fiscal year 2004:</u>

- to develop a business e-file model to increase the number of business taxes filed electronically. The fiscal year 2004 report stated the business e-file model had been developed and implementation of withholding was scheduled for January 2005.
- to increase the percentage of General Fund tax revenues to be received through EFT to 60%. The goal was later modified to 63% for fiscal year 2005, 65% for fiscal year 2006 and 76% for fiscal year 2007. According to the reports, the goal was achieved in fiscal years 2004 through 2006 with actual percentages of 62%, 63% and 74%, respectively. However, the goal was not achieved in fiscal year 2007 at 70%. See **Finding A**.
- to process 99% of all transactions through the centralized accounting system within 1 day of receipt. However, results of this goal were not included in the report. See **Finding A**.
- to develop and utilize a performance plan. The goal was modified in fiscal year 2005 to enter the fiscal year 2005 performance plan into the system. Results of this goal were not presented in the fiscal year 2004 report; however, the fiscal year 2005 report stated the performance plan had been entered in a timely manner at the beginning of the fiscal year. See **Finding A**. The Accountable Government Act (Act) required all state agencies to prepare performance plans and submit annual performance reports. However, we are unable to determine if the performance plan referred to in IDR's goal is the one required by the Act.
- to complete a study of the industrial review program by January 1, 2004. According to the fiscal year 2004 report, IDR completed the industrial review program and random samples of industrial property were taken in each assessing jurisdiction.

Other information reported

In fiscal year 2007, we identified 6 instances when IDR included information in the reports which was not related to goals established in the agreement. See **Finding A**. We identified:

- Creation of tax credit contingent liabilities reports and projections,
- Completion of evaluation studies for the Iowa Earned Income, the Research Activities and the Historic Preservation and Cultural and Entertainment District Tax Credits,
- Initiation of the update to the 2000 Iowa Tax Expenditure Study,
- Development of the monthly Leading Indicators Index to better understand the condition and direction of the State's economy,
- Completion of a new version of the Individual Income Tax micro simulation model which allows analysis of proposed tax law changes by source of revenue and the projection of tax law change impacts into the future and
- Creation of a statewide electronic database for declaration of value reports.

A Review of the Charter Agency Initiative
Administered by the Department of Management

Summary by Charter Agency

IOWA VETERANS' HOME (IVH)

Goals from the Annual Agreements

CMS Quality Indicators – The agreements for fiscal years 2005 and 2006 included a goal to provide quality inter-disciplinary care to veterans and their spouses. This would be measured using the CMS quality indicators. The goal was to be at or below the state average for 80% or more of the CMS quality indicators. According to a representative of IVH, this data is tracked because IVH is part of the national program, required by Federal law, to input residents' data on a quarterly basis on a Minimum Data Set form. Each month, IVH receives a report by resident on the 32 quality indicators. This information can be found on the CMS website.

According to the fiscal year 2004 report, this goal had not yet been achieved. IVH met 68.75% of the 32 quality indicators. For fiscal year 2005, IVH reported 69% of the quality indicators had been met in the 3rd quarter. However, the final fiscal year 2005 report stated the information would not be available until August 15. The fiscal year 2006 report also stated the goal had not been achieved with 73% of the quality indicators being met. See **Finding A**. According to a representative of IVH, achievement of this goal does not have any financial impact but has an operational impact. Not only is the data reported to CMS, but DIA also reviews the data during its inspection of IVH.

Applications for Admission – The fiscal year 2005 agreement included a goal to increase admissions through better marketing initiatives. This would be measured by increasing the number of applications for admission by 5%. According to the fiscal year 2004 report, the goal was met and exceeded. IVH realized a 16% increase in applications. In addition, by November 1, 2003, IVH was going to develop a statewide marketing plan to maximize the opportunities for increasing applications through enhanced partnerships with veterans service organizations, County Commissioners of Veterans Affairs and the Iowa Commission of Veterans Affairs. A Process Action Team recommended the creation of a full-time Marketing Director; however, the position was not yet filled. The 2nd quarter, fiscal year 2005 report stated the goal had been achieved with a realized increase of 24%. However, the 3rd quarter report stated the target of 78 applications was not achieved. The report also stated IVH was in the process of hiring a Marketing Director/Public Information Officer to design and implement a recruiting campaign to improve the application and census numbers. The final fiscal year 2005 report stated the goal was not met and had actually decreased from the fiscal year 2003 baseline. See **Finding A**. However, the number of applications did increase from fiscal year 2004 to fiscal year 2005. According to a representative of IVH, by increasing the number of applications, IVH realized increased per diem payments. He also stated IVH realized additional revenue as increased applications led to increased admissions. However, he did not specify a dollar amount.

Admissions – The fiscal year 2005 agreement also included a goal to improve the admission process by eliminating delays in application evaluations which would be measured by increasing the number of admissions by 5%. According to the fiscal year 2005 report, the number of admissions decreased from the fiscal year 2003 baseline and fiscal year 2004. According to a representative of IVH, although the admission rate decreased, the application processing time had been reduced to 30 days or less. This resulted in a positive financial impact because a faster admissions process contributes to more days of care in the year. In addition, the fiscal year 2005 agreement included a goal to redesign the admission process to reduce waiting time for admission by June 2005. According to the fiscal year 2005 report, 86% of applicants were admitted in 30 days or less.

Outstanding Debt – The fiscal year 2005 agreement included a goal to improve financial performance by aggressively seeking opportunities to collect from those with outstanding debt. This would be measured by reducing the amount of bad debt write-offs from deceased or discharged residents by 10%. According to the fiscal year 2005 report, IVH did not achieve this goal. See **Finding A**. IVH reported bad debt actually increased from fiscal year 2004 to fiscal year 2005. However, progress was made since total collection of debt increased by $540,687. According to a representative of IVH, although the goal was not achieved, the goal still had a positive financial impact in the form of increased revenue from previously uncollected debt. Because the goal was reported as not achieved, we did not request supporting documentation for the increase in total debt collections.

Accounts Receivable – The fiscal year 2005 agreement included a goal to improve financial performance by creating and implementing a collection plan for residents owing funds over 60 days old. This would be measured by decreasing the accounts receivable over 60 days old by 15%. According to the 3rd quarter, fiscal year 2005 report, this goal was partially met in that a plan was in place to acquire and record promissory notes from each resident or the representative payee on accounts in arrears. This would allow IVH to collect monthly payments on outstanding debts. In fiscal year 2005, IVH had 10 promissory notes and 12 representative payee agreements. However, according to the final fiscal year 2005 report, IVH did not calculate the percentage decrease. IVH wanted to remove this goal from the charter agency performance targets established. The report stated IVH needed certain legislation to accomplish this goal, which was not passed because certain patients would become eligible for Medicaid instead of being private pay.

Medical Clinic – The fiscal year 2005 agreement included a goal to operate a medical clinic on the grounds of IVH which would meet the medical care needs of the veterans by June 2005. According to the fiscal year 2004 report, IVH intended to conduct a feasibility study for implementation of the medical clinic by November 1, 2003. However, this goal was not achieved. See **Finding A**. IVH proceeded with the medical clinic without the formal feasibility study. Inmate labor was used to demolish an old kitchen area and construction on the clinic had begun. According to the fiscal year 2005 report, the shell space for the office addition to the medical clinic was nearing completion. In addition, IVH maintenance staff had begun installing the interior walls and associated electrical work within the office area. IVH anticipated the addition would be completed and the medical providers could occupy the space by late March 2005. However, due to budgetary constraints, IVH was not optimistic the clinic area itself would be operational by June 2005. The project was to continue and IVH would position itself to make the deadline in the event revenues increased and expenditures remained low.

The fiscal year 2006 agreement included a target of 500 residents to be served in the medical clinic. According to the fiscal year 2006 report, this goal was achieved with an actual number of 551 residents served.

Incident Reporting – The fiscal year 2005 agreement also included a goal to implement an electronic resident incident reporting system to be used throughout IVH to better track all incidents which might result in resident injury or illness by June 2005. According to the fiscal year 2005 report, the Information Technology Department (ITD) added computer access for all members of the Nursing Department as part of this project, which added 400 users to the computer network. The first 2 units were using the system and the other units were being trained in the use of the system with the goal of having the entire facility on-line by June 15, 2005. Once the report system was in place, IVH planned to share the system with other state agencies which also track resident incidents, such as the DHS institutions.

Mentoring – The fiscal year 2005 agreement also included a goal to develop a plan for a mentoring program for interested staff in all departments so they could deliver high quality care to the veterans by June 2005. The fiscal year 2006 agreement extended the deadline for development of the plan to June 2006. The agreement also stated the first step in the program was establishing sessions between new employees and the Commandant within the first 3 months of employment to provide the Commandant with information on job satisfaction, hiring and new employee orientation. The fiscal year 2007 agreement again extended the deadline for development of the plan to December 31, 2007.

According to the fiscal year 2004 report, 20% of new employees were to participate in a formal mentoring program. This goal was met and exceeded with 74% of new employees participating in a mentoring program. Of the 147 new employees, 109 participated from July 2003 through March 2004. The results of this goal were not presented in either the fiscal year 2005 or 2006 report. See **Finding A**. According to the fiscal year 2007 report, the mentoring program was being developed as part of the culture change education program presented to staff at the annual employee in-service blitz and at the culture change fair held in February 2008. IVH also implemented use of 2 community resources, the Iowa Valley Leadership program and the state Certified Manager Program, to help in the development of new leaders. Through the meetings held by the Commandant and Director of Employee Services with new employees, IVH identified the need to improve recruitment and retention and implemented a strategic plan to address such improvements.

<u>Resident Survey</u> – The fiscal year 2006 agreement included a goal to implement a website and support services to offer IVH's quality of life resident survey to other Iowa nursing homes and all State veterans' homes by June 2006. IVH was also using the survey to identify and address opportunities for improvement of nursing care units. The improvement projects were to be reported on in January 2006, which would compare data from the 2005 and 2006 survey years to quantify the gains made. The fiscal year 2007 agreement included a target percentage of residents indicating an overall satisfaction with IVH services through the Quality of Life survey of 85%. Results of this goal were not presented in the fiscal year 2006 reports. See **Finding A**. According to the fiscal year 2007 report, this goal was achieved with an actual percentage of 92%. According to a representative of IVH, this goal does not have a financial impact but an operational impact. In addition, grant funds received enabled IVH to create the tools used to measure resident satisfaction and the ability to share those tools with other facilities.

Additional goals established in the agreements for IVH included (listed under the first year the goal was included in the agreements):

<u>Fiscal year 2005:</u>

- to improve staff qualifications by developing a more comprehensive training program meeting the needs of all staff. This would be measured by increasing the percentage of employees attending training seminars by 15%. According to the fiscal year 2005 report, IVH realized a 22% increase from fiscal year 2004 to fiscal year 2005. However, this goal does not have any financial impact as it relates to employee satisfaction.
- to expand the current computer network for the LPNs and RTWs on 3 nursing units to increase communication by June 2005. According to the fiscal year 2005 report, this goal had been included as part of the implementation of the electronic resident incident reporting system.
- to develop a plan by June 2005 to increase the number of beds available for veterans with certain disabling conditions, such as Alzheimer's and dementia, which are the most numerous on the admissions' waiting list. According to the 1st quarter, fiscal year 2005 report, an analysis of data indicated the need may be for additional beds to meet behavioral problems. A task force of mental health, nursing and social work staff was formed to collect more data to help delineate the type of beds and units needed. Further results beyond those reported in the 1st quarter were not presented in later fiscal year 2005 reports. See **Finding A**.
- to increase grant funding during the fiscal year. According to the 1st quarter, fiscal year 2005 report, IVH identified a staff person to lead the grant application effort. The individual received education in grant application completion and IVH was collaborating with DNR on the assessment of grant possibilities and needs. Further results beyond those reported in the 1st quarter were not presented in later fiscal year 2005 reports. See **Finding A**.

Fiscal year 2006:

- a target percentage of residents with moderate or severe pain of 7% (also in fiscal year 2007). According to the fiscal year 2006 report, this goal was not achieved with an actual of 8%. The fiscal year 2007 report stated the goal was achieved with an actual percentage of 6.8%. According to a representative of IVH, this goal does not have a financial impact but an operational impact. This statistic is reviewed by both DIA and CMS.
- a target average for residents with falls at 6 (also in fiscal year 2007). According to the reports for fiscal years 2006 and 2007, the goal was not achieved with an actual average of 6.3 for both fiscal years. See **Finding A**. According to a representative of IVH, this goal does not have a financial impact but an operational impact. This statistic is reviewed by both DIA and CMS.
- a target percentage of dollars billed to be collected of 99%. According to the fiscal year 2006 report, this goal was achieved with an actual percentage of 99%.
- to partner with the Veterans Affairs Medical Centers in Iowa City and Des Moines to increase the use of the telemedicine system by June 2006. Results of this goal were not presented in the fiscal year 2006 reports. See **Finding A**.

Other information reported

In 1 instance, IVH included information in the reports which was not related to goals established in the agreements. See **Finding A**. Throughout the fiscal year 2005 reports, IVH reported on the daily census figures. In the final fiscal year 2005 report, IVH acknowledged the goal was not in the agreement but had been carried forward from the fiscal year 2004 agreement.