



**OFFICE OF AUDITOR OF STATE**  
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**NEWS RELEASE**

FOR RELEASE

July 16, 2008

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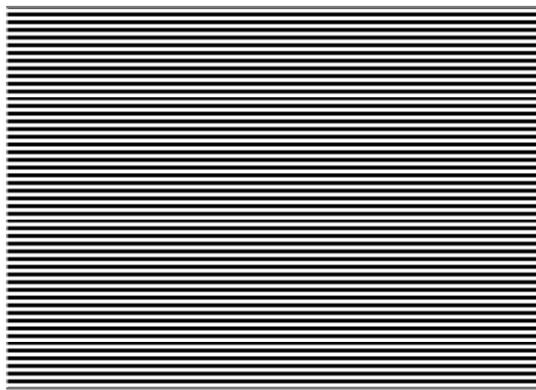
Auditor of State David A. Vaudt today released a report on the Iowa Department of Transportation for the year ended June 30, 2007.

The Department is responsible for planning, developing, regulating and improving the State of Iowa's transportation system to provide and preserve adequate, safe and efficient transportation services.

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

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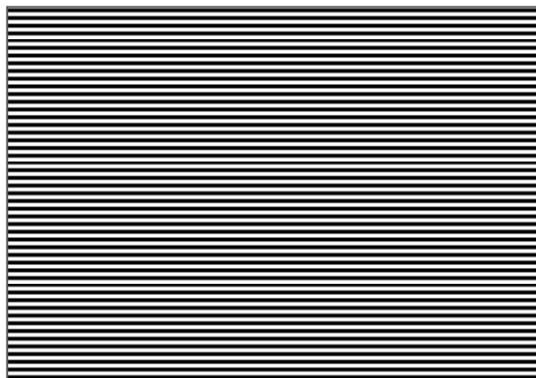
**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF TRANSPORTATION**

**JUNE 30, 2007**

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



**David A. Vaudt, CPA**  
**Auditor of State**







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July 10, 2008

To Nancy J. Richardson, Director of the  
Iowa Department of Transportation:

The Iowa Department of Transportation is a part of the State of Iowa and, as such, has been included in our audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2007.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 11 and they are available to discuss these matters with you.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor  
Charles J. Krogmeier, Director, Department of Management  
Timothy C. Faller, Interim Director, Legislative Services Agency

June 30, 2007

**Findings Reported in the State's Single Audit Report:**

**CFDA Number: 20.205 – Highway Planning and Construction**

**Agency Number: None**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DOT-645-1**

- (1) Davis-Bacon – The Department has established policies and procedures to be followed regarding Davis-Bacon wage rate requirements. The Department's Construction Manual, Chapter 2.24, requires the project engineer to document findings of the wage rate interview for the EEO Project Site Inspection/Wage Rate Interview form (Form No. 650170). This form was not on file for two of thirty projects tested.

Recommendation – The Department should ensure the established procedures are followed so the Employee Wage Rate Interview forms are completed and filed in the project files.

Response and Corrective Action Planned – This requirement continues to be emphasized to field offices and offices that have missed these in the past have been counseled on the established procedures.

Conclusion – Response accepted.

**CFDA Number: 20.509 – Formula Grants for Other Than Urbanized Areas**

**Agency Number: None**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DOT-645-2**

- (2) Subrecipient Monitoring of Davis-Bacon – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of the contract or grant. In some instances the Department delegates responsibility for compliance with requirements related to Davis-Bacon to the director of a transit agency which is the subrecipient for these projects. The Department has no written policies and procedures to ensure subrecipient monitoring includes compliance with the Davis-Bacon Act.

Recommendation – The Department should develop and implement written policies and procedures to determine and ensure compliance with Davis-Bacon requirements on federally participating Federal Transit Authority (FTA) projects. The written policies and procedures should require oversight activities be performed during the course of the project to ensure federal requirements are met, including submission of certified wage information, and corrective action taken when non-compliance was noted. Adequate documentation should be maintained of the oversight activities performed, the findings noted and the corrective action taken.

Response and Corrective Action Planned – The Davis-Bacon requirements were presented to the transit managers at the Iowa Public Transit Association meeting in June 2007. The requirements were to be incorporated in to the revised procurement chapter of the Iowa Transit Managers Handbook, but completion of that has been delayed due to staffing changes. It is anticipated the revised chapter will be published by Fall of 2008.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

**CFDA Number: 20.509 – Formula Grants for Other Than Urbanized Areas**

**Agency Number: None**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DOT-645-3**

- (3) Subrecipient Monitoring – OMB Circular A-133 requires a pass-through entity to be responsible for monitoring the activities of subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of the contract or grant. To assist with monitoring of subrecipients, the Department requires transit agencies to submit quarterly and annual transit history reports. However, the procedures are not adequate to verify accuracy of the reports.

Recommendation – The Department should develop and implement written policies and procedures for overseeing and monitoring the accuracy of the transit history reports submitted by the transit agencies.

Response and Corrective Action Planned – The existing review procedures were put in writing last summer and were published to the Office of Public Transit website as a way to ensure accurate reporting. The procedures were used in the review of the fiscal year 2007 statistics during the Fall of 2007. After discussing the process with several transit managers and discovering no one seemed to be aware that the process was documented on the Transit website, the Office of Public Transit is now working with the Planning and Model Support Team to publish the process in the portal page used by transit system staff to input their reports.

Conclusion – Response accepted.

**CFDA Number: 20.509 – Formula Grants for Other Than Urbanized Areas**

**Agency Number: None**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DOT-645-4**

- (4) Disposition of Equipment – The Department has included procedures in the Transit Manager's Handbook to be followed for disposing of vehicles acquired with Federal Transit Authority (FTA) funds. A transit agency has 45 days to post a notice stating equipment is available for sale/transfer on the Office of Public Transit website after accepting a replacement for a vehicle funded under the statewide grant unless a Delay for Disposition form is filed and an exemption is given. The notice is to be posted for 30 days, after which the transit agency has up to 90 days to dispose of a replaced vehicle. For one of ten vehicles tested, transit agencies did not follow established procedures for the disposition of vehicles acquired with FTA funds.

Recommendation – The Department should ensure transit agencies follow established procedures for the disposition of equipment acquired with FTA funding.

Response and Corrective Action Planned – A new reminder and tracking procedure has been established which will be supported by a new position established in the Office of Public Transit.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

**CFDA Number: 20.509 – Formula Grants for Other Than Urbanized Areas**

**Agency Number: None**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DOT-645-5**

- (5) Record Retention – The Code of Federal Regulations, 49 CFR 18.42, requires records to be retained for three years from the starting date specified in paragraph c of this section. Also, the Department’s policy and procedures manual Chapter 30.05 establishes retention guidelines as prescribed in Chapter 305 of the Code of Iowa. The Department could not locate one of fifty-two contract files tested.

Recommendation – The Department should ensure the Department’s policies and procedures and the federal record retention requirements are followed.

Response and Corrective Action Planned – The recently established support position in the Office of Public Transit will work more closely with contracts and contract filing.

Conclusion – Response accepted.

**CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-3275-EM**

**Pass through Iowa Department of Public Defense –**

**Iowa Homeland Security and Emergency Management Division**

**Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DHS-645-1**

- (6) Allowable Cost Principles – OMB Circular A-133 requires all charges to a federal grant represent actual costs. The Department determines actual costs to be requested through queries of the Resource Management System. This system is a database that records information regarding labor, materials and equipment usage from each of the Department’s maintenance garages in the state of Iowa. The query used to determine the materials cost was incorrect, resulting in an overstated request for reimbursement for materials of \$3,593,476.

Recommendation – The Department should develop and implement policies and procedures to determine whether the information used to request reimbursement is accurate before reimbursement is requested.

Response and Corrective Action Planned – The original Resource Management System (RMS) database query used to obtain Federal Emergency Management Agency (FEMA) materials assigned total crew accomplishment to each individual crew member, thereby overstating materials used. The database query has been corrected. A new query process is in place where query procedures will be tested by Information Technology staff, validated by Office of Maintenance staff and stored on the secure production database.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

**CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-3275-EM  
Pass through Iowa Department of Public Defense –  
Iowa Homeland Security and Emergency Management Division  
Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DHS-645-4**

- (7) Procurement, Suspension & Debarment – OMB Circular A-133 states the Department is prohibited from contracting with parties which are suspended or debarred. The Department has established procedures to ensure transactions which go through the Office of Contracts are to contractors which are not suspended or debarred. The Department also has established procedures for request for proposal (RFP's) processed through the Purchasing Department which includes language for procurements when it is known federal funds will be utilized which requires vendors to certify they are not suspended or debarred. RFP's are only completed for contracts for services, not for goods. Therefore, the Department did not verify vendors which provided materials for the disasters were not suspended or debarred.

Recommendation – The Department should develop and implement policies and procedures to ensure all vendors are not suspended or debarred when it is known federal funds will be utilized to reimburse the Department.

Response and Corrective Action Planned – The Department will adjust the standard terms and conditions to include the following language, “The successful vendor certifies that they are not suspended or debarred from doing business by way of any official action of the Federal Government or the State of Iowa.”

Conclusion – Response accepted.

**CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

**Agency Number: FEMA-1688-DR, FEMA-1705-DR, FEMA-3275-EM  
Pass through Iowa Department of Public Defense –  
Iowa Homeland Security and Emergency Management Division  
Federal Award Year: 2007**

**State of Iowa Single Audit Report Comment 07-III-DHS-645-5**

- (8) Policies and Procedures – The Code of Federal Regulations, 44 CFR 13.42, requires source documentation for all expenditures submitted under the Public Assistance grant be retained for three years. The Department used reports from the Resource Management System to compile the data to request reimbursement. All information in the Resource Management System is entered by supervisors at the Department's maintenance garages throughout the state. Some supervisors entered the information from the supervisor's daily log sheet, but some did not use the form. Not all daily log sheets were retained. Also, some of the supervisors who used the daily log sheets did not enter equipment usage into the system. In those cases, the Department determined equipment usage by other means. There is no written policy regarding the format of source documentation used for the initial input into the Resource Management System and the length of time this information should be retained.

## Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

Also, the Office of Maintenance calculated average unit prices for contracted winter materials used in the disasters. This documentation was not retained by the Department. The average unit prices used was resolved for audit purposes.

Recommendation – The Department should develop and implement policies and procedures for the Resource Management System, including the data fields and source documents to be used and a record retention policy for all items considered support for federal reimbursements that meet federal and state requirements.

Response and Corrective Action Planned – The Office of Management considers the Resource Management System (RMS) to be the original source of all data for Federal Emergency Agency (FEMA) claims. RMS data is “locked” after each pay period, data cannot be changed and the system retains an audit trail of data entry.

Relative to the recommendation on field data entry, the Office of Maintenance staff updated the RMS Users Manual in August 2007. RMS user training was accomplished for all employees who enter data in September 2007. Training is continually available upon request, either individually or in a class format.

The Iowa Department of Transportation Record Retention Manual states RMS record retention is five years of live data and ten years of archived data. Staff is aware of these requirements.

Conclusion – Response acknowledged. In addition, the Department should establish and implement policies and procedures to retain non-RMS data used to support documentation for federal reimbursements.

### **Finding Reported in the State’s Report on Internal Control:**

Financial Reporting – The Department records receipts and disbursements on the I/3 system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package.

The Department performs additional procedures after September 1 to identify additional accounts payables which were not included as expenditures on the I/3 system. At June 30, 2007, approximately \$8.2 million were not reported to the DAS – SAE.

Recommendation – The Department should work with the Department of Administrative Services – State Accounting Enterprise (DAS – SAE) to report the additional accounts payable to DAS - SAE to be reported in the State’s financial statements.

Response – The Department contacted DAS – SAE and discussed administrative procedures which will be used to submit additional payable information for inclusion in GAAP package. As payments are processed after the GAAP package has been submitted, those payments determined to be accruals of the reporting period will be communicated to DAS – SAE for inclusion in the State’s financial statements.

Conclusion – Response accepted.

June 30, 2007

**Other Findings Related to Internal Control:**

- (1) Vendor Control – The Department has two systems in which vendor names and addresses are added and modified, the accounts payable system and the business system.
- a. When a change of address is made in the accounts payable system, it is automatically updated in the business system. A log of the change activity is maintained in the business system. However, when the vendor address is deleted, the activity log is deleted.
  - b. Vendor information must be entered into the accounts payable system before vouchers can be processed to pay the vendor. A number of employees have the ability to add and update vendor information and give office approval to process voucher information for vendor payment.

Recommendation – To maintain adequate control over vendor file original entry and changes and to mitigate payments to fictitious vendors, the Department should:

- a. Maintain the log of activity in the business system, including when a vendor is deleted.
- b. Develop policies and procedures to ensure proper segregation of duties over entering and updating vendor information and applying office approval to process voucher information for vendor payment.

Response – The Department will work with information technology staff to identify and maintain a log in the business system which will record changes to a vendor record and will not allow for the log to be deleted.

The Department will develop procedures to ensure proper segregation of duties over entering and updating vendor information related to accounts payable transactions.

Conclusion – Response accepted.

- (2) Receipts Control – In May 2007, the Department moved operations for Vehicle Services, Drivers' Services and Motor Carrier Services from Park Fair Mall to the newly constructed facility in Ankeny. At both locations, mail receipts are opened in the centralized mail room, sent to the individual offices for processing and then delivered to a central location for deposit. Centralized mail room staff prepare an initial listing of cash received for each office, but an initial listing of checks received is not prepared.

Recommendation – To maintain adequate control over cash and checks received, the Department should have the mailroom staff prepare daily, in addition to the initial listing of cash received, a random listing of checks received in the mail. Someone independent of the initial listing preparation, recording and deposit of mail receipts should trace the items on the initial listings of cash and checks to subsequent recording and deposit.

Response – In August of 2007, the Department implemented a random check tracking process for Vehicle Services, Motor Carrier Services and Driver Services.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

- (3) Compensated Absences – The compensated absences balance at year end has historically been computed using a Cobol program to extract data from appropriate data sources. The employee who performed this procedure retired during the year. When the program was executed to compute the compensated absences balance for June 30, 2007, data was extracted from the wrong data source in some instances which caused the balance to be materially misstated. Management did not detect the misstatement through the review performed. The misstatement was subsequently corrected for financial reporting purposes.

Recommendation – The Department should develop policies and procedures to ensure correct data sources are used to extract data to compute the compensated absences balance at year end. In addition, management should develop policies and procedures to validate the accuracy of the data used to report the compensated absences balance at year end.

Response – The Department has rewritten the Cobol program into a new format that should reduce the chance of error. The Department has also expanded its review process to ensure the data extracted and reported in the compensated absences report in accurately and timely.

Conclusion – Response accepted.

**Findings Related to Statutory Requirements and Other Matters:**

No matters were noted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2007

**Staff:**

Questions or requests for further assistance should be directed to:

Kay F. Dunn, CPA, Manager  
Scott P. Boisen, Senior Auditor  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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