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NEWS RELEASE

FOR RELEASE August 27, 2009

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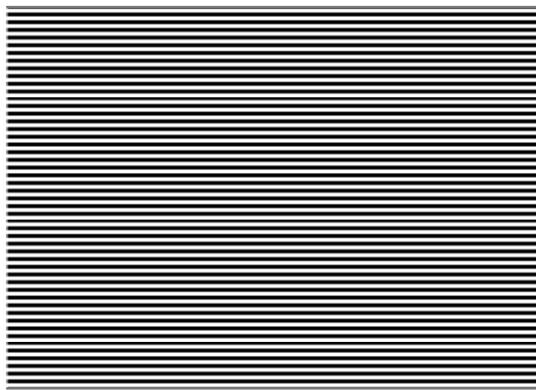
Auditor of State David A. Vaudt today released a report on the Iowa Department of Transportation for the year ended June 30, 2008.

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.

Vaudt recommended the Department review policies and procedures to ensure compliance with Federal requirements and Department policies and to improve controls over receipts. The Department's responses are included in the report.

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, 2008

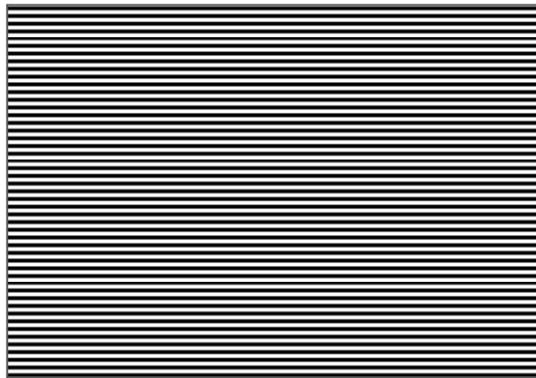
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August 19, 2009

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, 2008.

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 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. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Transportation's responses and, accordingly, we express no opinion on them.

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 13 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
Richard Oshlo, Interim Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

June 30, 2008

Findings Reported in the State's Single Audit Report:

CFDA Number: 20.205 – Highway Planning and Construction

Agency Number: None

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-1

- (1) Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in Federal awards are completed within nine months of the subrecipient's fiscal year end, issue a management decision on audit findings within six months of the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all findings.

The Department has established policies and procedures for obtaining and performing desk reviews of audit reports for subrecipients who expend more than \$500,000 from the Department each year. However, the Department did not review all subrecipient audit reports during the year. Due to staff turnover and leave, subrecipient desk reviews of audit reports received from subrecipients were not available for our review.

Recommendation – The Department should ensure audit reports for all subrecipients which receive \$500,000 or more in federal awards each year are formally reviewed in a timely manner, including appropriate follow-up. The Department should consider cross-training employees to perform subrecipient desk reviews during staff turnover and leave.

Response and Corrective Action Planned – The Department is in the process of filling the position which reviews the subrecipient audit reports so the reviews will be done in a timely manner and appropriate follow-up will occur.

Conclusion – Response accepted.

CFDA Number: 20.205 – Highway Planning and Construction

Agency Number: None

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-2

- (2) Federal Expenditure Reporting – The Iowa Department of Transportation (Department) is the lead state department for a multi-state agreement for long-term maintenance of load and resistance factor design specifications. The Department makes payments to the American Association of State Highway and Transportation Officials (AASHTO) on behalf of the participating states and will then request reimbursement from those states. Federal revenues and the corresponding expenditures for reporting in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2008 are overstated due to the Department not properly identifying and accruing revenue during the prior fiscal year. A voucher for \$330,000 was paid to AASHTO during fiscal year 2007, but a corresponding receivable for the portion of the anticipated reimbursement from participating states was not recorded. The amount of reimbursement received for the expenditure pertaining to fiscal year 2007 was recorded for fiscal year 2008 reporting.

Recommendation – The Department should review its procedures to ensure all revenues and expenditures are evaluated for proper year-end cutoff, accrual and reporting.

Report of Recommendations to the Iowa Department of Transportation

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Response and Corrective Action Planned – The Department will comply with the auditor’s recommendation.

Conclusion – Response accepted.

CFDA Number: 20.205 – Highway Planning and Construction

Agency Number: None

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-3

- (3) Record Retention – The Code of Federal Regulations 49 CFR 18.42 requires financial and programmatic records, supporting documents, statistical records and other records of grantees or subgrantees be retained for three years from the date of the submission of the final expenditure report. In addition, the Department’s Records Management Manual requires all contracts be retained, then be transferred to the Records Center for a ten year retention period, as well as being microfilmed with the microfilm copies being retained by the Records Center indefinitely. The Department could not locate two of the forty project files selected for testing.

Recommendation – The Department should ensure all contracts and project files are retained in compliance with Federal and Department requirements.

Response and Corrective Action Planned – The Department will ensure all contracts and project files are retained in compliance with federal and Department requirements.

Conclusion – Response accepted.

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

Agency Number: None

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-4

- (4) 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. The Department has delegated responsibility for compliance with requirements related to Davis-Bacon to the director of a transit agency which is the subrecipient for these projects. Although the Department obtains a copy of the certified payroll transcripts from the transit agencies for retention in the project file, there is no evidence of the Department’s review of the transcripts for compliance.

Recommendation – The Department should develop and implement written policies and procedures to determine and document compliance with Davis-Bacon requirements for 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 should be taken when non-compliance was noted. Adequate documentation should be maintained of the oversight activities performed, the findings noted and the corrective action taken.

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Response and Corrective Action Planned – The Office of Public Transit has been proactive in educating the subrecipients of their responsibilities by conducting training detailing the requirements of Davis-Bacon. The Department monitors the subrecipients by 1) reviewing solicitation documents and contracts to make sure proper Davis-Bacon provisions are included and 2) by making the subrecipients provide evidence they have conducted the necessary interviews with workers and reviewed payroll information.

Conclusion – Response accepted.

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

Agency Number: None

Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-5

- (5) 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 the replaced vehicle. For one of ten vehicles tested, transit agencies did not dispose of a replaced vehicle within the 120 day period and a Delay of Disposal form had not been submitted to the Department.

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

Response and Corrective Action Planned – The Office of Public Transit implemented a tracking process to monitor the disposition of equipment. The finding was prior to the implementation of the tracking system.

Conclusion – Response accepted.

CFDA Number: 20.601 – Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants

Agency Number: DTNH22-02-H-15088

Federal Award Year: 2008

CFDA Number: 20.610 – State Traffic Safety Information System Improvement Grants

Agency Number: PAP-08-408, PAP-07-408

Federal Award Year: 2008

Passed through Iowa Department of Public Safety

CFDA Number: 20.612 – Incentive Grant Program to Increase Motorcyclist Safety

Agency Number: PAP-08-408, PAP-07-408

Federal Award Year: 2008

Passed through Iowa Department of Public Safety

June 30, 2008

State of Iowa Single Audit Report Comment: 08-III-DOT-645-8

- (6) Procurement, Suspension and Debarment – OMB Circular A-133 states the Department is prohibited from contracting with or making subawards under covered transactions to 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 has also established procedures for requests for proposals (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. During testing, we noted contracts and/or RFP's which had not been processed through the Purchasing Department and did not include the standard language requiring vendors to certify they are not suspended or debarred.

Recommendation – The Department should ensure established policies and procedures are followed by including the appropriate language in the contracts or by performing verification for covered transactions by checking the Excluded Parties List System at <http://epls.arnet.gov>.

Response and Corrective Action Planned – In addition to the standard term and conditions language sent with request for proposals, purchasing will establish and have on file a vendor signed debarment certification for active contract vendors. Contractors submitting a proposal will certify it and its principals and/or subcontractors are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from covered transactions by the State of Iowa or any Federal department or agency. Purchasing will verify new contract vendors are not found on the current exclusion list of Excluded Parties List System (EPLS) before executing a contract or contract renewal. This action will also ensure in the event of an emergency, requisitions for goods processed through Purchasing or orders processed by Central Distribution Center are reimbursed by federal funds will have the contractor certification. We will also review the requirements with the organizational units to make sure they are aware of the suspension and debarment requirements on federally funded projects.

Conclusion – Response accepted.

CFDA Number: 97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Agency Number: FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR
Passed through Iowa Department of Public Defense –
Iowa Homeland Security and Emergency Management Division
Federal Award Year: 2008

State of Iowa Single Audit Report Comment: 08-III-DHS-645-5

- (7) Allowable Cost Principles – OMB Circular A-133 requires all charges to a federal grant represent actual costs. The Department determined 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. In fiscal year 2007, an error in the query used to determine materials cost resulted in a \$3,593,476 overstatement of the Department's request for reimbursement from the Iowa Department of Public Defense. The Department has currently corrected the query process but has not returned the excess reimbursement to the Iowa Department of Public Defense.

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Recommendation – The Department should work with the Iowa Department of Public Defense to resolve this issue.

Response and Corrective Action Planned – The Department is currently in the process of working with the Iowa Department of Public Defense to return the excess reimbursement.

Conclusion – Response accepted.

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

**Agency Number: FEMA-1705-DR, FEMA-1727-DR, FEMA-1737-DR, FEMA-1763-DR
Passed through Iowa Department of Public Defense –
Iowa Homeland Security and Emergency Management Division
Federal Award Year: 2008**

State of Iowa Single Audit Report Comment: 08-III-DHS-645-6

- (8) Record Retention – 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's Office of Maintenance calculated average unit prices for contracted winter materials used in the disasters. This documentation was not retained by the Department. However, the calculation of the average unit prices used was able to be resolved for audit purposes.

Recommendation – The Department should ensure records supporting the costs used for federal reimbursement are retained in compliance with federal and state requirements.

Response and Corrective Action Planned – The Department will ensure records supporting the costs used for federal reimbursement are retained in compliance with federal and state requirements.

Conclusion – Response accepted.

Finding Reported in the State's Report on Internal Control:

No matters were noted.

Other Findings Related to Internal Control:

- (1) Vendor Control – The Department has two systems, the accounts payable system and the business system, in which vendor names and addresses are added and modified.
- (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.

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- (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 original and changed vendor information and to mitigate the risk of making 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 – Time was allocated in the FY09 Information Technology Plan to address these two issues.

Conclusion – Response accepted.

- (2) Receipts Control – When checks and cash are received in the mail by the Department's Vehicle Services, Drivers' Services and Motor Carrier Services facility in Ankeny, an initial listing of cash received is prepared but an initial listing of checks received is not prepared for each office. The Department has implemented a random check tracking process where a selected number of checks received are included on an initial listing and traced for proper recording into the Department's records each week. However, due to the large volume of checks received by these offices, the selection of only three to five checks per week does not appear to be an appropriate amount to provide an adequate level of control.

Recommendation – The Department should review the control procedures for the Ankeny offices to ensure adequate receipts controls are in place. Someone independent of the initial listing preparation, recording and deposit of mail receipts should trace the items to subsequent recording and deposit.

Response – The Motor Vehicle Division implemented procedures for the tracking of checks received by the mail room as a result of previous years' audit findings. Vehicle Services discussed the process to pull 3 to 5 checks, and have independent verification of those, for Vehicle Services and Motor Carrier Services, with the auditor on Wednesday, August 8, 2007. He thought the process was acceptable and could be started. He stated that he would review this with the Office of Finance and any additions could be adopted later. There was no further contact from the auditor. Driver Services adopted the check tracing procedures in June 2007 and notified the auditors of this in July 2007. There was no further contact on the issue. Since this process was implemented, there have been no incidents to warrant a further investigation beyond the original review process set forth in these procedures.

Conclusion – Response acknowledged. As recommended, someone independent of the initial listing preparation, recording and deposit of mail receipts should trace the items to subsequent recording and deposit. In addition, due to the volume of checks received, which can range from approximately 1,500 to 3,500 checks per week, the limited verification procedures currently being performed should be reviewed to reduce the risk of errors occurring which are not detected.

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- (3) Motor Vehicle Enforcement Salvage Theft Exams – The Department issues pre-numbered salvage theft examination certificates to various local investigators and outside agencies for use when conducting investigations of vehicles designated as salvage or have a salvage title to be physically examined by a certified peace officer. The exam may enable the owner of a substantially damaged vehicle to obtain a regular title versus a salvage title after repairs have been performed. When a Department of Transportation investigator conducts an examination, \$30 is collected and remitted to the Department in the form of a check or money order payable to the Department, along with a copy of the salvage theft examination certificate. When a local investigator or outside agency conducts an examination, \$20 is to be retained by the local agency and \$10 is to be remitted to the Department, along with the copy of the salvage theft examination certificate. The Department's Motor Vehicle Enforcement staff do not follow up with local investigators regarding missing certificates for salvage theft exams. Reports identifying gaps in the numerical sequence can be generated but are not being printed or monitored. Monitoring the numerical sequence of the examination certificates could reduce the potential for inappropriate use of the examination certificates and improved accountability over collections.

Recommendation – The Department should develop procedures to monitor the numerical sequence of salvage theft examination certificates, with follow up to document valid reasons for any missing certificates.

Response – A review completed over several years did not find any instances of illegal activity with respect to the use of salvage theft exam certificates, only unreported voided documents. The salvage theft exam certificates are only provided to law enforcement personnel, so the risk of illegal use of such forms is very low. When the process was reviewed, it was determined that it was not a valuable use of resources to continue this process using the existing computer program which was intended to assist in monitoring missing certificates. This program is not being used presently because enhancements are needed to improve its utility. When other programming priorities permits, this program will be updated to allow for monitoring of salvage theft examination certificates.

Conclusion – Response acknowledged. As recommended, the Department should develop procedures to monitor the numerical sequence of examination certificates, with follow up to document valid reasons for any missing certificates.

- (4) Loan Fund Compliance – The Department administers the Intermodal Transportation Revolving Loan Fund (contract No. #99-0064-01) with the Iowa Department of Natural Resources. The contract requires the Department to revert back to the Energy Conservation Trust Fund any income or interest collected from loans or from unused funds annually by July 31st. The Department did not revert the interest collected by the date specified in the contract.

Recommendation – The Department should develop procedures to ensure compliance with contractual obligations.

Response – The Department will develop procedures to ensure compliance with the contractual obligations.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

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- (5) Negotiated Contracts – The Department has specific policies applicable to administering negotiated contracts for non-engineering or consultant contracts not awarded through a competitive bid process. The Department’s policy No. 300.13 requires the Department to use either a formal bid letting process for selection or document sole source or emergency procurement justification for all contracts greater than \$10,000. All contracts using the sole source method for selection are required to include a pre-contract questionnaire. Also, according to the Department’s policy, contracts shall have a term of no longer than 3 years. In several instances, the Department has not let bids for the contract or used sole source/emergency procurement procedures. The instances include staff action requests and advertising contracts through marketing. Also, one selected contract has not been rebid since 1997.

Recommendation – The Department should ensure Department policies are complied with for all negotiated contracts for non-engineering services.

Response – We will comply with the auditor’s recommendation.

Conclusion – Response accepted.

- (6) Schedule of Expenditures of Federal Awards – The Department provides information for reporting federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) in the State’s Single Audit Report. The SEFA is compiled by categorizing federal revenue received by federal program since revenues are recognized based upon reimbursement of allowable federal expenditures. The Department’s largest volume of revenue is requested on a reimbursement basis through the Department’s Current Bill system. Federal reimbursements from this system are primarily grants through the Federal Highway Administration (FHWA).

Non-FHWA grants which are not reimbursed through the Current Bill system are sometimes coded to revenue sources other than federal revenue. Because Department staff rely on the coding of federal reimbursements to federal revenue codes as the basis for preparing the SEFA, certain reclassifications, adjustments and identification of missing CFDA numbers are necessary for proper reporting of non-FHWA grant reimbursements.

During our audit of federal awards, including reporting for the SEFA, we noted:

- (a) Department staff preparing the SEFA encounter difficulties with correct federal program identification when revenue is not properly coded to federal revenue object codes.
- (b) Department staff preparing the SEFA may not always have available the grant information to identify certain revenue sources since grant contracts do not consistently identify the federal funding source.
- (c) Communication of federal grant information, such as the CFDA number, is not always passed on to the Department by the federal awarding agency, pass-through state agency or program administrators.

Recommendation – The Department should improve communication between awarding agencies, program administrators and Department staff preparing the SEFA to obtain the necessary information to reflect all Federal CFDA numbers and ensure revenue coding is to the proper object codes to improve the accuracy of the reported SEFA amounts.

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Response –

- (a) Discussions will be initiated within the Financial Management and Reporting, and Project Accounting and Payables sections in the Office of Finance to emphasize the importance of federal object codes and the role they play in identifying federal activity for the SEFA. Object codes will be identified to report “direct” and “indirect” federal financial assistance.
- (b) The Office of Finance will re-emphasize with program administrators the importance of submitting the grant agreements to the Office of Finance after the grant is signed.
- (c) The Department will document its effort to obtain the CFDA number from the granting agency if it is not identified in the grant agreement.

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, 2008

Staff:

Questions or requests for further assistance should be directed to:

Ronald D. Swanson, CPA, Manager
Scott P. Boisen, Senior Auditor II
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

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Janet K. Mortvedt, CPA, Staff Auditor
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