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NEWS RELEASE

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FOR RELEASE _____ January 25, 2013 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the Southwest Iowa Transit Agency (SWITA) for the period July 1, 2011 through June 30, 2012. The special investigation was requested by the Office of Public Transit within the Department of Transportation (DOT) as a result of concerns regarding compliance with reporting requirements by the SWITA Transit Director.

Vaudt reported the special investigation identified 8,901 charter riders which were improperly included as public riders on the quarterly charter reports submitted to DOT by SWITA, which does not comply with section 604.3 of the Code of Federal Regulations. Because charter services were not properly reported to DOT in fiscal year 2012, SWITA could potentially receive funding in fiscal year 2014 which the agency is not entitled to if the charter riders are not adjusted. In addition, Vaudt identified \$300.00 of improper disbursements for the payment of golf registration fees for employees of the Southwest Iowa Planning Council.

The report includes recommendations to strengthen DOT's internal controls and overall operations, such as reviewing quarterly reports submitted in a timely manner and conducting follow-up on any variances. In addition, the report includes recommendations to strengthen SWITA's internal controls and overall operations, such as obtaining independent approval of quarterly reports submitted to DOT, including the driver's name and the reason for use of the vehicle on the mileage logs and providing supporting documentation for meetings and/or training attended which are included on employee timesheets.

Copies of the report have been filed with the Iowa Department of Transportation for consultation with the U.S. Department of Transportation and the Federal Transit Administration. 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/1360-6450-BOP1.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
SOUTHWEST IOWA TRANSIT AGENCY
FOR THE PERIOD
JULY 1, 2011 THROUGH JUNE 30, 2012**

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Auditor of State's Report

To the Members of the Southwest
Iowa Planning Council:

As a result of concerns regarding compliance with reporting requirements and at the request of the Office of Public Transit within the Department of Transportation (DOT), we conducted a special investigation of the Southwest Iowa Transit Agency (SWITA). We have applied certain tests and procedures to selected financial records of SWITA for the period July 1, 2011 through June 30, 2012. Based on discussions with SWITA personnel and a review of relevant information, we performed the following procedures:

- (1) Evaluated internal controls for SWITA to determine whether adequate policies and procedures were in place and operating effectively.
- (2) Obtained and reviewed a memo issued by DOT to SWITA regarding the findings of the compliance review conducted for the period July 1, 2010 through June 30, 2011.
- (3) Conducted interviews with certain SWITA officials and employees to identify any additional concerns and obtain an understanding of employee responsibilities.
- (4) Reviewed accounting records to ensure SWITA funds were recorded separately and not commingled with funds received by the Southwest Iowa Planning Council.
- (5) Reviewed policies and procedures for the use of SWITA vehicles and reviewed vehicle mileage logs to determine if they identified the driver, date, number of miles driven, reason for use and destination.
- (6) Reviewed disbursements from SWITA's bank account for reasonableness and examined certain disbursements to determine if they were appropriate, properly approved and supported by adequate documentation.
- (7) Reviewed timesheets to determine reasonableness and whether timesheets included dates of travel and/or documented if employees worked in the office, were traveling or were using paid leave, such as vacation or sick leave.
- (8) Reviewed SWITA driver logs to determine the number of charter trips provided and compared the number of charter riders identified to the number of charter riders reported to DOT by the Transit Director to determine if they agreed.
- (9) Obtained and reviewed DOT quarterly ridership reports to determine the number of riders reported.

These procedures determined SWITA was not properly reporting charter riders to the DOT in accordance with section 604.3 of the Code of Federal Regulations. In addition, we identified \$300.00 of improper disbursements between July 1, 2011 and June 30, 2012. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Southwest Iowa Transit Authority, other matters might have come to our attention which would have been reported to you.

Copies of this report have been filed with the Iowa Department of Transportation for consultation with the U.S. Department of Transportation and the Federal Transit Administration.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the Southwest Iowa Transit Agency and the Department of Transportation during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 17, 2012

Southwest Iowa Transit Agency

Investigative Summary

Background Information

The Southwest Iowa Planning Council (SWIPCO), including the Southwest Iowa Transit Agency (SWITA), was formed in 1975 to promote regional cooperation as well as serve the counties and cities within the region with community and economic development activities to improve the quality of life for all residents in Southwest Iowa. SWIPCO's region is comprised of 63 cities and 8 counties, including Cass, Fremont, Harrison, Mills, Montgomery, Page, Pottawattamie and Shelby.

SWIPCO is governed by a 17-member Policy Council which includes a member from each County's Board of Supervisors, 6 citizens appointed by the County Boards of Supervisors and 3 additional individuals selected by the other members of the Policy Council. The Policy Council is responsible for the oversight of SWITA.

SWITA provides the region with a rural demand/response transit system. In order to meet the needs of various agencies and organizations, and to extend the reach of SWITA, service is structured in a variety of ways, as follows:

- Routed service – a series of designated routes with both the route and time of service specified, which is paid for by the rider through a fee.
- Direct service – a contract for a vehicle and driver, which is billed to the agency contracting for service on a per-mile or per-passenger basis.
- Taxi service – a service for seniors and persons with disabilities which is paid for by the rider and/or Medicare/Medicaid.
- Demand service – curb-to-curb service during established hours in several of the larger communities, which is paid for by the rider and/or Medicare/Medicaid.

In October 2010, SWIPCO hired Steve Andersen as the Transit Director. Mr. Andersen's responsibilities include oversight of SWITA operations and personnel, writing grant applications, establishing contracts with vendors and establishing rates for fares. In addition, Mr. Andersen is responsible for reporting all ridership numbers, including charter and/or sightseeing, on a quarterly and annual basis to the Department of Transportation (DOT).

SWITA's primary revenue sources are transportation contracts with various agencies and organizations and federal and state transit assistance from the U.S. Department of Transportation and DOT. In addition, SWITA receives miscellaneous revenues from public fares, city and county transit support and membership dues. Collections are to be deposited to SWIPCO's checking account.

All SWITA disbursements are to be made by check signed by the Executive Director of SWIPCO and the SWITA Transit Director and approved by the Policy Council at its bi-monthly meetings. Bank statements and accounting records are reconciled by the SWIPCO Finance Director, who is not an authorized signer on the bank account and does not typically generate checks.

On November 15, 2011, a compliance officer from the Office of Public Transit within DOT conducted a review of SWITA to determine its compliance with the requirements of the state and federal transit funding programs. As a result of this review, DOT identified several areas requiring additional attention or improvements to existing practices, including an issue related to SWITA's funding. According to a memo dated December 2, 2011 issued to SWITA, the DOT compliance officer examined driver manifests and identified multiple entries which appeared to be charter or sightseeing trips which should not have been included in the fiscal year 2011 statistical report

submitted to DOT. According to the memo, DOT's recommendations to SWITA included reviewing the charter rule contained in Part 604 of the Code of Federal Regulations (CFRs) to ensure all trips comply with the regulations and to ensure rider statistics do not include charter and/or sightseeing trips. However, DOT personnel did not ensure SWITA made the necessary corrections to the rider statistics and they performed no additional procedures.

On August 8, 2012, a representative from DOT's Office of Public Transit contacted the Office of Auditor of State regarding concerns expressed by a SWITA employee. The concerns identified included personal use of SWIPCO and/or SWITA property, possible inaccuracies in employee timesheets, questionable disbursements and compliance with reporting requirements.

As a result of the concerns identified, a representative from DOT's Office of Public Transit requested the Office of Auditor of State perform an investigation of SWITA's financial transactions and compliance with reporting requirements. We performed the procedures detailed in the Auditor of State's Report for the period July 1, 2011 through June 30, 2012.

Detailed Findings

These procedures determined SWITA was not properly reporting charter riders to DOT in accordance with section 604.3 of the CFRs. In addition, we identified \$300.00 of improper disbursements between July 1, 2011 and June 30, 2012. A detailed explanation of each finding is included in the following sections of this report.

REPORTING REQUIREMENT

SWITA's primary revenue sources are transportation contracts with various agencies and organizations and federal and state transit assistance from the U.S. Department of Transportation and DOT. In addition, SWITA receives miscellaneous revenues from public fares, city and county transit support and membership dues.

Mr. Andersen reported the number of riders, including public and charter, to DOT on a quarterly and an annual basis. This information was used by DOT to calculate future funding. However, public transit agencies are not allowed to provide private charter services except under select circumstances. As a result, charter riders are reported separately from public riders and are not included by DOT when calculating the funding formula.

According to section 604.3 of the CFRs, charter services are defined as:

- Transportation provided by a public transit agency at the request of a 3rd party for the exclusive use of a bus or van for a negotiated price, specifically if:
 - a 3rd party pays the transit provider a negotiated price for the group,
 - any fares charged to individual members of the group are collected by a 3rd party,
 - the service is not part of the transit provider's regularly scheduled service or is offered for a limited period of time, or
 - a 3rd party determines the origin and destination of the trip as well as the scheduling.
- Transportation provided by a public transit agency to the public for events or functions which occur on an irregular basis or for a limited duration and
 - a premium fare is charged which is greater than the usual or customary fixed route fare or
 - the service is paid for in whole, or in part, by a 3rd party.

As previously stated, a compliance officer from the DOT conducted a review of SWITA to determine compliance with the requirements of the state and federal transit funding programs and identified multiple entries which appeared to be charter or sightseeing trips which should not have been included in the fiscal year 2011 statistical report. According to a DOT representative, SWITA's quarterly charter reports and year-end reports were adjusted by 9,353 riders to properly reflect charter and/or sightseeing trips. The representative also stated because the U.S. Department of Transportation had yet to determine total funding to be provided for fiscal year 2013, DOT was able to calculate the funding formula based on the adjusted numbers reported for fiscal year 2011. As a result, no overpayment was made to SWITA for fiscal year 2013 funding. **Table 1** lists fiscal year 2011 charter passenger counts reported by SWITA in the quarterly charter reports and the charter passenger counts included on the driver manifests reviewed by the DOT compliance officer.

Table 1

| Fiscal Year 2011 | Passenger Counts per | |
|---------------------|--------------------------------|---------------------|
| | Quarterly Charter Report | Driver Manifests |
| | First quarter | - |
| Second quarter | - | 2,031 |
| Third quarter | - | 131 |
| Fourth quarter | - | 2,414 |
| Total | - | 9,353 |

We reviewed the driver manifests for the period July 1, 2011 through June 30, 2012 to determine if charter and/or sightseeing trips were properly reported to DOT for fiscal year 2012. As a result, we determined SWITA did not properly report all charter and/or sightseeing trips to DOT. **Table 2** summarizes the fiscal year 2012 passenger counts reported in the quarterly charter reports, statistical report, the draft year-end report and the driver manifests.

Table 2

| Fiscal Year 2012 | Passenger Counts per | | | |
|---------------------|---------------------------------|-----------------------|-----------------------------|----------------------|
| | Quarterly Charter Reports | Statistical Report | Draft Year-End Report | Driver Manifests* |
| First quarter | 67 | 3,965 | ^ | 3,882 |
| Second quarter | - | 746 | ^ | 2,105 |
| Third quarter | 674 | 674 | ^ | 1,699 |
| Fourth quarter | - | 857 | ^ | 1,956 |
| Total | 741 | 6,242 | 11,346 | 9,642 |

^ - The year-end report does not include passenger counts by quarter. Included total for comparative purposes.

* - Calculated by reviewing all driver manifests for the period July 1, 2011 through June 30, 2012.

As illustrated by **Table 2**, the reports prepared by Mr. Andersen do not agree with either each other or with the passenger counts calculated from the driver manifests. According to Mr. Andersen, the definition of a charter rider is very grey and depends on where the 3rd party receives its funding, such as 100% federally funded. However, according to a DOT representative, the definition of a charter service is not a grey area. It is explained in the CFRs and DOT's Transit Manager Handbook (Handbook). The representative also stated, although there are certain

Transit Directors who express their frustration with the federal and state regulations, they are still required to follow them. In addition, neither the CFRs nor the Handbook exclude a 3rd party from charter services based on funding source.

A comparison of the driver manifests to the quarterly charter reports submitted to DOT by SWITA identified 8,901 charter riders based on the driver manifests who were improperly classified as public riders on the quarterly charter reports. Because charter services were not properly reported to DOT in fiscal year 2012, SWITA could potentially receive funding in fiscal year 2014 which the agency is not entitled to if the charter riders are not adjusted. Since SWITA has misrepresented charter riders for fiscal years 2011 and 2012, DOT should determine if future funding to SWITA should be withheld until SWITA demonstrates compliance with the definition of charter riders established in the CFRs.

IMPROPER DISBURSEMENTS

We reviewed SWITA's accounting records for the period July 1, 2011 through June 30, 2012 to identify any unusual disbursements and address the request made by DOT. As a result of our review, we identified a payment issued to Cass County Memorial Hospital Foundation on July 3, 2012 in the amount of \$300.00. According to an employee of SWIPCO, the payment was initially questioned by the Policy Council, but Mr. Andersen explained the payment was for a sponsorship on a tee box. Based on a review of the supporting documentation available, the payment was for 4 golfer registrations, including a tournament gift, lunch and hors d'oeuvres for each golfer. As a result, we have identified the \$300.00 golf registration as an improper disbursement.

OTHER ADMINISTRATIVE ISSUES

Use of SWIPCO Property – According to a representative of DOT's Office of Public Transit and during an interview with a SWIPCO employee, a concern was expressed regarding Mr. Andersen's use of a SWIPCO vehicle for personal purposes during the lunch hour. Because the vehicle usage logs (logs) maintained for the staff vehicles do not contain sufficient detail, such as the driver's name or the reason for the trip, we were unable to determine the propriety of the trips. We were also unable to determine if Mr. Andersen used a SWIPCO vehicle for personal purposes.

In addition, according to a representative of DOT's Office of Public Transit, a concern was expressed regarding the use of maintenance facilities and staff for oil changes and other maintenance for Mr. Andersen's personal vehicle. We interviewed the Fleet Maintenance Specialist who stated he has done minor repair work for several employees. He further stated all work was performed outside normal business hours, all materials needed for the repairs were provided by the individual and he uses his own tools for the work. However, because there are potential liability issues, this practice should not be allowed.

Employee Timesheets – We reviewed all employee timesheets for the period July 1, 2011 through June 30, 2012. Based on our review, the hours reported appeared reasonable in comparison to previous timesheets. We did not identify any hours which were not properly reported. Because sufficient supporting documentation was not available regarding employee attendance at meetings and use of vacation and/or sick leave, we were unable to determine if employee timesheets accurately reflect the hours worked. However, we did not identify any reimbursements for meeting expenses.

Accounting Records – We reviewed accounting records for the period July 1, 2011 through June 30, 2012 to determine if SWITA funds were recorded separately and not commingled with other SWIPCO funds. We determined SWIPCO has established account codes to properly record and identify SWITA funds. As a result, further testing was not deemed necessary.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by the Southwest Iowa Planning Council and the Southwest Iowa Transit Agency to process receipts, disbursements and payroll. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen SWIPCO's and SWITA's internal controls and improve DOT's oversight.

- A) DOT Funding Allocation – We identified 8,901 charter riders based on the driver manifests who were improperly classified as public riders on the quarterly charter reports submitted by SWITA for fiscal year 2012.

Recommendation – SWITA should implement procedures to ensure charter riders are properly identified and reported to DOT. In addition, SWITA should ensure compliance with Chapter 604 of the Code of Federal Regulations and DOT regulations.

In addition, DOT should ensure SWITA ridership is adjusted to accurately reflect the charter riders prior to the calculation of the fiscal year 2014 funding allocation. In addition, DOT should consider the future of SWITA funding because of the repetitive misrepresentation of public riders compared to charter riders for 2 consecutive years.

- B) DOT Oversight – DOT completed a compliance review which identified an area of non-compliance which had a direct effect on the funding received by SWITA.

Despite DOT's compliance review, SWITA continued to improperly report charter riders as public riders on the quarterly reports. In addition, SWITA reported no charter riders for 2 quarters of fiscal year 2012. However, no follow-up was performed by DOT to determine why no charter riders had been reported.

Recommendation – DOT should implement procedures to ensure quarterly reports are reviewed and any significant changes are investigated and explained.

- C) Approval of Quarterly Reports – The quarterly charter reports prepared by Mr. Andersen were not reviewed and approved by the SWIPCO Executive Director and/or the Policy Council.

Recommendation – All quarterly and annual charter reports should be reviewed and approved by the Executive Director and/or the Policy Council prior to submission to DOT.

- D) Disbursements – We identified a disbursement for golf registration which was not an operating expense related to SWIPCO or SWITA.

Recommendation – The Policy Council should ensure all disbursements have sufficient supporting documentation. In addition, invoices should be reviewed by the Policy Council prior to payment to ensure all disbursements are related to either SWIPCO or SWITA operations.

- E) Vehicle Usage Logs – The vehicle usage logs do not include sufficient detail, such as the driver’s name, the destination or the reason for the trip.

Recommendation – SWITA should ensure vehicle usage logs include the date, driver’s name, destination, odometer readings and the reason for the trip to ensure all staff vehicles are used for legitimate business purposes.

- F) Employee Timesheets – Sufficient supporting documentation was not available to determine if meetings and conferences or paid leave hours used for vacation and/or sick leave were properly recorded.

Recommendation – A calendar should be maintained for all meetings, conferences and training sessions attended, including time and location. Periodically, a member of the Policy Council should review the calendar for reasonableness and verify the employee’s attendance. In addition, sufficient supporting documentation, such as an approved leave slip, should be maintained for all vacation and/or sick leave recorded.

- G) Use of Facilities – The Fleet Maintenance Specialist performed oil changes and other minor repair work on employee owned vehicles using SWITA facilities. According to the Fleet Maintenance Specialist, materials and supplies were not provided by SWITA. There is no written policy addressing the propriety of this practice.

Recommendation – Because there are potential liability issues, the Policy Council should develop and implement a policy prohibiting the use of SWITA facilities for personal purposes.

Report on Special Investigation of the
Southwest Iowa Transit Agency

Staff

This special investigation was performed by:

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