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NEWS RELEASE

FOR RELEASE

October 9, 2014

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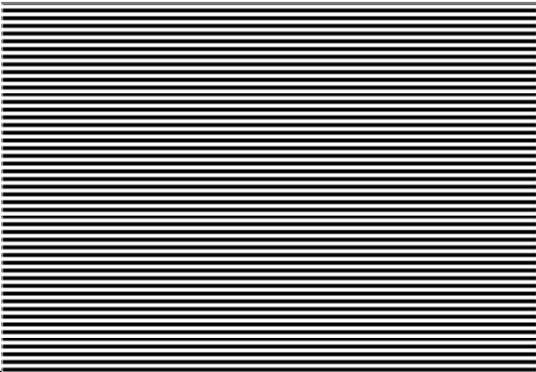
Auditor of State Mary Mosiman today released a report on the Iowa Department of Transportation for the year ended June 30, 2013.

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.

Mosiman recommended the Department review policies and procedures to ensure compliance with Federal requirements and Department policies and to improve controls over service contracts, uniform purchases and motor vehicle enforcement salvage theft exams. In addition, the Department should ensure the GAAP package information reported is complete and accurate. The Department's responses to the recommendations 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/1460-6450-BR00.pdf>.

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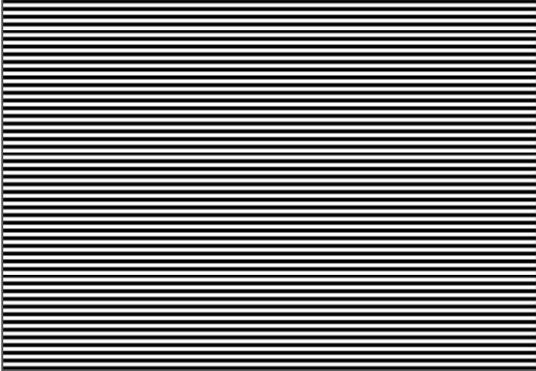
**REPORT OF RECOMMENDATIONS TO THE
IOWA DEPARTMENT OF TRANSPORTATION**

JUNE 30, 2013

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



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October 6, 2014

To Paul Trombino III, 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, 2013.

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. 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 10 and they are available to discuss these matters with you.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2013

Finding Reported in the State's Single Audit Report:

CFDA Number: 20.205 – Highway Planning and Construction

Agency Number: None

Federal Award year: 2011, 2012, 2013

State of Iowa Single Audit Report Comment: 13-III-DOT-645-1

Federal Funding Accountability and Transparency Reports – The Federal Funding Accountability and Transparency Act (FFATA) (Pub. L. No. 109-282) as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252) requires prime awardees to submit reports regarding their first-tier subawards to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Reports are due for all applicable subrecipient grants by the end of the month subsequent to the month the grants were awarded. Certain awards tested were not reported timely.

Recommendation – The Department should ensure reports are submitted timely and in accordance with the Federal Funding Accountability and Transparency Act.

Response and Corrective Action Planned – The FFATA reporting process was re-evaluated and modified to ensure FFATA reports are submitted timely. As of March 3, 2014, all necessary FFATA reports related to the Federal Highway Administration have been completed.

Conclusion – Response accepted.

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

- (1) Financial Reporting – The Department records receipts and disbursement in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Service – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year.

The following were noted:

- a) Future lease obligations were understated by \$286,644.
- b) The Department makes loans to cities for road projects and subsequently reports these loan receivables in the GAAP package. A portion of one loan receivable totaling \$592,671 is disputed by the City because the Department has not provided cost documentation satisfactory to the City.

Recommendation – To strengthen controls, the Department should implement procedures to ensure the GAAP package information reported is complete and accurate. In addition, the Department should continue to work with the City to resolve the dispute to ensure loans receivable are accurately reported.

Response –

- a) The Department will review current procedures related to lease obligations and modify where needed to minimize misstatements.
- b) The Department will continue to work with the City to resolve the disputed amount.

Conclusion – Response accepted.

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- (2) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. Depreciation expense and accumulated depreciation were understated by \$373,047.

Recommendation – To strengthen controls, the Department should implement procedures to ensure the GAAP package information reported is complete and accurate.

Response – The Department will review current procedures related to depreciation expense and accumulated depreciation and modify where needed to minimize misstatements.

Conclusion - Response accepted.

Other Findings Related to Internal Control:

- (1) Motor Vehicle Enforcement Salvage Theft Exams – The Office of Auditor of State conducted a review related to Motor Vehicle Enforcement Salvage Theft Exams administered by the Department. The Department is responsible for the Salvage Vehicle Theft Examination process established by Chapter 321.52 of the Code of Iowa. The purpose of the salvage vehicle theft examination is to physically verify stolen parts were not used to rebuild a vehicle and authenticate ownership of the vehicle. In accordance with the Code of Iowa, all vehicles designated as salvage or which have a salvage title are to be physically examined by a peace officer who has been certified by the Iowa Law Enforcement Academy to conduct examinations.

The examination must be completed by a Motor Vehicle Enforcement (MVE) investigator or by a certified local law enforcement agency peace officer who must document the vehicle passed examination on the salvage theft examination certificate. The salvage theft examination certificate must be on prescribed forms provided by the Department. The vehicle owner must pay a \$30.00 fee to the examining officer upon completion of the examination. The fees collected are split between the Department and the local law enforcement agency conducting the exam.

Recommendations – The review included 7 local agencies and covered certificates issued from April 1, 2008 through March 31, 2010. The report recommended the Department implement procedures to improve controls over the following:

- Ensure local agencies issue certificates in sequential order and all voided receipts are properly controlled and provided to the Department by the local agencies. Local agencies should also maintain the pink copy of voided certificates in examination files and mail the white copies to the Department.
- Periodically use the sequential certificate numbers to identify any certificates not submitted to the Department. The Department should also perform periodic reconciliations to ensure the appropriate fees are submitted by the local agencies for the certificates filed with the Department. The Department should investigate and document any voided certificates in conjunction with missing certificates.
- Ensure local agencies have implemented appropriate controls over the certificates maintained at local agencies. The number of certificates on hand should periodically be compared to the number obtained from the Department, the number issued and remitted to the Department and the

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number voided. The comparison should be completed by someone independent of the individual performing the examinations and collecting the related fees.

- Update the list of local agencies which complete salvage vehicle theft examinations and ensure only active, trained and authorized local agencies are included. The Department should also ensure local agencies have implemented procedures to comply with administrative rules regarding accepting only checks or money orders for examinations.
- Include sufficient information in the training packet and guidance provided to officers from local agencies to ensure failed examinations are handled in an appropriate manner.

Fiscal Year 2013 Status – Our review of these areas during the fiscal year 2013 financial audit found the above issues were not resolved. Accordingly, the above recommendations are repeated.

Response – The Department is currently working on a process to make the recording of the exams an electronic process and will be matched to a specific vehicle. This process will eliminate the paper exam certificates and allow for the fees to be submitted electronically. It will also allow for the paper repair affidavits to be stored electronically with the vehicle record. Planned implementation is the end of fiscal year 2015. Until the on-line version is implemented, we are addressing the recommendations as noted.

- a) Each law enforcement agency conducting vehicle theft exams is responsible for managing the examination forms for their agency and remitting the forms properly to the owner and the DOT. Initial certification training and recertification training provided to officers instructs and tests them on developing proper recording and filing methods for the exam forms and proper fee collecting. Officers may start an examination form and not complete it due to the customer not having appropriate documentation or fees. The result can be exam forms sent to the DOT that are out of sequence as the officer is holding forms that were initially started but held to complete at a later date. This can cause the exam forms to not be in sequential order and not remitted to the DOT. There is no code or rule mandate as to how frequently exam forms are submitted by law enforcement to the DOT. To eliminate this problem, the DOT is working to establish an electronic method for officers to record the examination and fees collected thereby linking the exam to a specific vehicle.
- b) Today law enforcement agencies conducting exams maintain the pink copy of the exam certificate and affidavit of repairs for 3 years. The management and maintenance of these forms and affidavit is part of the officer certification and recertification training. The information contained on the repair affidavit is important vehicle history information that the DOT will incorporate into the electronic recording method so this information can be maintained with the DOT vehicle record.
- c) Officers are instructed during certification and recertification training that cash can't be accepted for an exam.

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- d) For VOID certificates, officers are trained to send in the yellow and white copies to the DOT and the officer maintains the pink copy of their records. Law enforcement agencies are not mandated to complete certificates in numerical order and sometimes get out of sequence because of the holding of the certificate waiting on customer information. The elimination of paper certificates and requiring exams to be completed electronically within the DOT vehicle record will eliminate this issue. Staff with the Bureau of Investigation and Identity Protection review problems with the use of certificates directly with the agency's staff.
- e) The information regarding failed inspections is covered during the classroom instruction for certification.
- f) We remove agencies from this list when we are notified by the agency that they no longer want to be in the program. During the certification training, officers are asked if their agency is not currently on the DOT list, if they want their agency added. They are also instructed to let the DOT know when they no longer want to be a part of the program.
- g) The monitoring and control over the salvage exam certificate forms will be eliminated when this program is moved to an electronic format.

Conclusion – Response acknowledged. Until an electronic process is in place, the Department should monitor the sequence of certificates and reconcile certificates provided to local agencies and collections remitted to the Department to help ensure certificates are completed and all fees have been remitted.

- (2) Wright Express Transaction Review – The Department assigns a Wright Express fuel card to each vehicle to purchase fuel and other vehicle maintenance items. The vehicle driver uses this card and a personal identification number (PIN) to make purchases. Wright Express software enables the Department to review card transactions. Although the Department performs reviews of the Wright Express transactions, the review is not signed or initialed and dated to evidence the review was timely. Also, monthly exception reports are prepared but are not reviewed and resolved timely.

Recommendation – To strengthen controls, the independent review of Wright Express transactions should be evidenced by the reviewer's signature or initials and the date of the review. Also, monthly exception reports should be reviewed and any exceptions should be resolved timely. The review should be evidenced by the reviewer's signature or initials and the date of the review.

Response – The DOT will continue to look for ways to efficiently review the large amount of transactions that occur. Current procedures are ensuring that totals per Wright express invoice matches the product summary report and voucher totals. We will begin initialing and dating that documentation. We are continuing to work on ways to monitor activity by use of exception reports generated by Wright Express, based on criteria provided by DOT Fleet Manager, and includes parameters such as analyzing unusual amounts of gas for a particular vehicle and gas purchased at odd times of the night, etc. When reviewed, these exception reports will include the reviewer's signature or initials and the date of the review.

Conclusion – Response accepted.

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- (3) Invoice Cancellation – The Department scans invoices and retains an electronic image of the invoice on the Electronic Records Management System (ERMS). When an invoice is printed from ERMS, there are no distinguishing marks to indicate the invoice has been paid.

Recommendation – To strengthen controls and to help prevent duplicate payment, a distinguishing mark or watermark should be applied to the invoice when printed.

Response – The Department has submitted a request to the ERMS vendor to add a banner which will indicate the invoice has been paid. The implementation date is planned for September 2014.

Conclusion – Response accepted.

- (4) Service Contracts – DOT policy 010.10 requires service contracts between \$500-\$4,999 to be informally bid and service contracts greater than \$5,000 to be formally bid, unless the State has a contract with the vendor through the Department of Administrative Services (DAS). We noted the following regarding service contracts:

- Mowing services have not been bid and there is no written contract with the current vendor.
- A written contract does not exist with a vendor providing paper shredding service.
- A pre-contract questionnaire is not completed for corporations as required by Department policy.
- One contract tested is an annual contract; however the contract has not been updated in several years.

Recommendation – The Department should ensure policies and procedures are followed.

Response – Finance will work with business units to ensure they are clear about the policies and will help ensure policies and procedures are followed.

Conclusion – Response accepted.

- (5) Uniform Purchases – The Motor Vehicle Division (MVD) purchases clothing as uniforms from local retail vendors rather than from a contract as required by Department policy 100.04. The American Federation of State, County, and Municipal Employees (AFSCME) contract defines uniforms as identically styled clothing and/or footwear uniquely related to the workplace and not appropriate for personal or other outside use. Clothing purchased by the MVD is appropriate for personal use and, therefore, does not fit the definition of a “uniform” as defined by the AFSCME contract. Clothing purchases considered adaptable to general usage as ordinary clothing should have been, but were not, included in wages of employees in accordance with Internal Revenue Service (IRS) guidelines. Also MVD procurement card holders are inappropriately splitting transactions to avoid single transaction limits, which are strictly prohibited by the Department of Administrative Services Purchasing Card Policy and Procedures Manual.

Recommendation – The Department should establish a written contract with a vendor for clothing purchases which are considered to be a uniform in accordance with DOT policy 100.04. Also, the Department should properly include clothing purchases as a taxable fringe benefit in accordance with IRS guidelines. The Department should ensure transactions are not split to avoid purchasing limits.

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Response – The DOT will work with the Motor Vehicle Division (MVD) to ensure they have a written contract for uniforms in accordance with DOT policy 100.04. The Department will be including clothing (non-uniforms) as a taxable fringe benefit in accordance with IRS guidelines for calendar year 2014. The Department will continue to educate business units on proper use of the Purchasing Card.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

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Staff:

Questions or requests for further assistance should be directed to:

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