



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE _____ October 18, 2016

Contact: Andy Nielsen
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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, 2015.

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 implement procedures 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 and procedures are developed for travel expense reimbursements. 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 <https://auditor.iowa.gov/reports/1660-6450-BR00>.

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

JUNE 30, 2015

Iowa Department of Transportation



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October 17, 2016

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, 2015.

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 and compliance with statutory requirements and other matters. 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 8 and they are available to discuss these matters with you.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

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

June 30, 2015

Finding Reported in the State's Single Audit Report:

CFDA Number: 20.218 – National Motor Carrier Safety

Agency Number: None

Federal Award Year: 2015

Iowa Department of Transportation

State of Iowa Single Audit Report Comment: 15-III-645-1 (2015-006)

Payroll Distribution – OMB Circular A-87 states employees who work on multiple programs will distribute their time based on actual activity. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support. Fourteen employees of the Motor Vehicle Enforcement Division work on both state and federal programs. The Department used predetermined percentages, ranging from 25% to 75%, rather than actual hours to allocate payroll costs. The Department could not provide support for the payroll allocation percentages. The errors appear to be due to employee oversight.

Recommendation – The Department should ensure employees record actual hours worked on each federal program rather than predetermined percentages.

Response and Corrective Action Planned – The current Grant Manager identified the problem. Effective October 1, 2015, a memo was sent to all Motor Vehicle Enforcement staff stating work activity must be recorded, on a daily basis, for the National Motor Carrier Safety Program as a result of mandates found in federal regulations.

Conclusion – Response accepted.

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

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 Services – 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 Department incorrectly recorded fiscal year 2015 accrual activity in the I/3 system as fiscal year 2016 activity, resulting in an understatement of accounts payable of \$1,392,128 for fiscal year 2015. The payable was not reported in the Department's GAAP package. This was properly adjusted for reporting purposes.

Recommendation – The Department should implement procedures to ensure all payables are identified and recorded to the proper fiscal year.

Response – The Department has implemented procedures to ensure payables are properly identified. Discussion between Accounting and Purchasing sections have identified ways for improvement in tracking fiscal years for the future, especially as they relate to capital assets. Additional information regarding fiscal year coding will be included in the year-end financial memo sent to business units. Discussions will also be held with business units providing education on proper fiscal year coding.

Conclusion – Response accepted.

June 30, 2015

Other Findings Related to Internal Control:

- (1) Motor Vehicle Enforcement Salvage Theft Exams – 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 – As previously recommended, the Department should 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 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 of local agencies to ensure failed examinations are handled in an appropriate manner.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2015

Fiscal Year 2015 Status – Our review of these areas during the fiscal year 2015 financial audit found the above issues were not resolved. Accordingly, the recommendations are repeated.

Response – Effective September 1, 2016 the Salvage Vehicle Theft Exam (VTE) program is 100% paperless. This new system eliminates the control deficiencies previously noted. The payments for these exams are no longer collected by local law enforcement agencies. All money is now sent directly to the DOT via electronic payment and examination disbursements back to the agencies who conducted the examinations are also transferred electronically via EFT or by warrant.

Conclusion – Response accepted.

- (2) Wright Express Transaction Review – The Department assigns a Wright Express (WEX) 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 a review of the Wright Express monthly transaction exception report, two months during fiscal year 2015 were not reviewed. Additionally, we noted the following:

- One individual purchased seventeen car washes at an average price of \$24.
- One purchase of a \$657 trailer hitch, which is an unallowable WEX card purchase.

Recommendation – To strengthen controls, the independent review of Wright Express of the monthly transaction exception reports should be documented and exceptions, if any, should be resolved timely. Also, the Department should implement procedures to ensure WEX card transactions comply with DOT policy 120.02 and costs are reasonable.

Response – Fiscal year 2015 was a transition year for implementing additional controls and included a limited review of product code reports. In fiscal year 2016, this review was conducted on a monthly basis. Car wash expenditures are periodically reviewed for appropriateness and reasonableness.

Equipment Services provided verbal approval for the trailer hitch purchase prior to installation. Equipment Services will begin documenting exceptions granted.

Conclusion – Response accepted.

- (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 is moving towards a web based platform that will use an updated technology. Functionality for watermarking vouchers has been requested of the vendor.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2015

- (4) Service Contracts – DOT policy 010.10 requires service contracts between \$500 and \$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:

- Two contracts were not acquired in a competitive manner.
- A pre-contract questionnaire is not completed for corporations as required by Department policy.

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

Response – Finance will continue to work with business units to clarify policies and procedures. DOT policy 010.10 was amended March 2016 to clarify that a pre-contract questionnaire is not required for corporations.

Conclusion – Response accepted.

- (5) Motor Vehicle Division Uniform Purchases – The Motor Vehicle Division (MVD) purchases clothing which is appropriate for personal use as uniforms from local and online retail vendors rather than through a contract as required by Department policy 100.04.

Recommendation – The Department should establish a written contract with a vendor for clothing purchases considered to be a uniform in accordance with DOT policy 100.04.

Response – The DOT has attempted many times in the past to obtain a contract with a vendor for these clothing purchases but has been unable to find a vendor that is willing to provide this service on contract. DOT has now negotiated with a vendor to obtain a 50% discount off of regular prices for these clothing purchases. All of this information has been provided on the staff action form before proceeding with purchases.

Conclusion – Response acknowledged. The Department should reduce the verbal negotiation to a written contract, as required.

- (6) Travel Expense Reimbursements – The Department implemented an electronic travel payment reimbursement system allowing employees to scan/upload original travel receipts into the system. The Department has not established a written policy regarding electronic travel payment reimbursement.

Recommendation – The Department should develop and implement policies related to electronic travel payment reimbursements.

Response – The Department is working on revisions to the current written policies to incorporate changes related to electronic travel receipt submission. Memos on procedures have been sent to employees on the new payroll timesheet system during transition.

Conclusion – Response accepted.

June 30, 2015

Finding Related to Statutory Requirements and Other Matters:

Targeted Small Businesses – Chapter 73.16 of the Code of Iowa requires the Director of each state agency or department of state government (state agency) having purchasing authority, in cooperation with the Targeted Small Business (TSB) Marketing and Compliance Manager of the Iowa Economic Development Authority (IEDA), to establish a procurement goal for certified targeted small businesses each fiscal year. The procurement goal shall include the procurement of goods and services, including construction, but excluding utility services. The goal shall be stated in terms of a dollar amount and at a level exceeding the procurement levels from certified targeted small businesses during the previous fiscal year.

Also, State Agencies with an established TSB procurement goal are required to report the dollar amount of purchases from certified targeted small businesses to the TSB Marketing and Compliance Manager of the IEDA within 15 business days following the end of each calendar quarter.

The TSB procurement goal for the Department for fiscal year 2015 was not set at a level exceeding fiscal year 2014 actual TSB spending. Also, the Department did not provide all required quarterly reports to the TSB Marketing and Compliance Manager of the IEDA within 15 business days as required.

Recommendation – The Department should establish a dollar amount procurement level exceeding the previous fiscal year actual targeted small businesses procurements. Also, the Department should ensure quarterly reports are submitted to the TSB Marketing and Compliance Manager of the IEDA within 15 business days, as required.

Response – The Department increased its stated goal and submitted the required reports as directed and approved by Iowa Department of Economic Development Authority (IDEA). The Department will submit the reports on a quarterly basis and within the stated timelines.

The Department is a large participant in the Targeted Small Business program for the State of Iowa, reporting \$33 million in expenditures for fiscal year 2016, exceeding the stated goal of \$16 million. The Department has averaged over \$28 million in expenditures over the last 4 years. We will contact IDEA to discuss alternative language in establishing goals when entities participate with high expenditure levels.

Conclusion – Response acknowledged. The established goal was an increase over the prior year goal, not the prior year actual targeted small business procurements, as required. Three of the four quarterly reports were late anywhere from one business day to 28 business days.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2015

Staff:

Questions or requests for further assistance should be directed to:

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