



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact: David Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE

January 12, 2006

Auditor of State David A. Vaudt today released a report conducted in accordance with Chapter 11 of the Code of Iowa on certain service contracts and other professional service expenditures of the Department of Transportation (DOT). Service contracts from several divisions within the DOT were reviewed to determine if the contracts and related expenditures complied with relevant laws, procedures and administrative rules. The contracts were also reviewed to determine if the DOT properly monitored the contracts and evaluated the services received to ensure the service providers were held accountable for adequate delivery of contracted services.

Vaudt reported contracts reviewed for road design, bridge design, rest area construction and custodial service, and right-of-way appraisal and acquisition services were well-managed and included sufficient monitoring and evaluation of services received.

However, Vaudt reported several contracts with computer consultant vendors were identified that had been selected by the DOT using the sole source procurement method. The documentation required to justify the use of sole source procurement method was not available from the DOT Motor Vehicle Division (MVD) for two of the contracts and the justification provided for two other contracts was not considered sufficient.

Vaudt reported no opportunity for competitive bidding was provided by the MVD for the contract established in December 1999 to redesign the Vehicle Registration and Titling System (VRTS) and Driver License and Driver Record System (DS). The contract was initially established for \$2.5 million for the period December 1, 1999 through December 1, 2002. The scope of services to be provided under the contract was subsequently expanded to include all anticipated functionalities considered necessary by the MVD for the redesigned systems. The contract period was also extended through June 30, 2006 and, by October 31, 2005, the maximum contract amount had increased to approximately \$40.9 million.

Vaudt also reported the MVD did not have an estimated cost for redesigning the VRTS and DS systems until mid to late 2001, at which time the MVD estimated a cost of \$20 million to redesign the systems. In April 2003, an updated estimate of \$25 million to complete the redesigned systems was provided by the MVD upon Vaudt's request. The maximum cost of \$40.9 million established by the contract is more than double the 2001 cost estimate and \$15.9 million more than the April 2003 estimate.

Vaudt reported the DOT had paid \$32,295,346 under the contract by June 30, 2005. Of that amount, \$18,220,555 was for design, development, conversion and implementation of the VRTS and \$14,074,791 was for design, development, conversion and implementation of the DS. The VRTS was implemented in January 2005 and it is anticipated the DS will be completed and implemented by June 2006.

Also, Vaudt reported DOT Right-of-Way (ROW) Property Management used the services of one vendor for a significant amount of mowing, maintenance and repair services for ROW property without entering into a contract or allowing opportunity for competition from other vendors. The DOT paid the vendor \$282,513 from April 2003 through June 2004 for services billed.

Vaudt recommended the DOT determine and document whether a prospective vendor is, in fact, the only and best source for providing necessary contractual services before using sole source procurement in the future. Vaudt also recommended the DOT use a competitive process to select vendors for ROW mowing, maintenance and repair services when the anticipated dollar amount of services is \$50,000 or greater, as required by DOT policy. This would help ensure the best value for services received is obtained. DOT officials have responded corrective measures will be taken.

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/specials.htm>.

#

DEPARTMENT OF TRANSPORTATION
A REVIEW OF SELECTED SERVICE CONTRACTS
JULY 1, 2001 THROUGH JUNE 30, 2004

Table of Contents

	Page
Auditor's Transmittal Letter	3
Executive Summary	4-7
Introduction	8-13
Objectives, Scope and Methodology	13-15
Service Contracting Process	16-29
Findings and Recommendations	30-49
Schedule:	
	<u>Schedule</u>
Summary of Pleasant Street Right-Of-Way Properties	1 53
Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties	2 54-61
Staff	62
Appendices:	
	<u>Appendix</u>
Minimum Contract Clauses Required for Computer Consultant Service Contracts	A 64-65
Complete Consultant Contract Selection Process	B 66
Archon Technologies, Inc. Contract Summary	C 67-69



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

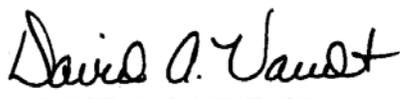
To the Governor, Members of the General Assembly, the Director of the Department of Transportation and Members of the Iowa Transportation Commission:

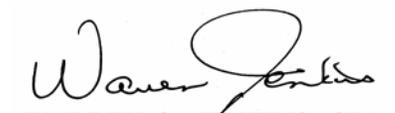
In accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of selected service contracts entered into by the Department of Transportation and the related monitoring and evaluation procedures followed by the Department. Our review assessed the Department's contract management procedures and was not limited to compliance with contracting laws and rules. Our review included service contracts established prior to and during the period of July 1, 2001 through June 30, 2004. We also reviewed contract activity for the redesign, development and implementation of the Vehicle Registration and Titling System and Driver License and Driver Record Systems that extended through fiscal year 2005 and is anticipated to be completed by June 2006. In conducting our review of selected service contracts, we performed the following procedures:

1. Interviewed various personnel and reviewed related information to obtain an understanding of the planning, contracting, monitoring and evaluating processes performed by the Department for service contracts.
2. Examined selected service providers' contracts and related activity to determine whether the Department:
 - a. Selected service providers on a competitive basis,
 - b. Received the services at the contracted rate, and
 - c. Sufficiently monitored and evaluated the services.
3. Determined compliance with the significant laws, administrative rules, guidelines and policies and procedures, as appropriate for the selected service contracts.
4. Examined the selected service contracts to determine whether the contract clauses were sufficient for holding the service providers accountable for performance of contract terms.

Based on these procedures, we have developed certain recommendations and other relevant information we believe should be considered by the Governor, the General Assembly, the Director of the Department of Transportation and Members of the Iowa Transportation Commission.

We extend our appreciation to personnel of the Department of Transportation for the courtesy, cooperation and assistance provided to us during this review.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 12, 2005

Executive Summary

The Department of Transportation (DOT) was created under section 307.2 of the *Code of Iowa* and is responsible for planning, developing, regulating and improving transportation in the State as provided by law. DOT's mission is to promote a transportation system to satisfy user needs and maximize economic and social benefits for Iowa citizens, to encourage and support programs to provide commodity movement and mobility for all citizens, and to promote financing of the transportation system through user and nonuser sources in an equitable manner.

The DOT periodically enters into service contracts with consultants and other vendors for assistance with:

- Road and bridge construction,
- Engineering and architectural design of roads and bridges,
- Professional services, such as computer programming, research and employee training,
- Right-of-way property acquisition, appraisal, mowing and maintenance,
- Rest area design, construction, mowing and maintenance, and custodial services, and
- Other services, as considered necessary.

From fiscal year 2001 through 2005, the DOT spent over \$287 million for professional services, excluding road and bridge construction. The following table illustrates the trend in professional services expenditures during fiscal year 2001 through 2005 for the types of services included in our review. While our review included contracts and related activity for fiscal years 2001 through 2004, fiscal year 2005 expenditures have been included in the following table since certain activity related to significant contracts and payments to vendors were reviewed through June 30, 2005. From fiscal year 2001 to 2004, total expenditures for computer consultants and other services dramatically increased by approximately \$22 million, or 96.6%. The increase is primarily due to costs incurred for the contract with a computer consultant to redesign, develop and implement the DOT Vehicle Registration and Titling System (VRTS) and Driver License and Driver Record Systems (DS).

Type of Service	Fiscal Year					5 Year Totals
	2001	2002	2003	2004	2005	
Computer Consultants and Other Services	\$ 22,781,900	23,469,409	32,667,402	44,783,899	37,491,779	161,194,389
Road Design	24,655,562	19,882,095	10,487,240	7,027,366	6,012,188	68,064,451
Bridge Design	6,781,130	6,431,228	6,158,141	6,944,681	3,795,156	30,110,336
Rest Area:						
Construction	2,847,777	3,351,052	3,281,911	152,402	-	9,633,142
Custodial	2,704,312	2,719,415	2,831,064	3,093,978	3,227,614	14,576,383
Right-of-Way:						
Appraisal	726,003	383,505	252,695	243,875	7,300	1,613,378
Acquisition	491,490	183,250	11,291	-	-	686,031
Mowing and Maintenance	267,231	319,611	290,691	474,297	229,567	1,581,397
Total	\$ 61,255,405	56,739,565	55,980,435	62,720,498	50,763,604	287,459,507

Source: Expenditures for cost centers, object codes and functions identified by DOT staff.

Service Contracting Process, Laws, Procedures and Rules

The DOT has implemented service contracting policies and procedures for entering into and managing and monitoring service contracts. The policies and procedures include the requirements of the State's procurement rules. The service contracting process described in the procurement rules of the DOT and the Department of Administrative Services involves:

- Planning and preparation,

- Developing the scope of work,
- Identifying service providers,
- Selecting service providers,
- Completing the pre-contract questionnaire,
- Formalizing the contract, and
- Managing/monitoring the contract.

Finding Highlights

We reviewed selected professional services contracts and related expenditures to determine compliance with the DOT's and State procurement rules and assessed the DOT's contract management practices. Overall, we identified just a few findings for selected contracts entered into for road design, bridge design, rest area construction and custodial, and right-of-way appraisal and acquisition services. Those types of service contracts were well-managed and included sufficient monitoring and evaluation of services received. The most significant findings identified related to service contracts administered by the MVD and activity related to ROW Property Management. A brief summary of the findings identified include the following.

- No opportunity for competitive bidding was provided for the computer systems and programming consultant contract entered into by the Motor Vehicle Division (MVD) for the redesign, development and implementation of the VRTS and DS. The MVD chose to use the sole source selection method to procure TranSys, Incorporated (TranSys) for the contract. Under the contract, TranSys was required to provide computer consulting services related to redesign of the VRTS and to review the DS to develop a plan for continued development. The initial contract with TranSys was established for \$2.5 million for the period December 1, 1999 through December 1, 2002.

DOT and State procurement rules require sufficient justification if the sole source selection method is used to enter into a contract. Also, DOT policy requires use of a formal competitive selection process based on competitive bidding for contracts estimated to cost \$50,000 or more unless sole source selection is justified. A competitive process typically includes seeking requests for proposals from at least three service providers and evaluation of proposals received. The MVD justified the sole source selection, as documented on the DOT staff action form attached to the original services contracting questionnaire form required by the State, as follows:

“TranSys, Incorporated is in the best position to provide services on these projects. DOT staff alone does not have the expertise or resources to provide services for these highly complex systems.”

However, the justification provided by MVD for using the sole source selection method is not sufficient because it did not clearly explain why TranSys was the only vendor able to perform the service and why sole source procurement was necessary. Also, it was not evident the DOT attempted to use a competitive procurement method for the contract. In addition, other states have used other service providers for similar services.

The contract was amended and extended several times by MVD to expand the scope of services to include all anticipated functionalities considered necessary for the redesigned systems and continue services for design, development, conversion and implementation of the VRTS and DS. By June 30, 2005, the amended maximum cost for the contract had been increased from \$2.5 million to \$39 million, a \$36.5 million and 1,460% increase, since its establishment on December 1, 1999. Two amendments to the contract were executed in June 2005, one for \$1 million and another for \$2 million, to revise, enhance and add to the scope of work for the final phase of the DS and extend the contract duration through June 30, 2006. The contract

A Review of Selected DOT Service Contracts

duration was extended by a total of 3 years and 7 months through June 30, 2006. In addition, as of October 31, 2005, the contract maximum had been increased to approximately \$40.9 million.

In May 2003, Archon Technologies, Inc., the sole shareholder of TranSys, assumed all of the obligations under the contract (hereinafter referred to as the Archon contract) with the DOT.

The VRTS was completed and implemented state-wide and on the MVD website in January 2005, as planned. The DS is still in process and MVD staff anticipates work under the Archon contract will be completed by June 2006.

As of June 30, 2005, a total of \$32,295,346 had been paid to Archon for work completed under the contract. Of the amount paid to Archon, \$18,220,555 was for design, development, conversion and implementation of the VRTS. The remaining \$14,074,791 has been paid to Archon for the DS. In addition, MVD incurred \$10,775 of training costs for VRTS and DS, for a total combined cost of \$32,306,121 for the systems as of June 30, 2005.

The MVD did not have cost estimates for the total cost of each system until mid to late 2001, at least one and one-half years after the contract began. The 2001 estimated cost to redesign the systems was \$10 million for VRTS and \$10 million for DS, a total of \$20 million. Upon our request in April 2003, MVD estimated the total cost of the redesigned systems would be \$25 million. The current combined total maximum cost of \$40.9 million for the Archon contract is more than double the 2001 cost estimate and exceeds the 2003 estimate by \$15.9 million.

A former DOT MVD employee worked as a subcontractor for Archon on the VRTS redesign project after leaving employment with DOT. While the individual did not perform the exact same job duties for DOT and Archon, she performed similar functions as a facilitator in the use/design of the VRTS. Because sufficient documentation is not available, we are unable to determine compliance with section 68B.7 of the *Code of Iowa*. This section requires a two year ban on compensating former employees for services rendered under certain circumstances. According to DOT MVD staff, this requirement was sufficiently addressed prior to using the service of the former employee. In addition to the potential conflict of interest, there was an appearance of an employer/employee relationship for a sub-contractor working for Archon. Documentation of an assessment to determine whether an employer/employee relationship existed was not available from MVD.

- In addition to the Archon contract, five other MVD computer consultant service contracts reviewed were entered into using the sole source selection method to procure the services. One of the five sole source contracts, entered into by MVD with Technology Enterprise Group Inc., had a documented justification that was not sufficient to support the sole source selection method for procuring services. The contract was initially established for a not to exceed amount of \$1.5 million over 3 years to provide consulting services to MVD for tasks to expand the usefulness of ADVANTAGE Safety data collection software, including but not limited to the development of a Software Development Tool Kit, the integration of a Geographic Information System location tool and additional work based on an incident-based report component. The contract with Technology Enterprise Group Inc. was later amended to \$3 million and was extended by 3 more years to further develop, expand, enhance and implement the software and reporting capabilities.

Also, two of the other five sole source service contracts reviewed did not include documentation of sole source justification. Therefore, we could not determine whether the justifications were sufficient to support the sole source selection method. The contracts were both multi-year computer consultant contracts entered into by MVD. One contract was with Cyclone Information Services for a total of \$611,610 over 5 years and the other contract with DKerns Consulting, Inc. was for \$623,129 over 4 years.

- Two additional computer consultant contracts entered into had the appearance of an employer/employee relationship and potential for conflict of interest. No documentation of the determination of whether an employer/employee relationship or conflict of interest existed was available when requested from MVD.

A Review of Selected DOT Service Contracts

Because one of the computer consultants had previously been employed by the DOT, we reviewed and inquired about circumstances and appropriateness of entering into a contract for services with the individual. According to DOT MVD staff, requirements established by section 68B.7 of the *Code of Iowa* regarding a two year ban on compensating former employees for services rendered under certain circumstances were sufficiently considered and appropriately addressed prior to using the services of the former employee. However, because sufficient documentation is not available, we are not able to determine compliance with section 68B.7 of the *Code of Iowa*.

- Right-Of-Way (ROW) Property Management used the services of American Contractors for a significant amount of mowing, maintenance and repair services for ROW property acquired for the I-235 expansion project. The DOT paid American Contractors \$282,513 from April 2003 through June 2004 for services billed without negotiating and entering into a contract or allowing opportunity for competition from other vendors. According to ROW Property Management staff, the typical practice for hiring vendors to complete mowing, maintenance and repair work needed on ROW property is for the applicable property manager to select and hire the vendor they believe is best for completion of necessary work. As a result, the DOT may not receive the most cost effective services available.
- Approximately 56% of the service contracts reviewed were amended and almost 71%, or 24 of 34, of the amended contracts were increased for both the cost and contract duration to expand the scope of services for the contracts.
- For 18% of the service contracts reviewed, the DOT allowed service providers to start work before the contracts were signed.
- Two of the 61 DOT service contracts reviewed contained a scope of work that was too vague to hold the service providers accountable for performance. The two contracts were administered by the MVD.

More details regarding each of the findings is included in the Findings and Recommendations section of this report.

Finding #	Finding Description	Page #
1	Contract with Archon Technologies, Inc.	30
2	Sole source not sufficiently justified	37
3	Contract amendments	39
4	Monitoring and evaluation of service providers	41
5	Contract work started prior to contract and amendments being signed	42
6	Contract clauses	43
7	Employee/employer relationship concern	45
8	Pre-contract questionnaire was not completed	46
9	Right-of-Way mowing, maintenance and repairs	46
10	Monitoring of rent due for leased ROW property	49

Introduction

The Department of Transportation (DOT) was created under section 307.2 of the *Code of Iowa* and is responsible for planning, developing, regulating and improving transportation in the State as provided by law. DOT's mission is to promote a transportation system to satisfy user needs and maximize economic and social benefits for Iowa citizens, to encourage and support programs to provide commodity movement and mobility for all citizens, and to promote financing of the transportation system through user and nonuser sources in an equitable manner.

Professional Services Trends

The DOT enters into service contracts for assistance with administering its programs. From fiscal year 2001 through 2005, the DOT spent over \$287 million for professional services, not including road and bridge construction expenditures. Most of the professional services expenditures were related to services provided by contractors, but some services were not under contract.

Table 1 presents the trend in the DOT's professional service expenditures from fiscal year 2001 through 2005 for the types of services included in our review. While our review included selected contracts and related activity for fiscal years 2001 through 2004, fiscal year 2005 expenditures have also been included in **Table 1** since certain activity related to significant contracts and payments to vendors were reviewed through June 30, 2005. From fiscal year 2001 to 2004, total expenditures for computer consultants and other services have dramatically increased by about \$22 million, or 96.6%. The increase is primarily due to costs incurred under contract entered into by DOT with a computer consultant to redesign, develop and implement the Vehicle Registration and Titling System (VRTS) and Driver License and Driver Record System (DS).

Table 1

Type of Service	Fiscal Year					5 Year Totals
	2001	2002	2003	2004	2005	
Computer Consultants and Other Services	\$ 22,781,900	23,469,409	32,667,402	44,783,899	37,491,779	161,194,389
Road Design	24,655,562	19,882,095	10,487,240	7,027,366	6,012,188	68,064,451
Bridge Design	6,781,130	6,431,228	6,158,141	6,944,681	3,795,156	30,110,336
Rest Area:						
Construction	2,847,777	3,351,052	3,281,911	152,402	-	9,633,142
Custodial	2,704,312	2,719,415	2,831,064	3,093,978	3,227,614	14,576,383
Right-of-Way:						
Appraisal	726,003	383,505	252,695	243,875	7,300	1,613,378
Acquisition	491,490	183,250	11,291	-	-	686,031
Mowing and Maintenance	267,231	319,611	290,691	474,297	229,567	1,581,397
Total	\$ 61,255,405	56,739,565	55,980,435	62,720,498	50,763,604	287,459,507

Source: Expenditures for cost centers, object codes and functions identified by DOT staff.

The DOT includes expenditures for computer consultants in its other services category within the accounting system. Other services includes several types of service contracts and professional services, such as pest control, security services, railroad projects and loans, and other miscellaneous services, in addition to computer systems and programming consultant expenditures. The expenditures for road and bridge design and right-of-way appraisal, acquisition, mowing and maintenance vary from year to year depending upon the size and quantity of road and bridge construction projects in process.

Organization and Responsibilities

The DOT is organized into seven divisions that report directly to the DOT Director, while the Director reports to the Governor. The Divisions are as follows:

- Director's Staff Division,
- Highway Division,
- Information and Technology Division,
- Modal Division,
- Motor Vehicle Division,
- Operations and Finance Division, and
- Planning and Programming Division.

A seven-member Transportation Commission, appointed by the Governor, approves the Iowa Transportation Improvement Program and makes general transportation investment decisions for the DOT, but has no oversight or authority of day-to-day operations.

Under both centralized and district management, DOT functions associated with highway planning, development, construction and maintenance are organized into six districts across the state. The DOT is responsible for providing and preserving an adequate, safe and efficient transportation system. The State's transportation system consisting of state and interstate roadways, bridges and interchanges is DOT's most significant product. DOT's main services include:

- Oversight of highway, aviation, rail, water and public transit services and programs,
- Motor vehicle driver licensing,
- Enforcement of commercial vehicle laws and rules,
- Interstate credentialing for commercial carriers, and
- Providing transportation expertise to other jurisdictions.

Products and services of the DOT are primarily developed, designed and managed using in-house resources. However, out-sourcing or contracting for services plays an important role in the actual provision of DOT products and services.

Types of Service Contracting

The DOT periodically enters into service contracts with consultants and other contractors for assistance with:

- Road and bridge construction,
- Engineering and architectural design of roads and bridges,
- Professional services such as computer programming, research and employee training,
- Right-of-way property acquisition, appraisal, mowing and maintenance,
- Rest area design, construction, mowing and maintenance, and custodial services, and
- Other services as considered necessary.

Construction of roads and bridges is the most significant function performed by contractors. These services are procured using a competitive bidding procedure. Road and bridge construction contracts and related expenditures are specifically tested in our annual financial audits and are not included in the scope of this review of service contracts.

Overview of Service Contracting Laws, Rules and Procedures

The DOT may establish service contracts through a competitive bidding process, negotiation, sole source procurement or emergency procurement. When establishing contracts, the DOT is required to comply with the Department of Administrative Services procurement rules (State rules) for all contracts, except for funds which are required to match federal aid allotted to the State by the federal government for highway special purposes and construction contracts.

Requirements for service contract monitoring and auditing are included in DOT's policies and procedures. Contract administrators are required to monitor service providers' work progress and quality, maintain contract and project documentation and review all service provider billings for conformity to the contract. Also, the DOT requires the External Audits Section of the Office of Finance to complete pre-audits of service providers selected for contracts if the proposed contract will exceed \$50,000. A pre-audit may be requested and completed for contracts less than \$50,000 under certain circumstances, such as if the administering office feels uncomfortable with any item in the cost estimate. In addition, prior to final payment, a final audit by the External Audits Section is required for negotiated work performed under service contracts.

Over the past several years, the Legislature has shown a continuing interest in service contract activities and has recognized improvements within the service contracting process are needed. During the 2001 Regular Session of the 79th General Assembly, legislation requiring the adoption of uniform terms and conditions for service contracts was enacted. The legislation, found in section 8.47 of the *Code of Iowa*, requires contracts to include:

- The amount or basis for paying the contractor based on their performance under the contract,
- Methods to effectively oversee the contractor's compliance with the contract, and
- Methods to effectively review performance of the contract.

Since State procurement rules have addressed only vendor selection and contract terms and conditions, State agencies are responsible for other aspects of contract management, including proper planning and development of an appropriate scope of services. In addition, proper administration of contracts culminates with ensuring services were received and paying the vendor an appropriate amount for the services provided. It is the responsibility of the DOT and other State agencies to ensure its complete contracting process is well managed, even if rules for contract management have not been reduced to writing.

Our review assessed the DOT's contract management practices for selected contracts in addition to compliance with rules in effect at the time the contracts were established.

Finding Highlights

Overall, we identified just a few findings for selected contracts entered into for road design, bridge design, rest area construction and custodial, and right-of-way appraisal and acquisition services. Those types of service contracts were well-managed and included sufficient monitoring and evaluation of services received. The most significant finding identified related to service contracts administered by the MVD.

A Review of Selected DOT Service Contracts

Some of the more significant findings identified include the following.

- No opportunity for competitive bidding was provided for the computer systems and programming consultant contract entered into by the DOT MVD for the redesign, development and implementation of the VRTS and DS. The MVD chose to use the sole source selection method to procure TranSys, Incorporated (TranSys) for the contract. Under the contract, TranSys was required to provide computer consulting services related to redesign of the VRTS and to review the DS to develop a plan for continued development. The initial contract with TranSys was established for \$2.5 million for the period December 1, 1999 through December 1, 2002.

DOT and State procurement rules require sufficient justification if the sole source selection method is used to enter into a contract. Also, DOT policy for entering into service contracts requires use of a formal competitive selection process based on competitive bidding for contracts estimated to cost \$50,000 or more unless sole source selection is justified. A competitive process typically includes seeking requests for proposals from at least three service providers and evaluation of proposals received. The MVD justified the sole source selection, as documented on the DOT staff action form attached to the original services contracting questionnaire form required by the State, as follows:

“TranSys, Incorporated is in the best position to provide services on these projects. DOT staff alone does not have the expertise or resources to provide services for these highly complex systems.”

However, the justification provided by MVD for using the sole source selection method is not sufficient because it did not clearly explain why TranSys was the only vendor able to perform the service and why sole source procurement was necessary. Also, it was not evident the DOT attempted to use a competitive procurement method for the contracts. In addition, other states have used other service providers for similar services.

The contract was amended and extended several times by MVD to expand the scope of services to include all anticipated functionalities considered necessary for the redesigned systems and continue services for design, development, conversion and implementation of the VRTS and DS. By June 30, 2005, the amended maximum cost for the contract had been increased from \$2.5 million to \$39 million, a \$36.5 million and 1,460% increase, since its establishment on December 1, 1999. Two amendments to the contract were executed in June 2005, one for \$1 million and another for \$2 million, to increase services required under the scope of work and extend the contract duration through June 30, 2006. Also, the contract duration was extended by a total of 3 years and 7 months through June 30, 2006. In addition, as of October 31, 2005, the contract maximum had been increased to approximately \$40.9 million.

In May 2003, Archon Technologies, Inc., the 100% owner of TranSys, assumed all of the obligations under the contract (hereinafter referred to as the Archon contract) with the DOT.

The VRTS was completed and implemented state-wide and on the MVD website in January of 2005, as planned. The DS is still in process and MVD staff anticipates work under the Archon contract will be completed by June 2006.

As of June 30, 2005, a total of \$32,295,346 had been paid to Archon for work completed under the contract. Of the amount paid to Archon, \$18,220,555 was for design, development, conversion and implementation of the VRTS. The remaining \$14,074,791 has been paid to Archon through June 30, 2005 for the DS. In addition, MVD incurred \$10,775 of training costs for VRTS and DS, so the total combined cost of the systems as of June 30, 2005 was \$32,306,121.

The MVD did not have cost estimates for the total cost of each system until mid to late 2001, which was at least one and one-half years after the contract began. The 2001 estimated cost to redesign the systems was \$10 million for VRTS and \$10 million for DS, a total of \$20 million.

A Review of Selected DOT Service Contracts

Upon our request in April 2003, MVD estimated the total cost of the redesigned systems would be \$25 million. The current combined total maximum cost of \$40.9 million for the Archon contract is more than double the 2001 cost estimate and exceeds the 2003 estimate by \$15.9 million.

A former DOT MVD employee worked as a subcontractor for Archon on the VRTS redesign project after leaving employment with DOT. While the individual did not perform the exact same job duties for DOT and Archon, she performed similar functions as a facilitator in the use/design of the VRTS. Because sufficient documentation is not available, we are unable to determine compliance with section 68B.7 of the *Code of Iowa*. This section requires a two year ban on compensating former employees for services rendered under certain circumstances. According to DOT MVD staff, this requirement was sufficiently addressed prior to using the services of the former DOT employee. In addition, there was an appearance of an employer/employee relationship for a sub-contractor working for Archon. Documentation of an assessment to determine whether an employer/employee relationship existed was not available from MVD.

- In addition to the Archon contract, five other MVD computer consultant service contracts reviewed were entered into using the sole source selection method to procure the services. One of the five sole source contracts, entered into by MVD with Technology Enterprise Group Inc., had a documented justification that was not sufficient to support the sole source selection method for procuring services. The contract was initially established for a not to exceed amount of \$1.5 million over 3 years to provide consulting services to MVD for tasks to expand the usefulness of ADVANTAGE Safety data collection software, including but not limited to the development of a Software Development Tool Kit, the integration of a Geographic Information System location tool and additional work based on an incident-based report component. The contract with Technology Enterprise Group Inc. was later amended to \$3 million and was extended by 3 more years to further develop, expand, enhance and implement the software and reporting capabilities.

Also, two of the other five sole source service contracts reviewed did not include documentation of sole source justification. Therefore, we could not determine whether the justifications were sufficient to support the sole source selection method. The contracts were both multi-year computer consultant contracts entered into by MVD. One contract was with Cyclone Information Services for a total of \$611,610 over 5 years and the other contract with DKerns Consulting, Inc. was for \$623,129 over 4 years.

- Two additional computer consultant contracts entered into had the appearance of an employer/employee relationship. No documentation of the determination of whether an employer/employee relationship existed was available when requested from MVD.

One of the computer consultants had previously been employed by the DOT. Therefore, we reviewed and inquired about circumstances and appropriateness of entering into a contract for services with the individual. According to DOT MVD staff, the *Code of Iowa*, section 68B.7 requirements regarding a two year ban on compensating former employees for services rendered under certain circumstances were sufficiently considered and appropriately addressed prior to using the services of the former employee. However, because sufficient documentation is not available, we are not able to determine compliance with section 68B.7 of the *Code of Iowa*.

- ROW Property Management used the services of American Contractors for a significant amount of mowing, maintenance and repair services for ROW property acquired for the I-235 expansion project. The DOT paid American Contractors \$282,513 from April 2003 through June 2004 for services billed without negotiating and entering into a contract or allowing opportunity for competition from other vendors. According to ROW Property Management staff, the typical practice for hiring vendors to complete mowing, maintenance and repair work needed on ROW property is for the applicable property manager to select and hire the vendor they believe is best for completion of necessary work. As a result, the DOT may not receive the most cost effective services available.
- Approximately 56% of the service contracts reviewed were amended and almost 71%, or 24 of 34, of the amended contracts were increased for both the cost and contract duration. We could not readily determine the underlying cause for all of the changes.

A Review of Selected DOT Service Contracts

- For 18% of the service contracts reviewed, the DOT allowed service providers to start work before the contracts were signed.
- Two of the 60 DOT service contracts reviewed contained a scope of work that was too vague to hold the services providers accountable for performance. The two contracts were administered by the MVD.

Each of the findings identified are discussed in detail in the Findings and Recommendations section of this report.

Report Overview

The remainder of this report is organized as presented in **Table 2** below.

Report Section	Description
Objectives, Scope and Methodology	Summary of the service contracts review focus, scope and methodology.
Service Contracting Process	Summary of the service contracting process used by the DOT for each type of service reviewed.
Findings & Recommendations	Summary and detailed examples of findings and related recommendations for improvements to service contracting.
Schedules	Summary of Selected Right-Of-Way Properties and Detail of Mowing, Maintenance and Repair Costs for Selected Right-Of-Way Property
Appendices	Minimum Contract Clauses Required for Computer Consultant Service Contracts, Complete Consultant Contract Selection Process and Archon Technologies, Inc., Contract Summary

Our review highlights some of the common problem areas within past service contracting processes and related activity based on a review of service contract activity for fiscal years 2001 through 2004 and into 2005, as warranted. Findings were identified for selected computer consulting and Right-Of-Way service contracts. The results and recommendations included in this report will enhance the on-going efforts to improve service contracting for these areas within the DOT.

Objectives, Scope and Methodology

We reviewed and tested selected service contracts and related activity administered by various divisions within the DOT to determine if the contracts and related expenditures complied with relevant laws, procedures and administrative rules. Also, the contracts and related activity were reviewed to determine whether the:

- Service contract vendors were selected on a competitive basis. If the contracts were sole-sourced or for an emergency, we determined whether justification was sufficient.
- Required policies and procedures for determination of employee/employer relationship were followed and documented for contracts with independent contractors.
- DOT properly monitored the contracts and evaluated the services received to ensure the service providers were held accountable for adequate delivery of contracted services.

Construction of roads and bridges is the most significant function performed by contractors. These services are procured using a competitive bidding procedure. Road and bridge construction contracts and related expenditures are specifically tested in our annual financial audits and are not included in the scope of this review of service contracts.

A Review of Selected DOT Service Contracts

The services included in the scope of this review were judgmentally selected from the various types of professional services expenditures for fiscal year 2001. We selected service contracts established prior to or during fiscal year 2001 and several of the selected contracts had durations extending well beyond fiscal year 2001. Therefore, we reviewed service contract management procedures into fiscal years 2002, 2003, 2004 and 2005, as applicable.

Table 3 presents the number of service contracts tested, expenditures for tested service contracts by fiscal year and total expenditures for contracts tested as of June 30, 2004.

Type of Service	Number of Contracts Tested	Expenditures for Contracts Tested					Total
		Fiscal Year					
		2001	2002	2003	2004		
Computer Consultants and Other Services	7	* \$ 5,807,578	3,760,037	8,108,854	11,469,301	29,145,770	
Road Design	15	5,533,683	5,527,801	3,136,576	672,922	14,870,982	
Bridge Design	14	2,649,188	1,076,721	291,327	28,551	4,045,787	
Rest Area:							
Construction	7	2,501,465	2,716,230	1,463,268	21,643	6,702,606	
Custodial	6	1,840,552	1,847,357	1,951,272	1,563,067	7,202,248	
Right-of-Way:							
Appraisal	7	411,905	81,000	43,963	40,500	577,368	
Acquisition	4	491,490	183,250	11,291	-	686,031	
Mowing and Maintenance	**	**	**	**	**	**	
Total	60	\$19,235,861	15,192,396	15,006,551	13,795,984	63,230,792	

Source: Expenditures for cost centers, object codes and functions identified by DOT staff.

* Includes \$1,915,085 of expenditures from fiscal year 2000.

** ROW Property Management did not enter into contracts for vendors selected for testing.

In addition to the activity shown in **Table 3**, we reviewed certain expenditures and related activity through June 30, 2005 for the contract with Archon Technologies, Inc. entered into by MVD to develop and implement the VRTS. The Archon contract was extended from December 1999 through June 30, 2006 and is the highest dollar service contract included in our review, initially established at \$2.5 million and amended multiple times to a total of \$40.9 million at October 31, 2005. The redesigned VRTS was completed and implemented in January 2005 while the planned completion and implementation date for the redesigned DS is anticipated to be by June 2006. Our review of the Archon contract also included activity related to the Driver License and Driver Record System (DS).

To accomplish the objectives, we:

1. Interviewed various personnel and reviewed related information to obtain an understanding of the planning, contracting, monitoring and evaluating functions related to service contracts.
2. Examined selected service providers' contracts and related activity to determine whether the DOT:
 - a. Complied with the significant aspects of the service contracting laws, procedures and rules in effect at the time each contract was established,
 - b. Received the contracted services,
 - c. Included required contract clauses in the service contracts, and
 - d. Performed and documented sufficient oversight, including monitoring and evaluation of services received.

A Review of Selected DOT Service Contracts

3. Examined selected service contracts to determine whether the contract clauses were sufficient for holding the service providers accountable for performance of contract terms.
4. Tested the vendor prequalification process as applicable for compliance with DOT Policy 300.04.
5. Reviewed selected service contracts to determine the extent and appropriateness of amendments, additional statements of work, change orders, supplemental agreements and payment of contingency fees.
6. Summarized findings and recommendations based on the results of performing the above procedures. Our findings are based on proper contract management practices and the rules in effect at the time the selected contracts were established. Our recommendations take into consideration the current rules for establishing service contracts in addition to proper contract management practices.

Definitions - The following terms are used throughout this report. The definitions provided are comparable to those used by State agencies establishing service contracts.

“Administering office” means the office responsible for administering a consultant contract.

“Consultant” means a firm providing outside professional or technical services.

“Consultant contract” means a negotiated contract for outside professional or technical services.

“Consultant contract coordinator” means the person responsible for coordinating DOT work with consultants.

“Negotiation” means any method of procurement other than formal advertising or limited solicitation.

“Service” or **“services”** means work performed for the DOT or for its clients by a service provider and includes, but is not limited to:

1. Professional or technical expertise provided by a consultant, advisor, or other technical or service provider to accomplish a specific study, review, project, task, or other work as described in the scope of work.
2. Services provided by a vendor to accomplish routine functions. These services contribute to the day-to-day operations of state government.

“Service contract” means a contract for a service or services when the predominant factor, thrust, and purpose of the contract, as reasonably stated, is for the provision or rendering of services. When there is a contract for both goods and services and the predominant factor, thrust, and purpose of the contract, as reasonably stated, is for the provision or rendering of services with goods incidentally involved, a service contract exists and these rules apply. “Service contract” includes grants when the predominant factor, thrust, and purpose of the contract formalizing the grant is for the provision or rendering of services.

“Service provider” means a vendor that enters into a service contract with the DOT.

Service Contracting Process

Policies and procedures for DOT service contracting are contained in the State administrative rules and internal policies and procedures manuals for use by DOT divisions entering into and administering service contracts. Policies for procurement of services and methods that may be used by the DOT to enter into service contracts are included in its administrative rules, under Iowa Administrative Code (IAC) [761]-Chapter 20. According to the DOT rules:

“It is the policy of the department to procure equipment, materials, supplies and services in the most efficient and economical manner possible. It is also the policy of the department that procurement shall be competitive to the maximum practicable extent.

Formal advertising - The formal advertising method of procurement shall be used whenever this method is feasible and practicable under the existing conditions and circumstances and the estimated, aggregate amount of the purchase equals or exceeds \$50,000.

Limited solicitation - The limited solicitation method of procurement may be used if formal advertising is not feasible or practicable, or the estimated, aggregate amount of purchase is less than \$50,000.

Negotiation - The negotiation method of procurement may be used if formal advertising or limited solicitation is not feasible or practicable, or in any of the following instances:

- Procurement by negotiation is determined to be necessary and in the public interest during a period of man-made or natural disaster or emergency.*
- The estimated, aggregate amount of the purchase is less than \$5,000.*
- The procurement is for architectural, landscape architectural, engineering, or related professional or technical services.*
- The procurement is for other professional services.”*

The DOT implemented Policy 300.12, entitled, “Negotiated Contracts for Architectural, Engineering, and Related Professional and Technical Services” (DOT Policy 300.12) to provide guidance to divisions entering into negotiated contracts with consultants to procure architectural, engineering and related professional and technical services. Competitive bid-letting procedures are not required for service contracts awarded under negotiated contract procedures contained in DOT Policy 300.12.

Architectural, engineering and related professional and technical services consultants selected by the DOT for entering into negotiated contracts must be pre-qualified in the work category to be contracted. Applicable policies and procedures for the prequalification process are contained in DOT Policy 300.04. In accordance with DOT Policy 300.12, the negotiated contracts are based primarily on qualifications and cost is not necessarily the over-riding factor considered for determining the best consultant to provide the services being sought.

In addition, the DOT has implemented policies and procedures entitled, “Negotiated Contracts for Other Professional and Technical Services” (DOT Policy 300.13) to provide guidance for types of service contracts not specifically addressed by DOT Policy 300.12. DOT Policy 300.13 applies to service contracts, such as contracts for computer and programming consultant services. The procedures contained in DOT Policy 300.13 are very similar to DOT Policy 300.12. An example of a difference between Policy 300.13 and 300.12 is that the DOT does not require computer consulting service providers to be pre-qualified.

According to DOT Policy 300.13, Procedure 240.102 for Miscellaneous Personnel Service Contracting of the Department of Administrative Services applies to negotiated contracts for other professional and technical services, such as computer consultants, if it exceeds \$1,000. Procedure 240.102 recommends a request for proposal (RFP) process or other authorized competitive process be undertaken for personal service contracts that exceed \$25,000, unless emergency or sole source conditions exist and are appropriately justified.

A Review of Selected DOT Service Contracts

Contracts entered into using the negotiation processes under DOT Policies 300.12 and 300.13 must use a formal competitive selection process, including requests for proposals, for contracts of \$50,000 or more unless sole source or emergency selection is approved, and may be used for contracts of lesser amounts. In addition, the sole source method or emergency method may be used to select service providers or consultants for contracts under appropriate circumstances.

Also, DOT policy specifically addresses extra work orders and supplemental agreements, which are similar to contract amendments. DOT policy requires service contracts to specify the process by which extra work orders or supplemental agreements are negotiated. Also, the policy states, in part:

- “1. In general, a process similar to that used to negotiate contracts should be used, including Staff Action approval.*
- 2. Any change in the contract requiring additional work must be authorized in writing by the administering office prior to the consultant starting the additional work. The written authorization may take the form of a letter as long as the following items are covered and agreed to:*
 - A description of the change to be made.*
 - An explanation of the reasons for the change in sufficient detail so that another individual can understand them.*
 - The basis for the cost of the change.”*

Procedures that must be followed for entering into and administering service contracts may vary from division to division within the DOT. We have summarized the service contracting processes for Computer Systems and Programming Consultants, Right-of-Way Property, and Architectural, Engineering and Related Professional and Technical Services in the following sub-sections of this report. More detail describing the processes for entering into and administering service contracts is included for computer systems and programming consultants and Right-of-Way Property activity since identified findings were most significant for those areas.

Computer Systems and Programming Consultants

The DOT has established an Information and Technology Division responsible for providing information technology support teams to each division primarily to assist with development and maintenance of information technology systems. However, when significant projects are pursued, division administrators determine whether:

- The information technology support team has the time and skills necessary to complete the project,
- Additional information technology staff should be employed, or
- The project should be out-sourced.
- If the decision is to out-source for services needed, the division initiates the process of selecting a computer consultant contractor to work on the project.

Consultant Selection

Prior to initiating the selection of a contractor, the administering office must develop an independent estimate of the cost of the required work or services based on a detailed analysis of work to be performed. The estimate may be revised as required during negotiations to reflect changes in or clarification of the scope of the work to be performed.

If a competitive process including a request for proposals is used to select consultants to perform computer systems and programming services, the DOT uses a process that is very similar to the negotiated contract process used to select architectural, engineering and related technical and professional services consultants, as described later in this section of the report. However, policies and procedures applicable for computer systems and programming consultant service contracts are not required to follow and select consultants using the DOT's prequalification process.

When the sole source selection method is used to select a service provider for a contract, the DOT must follow the State Services Contracting rules and obtain approval from the office's division

A Review of Selected DOT Service Contracts

director. The DOT has implemented sole source rules in DOT Policy 300.13 that address the requirements of the State Services Contracting rules and include additional more specific requirements, as follows:

1. “Justification. Sole source selection is justified when one when one of the following conditions exist:
 - ◆ Only one firm is qualified or eligible or is quite obviously the most qualified or eligible to perform the services.
 - ◆ The services are of such a specialized nature or related to a specific geographic location that only a single firm, by virtue of experience, expertise, or proximity to or familiarity with the project, or ownership of intellectual property rights, could most satisfactorily provide the services.
 - ◆ The Department is seeking the services of experts, advisors, counsel or consultants to assist in any type of legal proceeding including but not limited to testifying or assisting in the preparation of quasi-judicial or judicial proceedings.”
 - ◆ The federal government or other provider of funds for the services (other than the state of Iowa) has imposed clear and specific restrictions on the use of the funds in a way that restricts the selection to only one firm.
 - ◆ Applicable law requires, provides for, or permits use of a sole source procurement.
2. Procedures for Sole Source Selection.
 - ◆ When sole source selection is justified and the contract will exceed \$50,000, the administering office must, in addition to preparing and submitting a Request for Outside Services, prepare a form entitled Sole Source Procurement Justification and submit the form to the division director. The form substantiates and documents the sole source selection and, once approved, must be attached to the contract and retained in the contract file.
 - ◆ The division director shall forward the Sole Source Procurement Justification to the Director of the Operations and Finance Division, who will review the form and submit it to the Director of Transportation for approval and signature. Contract negotiations may not begin until the form is approved.”

The computer systems and programming consultant service contracts we reviewed were administered by the MVD and were usually procured using the sole source selection method rather than a competitive or negotiation process. Only one of the seven computer consultants reviewed was selected through a competitive process, including a request for proposals required by negotiated contracts procedures contained in DOT Policy 300.13, entitled, “Negotiated Contracts for Other Professional and Technical Services.” The other six computer consultants reviewed were selected by the Motor Vehicle Division using the sole source method.

Minimum Contract Clauses

Regardless of selection method used, all contracts entered into must include minimum contract clauses, as required by DOT Policy 300.13. A listing of minimum contract clauses required for computer consultant service contracts is included in **Appendix A**.

Determination of Employer/Employee Relationship

After a contractor has been selected and prior to signing the contract, a determination must be made as to whether the contractor has an employer/employee relationship with the State. Both the DOT and the Department of Administrative Services (DAS) make this determination and document the results on the Pre-Contract Questionnaire which is signed by the DOT Director or designee and a DAS official.

We found three instances in which it appeared the employer/employee relationship existed between the DOT and computer consultants. The circumstances and number of hours worked for three of

A Review of Selected DOT Service Contracts

the computer consultants gave the appearance of an employer/employee relationship. However, documentation of the assessment of the potential employer/employee relationship was not available when requested from MVD. According to DOT MVD staff, the *Code of Iowa*, section 68B.7 requirements regarding a two year ban on compensating former employees for services rendered under certain circumstances were sufficiently addressed prior to using the services of the three former DOT employees. Because sufficient documentation is not available, we are not able to determine compliance with section 68B.7 of the *Code of Iowa*.

Computer Consultant Contract Administration

DOT Policy No. 300.13 includes the following contract administration requirements for computer consultant service contracts:

- Before the contract is executed, it must be submitted to the General Counsel Division for approval of form and legality of content, unless a standard contract form that was previously approved by counsel is used.
- A pre-audit by the DOT Office of Audits is required if the negotiated work to be performed under the contract will exceed \$50,000. Pre-audits are completed by the Office of Audits and typically include:
 - ◆ An analysis of the contractor's project estimate and financial records for the method of accounting in place to assure the contractor has the ability to adequately segregate and accumulate reasonable and allowable costs to be charged against the contract.
 - ◆ An analysis of the contractor's proposed direct costing rates and indirect overhead factors to assure their propriety and allowability.
 - ◆ A pre-audit report which is sent to the office administering the contract and to the federal funding agency, if applicable. The administering office keeps the report in the contract file.
- The Director of the office administering the contract must approve the staff action, an electronic request for approval of the contract. The legal counsel, audit section official and the DOT Division Director also approve the staff action.
- Division administrators must also:
 - ◆ Monitor progress and quality of work performed under the contract,
 - ◆ Review and approve claims for payment, and prepare payment vouchers,
 - ◆ Prior to final payment, determine and carry out closeout procedures applicable to the contract,
 - ◆ Initiate billings for reimbursement to the DOT, if applicable to the contract, and
 - ◆ Maintain a contract file documenting communications, actions taken and decisions made during all phases of the contracting process.

Contract Review Summary

We selected seven computer systems and programming consultant contracts for review. The highest dollar contract reviewed was entered into by the MVD with Archon for computer systems and programming consulting services related to redesign and implementation of the VRTS and DS. The sole source selection method was used to enter into the Archon contract, which initially included a not-to-exceed amount or contract maximum of \$2.5 million and extended from December 1, 1999 through December 1, 2002. However, the Archon contract was both amended and extended several times to a total maximum amount of \$39 million at June 30, 2005, an increase of \$36.5 million and 1,460 % since December 1, 1999. The contract has been extended by a total of three years and seven months through June 30, 2006. In addition, as of October 31, 2005, the contract maximum had been increased to approximately \$40.9 million.

A Review of Selected DOT Service Contracts

The VRTS was completed and implemented State-wide in the counties and on the DOT MVD website in January 2005 so Iowans have access to online vehicle registration services, including vehicle registration application downloads and registration renewals. Also, the MVD plans to implement the DS State-wide and on the website by June 2006. However, the Archon contract has cost much more than originally estimated by MVD.

The work product ownership clause of the Archon contract states, "Archon and DOT will jointly own all computer programs, documentation and data produced under this agreement, without accounting to one another, except as the applicable Scope of Work Exhibit otherwise provides." Subsequently, as allowed under the work product ownership clause of the contract, Archon has marketed and sold the work product developed under the contract to other states while the DOT has not shared in any profits realized. According to the MVD Director, the DOT could also sell or give the programs developed under the contract to other states. In addition, according to the MVD Director, the joint ownership language included in the work product ownership clause of the Archon contract has also been included in other DOT contracts and was approved by the DOT General Counsel.

A total of \$32,295,346 has been paid to Archon for work completed under the VRTS and DS contract from December 1, 1999 through June 30, 2005, consisting of \$18,220,555 for VRTS and \$14,074,791 for DS. **Table 4** summarizes the total amount paid to Archon for VRTS and DS design and development, conversion and implementation, Accident Processing System and total system costs, including MVD training.

Description	VRTS	DS	Total
Design and development	\$ 16,021,111	12,599,992	28,621,103
Conversion and implementation	2,199,444	1,190,923	3,390,367
Accident Processing System	-	283,876	283,876
Total paid to Archon	18,220,555	14,074,791	32,295,346
MVD training costs	8,124	2,651	10,775
Total	\$ 18,228,679	14,077,442	32,306,121

Source: DOT Motor Vehicle Division staff.

We identified a total of nine amendments made to the Archon contract from December 1999 through June 2005 to expand the scope of services to include all anticipated functionalities considered necessary by MVD for the redesigned systems. Seven of the nine amendments increased the maximum dollar amount and, over the duration of the contract, resulted in a dramatic increase in cost. The maximum cost of the Archon contract was increased substantially by amendments since December 1, 1999, from the initial amount of \$2.5 million to \$40.9 million at October 31, 2005.

According to MVD staff, estimates for the base functionality in the new VRTS were developed in mid to late 2001 and amounted to \$10 million. The \$10 million did not include all the enhancements which were developed as the work progressed. Also, MVD staff estimated the DS would cost a total of \$10 million, so the estimated total cost to redesign the systems was \$20 million. According to MVD staff, the cost estimates did not include all the enhancements developed by the State and County team as the work progressed.

Upon our request in April 2003, MVD provided an updated cost estimate for the systems, including \$15 million for VRTS and \$10 million for DS, a total of \$25 million. The combined total maximum cost of \$40.9 million at October 31, 2005 for the Archon contract is almost double the 2001 cost estimate and exceeds the 2003 estimate by \$15.9 million.

One of the seven amendments that increased the maximum contract amount also extended the contract by one year through December 1, 2003. Two other amendments extended the duration of the contract through December 1, 2004 and then through December 1, 2005. In addition, the two amendments executed in June of 2005 increased the maximum cost under the Archon contract and increased the contract duration through June 30, 2006. **Table 5** includes a summary of amendments for dollar increases and extensions of the duration.

A Review of Selected DOT Service Contracts

Table 5

Effective Date	Description	Cumulative Maximum \$ Amount	Total Paid to Archon as of June 30, 2005
12/01/1999	Original contract entered into by the MVD with Archon for computer systems and programming consulting services related to design, development, conversion and implementation of the Vehicle Registration and Titling System and Driver License and Driver Record System through December 1, 2002.	\$2,500,000	
04/11/2000	Increase contract maximum \$1.5 million.	4,000,000	
12/01/2000	Increase contract maximum by \$6 million.	10,000,000	
06/27/2000	Increase contract maximum by \$5 million and extend duration to December 1, 2003.	15,000,000	
06/10/2003	Increase contract maximum by \$15 million.	30,000,000	
08/22/2003	Extend contract expiration date to December 1, 2004. *	30,000,000	
08/02/2004	Increase contract maximum by \$6 million.	36,000,000	
11/30/2004	Extend contract expiration date to December 1, 2005.	36,000,000	
06/13/2005	Increase contract maximum by \$1 million and extend duration to June 30, 2006. **	37,000,000	
06/30/2005	Increase contract maximum by \$2 million and extend duration to June 30, 2006. **	39,000,000	\$32,295,346

* The June 10, 2003 contract amendment increased the contract maximum but did not extend the expiration date beyond December 1, 2003, the expiration date established by the previous amendment. We brought the matter to the attention of MVD staff and MVD subsequently executed an amendment to extend the contract through December 1, 2004. Also, according to MVD staff, the DS is anticipated to be completed by June 2006.

** Two more amendments and extensions were executed by MVD in June of 2005 to include work remaining to be completed for the final phase of the DS redesign. Work remaining to be completed by Archon for the DS from July 1, 2005 through June 30, 2006 includes: revisions to detailed design including development specs; enhancing application and information architecture design; beta release development of DS redesign; unit and system testing; implementation support including user acceptance testing, collaborative user training, development of application and technical documentation and assistance in the go-live planning; and project planning, management, oversight and project quality assurance. In addition, the contract maximum has been increased to approximately \$40.9 million as of October 31, 2005.

Archon is required to design, develop, convert and implement computer and web-based systems for VRTS and DS. Examples of the scope of services required under the contract, as detailed in the statements of work for VRTS, include:

- Developing VRTS functional requirements,
- Assessing the technical architecture document and updating the document with corrections and/or enhancements, if necessary, and
- Developing a logical system design, logical data base design and physical process flow diagrams.

Also, Archon was required to:

- Provide MVD with an internet Web capability for VRTS that allows MVD customers to access specific information concerning vehicles owned by the customer and to renew their vehicle registrations,
- Provide the design, development, testing and implementation for the interface to the National Motor Vehicle Title Information System, and
- Include in each statement of work all user review, technical review and MVD approval requirements.

A Review of Selected DOT Service Contracts

The VRTS was completed and made available to customers in all 99 counties and on the MVD website beginning January 3, 2005. The DS redesign project is the other portion of the multiyear development and implementation effort under contract with Archon. MVD planned to release DS in January 2006, but it will probably not be completed until June 2006 according to the MVD Director.

Examples of the scope of services included in statements of work executed for the DS system include:

- Developing the Driver Services System mission, goals and objective statement,
- Reviewing the current Driver Systems and assessing the condition, necessary enhancements and foreseen client requirements for the Driver Systems,
- Developing a functional requirements document defining what the new systems are to achieve,
- Defining the technical architecture needed to operate the new systems effectively and efficiently,
- Developing a plan for continuing into each phase of development for the Driver Services Systems,
- Consulting services supporting continuing design, development and implementation efforts relating to DS redesign for DOT, and
- All of the tasks included in the statements of work for the DS system must also include all user review, technical review and MVD approval requirements, including project planning, management, oversight and project quality assurance.

The total amount and source of funds used to pay Archon for work completed under the contract and other projects costs of \$10,775 related to the VRTS and DS from fiscal year 2000 through 2005 are summarized in **Table 6**.

Description	VRTS	DS	Total
Table 6			
State Funds			
Information Technology Division operating budget	\$ 36,869	-	36,869
MVD operating budget:			
Fiscal Year 2000	800	-	800
Fiscal Year 2001	1,255,148	776,595	2,031,743
Fiscal Year 2002	988,020	998,160	1,986,180
Fiscal Year 2003	761,237	922,912	1,684,149
Fiscal Year 2004	924,379	1,711,066	2,635,445
Fiscal Year 2005	1,700,000	783,646	2,483,646
Total from MVD Operating Budgets	5,629,584	5,192,379	10,821,963
Legislatively directed 2-year project appropriation	9,981,609	-	9,981,609
Code of Iowa, section 312.2 standing appropriation*	2,280,617	-	2,280,617
Iowa Court Information System	-	84,476	84,476
Legislatively approved surcharge**	-	8,422,618	8,422,618
Total State Funds	17,928,679	13,699,473	31,628,152
Federal Funds			
National Motor Vehicle Title Information System	300,000	-	300,000
FHWA - Motor Vehicle	-	198,577	198,577
Motor Carrier Safety Assistance	-	179,392	179,392
Total Federal Funds	300,000	377,969	677,969
Grand Total	\$18,228,679	14,077,442	32,306,121

Source: DOT Motor Vehicle Division staff.

A Review of Selected DOT Service Contracts

* *Code of Iowa*, section 312.2, subsection 18 requires the State Treasurer to credit \$650,000 annually from the Road Use Tax Fund to DOT for the purpose of providing County Treasurers with automation and telecommunications equipment and support for vehicle registration and titling and driver licensing. Unobligated funds at the end of each fiscal year remain available for expenditure for purposes of subsection 18 and are not reverted.

** A three-dollar surcharge fee authorized by the *Code of Iowa*, section 321.191, subsection 10, was added to applications for operator, chauffeur and commercial driver's licenses beginning July 1, 2003 and ending June 30, 2008. The surcharge will be applied one time to any individual and will help fund the DS System.

We identified several findings for the seven computer consultant service contracts reviewed. Examples of findings identified include:

- Of the seven computer consultant service contracts reviewed:
 - ◆ While six were entered into using the sole source selection method, the reason for sole source was not sufficiently justified for four of the contracts.

The contracts with Archon and Technology Enterprise Group Inc. were originally executed for a three year period from December 1, 1999 through December 1, 2002 at not-to-exceed amounts of \$2.5 million and \$1.5 million, respectively. Both contracts were later amended to \$40.9 million and \$3 million, respectively. Also, the Archon contract was extended by 3 years and seven months through June 30, 2006 and the Technology Enterprise Group contract was extended through December 1, 2005.

Two other contracts were multi-year computer consultant contracts entered into by MVD. One was with Cyclone Information Services at a cumulative, not to exceed, total of \$611,610 over 5 years and the other was for a cumulative, not to exceed, total of \$623,129 over 4 years with DKerns Consulting, Inc.

- ◆ Pre-contract questionnaires were not documented for three contracts.
- ◆ Amendments to the original agreements were not completed timely for two of the computer consultants and three of the consultants incurred costs prior to signing the agreements or amendments.
- ◆ There was an appearance of an employer/employee relationship for a sub-contractor working for Archon Technologies, Inc. Also, two other computer consultant contracts entered into had the appearance of an employer/employee relationship. No documentation of the determination of whether an employer/employee relationship existed was available when requested from MVD. According to DOT MVD staff, the *Code of Iowa*, section 68B.7 requirements regarding a two year ban on compensating former employees for services rendered under certain circumstances were sufficiently addressed prior to using the services of the former DOT employees. However, because sufficient documentation is not available, we are unable to determine compliance with section 68B.7 of the *Code of Iowa*.

Subsequent to our review period, the MVD provided a summary of relevant activity for the Archon contract, including information by statement of work (SOW) number maximum, amount of SOW and total amount paid. See **Appendix C** for a summary of the Archon contract prepared by MVD.

Right-of-Way (ROW) Property

In cases where new roads are built or existing roads are widened, the DOT occasionally needs to acquire property, including land, houses and buildings, in order to complete the project. The Right-of-Way (ROW) office within the Highway Division has established a detailed manual with procedures that should be followed for appraisals, acquisition and property management. Also, DOT Policies 300.12 and 300.13 are applicable for the ROW office if contracts are entered into for any types of services specifically included under those policies. When acquisition of ROW property is necessary, the DOT appraises the value of the land, acquires the land and then must maintain the land until it is used in the project. In some cases, the land acquired contains a house or building which the DOT may rent out until the land is needed for the highway project. ROW refers to land for a public highway, street or road. An example of ROW property acquired by the DOT includes land and houses purchased during the expansion of the I-235 interstate highway in Des Moines.

Right-of-Way Appraisals

The DOT occasionally uses appraisal contractors that have been pre-qualified and are located throughout the State. Certified appraisers interested in contracting with the DOT submit sample appraisals for review by ROW staff. If the sample appraisals meet minimum qualifications required by the Uniform Standards of Professional Appraisal Practice, those interested vendors are placed on the list of pre-qualified appraisers.

The DOT's ROW Office has developed its own policy and procedure manual for appraisal work performed by DOT employees and for contracting appraisal work. The service contracting process for ROW appraisals is summarized below:

- DOT Road Design notifies ROW appraisal staff of the need for appraisals for a project and the date when the appraisals must be completed.
- ROW office staff determine if the parcels are to be appraised by DOT staff appraisers or contract appraisers. Staff appraisers, if available, are given preference unless other factors prevail, such as the need for special knowledge or skills or when an outside opinion is warranted. At the time of our review, the DOT had four staff appraisers that complete appraisals and two senior appraisers that concentrate on review of appraisals.
- Selection of contract appraisers is based on qualifications, past performance and availability. Contract appraisers may be selected by the direct hiring method or through a competitive proposal process.
- Regardless of selection method, an appraisal contract is prepared using a standard contract form with the same terms as required for road and bridge design contracts. The contract is reviewed by legal counsel and a staff action document is prepared for on-line approval of DOT Highway Division officials for contracts greater than \$10,000.
- Appraisal reviewers within the ROW Office receive and review appraisal reports to ensure the appraisal is in compliance with State and federal regulations. Reviewers conduct a desk review, sale property comparison and drive by or visit the appraised property prior to concluding on completed appraisals. The reviewer completes a report and certification form, which is also used as an evaluation of the contractor for reference on future jobs.

We did not identify any significant findings during our review of seven ROW appraisal contracts selected and reviewed for compliance with the DOT's procedures.

Right-of-Way Acquisition

The DOT ROW Office maintains a staff of acquisition agents, but ROW enters into contracts with consultants for assistance with acquisition of ROW property when a significant amount of land parcels need to be acquired. Other considerations for deciding whether to contract include land parcel location and availability of consultants. Due to the specialized nature of the work involved with acquisition of ROW property, the number of available acquisition consultants is limited. Competitive proposals or direct hiring procedures, similar to those used by ROW Appraisal staff described previously, are used for entering into consultant contracts for acquisition services.

According to ROW staff, acquisition consultants who have performed effectively and efficiently on previous ROW projects may be used as needed rather than seeking competitive bids. Using acquisition consultants who have demonstrated effective performance and live relatively close to the project saves on travel, per diem and start up costs. Also, ROW staff believe working with the same companies as before is an efficient practice since the companies are already familiar with the DOT's policies and procedures.

ROW primarily used the services of four acquisition consultants. We reviewed all four of the ROW acquisition service contracts in effect during our review period and did not identify any significant findings. Two of the four service providers were selected through a competitive bidding process while the other two were used due to location of the acquisition consultants and favorable performance in the past.

Right-of-Way Mowing, Maintenance and Repairs

The ROW Property Management office has property managers on staff responsible for property acquired in the six transportation districts located throughout the State. ROW property managers hire vendors to mow on a seasonal basis as needed. Also, property managers select certain vendors to provide property maintenance and repair services as needed for ROW property.

We determined during our review and testing of ROW mowing services billings submitted by the seven vendors selected for review that supporting documentation complied with invoicing, review and payment procedures established by the DOT. However, we determined ROW Property Management did not require use of a competitive bidding process to select vendors for services to be provided and usually did not execute contracts with vendors providing mowing, maintenance and repair services.

Vendors selected to complete ROW mowing, maintenance and repairs are required to submit invoices to ROW property managers for services provided. Typically, the invoices indicate work dates, property addresses, nature of services provided, such as mowing, maintenance and/or repairs, and the rate agreed upon with the ROW property manager assigned responsibility for the property. ROW property managers receive and review invoices, sign invoices indicating their approval and forward them to the DOT for payment processing.

We identified a lack of segregation of duties among responsibilities completed by ROW property managers, as follows:

- ◆ Property managers are allowed to select the vendors they want to provide mowing, maintenance and repair services for property under their control.
- ◆ Property managers receive bills from vendors and submit the bills to the DOT central office for payment processing.
- ◆ Property managers are also involved in renting out and selling property. The property managers have responsibilities and authority over the rental process, including selection of renters, amount charged for rent and whether to forgive rent in exchange for services. Examples of services occasionally done by renters in lieu of rent includes mowing, cleaning and painting.

In addition to other property, the DOT acquired nine houses on Pleasant Street in West Des Moines from 1997 through early 2001 for anticipated ROW needs of the I-235 expansion project. Purchase prices ranged from \$97,000 to \$130,000 for the individual properties. The properties were later repaired and rented out until the DOT determined the properties were no longer needed for the I-235 project. Because the I-235 expansion project plan changed, it was decided the ROW property would be sold.

As of November 3, 2005, all of the nine Pleasant Street properties have been sold publicly. One of the nine properties was a direct sale to the previous owner for \$157,000. Under certain situations, the DOT may proceed with a direct sale of land or improvements. The *Code of Iowa*, section 306.23, provides a purchase preference in the sale of land to specific parties in specific situations, such as providing notice and opportunity to the previous owner. ROW property sales are generally handled through DOT's standard process.

Schedule 1 summarizes acquisition cost, acquisition date and known mowing, maintenance and repair costs applicable to the nine ROW houses located on Pleasant Street in West Des Moines through June 30, 2004. The costs in the **Schedule** do not include any DOT administrative costs. American Contractors was paid about 67% of the mowing, maintenance and repair work completed for the nine ROW properties, while other vendors were paid about 33% of the total. Examples of costs incurred for mowing, maintenance and repairs ranged from a low of \$8,856 for 2201 Pleasant Street to \$56,714 for 2321 Pleasant Street. Five of the nine houses each had costs in excess of \$21,000 within about a two year period. As of November 2005, the nine Pleasant Street properties have been sold. The **Schedule** also presents the sale amount for each property.

Schedule 2 presents the detail of mowing, maintenance and repair costs for the nine houses located on Pleasant Street in West Des Moines. **Schedules 1** and **2** only include costs specifically related to those nine houses acquired by ROW Property Management.

A Review of Selected DOT Service Contracts

ROW Property Management used the services of vendors, such as Pro General, L.L.C., American Contractors and Cignal Contracting Mgt., Inc., to complete mowing, maintenance and repair services for ROW property acquired due to anticipated needs of the I-235 expansion project. Two individuals that previously worked for Pro General, L.L.C. on mowing, maintenance and repair projects for ROW properties later formed and incorporated American Contractors Inc.

Table 7 summarizes information related to some of the vendors used by ROW Property Management for mowing, maintenance and repair services for the Pleasant Street properties, including vendor name, incorporation date and status, date of first voucher, number of days between incorporation and the first voucher and total vouchers paid during fiscal years 2003 and 2004.

Table 7

Vendor name and other information	Date of Incorporation	Status	Date of first voucher	Days between incorporation and first voucher	Total paid during fiscal years 2003 and 2004
<u>Pro General, L.L.C.</u>	05/16/02	Dissolved on 09/19/2002	12/10/02	208 days*	\$ 78,671
<u>Cignal Contracting Mgt., Inc.</u> An individual that was an officer of Pro General, L.L.C. is an officer of Cignal Contracting Mgt., Inc.	06/02/03	Active	06/30/03	28 days	133,910
<u>American Contractors Inc.</u> Two individuals that previously worked for Pro General, L.L.C. are officers of American Contractors Inc.	04/23/03	Active	05/05/03	12 days	282,513

* Pro General, L.L.C. was dissolved 82 days prior to the first voucher. Even though Pro General, L.L.C. was dissolved, the DOT continued to receive bills for services and make payments to Pro General through 06/09/03, according to the DOT paid voucher system.

Source: Secretary of State website for corporation information, AOS downloads of DOT transactions and DOT vouchers.

As illustrated by the **Table**, American Contractors filed articles of incorporation with the State of Iowa on April 23, 2003 and just one week later, on April 30, 2003, began providing mowing, maintenance and repair services for DOT ROW property. American Contractors provided services such as mowing, tree removal, trash clean-up and removal, electrical and plumbing repairs, flooring and drywall replacement, air conditioner service and replacement and other household repairs at various ROW property locations between April 30, 2003 and June 30, 2004.

We reviewed the support for amounts paid to American Contractors from April 2003 through June 2004 for mowing, maintenance and repairs completed for ROW property acquired due to I-235 expansion needs. Activity related to American Contractors was reviewed extensively since the DOT paid \$282,513 to the company without negotiating and entering into a contract for the services or allowing opportunity for competition from other vendors. According to ROW Property Management staff, the typical practice for hiring vendors to complete mowing, maintenance and repair work needed on ROW property is for the applicable property manager to select and hire the vendor they believe is best for completion of necessary work. As a result, the DOT may not receive the most cost effective services available.

The initial invoices received from American Contractors for mowing and trash clean-up indicated property address, hours worked, hourly labor rate and other costs, such as truck rentals or dumpsters. By mid-July 2003, the contractor changed invoice forms and no longer reported hours and hourly rate for mowing, trash clean-up, repairs and other services billed to the DOT. Information included on the invoices was not sufficient to allow for effective review of the reasonableness of the charges billed to the DOT. For example, invoices usually did not indicate or itemize labor hours, the hourly rate agreed to and description of and cost of materials provided. Therefore, it would have been difficult to effectively monitor services received.

Architectural, Engineering and Related Professional and Technical Services

It is the policy of the DOT to contract with consultants for architectural, engineering and related professional and technical services when one or both of the following conditions exist:

- Inability to complete required work within the desired time frame with available resources, and
- Work requires specialized experience or expertise not available within the DOT.

The DOT uses the negotiated contracts method to enter into service contracts with pre-qualified consultants for the provision of architectural, engineering and related professional and technical services such as:

- Design of roads and bridges,
- Traffic and rail studies,
- Research projects related to highway construction materials,
- Geographic information systems and mapping,
- Archeological and cultural aspects of transportation systems, and
- Optimum types of transportation for various areas.

When negotiating with potential service providers for architectural, landscape architectural, engineering or related professional or technical services, DOT policy requires divisions to consider for contract award only those vendors that are pre-qualified with the DOT in the category or categories of work to be contracted. Prequalification requirements are contained in DOT Policy 300.04, "Prequalification of Architectural, Engineering and Related Professional and Technical Vendors".

The DOT's policies and procedures contained in DOT Policy 300.12 must be followed for negotiation and administration of applicable contracts. Further, DOT policy requires the negotiated contract method to be used for selecting consultants unless either the sole source or emergency selection method is justified. A summary of the complete process for selecting consultants for architectural, engineering and related professional and technical services expected to cost more than \$50,000 is shown in the chart included in **Appendix B**.

Summary of the Negotiated Contracts Process

DOT's negotiated contracts process detailed in DOT Policy 300.12 may be summarized as follows.

- The Administering office:
 - ◆ Determines the need for outside architectural, engineering and related professional and technical services, prepares requests for outside services and submits the requests to the office's division director or, for the Highway Division, to the bureau director for approval.
 - ◆ Negotiates and prepares service contracts following completion of the selection process, obtains all necessary internal and external reviews and approvals and distributes the executed contract.
 - ◆ Administers the contract and prepares an evaluation of the contract upon its completion.
 - ◆ Maintains contract files documenting communications, actions taken and decisions made during all phases of the contracting process.
- A selection committee oversees and documents the process of contract award, including the decision-making process.
- A consultant steering committee reviews the vendors selected by the selection committee and ranks the vendors in order of preference and also documents its decision making process.
- The administering office negotiates the contract, prepares an independent estimate of the cost of the proposed services and related hours.
- External Audits of the DOT's Office of Finance performs a pre-audit of the selected service provider if the contract is expected to exceed \$50,000.
- A final contract is prepared and approved.

A Review of Selected DOT Service Contracts

- Monitoring and evaluation of services, provided by the administering office, under contract include:
 - ◆ Dialogue and meetings with consultants.
 - ◆ Evaluation of consultants' performance using standard forms is required at least annually and when the contract is completed and documentation must be maintained.
- External Audits completes a final audit of the consultant contract activity prior to payment of the final contract costs.

Contract Review Summary

We reviewed selected Road and Bridge Design contracts to evaluate compliance with applicable policies and procedures for negotiated contracts and did not identify any significant findings. Requirements for consultant selection, approval and administration of the selected negotiated contracts were followed and the contracts contained clauses required by DOT Policy 300.12.

Also, we reviewed the selected Road and Bridge Design contracts to determine the extent and appropriateness of change orders, supplemental agreements and payment of contingency fees. Contingency fees were paid on seven contracts. The fees paid, as a percentage of the original contract amount, ranged from 1.02% to 9.61%, which was within the allowable range of up to 10%, as established by the DOT. In addition, we identified final audits and exit interviews, including evaluation of service providers' performance, had been completed for reviewed Road and Bridge Design service contracts completed during our review period.

Rest Area Design and Construction Services

Contracts for design and construction of rest areas are awarded through a competitive bidding process conducted by the Rest Area Administrator in conjunction with the DOT's purchasing office. DOT Policy 300.12 and administrative rules contained in IAC [761]-section 20.3 must be followed for entering into and administering contracts. The DOT purchasing office:

- Publishes a statewide Notice to Bidders on the DOT internet site and in the Des Moines Register and sends a notice to all contractors on the DOT bidders list.
- Makes the plans and specifications applicable to services being sought available at addresses included in the notice to allow bidders to view the documents.
- Provides bidding packets, including bidding documents, specifications and instructions to bidders, to interested service providers.
- Requires prospective bidders to visit the rest area site prior to submitting their bid.
- Publicly opens the bids and reads the bids aloud on the date at the location specified in the bidding packet.
- Bids are tabulated and the contract is awarded.

After the contract is awarded, a staff action is prepared and distributed electronically. A staff action is an on-line request for approval of DOT officials at several levels. A formal contract is signed by the contractor and DOT officials after the staff action has been routed and approved.

The DOT district and resident engineers work with the architect to monitor the progress of the construction. When changes in the plan or contract are needed, a change order is completed and signed by the architect, the contractor and the DOT engineer overseeing the project. Contractors submit monthly progress statements to the DOT and the administering office reviews and approves the statement for payment and initiates and approves a voucher. Personnel in the Accounts Payable office also approve the voucher. The architect and DOT engineers determine the project has been successfully completed and the contract and change order terms have been met.

We did not identify any significant findings from our review of selected rest area construction contracts tested for compliance with applicable service contracting rules. In addition, no significant findings were identified from our review of the appropriateness of change orders for the selected

contracts. The total change orders as a percentage of the original contract amount ranged from 1.29% to 8.16%. All change orders reviewed were properly approved and changes made resulted from additional work requested by the DOT.

Rest Area Custodial Services

Contracts for rest area custodial services are also awarded through a competitive bidding process. The contracting procedures are similar to those described above for Rest Area Construction and DOT Policy 300.12 and administrative rules contained in IAC [761]-section 20.3 must also be followed for entering into and administering contracts for rest area custodial services. Bidders are required to attend a pre-bid conference held in Ames to discuss the proposal. Staffing requirements, schedules and inside janitorial responsibilities are included in the information provided to bidders.

According to a DOT representative we spoke with, there are limits on the number of buildings a contractor can be awarded in an effort to limit the number of noncompliance issues and to not put an unreasonable burden on the DOT. If the contractor's services are inadequate, the DOT must take immediate steps to correct the situation, and this may involve DOT employees performing services or hiring casual labor. One contractor cannot be responsible for both janitorial and lawn care services in the same rest area group to ensure the less desirable inside janitorial work is performed. Past performance of existing contractors is considered during the evaluation of bids.

The contractors submit monthly invoices for work performed the previous month. The invoices are reviewed and approved by designated staff in the Office of Maintenance. The Rest Area Administrator office staff monitor the rest areas at least once per week to handle any repairs and to verify the rest areas are clean. Logs of work performed, by whom and the time it took to complete the task are maintained at each site. The Rest Area Administrator visits the sites approximately every three weeks and reviews the logs for reasonableness as part of the monitoring process. Unreasonable entries are noted, investigated and further action taken if necessary, including adjustment of payments to the contractor or possible termination of the contract.

We reviewed eight rest area custodial contracts for compliance with applicable service contracting rules and no significant findings were identified.

Findings and Recommendations

The Department of Transportation (DOT) enters into service contracts with consultants to assist with architectural, engineering and related professional and technical services and other professional and technical services, such as computer systems and programming. We judgmentally selected service contracts from various divisions of the DOT to assess contract management practices and determine compliance with applicable laws, procedures, rules and guidelines. Specifically, we determined whether:

- The service providers were selected on a competitive basis. If sole-sourced or for an emergency, we evaluated whether justification was sufficient.
- Individuals contracted with or sub-contractors appear to have an employer/employee relationship with DOT.
- The DOT properly monitored contracts and evaluated services received to ensure service providers were held accountable for adequate delivery of contracted services.

As a result of our review, we identified the following findings and recommendations which should be considered by the DOT. While our findings are based on proper contract management practices and the rules in effect at the time the contract was established, our recommendations take into consideration the current rules for establishing service contracts in addition to proper contract management practices. Where applicable, we have referred to the appropriate rules. Because our recommendations are meant to improve the entire contract management process followed by the DOT, it is not our intent to simply recommend the DOT follow the rules.

Our recommendations are directed at future contracts established by the DOT. In addition, the recommendations should be applied, as appropriate, to existing contracts still in effect. For instance, we would expect recommended improvements to contract monitoring be applied to all new and existing contracts while recommendations for improvements to locating and soliciting bids would be applied only to new contracts pursued by the DOT.

FINDING 1 – Contract with Archon Technologies, Inc.

No opportunity for competitive bidding was provided for the computer systems and programming consultant contract entered into by DOT MVD with Archon. The contract was initiated at \$2.5 million over a 3 year period and was entered into using the sole source selection method. However, the justification for using sole source is not sufficient. In addition, the contract was amended and extended several times to increase the contract maximum to \$40.9 million as of October 31, 2005 and increase the contract duration by 3 years and 7 months. As of June 30, 2005, the DOT had paid over \$32.2 million to Archon under the contract.

The MVD entered into a contract with Archon to provide computer systems and programming consulting services for development and implementation of the redesigned Vehicle Registration and Titling System (VRTS) and Driver License and Driver Record System (DS). Originally, the maximum amount of the contract was \$2.5 million from December 1, 1999 through December 1, 2002 and included an option to extend the agreement for additional 12 month periods. Under the contract, Archon was required to provide computer consulting services related to redesign of the VRTS and to review the DS to develop a plan for continued development.

The contract has been amended and extended several times to expand the scope of services to include anticipated functionalities considered necessary by the MVD for the redesigned systems. As of June 30, 2005, the contract maximum increased to \$39 million and the contract duration was extended by 3 years and 7 months through June 30, 2006. By October 31, 2005, the contract maximum was increased to \$40.9 million. In addition to amendments and extensions, the DOT MVD used and executed Statements of Work documents that describe the contract requirements in more detail for the following:

- Scope of services,

A Review of Selected DOT Service Contracts

- Deliverables and schedule of performance,
- Scope management,
- Acceptance and testing,
- Compensation,
- Payment terms,
- Names of employees responsible for managing statements of work, and
- Resources and other responsibilities of the DOT under the master services agreement.

As of June 30, 2005, a total of \$32,295,346 had been paid to Archon for work completed under the contract. The VRTS was completed and implemented state-wide and on the MVD website in January 2005. Of the amount paid to Archon, \$18,220,555 was for design, development, conversion and implementation of the VRTS. The remaining \$14,074,791 has been paid to Archon for the DS, but the system is not yet completed. The MVD staff anticipates the design, development, conversion and implementation of the DS will be completed by June 2006.

Work remaining to be completed by Archon for the DS from July 1, 2005 through June 30, 2006 includes: revisions to detailed design including development specifications; enhancing application and information architecture design; beta release development of DS redesign; unit and system testing; implementation support including user acceptance testing, collaborative user training, development of application and technical documentation and assistance in the go-live planning; and project planning, management, oversight and project quality assurance.

Sole source not sufficiently justified - The MVD chose to use the sole source method to select the computer consultant to provide services for development and implementation of the new VRTS and DS. While the DOT used the prequalification and negotiated contract or competitive processes to select service providers for most of the service contracts we reviewed, the DOT's MVD primarily used the sole source method for selecting computer consultants for service contracts. Also, it was not evident the DOT attempted to use a competitive procurement method for the contracts. There are certain risks associated with the use of sole source service providers including, but not limited to, the most qualified service provider may not be selected and the best price for the service contract may not be obtained since the contracts were not competitively bid.

DOT policy for entering into service contracts requires use of a formal competitive selection process based on competitive bidding for contracts estimated to cost \$50,000 or more unless sole source selection is justified. A competitive process typically includes seeking requests for proposals from at least three service providers and evaluation of proposals received.

We determined compliance with laws, administrative rules and procedures applicable to the sole source procurement method by examining documentation in the contract files and by inquiry if documents were not located. The sole source requirements changed over the timeframe for which we reviewed the selected contracts. Therefore, we reviewed the selected contract for compliance with service contracting procedures or rules in effect when the contracts were established.

The sole source justification is documented but is not sufficient to support the sole source method of procurement because it did not clearly explain why the vendor was the only one able to perform the service and why sole source procurement was necessary. Also, it was not evident the DOT attempted to use a competitive procurement method for the contracts. The sole source justification for the Archon contract, as documented on the DOT staff action form attached to the original services contracting questionnaire form required by the State, was as follows:

- ◆ *[Archon] "is in the best position to provide services on these projects. DOT staff alone does not have the expertise or resources to provide services for these highly complex systems."*

A Review of Selected DOT Service Contracts

Sole source selections should be kept to a minimum and used only as a last resort and in rare situations. If a competitive process is not viable, the service provider may be selected under sole source rules, if warranted and appropriately justified. Providing opportunity for competition and analyzing available options to choose the best service provider available is a good business practice.

Contract amendments - We examined the extent to which the Archon contract was amended. We reviewed documentation for each amendment for reasonableness in terms of dollar amount, timeline and purpose as related to the original purpose of the service contract. Also, the contract amendment documentation was evaluated to determine if it was properly reviewed and approved.

Initially, the Archon contract was entered into for a maximum of \$2.5 million for the period December 1, 1999 through December 1, 2002. However, the contract was amended several times over its duration to expand the scope of services to include all anticipated functionalities considered necessary for the redesigned systems. By June 30, 2005, the maximum cost of the contract increased by \$36.5 million to \$39 million, a total increase of 1,460% since December 1, 1999. Also, the contract duration was extended by a total of 3 years and 7 months through June 30, 2006. In addition, the contract maximum had been increased by MVD to approximately \$40.9 million as of October 31, 2005.

The Archon contract for the redesign of the VRTS and DS will cost much more than anticipated. According to MVD staff, estimates for the base functionality of the VRTS were developed in mid to late 2001 and amounted to \$10 million. The \$10 million did not include all the enhancements which were developed as the work progressed. Also, MVD staff estimated the DS would cost a total of \$10 million, so the total anticipated contract maximum was \$20 million in 2001. The 2001 estimates were not done until at least one and one-half years after the contract began.

According to information we requested and received from DOT MVD staff in April 2003, it was anticipated the VRTS may cost up to \$15 million and the DS would not exceed \$10 million, a combined total of \$25 million. However, the actual amounts paid to Archon for VRTS was over \$17 million and for DS was over \$14 million as of June 30, 2005, a combined total of over \$31 million. Therefore, the anticipated maximum total costs of \$25 million provided by MVD in April 2003 were also exceeded. Further, the current maximum cost approved for the Archon contract through June 30, 2006 is approximately \$40.9 million, more than double the estimate completed by MVD in 2001 and \$15.9 million more than the 2003 estimate.

A total of nine amendments were executed for the contract. Five of the nine increased the cost and one of those amendments also extended the contract through December 1, 2003. Also, the other two amendments extended the contract through December 1, 2004 and December 1, 2005. In addition, two more amendments were executed in June of 2005 to increase the maximum cost of the contract and to extend the contract through June 30, 2006.

The June 10, 2003 contract amendment increased the contract maximum but did not extend the expiration date beyond December 1, 2003, the expiration date established by the previous amendment. We brought the matter to the attention of MVD staff and MVD subsequently executed an amendment to extend the contract through December 1, 2004. Also, according to MVD staff, the DS is anticipated to be completed and implemented state-wide in the counties and on the MVD website by June 2006.

There are often legitimate reasons for service contracts to be amended. Projects may take longer than anticipated or other unexpected issues may arise. However, if service contracts are extended or amended too easily and frequently, the competitive process could be hindered. If amendments to increase contract costs and time of performance are relatively easy to obtain for the service providers under contract, some of the service providers may develop the perception it is common practice by the DOT. Subsequently, they may use it as a factor in considering the bid amount they submit through the request for proposal process for service contracts. This could reduce the fairness of the competitive process by placing other competitors who were not aware of this practice at a disadvantage and could result in increased costs to the DOT, particularly if the practice of allowing multiple cost amendments continues or increases.

A Review of Selected DOT Service Contracts

Also, if a service provider with the amended service contracts was selected through the sole source method, the service provider may also have too much impact on the contract cost. Sole source service providers could take advantage of the situation due to the fact they know they are apparently the only service provider available to meet the DOT's needs and may increase the cost. Another possibility is the DOT's contract managers may continue to use sole source service providers for convenience.

Current contracting rules contained in DOT policy specifically address extra work orders and supplemental agreements, which are similar to contract amendments. DOT policy requires service contracts to specify the process by which extra work orders or supplemental agreements are negotiated. Also, the policy states, in part, the following:

- “1. In general, a process similar to that used to negotiate contracts should be used, including Staff Action approval.*
- 2. Any change in the contract requiring additional work must be authorized in writing by the administering office prior to the consultant starting the additional work. The written authorization may take the form of a letter as long as the following items are covered and agreed to:*
 - A description of the change to be made.*
 - An explanation of the reasons for the change in sufficient detail so that another individual can understand them.*
 - The basis for the cost of the change.”*

Monitoring and evaluation of computer consultant services - Most service contract types we reviewed had documented examples of contract monitoring and evaluation of services performed during work progress and after completion of the contracts. Also, the DOT has sufficient policies, procedures and additional monitoring and evaluation guidance available to contract administrators for most types of service contracts reviewed.

For example, the DOT includes requirements for monitoring and evaluation of consultants under contract in Policy 300.12 which requires the administering office to monitor the consultant's work progress and quality, maintain contract and project documentation and review all consultant billings for conformity with the contract. The policy also requires at least an annual evaluation of consultants under contract with the DOT for architectural, engineering and other related technical and professional services.

However, DOT Policy 300.13 entitled, “Negotiated Contracts for Other Professional and Technical Services” which is applicable to computer consultant contracts does not include a requirement for evaluation of services received under contract. Policy 300.13 does contain contracting requirements for negotiating, entering into and administering computer consultant service contracts, but does not include sufficient guidance regarding evaluation of services received.

In addition, the MVD did not consistently monitor the cumulative contract amounts approved under Statements of Work (SOWs) as compared to the master services agreement terms, amendments and extensions of the Archon contract. While total actual expenditures under the contract did not exceed the contract maximum during our review period, MVD authorized SOWs at higher dollar amounts than the total contract maximum approved under the master services agreement. For example, the amendment dated June 10, 2003 increased the contract maximum to \$30 million but the amendment did not extend the contract period beyond December 1, 2003, which was previously extended by the amendment dated June 27, 2000. However, two statements of work were executed through June 30, 2004, which was seven months beyond what had been authorized by contract amendments. We informed DOT staff of this and, according to MVD staff, the lapse of seven months not being authorized by contract amendment was an accidental oversight. Subsequently, on August 22, 2003, DOT issued a contract amendment to extend the Archon contract through December 1, 2004.

It is critical the DOT consistently monitor and evaluate service contracts while they are in progress and evaluate the services received at the end of each contract to hold the service providers accountable and to determine services contracted for are received and adequate.

A Review of Selected DOT Service Contracts

Contract work started prior to obtaining signed amendments - The DAS State Accounting Enterprise procedure 240.102 stated “Contracted services should not be performed until all signatures are obtained and distribution of the contract is made to the parties.” In addition, the DOT’s policies for negotiated contracts contained in Policy 300.12 for architectural, engineering and related professional and technical services and Policy 300.13 for other professional and technical services includes a similar requirement, as follows:

“The contract or a cover letter/notice to proceed sent with the consultant’s copy of the fully executed contract should address when work on the contract may begin. Without prior approval, work should not begin until the contract has been fully executed and distributed.”

We reviewed the Archon service contract and amendments to determine if the contract and amendments were signed prior to the start of and continuation of work. According to documentation we examined, the service provider began or continued work prior to one amendment being signed by all parties. The number of days elapsed from the date work was started or in process to the date the amendment was signed was 73 days. However, statements of work had been signed by MVD and Archon staff to cover work to be completed during that time period.

Contract duration extended to six years - The contract duration clauses included in four computer consultant contracts administered by the Motor Vehicle Division did not limit the number of one-year extensions that may be executed. The maximum contract duration allowed by State rules in effect at the time the contracts were entered into was three years and DOT policy for contract duration is normally no longer than three years. Actual duration of the Archon contract, including amendments, extends from December 1, 1999 through June 30, 2006, a period over six years. The contract duration exceeds the rules in effect now and at the time the contract was entered into and the original contract did not limit the number of one year extensions that may be executed. Current State rules generally do not allow contract durations to be longer than six years, including all amendments and extensions.

Former DOT employee worked for Archon on the VRTS project - A former DOT employee who was the primary contact on the VRTS project while employed with DOT later worked on the VRTS project as an expert in the subject matter for Archon under the contract. The former DOT employee retired on January 31, 2002 through the early out option. However, approximately two months after retiring, the former employee started working for Archon under the contract as the subject matter expert on the same VRTS project. There is potential for a conflict of interest with such relationships. Because sufficient documentation is not available, we are unable to determine compliance with section 68B.7 of the *Code of Iowa*. This section requires a two year ban on compensating former employees for services rendered under certain circumstances. According to DOT MVD staff, this section was sufficiently considered and appropriately addressed prior to using the services of the former employee. In addition to the potential conflict of interest, there was an appearance of an employer/employee relationship for a sub-contractor working for Archon. Documentation of an assessment to determine whether an employer/employee relationship existed was not available when requested from MVD.

From March 2002 through June 30, 2003, DOT was billed by Archon for 1,359 hours of work completed by the former DOT employee at a cost of \$97,848. While the individual did not perform the exact same job duties for DOT and Archon, she performed similar functions as a facilitator in the use/design of the VRTS. If the DOT had used an existing employee or hired an employee with similar experience to complete the work done by the former DOT employee under the Archon contract, it would have cost approximately \$45,486 based on DOT payroll and personnel system information, which is approximately \$52,362 less than the amount billed to the DOT by Archon for the subject matter expert.

Recommendation –

Sole source - Specific sole source criteria are identified in the current procurement rules. The DOT should evaluate each individual contract under consideration and determine whether or not the sole source criteria have been met while investigating and documenting whether the prospective service provider is, in fact, the only and best source. The documentation should clearly explain the service

A Review of Selected DOT Service Contracts

provider is the only source for the desired services or why the service provider is clearly the best and most efficient and cost effective alternative. Also, the DOT should consider a competitive procurement process when evaluating future contracts similar to those we identified as having insufficient sole source justification.

Contract amendments - The DOT should improve its contract planning procedures for computer consultant contracts to more specifically define scope of services and associated costs before entering into such contracts. Also, the DOT should implement procedures to ensure service contract amendments or any other change requiring additional work, increase in cost and contract extensions are kept to a minimum and amendments go through a formal process, including appropriate approval, tracking and documentation. Because amendments may be periodically required, a formal amendment and approval process should be consistently followed and documented for any change in the contract regardless of service type.

Monitoring and evaluation of service providers - The DOT should ensure all administering divisions consistently complete evaluations of consultant work under contract at least annually and document all significant results of each evaluation. Criteria to be considered and included in evaluations of consultant services should also be included in Policy 300.13, similar to those contained in DOT Policy 300.12. Evaluation results should be documented and included in the contract files.

The current procurement rules require State agencies to include monitoring and review clauses in the contract. Inclusion of the clauses should aid the DOT in administering contracts in a proper manner. In addition to complying with the rules and including the contract clauses, the DOT should:

- Implement policies and procedures for how contracts are to be monitored to ensure services contracted for are received and are adequate to meet the needs of the DOT and any clients the DOT is serving.
- Monitor activity for the duration of the contracts and document and review the service providers' performance by using the monitoring and performance review clauses as a guide to help determine service provider compliance with the service contract and effectively review performance of the service contracts.
- Implement formal procedures to ensure service providers take proper corrective action when problems are identified.
- Monitor performance by effectively monitoring whether a service provider is complying with contract terms and meeting the performance criteria. The DOT should require, for instance, detailed invoices itemizing work performed under the contract prior to making periodic or final payments to a service provider. Disputes with service providers can be eliminated, or at least minimized, by clearly defining the scope and timing of work to be performed and the criteria against which the service provider's performance will be judged. If the scope and timing of work is clear, it will be easier to identify the criteria that should be applied in assuring contract terms are being fulfilled.

Contract work started prior to obtaining signed amendments - Current procedures state "Contracted services are not to be performed until all signatures are obtained and distribution of contract copies is made to the parties." The DOT should ensure work is not started until the contracts, amendments and statements of work have been signed and distributed appropriately.

Contract duration extended to six years - The DOT should ensure future contracts do not exceed the duration allowed by applicable services contracting rules.

Former DOT employee worked on VRTS project as a subcontractor - The DOT should consistently document the factors considered, rationale for decision and any cost analyses completed while determining whether to contract and implement procedures to make sure work arrangements with former employees do not violate the *Code of Iowa*, section 68B.7. Chapter 68B of the *Code* addresses restrictions regarding relationships between the State and former employees.

Response –

Sole source - The selection, justification and documentation process used with this contract met the agency requirements at the time of its execution in 1999. The sole source selection of this contractor was justified because, following research into other states' efforts to redesign their VRTSs, they were the only contractor known to MVD to have the unique expertise required for our scope of work. New sole source selection, justification (including the consideration of a competitive process) and contracting requirements for nonengineering, architectural and related services implemented in 2001 now require a much more detailed explanation and justification for the use of sole source procurement of services, a review of the justification and all contract materials by the Operations and Finance Division Director, and the Department Director must now sign all such contracts. In addition, PPM 300.13, that applies to these types of contracts, is being revised to more clearly explain this process. This will help the department assure that sole source is used only when appropriate and is properly justified and documented.

Contract amendments - It is correct the initial Archon contract was for \$2.5 million and amendments were executed by the MVD Director increasing the cost to \$39 million. As previously reported to the SOA, the original contract amount was never intended to cover the total costs of redesigning the VRTS and the driver record system. The increase in contract cost was not the result of a poorly planned project, but rather a reflection of the collaborative design approach used to ensure success in redesigning systems used by DOT, county treasurers and a number of other state agencies in their daily business. It was always intended that the base contract would be amended in contract maximum and duration to complete the design work approved by the multijurisdictional design team. The process implemented in 2001 for these types of contracts now requires contracts to include amendment language. The PPM 300.13 revision will also make this process clearer.

Monitoring and evaluation of service providers - Rigorous reviews of the work took place by state employees and those in 17 county treasurer offices. However, the DOT agrees that insufficient documentation of this review and monitoring was in the file maintained by the Motor Vehicle Division Director at the time of the review. As to not including sufficient guidance regarding evaluation of services received, PPM 300.13 is in the revision process and the updated policy will include criteria to be considered and included in evaluations of consultant work and a requirement that the evaluation be documented in the contract.

Contract work started prior to obtaining signed amendments – It is correct that in one instance work continued for 73 days on the redesign project prior to the contract amendment being signed by both parties, although, as noted, the statement of work governing the requirements to be delivered had been signed in a timely fashion. DOT policies require timely signatures and DOT will continue to work to assure that signatures are obtained prior to work commencing.

Contract duration extended to six years – DOT rules at the time of this contract execution limited contracts to three years, but was silent about extensions. This project spanned a number of years since it involved a significant number of stakeholders in state and county government, each of whom had other full-time responsibilities. The target date for implementation was met and each county has issued registrations and titles every business day since then. DOT will continue to work to assure contract durations do not exceed applicable services contracting rules.

Former DOT employee worked on VRTS project as a subcontractor – It is correct that a former DOT employee was employed by the consultant and assigned to work on this project; that arrangement was reviewed and approved by the DOT Legal Counsel as relates to Code of Iowa, section 68B.7. It was determined there was no conflict, and subsequently no two year ban was imposed, because the former employee had not been involved in any “case, proceeding, or application” while at the DOT, but rather was a technical expert on an automated support system. In addition, regarding the assertion that the former DOT employee performed similar duties with the consultant for twice the cost as when she was employed by the DOT, that is not the case. The former employee functioned

as the liaison to county treasurers on the VRTS when employed by DOT. Upon her departure, another person was hired into her vacated position to continue to provide those liaison duties. With the consultant she performed system design activities to assure that the system redesign adequately incorporated the business system needs. These are different jobs, with different skill set requirements and different pay expectations. DOT will continue to perform these types of thorough analyses (including factors considered, rationale for the decision and any cost analyses completed) regarding 68B.7 and will work to assure the analyses are better documented in the contract files.

Conclusion:

Sole source – Response accepted.

Contract amendments – Response accepted.

Monitoring and evaluation of service providers – Response accepted.

Contract work started prior to obtaining signed amendments – Response accepted.

Contract duration extended more than six years – Response accepted.

Former DOT employee worked for Archon on the VRTS project – Response accepted.

FINDING 2 – Sole source not sufficiently justified

Another significant computer consultant contract for \$3 million was entered into using the sole source method but the justification was not sufficient to support the sole source method of procurement. In addition, documentation of sole source justification was not available from the DOT MVD for two other computer consultant contracts that were selected using the sole source method, one with a contract total of \$611,610 over 5 years and the other contract at \$623,129 over 4 years.

While the DOT used the prequalification and negotiated contract or competitive processes to select service providers for most of the service contracts we reviewed, the DOT MVD primarily used the sole source method for selecting computer consultants for service contracts. The MVD chose to use the sole source method to select six of the seven computer consultants we reviewed. The contract with Archon is already included in **FINDING 1**.

The remaining five sole source computer consultant contracts reviewed were entered into by the MVD for a combined total of over \$4 million from fiscal year 2000 through 2004. There are certain risks associated with the use of sole source service providers including, but not limited to, the most qualified service provider may not be selected and the best price for the service contract may not be obtained since the contracts were not competitively bid.

We determined compliance with laws, administrative rules and procedures applicable to the sole source procurement method by examining documentation in the contract files of the selected computer consultant contracts and by inquiry if documents were not located. The sole source requirements changed over the timeframe for which we reviewed the selected service providers' contracts. Therefore, we reviewed the selected contracts for compliance with service contracting procedures or rules in effect when the contracts were established. Providing opportunity for competition is a good business practice that should be used to select the best service provider available.

One of the five sole source contracts reviewed and included in this finding had a documented justification that was not sufficient to support the sole source selection method for procuring services. The Technology Enterprise Group Inc. contract was initiated in December 1999 at a not to

A Review of Selected DOT Service Contracts

exceed amount of \$1.5 million with a duration of three years. We reviewed the sole source justification provided by MVD for Technology Enterprise Group Inc. and it is not considered sufficient. The following includes the DOT's sole source justification for the contract and an explanation as to why we consider the justification to be insufficient:

- Technology Enterprise Group Inc. - The sole source justification for Technology Enterprise Group Inc. was as follows:

"Technology Enterprise Group, Inc. is in the best position to provide services on these projects. DOT staff alone does not have the expertise or resources to provide services for these highly complex systems."

The justification is not considered sufficient because the sole source justification does not clearly explain why Technology Enterprise Group Inc. was the only one able to perform the service and why sole source procurement was necessary. Also, it was not evident the DOT attempted to use a competitive procurement method for the contracts.

The Technology Enterprise Group Inc. contract was later amended to extend until December 2005 while the maximum cost was doubled to \$3 million.

In addition, documentation of sole source justification was not available from the DOT for two computer consultant contracts, as follows:

- Cyclone Information Services – This contract had a cumulative not to exceed total of \$611,610 over five years.
- DKerns Consulting Inc. – This contract had a cumulative not to exceed total of \$623,129 over four years.

State and DOT policies and procedures for service contracts require documentation regarding the service provider selection process be completed, approved and maintained in the contract files.

Recommendation – Specific sole source criteria are identified in the current procurement rules. The DOT should evaluate each individual contract under consideration and determine whether or not the sole source criteria have been met while investigating and documenting whether the prospective service provider is, in fact, the only and best source. Also, the DOT should consider a competitive procurement process when evaluating future contracts similar to those we identified as having insufficient sole source justification.

Response - The selection, justification and documentation process used with these three contracts met the agency requirements at the time of its execution. While documentation supporting selection of this consultant was provided during the review process, the DOT agrees that adequate documentation of the process was not included in the contract files. New sole source selection, justification (including the consideration of a competitive process) and contracting requirements for nonengineering, architectural and related services implemented in 2001 now require a much more detailed explanation and justification for the use of sole source procurement of services, a review of the justification and all contract materials by the Operations and Finance Division Director, and the Department Director must now sign all such contracts. In addition, PPM 300.13, that applies to these types of contracts, is being revised to more clearly explain this process. This will help the department assure that sole source is used only when appropriate and is properly justified and documented.

Conclusion – Response accepted.

A Review of Selected DOT Service Contracts

FINDING 3 – Contract amendments

Of the 60 service contracts reviewed, 34, or approximately 57%, were amended and almost 71%, or 24 of 34, of the amended contracts were increased for both the cost and contract duration.

We examined the extent to which the DOT amended the service contracts included in this review. Six of the eight types of service contracts reviewed had service contracts with amendments. The number of amendments reviewed for the selected service contracts and the amendment type are summarized in the table below.

Service Type	# of Service Contracts			Amendment Type		
	Reviewed	Amended	%	Cost and	Duration	
				Duration	Cost Only	Only
			Amended	Increased	Increased	Increased
MVD Computer Consultants	7*	6*	86%	6	-	-
Road Design	15	11	73%	9	2	-
Bridge Design	14	1	7%	-	1	-
Rest Area:						
Construction	7	7	100%	-	7	-
Custodial	6	5	83%	5	-	-
Right-of-Way:						
Appraisal	7	4	57%	4	-	-
Acquisition	4	-	-	-	-	-
Mowing and Maintenance	**	**	**	**	**	**
Totals	60	34	57%	24	10	-

* The number of contracts reviewed and amended for MVD computer consultants includes Archon. Relevant detailed findings for Archon are included in FINDING 1.

** Right-of-Way Property Management of the DOT did not enter into contracts with vendors used for mowing and maintenance services.

We also reviewed the contract amendment documentation related to the service contracts selected for review. The contract amendments were reviewed for reasonableness in terms of dollar amount, timeline and purpose as related to the original purpose of the service contracts. Also, the contract amendment documentation was evaluated as to whether it was reviewed and approved. Most of the amendments reviewed were reasonable as related to dollar amount, timeline and purpose and were appropriately documented.

There are often legitimate reasons for service contracts to be amended. Projects may take longer than anticipated or other unexpected issues may arise. However, if service contracts are amended too easily and frequently, the competitive process could be hindered. If amendments to increase contract costs and time of performance are relatively easy to obtain for the service providers under contract, some of the service providers may develop the perception it is common practice by the DOT. Subsequently, they may use it as a factor in considering the bid amount they submit through the request for proposal process for service contracts. This could reduce the fairness of the competitive process by placing other competitors who were not aware of this practice at a disadvantage and could result in increased costs to the DOT, particularly if the practice of allowing multiple cost amendments continues or increases.

In addition, the MVD entered into a contract with Technology Enterprise Group, Inc. for computer systems and programming consultant services for tasks to expand the usefulness of ADVANTAGE Safety data collection software, including but not limited to development of a software development

A Review of Selected DOT Service Contracts

tool kit, integration of a Geographic Information System location tool into the ADVANTAGE software suite and additional work on an incident-based report component. The contract was initiated on December 1, 1999 at \$1.5 million with Technology Enterprise Group Inc. for a period of three years. Later, on March 20, 2002, the contract was amended to double the initial contract amount to \$3 million and extend the contract through December 1, 2005 to further develop, expand, enhance and implement the software and reporting capabilities.

If the service providers with the amended service contracts were selected through the sole source method, those service providers may also have too much impact on the contract cost. Sole source service providers could take advantage of the situation due to the fact they know they are apparently the only service provider available to meet the DOT's needs and may increase the cost. Another possibility is the DOT's contract managers may continue to use sole source service providers for convenience.

The number of service contracts that had amendments are summarized in the following table by the service contract selection methods used to select the service providers.

Service Type	# of Service Contracts Amended	Service Contract Selection Method		
		Sole Source	Competitive	Negotiated with Pre-qualified Vendor
MVD Computer Consultants	6	6	-	-
Road Design	11	-	-	11
Bridge Design	1	-	-	1
Rest Area:				
Construction	7	-	7	-
Custodial	5	-	5	-
Right-of-Way:				
Appraisal	4	-	-	4
Acquisition	-	-	-	-
Totals	34	6	12	16

As illustrated by the **Table**, all of the MVD computer consultant service contracts amended were entered into using the sole source selection method. Therefore, those service providers may have leverage to demand higher pay under the contracts.

Current contracting rules contained in DOT policy specifically address extra work orders and supplemental agreements, which are similar to contract amendments. DOT policy requires service contracts to specify the process by which extra work orders or supplemental agreements are negotiated. Also, the policy states, in part, the following:

- “1. In general, a process similar to that used to negotiate contracts should be used, including Staff Action approval.
2. Any change in the contract requiring additional work must be authorized in writing by the administering office prior to the consultant starting the additional work. The written authorization may take the form of a letter as long as the following items are covered and agreed to:
 - A description of the change to be made.
 - An explanation of the reasons for the change in sufficient detail so that another individual can understand them.
 - The basis for the cost of the change.”

Recommendation – The DOT should comply with existing contracting rules and improve procedures to ensure service contract amendments or any other change requiring additional work, increase in cost and contract extensions are kept to a minimum and amendments go through a

formal process, including appropriate approval, tracking and documentation. Because amendments may be periodically required, a formal amendment and approval process should be consistently followed and documented for any change in the contract regardless of service type. It is important to clearly explain and document the basis for additional work needed and correlate the work with any increase in cost.

Response – It is correct that computer consultant contracts exceeded the three-year term specified in PPM 300.13. The policy in effect at the time did not address the procedure to be followed for contract amendments. Since 2001, the department’s practice has been to treat contract amendments the same as the original contract and to follow those procedures, contracts must include a clause detailing the amendment procedure. These contracts have received Operations and Finance Division Director review since 2001.

In the future, the Purchasing Section will be doing an agency review of all service contracts to make sure that all applicable policies are followed.

Also, the Technology Governance Board (TGB) now requires review of all Request for Proposals (RFP) for technical services containing more than \$50,000 of information technology activity and more than 750 hours of information technology staff time.

Conclusion – Response accepted.

FINDING 4 – Monitoring and evaluation of service providers

Contract management procedures reviewed at the DOT were sufficient for holding the service providers accountable for the agreed-upon services for the most part. However, policies and procedures for monitoring and evaluation of services received from computer consultants should be improved and documentation of monitoring and evaluation procedures completed and results of evaluations should be more consistently documented.

Most service contracts we reviewed had documented examples of contract monitoring and evaluation of services performed during work progress and after completion of the contracts. Also, the DOT had sufficient policies, procedures and additional monitoring and evaluation guidance available to contract administrators for most types of service contracts reviewed.

For example, the DOT includes requirements for monitoring and evaluation of consultants under contract in Policy 300.12, which requires the administering office to monitor the consultant’s work progress and quality, maintain contract and project documentation and review all consultant billings for conformity to the contract. The policy also requires at least an annual evaluation of consultants under contract with the DOT for architectural, engineering and other related technical and professional services.

Policy does not require evaluation of computer consultant services received - The DOT’s policy for evaluation of services received under contract with computer consultants is not included in DOT Policy 300.13 which contains contracting requirements for negotiating, entering into and administering computer consultant service contracts. However, it does not include sufficient guidance regarding evaluation of services received.

Required State services contracting clauses are not included in DOT policy - State services contracting rules are applicable to the DOT’s service contracts, except for funds which are required to match federal aid allotted to the State for highway special purposes. We found the DOT’s current policies and procedures for service contracts do not include the specific requirements for contract clauses regarding three interrelated categories: (1) payment terms, (2) monitoring performance and (3) reviewing performance, as required by Section 8.47 of the *Code of Iowa*.

Iowa Administrative Code [11] Chapters 106 and 107 of the Department of Administrative Services were developed to implement the requirements of Section 8.47 of the *Code of Iowa* and include more detailed rules regarding required contract clauses. In addition, the State Service Contracting Guide includes detailed examples of how to monitor and evaluate service contracts and correlate payment to performance.

Methods and results of monitoring and evaluation of services not documented - The methods and results of monitoring for the duration of computer consultant contracts and evaluation of services received were not documented for the Cyclone Information Services contract. According to DOT staff monitoring of the contract was done. However, no documentation of the methods and results of monitoring and evaluation of services received was provided.

It is critical the DOT consistently monitor and evaluate service contracts while they are in progress and evaluate the services received at the end of each contract to hold the service providers accountable and to determine services contracted for are received and adequate.

Recommendation – The DOT should ensure all administering divisions consistently complete evaluations of consultant work under contract at least annually and document all significant results of each evaluation. Criteria considered and included in evaluations of consultant services should also be included in Policy 300.13, similar to those contained in DOT Policy 300.12. Evaluation results should be documented and included in the contract files.

The current procurement rules require State agencies to include monitoring and review clauses in the contract. Inclusion of the clauses should aid the DOT in administering contracts in a proper manner. In addition to complying with the rules and including the contract clauses, the DOT should:

- Implement policies and procedures for how contracts are to be monitored to ensure services contracted for are received and are adequate to meet the needs of the DOT and any clients the DOT is serving.
- Monitor activity for the duration of the contracts and document and review the service providers' performance by using the monitoring and performance review clauses as a guide to help determine service provider compliance with the service contract and effectively review performance of the service contracts.
- Implement formal procedures to ensure service providers take proper corrective action when problems are identified.
- Monitor performance by effectively monitoring whether a service provider is complying with contract terms and meeting the performance criteria. The DOT should require, for instance, detailed invoices itemizing work performed under the contract prior to making periodic or final payments to a service provider. Disputes with service providers can be eliminated, or at least minimized, by clearly defining the scope and timing of work to be performed and the criteria against which the service provider's performance will be judged. If the scope and timing of work is clear, it will be easier to identify the criteria that should be applied in assuring contract terms are being fulfilled.

Response – Criteria considered and included in evaluations of consultant services contained in PPM 300.12 will also be incorporated into PPM 300.13.

Conclusion – Response accepted.

FINDING 5 – Contract work started prior to contract and amendments being signed

State Accounting Enterprise procedure 240.102 states “Contracted services should not be performed until all signatures are obtained and distribution of the contract is made to the parties.” In addition, the DOT's policies for negotiated contracts contained in Policy 300.12 for architectural, engineering and related professional and technical services and Policy 300.13 for other professional and technical services includes a similar requirement, as follows:

“The contract or a cover letter/notice to proceed sent with the consultant's copy of the fully executed contract should address when work on the contract may begin. Without prior approval, work should not begin until the contract has been fully executed and distributed.”

We reviewed 60 selected service contracts and amendments to determine if the contracts and amendments were signed prior to the start of and continuation of work. According to documentation we examined, 11 service providers began work prior to the contract or amendments

A Review of Selected DOT Service Contracts

being signed by all parties. The number of days elapsed from the date work was started to the date the contract or amendment was signed ranged from 5 to 355 as presented in the following table.

Service Contract Type	# of Contracts Reviewed	# of Contracts, including Amendments, Signed after Work Started	% Signed after Work Started	# of Days from Work Start Date until Signed
MVD Computer Consultants	7*	3*	42.9%	17 to 355 days
Road Design	15	3	20.0%	30 to 103 days
Bridge Design	14	4	28.6%	5 to 237 days
Rest Area:				
Construction	7	1	14.3%	23 days
Custodial	6	-	0.0%	-
Right-of-Way:				
Appraisal	7	-	0.0%	-
Acquisition	4	-	0.0%	-
Totals	60	11	18.3%	5 to 355 days

* The number of contracts reviewed and amendments signed after work started for MVD computer consultants includes Archon. Relevant detailed findings for Archon are included in Finding 1.

Recommendation – Current procedures state “Contracted services are not to be performed until all signatures are obtained and distribution of contract copies is made to the parties.” The DOT should ensure work is not started until the contracts, amendments and statements of work have been signed and distributed appropriately.

Response – The Operations and Finance Division will send a letter to all division directors reminding them that contracted services are not to be performed until all signatures are obtained and distribution of contract copies is made to the parties.

Conclusion – Response accepted.

FINDING 6 – Contract clauses

We reviewed the selected service contracts to determine whether they contained provisions and sanctions sufficient to hold the service providers accountable and for measuring contract performance. To develop testing criteria, we used DOT Policy 300.12 for negotiated contracts with consultants for architectural, engineering and related professional and technical services for all service contract types, except for computer consultants. We used DOT Policy 300.13 to develop testing criteria for negotiated contracts with computer consultants since a separate policy was implemented by the DOT for such contracts. Policies 300.12 and 300.13 each require contracts to include the required contract clauses contained in State Accounting Enterprise procedure 240.102. In addition, DOT Policies 300.12 and 300.13 suggest additional contract clauses that are specific to the DOT and have been reviewed and approved by the General Counsel of the DOT.

The only service contract type for which we identified non-compliance with required contract clauses was for computer consultant contracts administered by the Motor Vehicle Division of the DOT. Of the seven computer consultant contracts reviewed:

- Two contracts included a scope of work that was too vague. The scope of work was too vague for the two computer consultant service contracts because they did not include a detailed description of the specific work to be completed. Therefore, we were not able to determine if the DOT received the specific services for which it contracted or whether the DOT was able to ensure the services received met the intended objectives. The following excerpts describe the scope of two contracts established by the Motor Vehicle Division:

A Review of Selected DOT Service Contracts

- ◆ A contract was established with Cyclone Information Services to “provide professional/consultation services in the area of Computer Programming.” The contract was initially established for \$114,000 for one year from November 1, 1999 through October 31, 2000. The contract was amended four times to extend the contract duration for additional one-year periods and additional costs, as follows:

Amendment Date	Extended through	Maximum Cost for additional year
September 29, 2000	October 31, 2001	\$119,700
October 5, 2001	October 31, 2002	123,500
September 18, 2002	October 31, 2003	127,205
October 28, 2003	October 31, 2004	127,205

- ◆ A contract was established with DKerns Consulting Inc. to provide “professional/consultation services in the area of Computer Programming.” The contract was initially established for \$157,157 from August 14, 2000 through July 31, 2001. The contract was amended three times to extend the contract duration for additional one-year periods and additional costs, as follows:

Amendment Date	Extended through	Maximum Cost for additional year
July 5, 2001	July 31, 2002	\$150,956
July 2, 2002	July 31, 2003	157,508
July 8, 2003	July 31, 2004	157,508

Developing the scope of work is the most critical part of the entire service contracting process. The scope of work should be used for both selecting a service provider and formalizing the contract with the selected service provider. It is important the scope of work is clear, understandable and precise so prospective service providers can understand what the DOT wants to buy. If the scope of work is vague, it is more difficult to make the service provider comply with expectations and can also result in higher prices.

- The contract duration clauses included in three computer consultant contracts administered by the Motor Vehicle Division did not limit the number of one-year extensions that may be executed. The maximum contract duration allowed by State rules in effect at the time the contracts were entered into was three years and DOT policy for contract duration is normally no longer than three years. Actual durations of the contracts, including amendments, exceeded the three years allowed, as follows:
 - ◆ The Technology Enterprise Group Inc. contract extends from December 8, 1999 through December 8, 2005, a period of six years with a maximum total cost of \$3 million. The total paid to Technology Enterprise Group Inc. through June 30, 2005 was \$2,951,642.
 - ◆ The Cyclone Information Systems contract extended from November 1, 1999 through October 31, 2004, a period of five years even though the original contract stated, “This contract may be extended for not more than one (1) additional year by mutual agreement of both parties.” The total paid to Cyclone Information Systems through October 31, 2004 was \$413,681, while the maximum total cost approved for the contract was \$611,610 through October 31, 2004.
 - ◆ The DKerns Consulting Inc. extended from August 14, 2000 through July 31, 2004, almost four years, at a maximum total cost of \$623,129. The total paid to DKerns Consulting Inc. through July 31, 2004 was \$483,085.

A Review of Selected DOT Service Contracts

- The original contract for Cyclone Information Services did not include a maximum amount allowed to be paid to the consultant. A maximum amount was later added by amendment to the contract.

Recommendation -Current contracting rules require services contracts to contain a clause, exhibit or other documentation describing the scope of services to be performed. The DOT should implement procedures to ensure all contracts contain the clauses required by applicable contracting policies. Additionally, the DOT should ensure the duration of service contracts does not exceed parameters established by the service contracting rules.

Contract language concerning the services to be provided should be more detailed. The scope of services included in consultant contracts should more consistently state specifically what consultants are required to accomplish for each phase of a project, the time frame for completion and what is expected for the final outcome of the project.

Response - The department's current policies require contracts to include the required contract clauses contained in State Accounting Enterprise procedure 240.102. These requirements will be emphasized during contract review, particularly for computer consultant contracts.

In the future, the Purchasing Section will be doing an agency review of all service contracts to make sure that all applicable policies are followed.

Conclusion – Response accepted.

FINDING 7 - Employer/employee relationship concerns

We reviewed selected computer systems and programming consultant contracts to determine if there was an appearance of an employer/employee relationship. We identified two individuals who worked for the DOT under the DKerns Consulting, Inc. and Cyclone Information Services contracts for an extended period of time. In addition, the two consultants worked on projects alongside DOT employees to provide professional and consultation services in the area of computer programming for MVD projects. Some of the services performed by the contract employees included services that could have been performed by similar DOT employees. Circumstances similar to this have resulted in lawsuits that culminated in the employer providing benefits to the contractors because the test of employer/employee relationship was not satisfied. Documentation of an assessment to determine whether an employer/employee relationship existed was not available when requested from MVD.

The appearance of an employer/employee relationship existed because the consultant working under the Cyclone Information Services contract for at least 5 years, from November 1, 1999 through October 31, 2004, submitted weekly timesheets including hours worked and description of work to MVD staff for review and approval. The consultant worked in DOT offices under the guidance of the Vehicle and Driver Services Support Team leaders. According to MVD staff, the requirements of *Code of Iowa*, section 68B.7, were sufficiently addressed prior to using the services of the former DOT employees. This section requires a two year ban on compensating former employees for services rendered under certain circumstances. Because sufficient documentation is not available, we are unable to determine compliance with section 68B.7 of the *Code of Iowa*.

Cyclone Information Services was paid an hourly rate ranging from \$60 to \$66.95 per hour over the duration of the contract. DOT paid the consultant a total of \$413,681 from fiscal year 2000 through 2004. The hourly rate paid to the consultant was over \$20 more per hour more than what would have been paid to a similar DOT employee, if available. The consultant worked approximately 1,250 to 1,400 hours during each contract year, which is less than full-time.

In addition, the contractual relationship between the MVD and DKerns Consulting, Inc. created the appearance of an employer/employee relationship because the consultant worked on projects for the MVD under the supervision of MVD staff from August 14, 2000 through July 31, 2004. Under the contract, the consultant was to provide professional and consultation services in the area of computer programming for MVD projects. The consultant was paid a total of \$475,081 for fiscal years 2001 through 2004 for over 1,800 hours billed to the DOT each fiscal year. DKerns hourly rate under the contract ranged from \$60 per hour for fiscal year 2000 to \$66.15 per hour during fiscal year 2004.

A Review of Selected DOT Service Contracts

DKerns Consulting was also paid for travel costs, including mileage reimbursement, meals and lodging at the State rate. The MVD reimbursed the consultant for some meals and mileage even when the consultant worked in Council Bluffs while living in Omaha. It appears to be unnecessary to reimburse the consultant for meals while working in the vicinity of their residence.

Based on an analysis, a DOT employee with the same experience and similar job title would make about \$47.56 per hour, including benefits. Therefore, the additional cost incurred by using DKerns Consulting rather than hiring a comparable employee from August 2000 through July 2003 is approximately \$77,000.

Recommendation – When procuring consulting or technical services for specific projects, the DOT should use a competitive process to ensure the best value is obtained. The competitive process may include the use of prequalified vendors identified by the DOT.

Also, the DOT should continue to develop a system to adequately address and document factors considered and decisions made regarding employer/employee relationship concerns. In addition, while evaluating whether to contract with a consultant, necessary tasks should be evaluated and categorized as to whether or not they are considered ongoing needs of the DOT. If tasks are primarily considered on-going, consideration should be given to hiring a permanent employee to accomplish the tasks. Further, the DOT should implement procedures to make sure work arrangements with former employees do not violate *Code of Iowa*, section 68B.7. Chapter 68.B of the *Code* addresses restrictions regarding relationships between the State and former employees.

The DOT should not compensate consultants for meals and mileage if they work in the same vicinity as their residence.

Response – The department now requires that all service contracts with individuals have a completed Federal Form SS-8 or the Substitute SS-8 as part of the contracting process. Also, in the future the Purchasing Section will be doing an agency review of all service contracts to make sure that all required documents are completed.

Conclusion – Response accepted.

FINDING 8 – Pre-contract questionnaire was not completed

We reviewed contract files for compliance with documentation required by State Accounting Enterprise Procedure 240.102, including, but not limited to, completion of a pre-contract questionnaire (PCQ). One of the nine types of services reviewed had a finding in this area. Three computer consultant service contract files reviewed at the DOT did not include documentation a pre-contract questionnaire was completed. Specifically, pre-contract questionnaires were not available for computer consultant contracts entered into by the Motor Vehicle Division with Cyclone Information Systems, DAYCO Systems Inc. and DKerns Consulting Inc.

Recommendation – Current contracting rules continue to require completion of a PCQ. The DOT should consistently comply with all service contract requirements and ensure all required contract documentation is completed prior to contracting for services. All related documentation should be maintained in the contract files.

Response – DOT PPM 300.13 requires a PCQ in certain circumstances. They should have been done for Cyclone and D Kerns. Because DAYCO is a federally funded contract with federal pass through funds, federal requirements, which do not require a PCQ, apply. The department now requires that a PCQ be submitted to the Operations and Finance Division Directors for review along with the staff action, proposed contract, Report of Sole Source Procurement (if required) and a Federal Form SS-8 if contracting with an individual before the contract is approved.

Conclusion – Response accepted.

FINDING 9 - Right-of-Way Mowing, Maintenance and Repairs

Our review included nine payments to vendors that provided mowing and maintenance services to the Right-of-Way (ROW) Property Management section of the DOT. We found the nine expenditures to be in compliance with the invoicing, review and payment procedures established by the DOT.

A Review of Selected DOT Service Contracts

However, during the spring of 2004, certain invoices paid to American Contractors were brought to our attention by DOT staff. Therefore, we decided to complete an additional detailed review of payments made to American Contractors, which billed the DOT for mowing, maintenance and repairs of ROW property. As a result of our review of American Contractors services billed to the DOT, we identified several findings which are detailed below.

Background - ROW Property Management purchased nine houses on Pleasant Street in West Des Moines from 1997 through early 2001 due to anticipated ROW needs for the Interstate 235 (I-235) expansion project. Purchase prices for the nine houses ranged from \$97,000 to \$130,000. Property managers are assigned responsibility for mowing, maintenance and repair of any ROW property in the six transportation districts throughout Iowa. The DOT has identified certain vendors that are contacted when mowing, maintenance and repairs are needed for ROW property. However, a competitive bidding process is not used and written agreements are not usually entered into by ROW Property Management to procure such services.

One of the vendors identified as a provider of mowing, maintenance and repairs of ROW property was American Contractors. American Contractors filed articles of incorporation with the State of Iowa on April 23, 2003 and just a week later, on April 30th, began providing mowing and maintenance services for ROW property. The individuals who created the company formerly worked for other vendors which had provided mowing, maintenance and repair services for ROW property. There was potential for conflict of interest under the circumstances.

A competitive process was not used to select American Contractors - ROW Property Management used the services of American Contractors to perform a significant amount of mowing, maintenance and repair services for ROW property acquired for the I-235 expansion project. A competitive process was not used by ROW Property Management to select American Contractors for provision of mowing, maintenance and repair services and a contract was not executed to procure the services.

No contract was executed for a significant amount of services - The total cost of services provided from April 30, 2003 through June 30, 2004 was \$282,513 without negotiating and entering into a contract, or allowing opportunity for competition. Examples of services provided by American Contractors included mowing, tree removal, trash clean-up and removal, electrical and plumbing repairs, flooring and drywall replacement, air conditioner service and replacement and other household repairs.

Lack of segregation of duties - As allowed by ROW Property Management practices, ROW property managers have control over most of the process involved in procuring and reviewing services provided by vendors. For example, the ROW property manager assigned responsibility for the nine I-235 ROW properties chose American Contractors, requested services such as mowing, maintenance and remodeling services and received and reviewed all invoices submitted by American Contractors to bill the DOT for services requested by the property manager.

ROW property managers decide what companies or individuals are used to provide such services, as well as requests of when and what services are needed. In addition, the property managers receive invoices from the vendors they selected to complete the work and subsequently review the invoices and submit them to the DOT for payment processing. There usually is limited or no involvement in the process by another DOT employee until the invoices are received by DOT from the property managers for payment processing.

Mowing, maintenance and repair services were completed by American Contractors and some other contractors at a cost ranging from \$8,856 to \$56,714 per house. **Schedule 1** summarizes relevant costs during fiscal years 2003 and 2004 for each of the nine houses located on Pleasant Street in West Des Moines. The I-235 expansion project plan subsequently changed and, as a result, the nine houses that had been purchased were no longer needed for ROW purposes. Therefore, the houses were rented out for a while and later were made available for public sale. **Schedule 2** also presents rental income information and sales status.

Five of the nine houses had repair costs in excess of \$20,000 within an approximate two year period. The costs seem excessive, especially when considering a competitive bidding process was not used

A Review of Selected DOT Service Contracts

to procure the services and a contract was not executed. **Schedule 2** includes a detailed listing of mowing, maintenance and repair services completed for the Pleasant Street ROW property acquired for the I-235 expansion project and also shows rental income received for each property and sales status.

Invoices submitted by vendors providing ROW mowing, maintenance and repair services did not consistently include sufficient information to allow effective monitoring - According to ROW Property Management staff, any individual or company that completes mowing, maintenance or repair services are required to submit an invoice to ROW Property Management containing work performed date, property address, nature of services completed, such as mowing, maintenance or repairs, and the hourly rate agreed upon with the property manager. The property managers are supposed to review the invoices for adequacy, sign them indicating their approval and forward them to the DOT for preparation of a voucher and payment to the vendor

We found invoices submitted by American Contractors usually included the address of the property and a description of the work performed, but many times did not indicate or itemize the number of labor hours, an hourly rate or the cost of materials. The ability of property managers to determine the reasonableness of the charges during their review of the invoices is questioned due to a lack of detail on many of the invoices submitted.

The initial invoices submitted by American Contractors for mowing and trash clean-up indicated property address, hours worked and hourly labor rate as well as costs for trucks or dumpsters. However, by mid-July 2003, American Contractors began submitting a revised version of invoice forms that no longer reported hours and hourly rate for mowing and trash clean-up. Therefore, the information submitted on the invoices was not sufficient to allow adequate review of reasonableness of the charges.

Later, the properties were repaired and rented out until it was determined the properties were no longer needed for the I-235 project. As of November 3, 2005, the nine Pleasant Street properties have been sold.

Recommendation - The DOT should require:

- A competitive process be used to procure vendors for ROW mowing, maintenance and repair services when the anticipated dollar amount of services is \$50,000 or more, as required by DOT policy. This would help ensure the best value for services received is obtained. Also, a contract should be entered into for such services in accordance with DOT policy.
- Vendors providing mowing and repair services to consistently include sufficient detail on invoices to allow effective monitoring, such as location of property worked on, labor hours, description of services completed, services dates and materials costs on their invoices, to provide a basis for determination of the reasonableness of the charges.

In addition, ROW Property Management should ensure earlier involvement of another employee in the process of obtaining and monitoring ROW mowing, maintenance and repair services to help reduce risk created by a lack of segregation of duties.

Response - The DOT's Property Management Section is in the process of modifying procedures to implement recommendations.

The Chief Property Manager shall be responsible for approving all requests for payment prior to submittal to the Office of Finance for payment. We believe this change in procedure will implement the recommendations in the Auditor's Review by providing the following oversight.

- Provide supervisory oversight to ensure contracts in excess of \$50,000 are competitively bid and contracts over \$10,000 are approved through Staff Action in accordance with DOT policy and procedures.
- Ensure sufficient detail is included on all invoices to be paid.

- Provide early supervisory involvement to reduce risks created by a lack of segregation of duties.

Conclusion – Response accepted.

FINDING 10 – Monitoring of rent due for leased ROW property

As stated previously in Finding 2, ROW Property Management leased the nine houses on Pleasant Street in West Des Moines to various tenants. Lease agreements were entered into by the DOT ROW Property Management Office and the renters. Property managers within the ROW Office are responsible for renting the property and entering into a lease with each renter. The property managers are also responsible for monitoring whether the renters pay rent due and monitor when renters vacate the premises and whether deposits should be returned to the renter or kept by the DOT.

We identified that a tenant did not pay the rent of \$700 each month to the DOT for over 10 months. According to ROW rental records, a total of \$11,900 of rent was due for the lease period, but only \$4,709 of the \$11,900 was paid to the DOT. Therefore, a total of \$7,191 was left unpaid. The DOT kept the damage deposit of \$700 required at the beginning of the lease, leaving a balance due of \$6,491 at the end of the lease. Therefore, the DOT lost \$6,491 of rental income due to the unpaid balance.

According to ROW Property Management staff, DOT did not pursue eviction of the tenant due to public relation concerns and administrative expenses. Later, after several months had elapsed since any rent was paid to the DOT for the property, ROW Property Management forgave the unpaid balance of \$6,491 of the delinquent tenant in exchange for cleaning the house. The chief property manager approved the arrangement and canceled the unpaid lease bills.

We reviewed and verified rent income reported as being received by the DOT for the eight remaining Pleasant Street properties that were leased. As a result, we identified an additional \$805 of rent income due that was not collected for three properties and not pursued by ROW due to inaccurate records in the ROW Property Management Office.

Rental income was lost due to a lack of closely tracking and monitoring rent due versus actual rent paid. Also, based on discussions with ROW Property Management staff, no one consistently oversees and reviews work done by the Lease Coordinator related to collecting, recording and tracking rent due from leased ROW property. It is important sufficient supervisory review be completed to help ensure all rent due is received or, if not received, appropriate follow-up action is taken to resolve the matter in a timely manner.

In addition, a rental rate for one of the Pleasant Street property leases was reduced from \$700 to \$625 per month at some point during the lease term. However, the date of the rate change was not documented in the ROW Property Management records so it was difficult to verify appropriate rent income was received for the property and properly recorded by the DOT.

Recommendation – The DOT should establish procedures to ensure timely monitoring of rental income to ensure payments are properly remitted and comply with lease agreement terms.

Response - We believe adequate procedures currently exist to provide effective lease management. The electronic record system complemented by the paper files should be sufficient if adequate data is included. There are procedures in place when rents are not received and staff will ensure they are followed.

The DOT is in the process of enhancing the documentation requirements in the file systems. Future documentation will detail what business decisions were made, why the course of action was decided, and how the decision was implemented.

Conclusion – Response accepted.

**Department of Transportation
A Review of Selected Service Contracts**

Schedules

**Department of Transportation
A Review of Selected Service Contracts**

Department of Transportation
A Review of Selected Service Contracts

Summary of Pleasant Street Right-Of-Way Properties

Pleasant Street, West Des Moines Address	Acquisition		Mowing, Maintenance and Repair			Total Cost for Pleasant Street Property	Rental Income	Sale Amount
	Date	Cost	Amount Paid to American Contractors	Amount Paid to Other Vendors	Total			
2200	02/12/2001	\$ 125,060	19,582	16,927	36,509	161,569	25,354	141,000
2201	10/09/1997	103,000	8,756	269	9,025	112,025	57,150	116,800
2207	12/10/1997	105,000	3,255	14,562	17,817	122,817	44,100	121,000
2215	08/21/1997	100,000	18,128	1,355	19,483	119,483	45,469	112,400
2301	03/27/1998	126,000	7,600	13,960	21,560	147,560	63,200	138,000
2307	11/20/1997	130,000	29,046	16,864	45,910	175,910	48,700	157,000
2315	06/12/1997	122,500	12,785	590	13,375	135,875	57,500	128,200
2321	10/09/1997	125,000	56,383	331	56,714	181,714	56,760	152,000
2401	12/29/1997	97,000	12,365	16,434	28,799	125,799	34,059	110,000
Total		\$ 1,033,560	167,900	81,292	249,192	1,282,752	432,292	1,176,400

Source: DOT paid vouchers and DOT ROW Property Management staff.

* Total cost does not include any DOT administrative costs, such as, property manager salaries, acquisition costs, appraisals or recording costs.

Schedule 2

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

<u>Invoice Date</u>	American Contractors Totals	Known costs prior to American Contractors	Total Costs per site	Description of Work Billed to DOT
2200 Pleasant St.				
12/19/03	\$ 670.00			New kitchen sink faucet and plumbing
02/04/04	6,577.00			P-trap frozen solid in main sewer stack Had sewer co. at residence on 1/31/04 to auger out main sewer line & suggested we use table salt & insulate the pipe Extracted 3" of water from the basement Had carpet cleaners come in to dryout the main living areas in basement Had carpets & water damaged furniture cleaned Removed carpet and existing VCT in the utility room Prepped floor for new VCT Installed VCT flooring in utility room and in downstairs bathroom where carpet had been.
02/26/04	3,700.00			Remove & replaced basement toilet and flange Replaced water supply line and shut off Removed and replaced master bathroom sink faucet New water supply lines and shut offs New sink drain and P-trap Reset toilet with new wax ring Installed new water supply tube and replaced main bathroom tub drain and overflow & cleaned out hair
04/05/04	8,635.45			Replaced cracked sink in lower bathroom Removed all tile in bath (sheetrock was wet) Removed exterior studs that framed the shower due to rotten wood and carpenter ants Treated for carpenter ants Tore out all plumbing that ran to shower Jack hammered the main drain in shower Replaced all framing and backing Replaced all plumbing into the shower Poured concrete around sewer drain Installed durrock throughout the entire shower & installed new shower light Applied grout to shower Removed and replaced ridge cap to see if that would stop the leaking problem.
09/06/01		9,850.00		Labor and materials: To remove and dispose of old shingles, install new edging and felt, install weather watch in valleys, install new 25 year laminate shingles.
04/09/02	*	6,277.00		Labor and materials: To remove and dispose of old sheathing and re-sheath entire roof and prepare for new shingles. Remove and replace rotted soffit. Replace entry door into basement.
06/24/02		800.00		Shampoo and clean carpets, trim trees, yard work and haul off debris.
2200 Pleasant St. Total	19,582.45	16,927.00	36,509.45	

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

<u>Invoice Date</u>	<u>American Contractors Totals</u>	<u>Known costs prior to American Contractors</u>	<u>Total Costs per site</u>	<u>Description of Work Billed to DOT</u>
<u>2201 Pleasant St.</u>				
03/12/04	8,756.00			Removed toilet that had a cracked bowl Put new shut-offs behind toilet and under sink Removed vanity to repair floor Removed ceramic tile popping up due to rotten floor Removed wood base & tile shoe Removed rotten floor & replaced with new Installed & grouted new ceramic tile Reinstalled vanity Installed new wax ring & toilet Installed new base & tile shoe Sealed grout
08/13/01		169.00		Removed & replaced front exterior door Replace cables on garage door, replace door bolts, service and adjust
10/30/01		100.00		Snake out drain, replace wax ring for toilet
2201 Pleasant St. Total	<u>8,756.00</u>	<u>269.00</u>	<u>9,025.00</u>	
<u>2207 Pleasant St.</u>				
12/08/03	3,255.00			Unclog main sewer line Ran camera down sewer line to locate problem Clog was located and used plumbing auger with an extension to take care of the problem
10/09/01		4,587.00		Labor and materials: To remove and dispose of old sheathing - resheath entire roof to prepare for new shingles.
10/11/01		9,850.00		Labor and materials: To remove and dispose of old shingles. Install new edgings, felt and weather watch. Install new 25 year shingles.
No date on invoice		125.00		Plumbing repairs - repair water ling.
2207 Pleasant St. Total	<u>3,255.00</u>	<u>14,562.00</u>	<u>17,817.00</u>	
<u>2215 Pleasant St.</u>				
01/22/04	8,870.00			Kitchen sink sprayer leaking under sink Bathtub drain into main sewer line was cracked and main sewer line was split also Removed drywall area that was saturated & insulated Replaced faucet and drain in the tub Replaced bathroom sink faucets Flooring around the tub, toilet, and under kitchen sink cabinet was rotten and had no stability. Had to replace some areas. Replaced vinyl floor in bathroom 8'X6' area Removed & reused kitchen sink base cabinet Sprayed for carpenter ants under the sink cabinet Replaced kitchen sink spray nozzle Replaced insulation & sheetrock Put one coat of mud on joints due to fire rating rules

Schedule 2

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

Invoice Date	American Contractors Totals	Known costs prior to American Contractors	Total Costs per site	Description of Work Billed to DOT
06/21/04	9,257.65			Remove and replace sheetrock in basement, replaced insulation; mud texture and paint walls; remove and replace carpet
09/10/02		1,230.00		Labor and materials: To replace receiver and remotes on operator. Replace broken springs and cable, service door and operator. Adjust entry doors. Repair chimney and re-seal, misc. interior repairs.
No date on invoice		125.00		Plumbing repairs - repair toilet.
2215 Pleasant St. Total	18,127.65	1,355.00	19,482.65	
2301 Pleasant St.				
09/03/03	6,900.00			A/C unit had leaks on A-coil & line set Condenser was non-repairable, installed new 3.5 ton Ruid condenser & 4 ton Ruid A-coil Recovered 8# 2 oz. R-22 out of old unit. Disposed of old unit. Pulled out old A-coil & set new condenser pad & unit Replaced disconnect & wiring to condenser & put in new line set Redid duct work on furnace & sealed duct work Ran new condensation drain Pulled vacuum @new condenser & charged it. Checked operation - ok. Replaced kitchen faucet with new Delta - had to drain entire hour due to no shut-offs Installed two shut-offs on sink suppliers Install new 1/2 hp sump pup in pump pit & prepped Installed new 1 1/2 checker valve Had sewer drains unplugged X 4
09/23/03	700.00			Labor and materials: To remove and dispose of old shingles. Install new edgings, felt and weather watch. Install new 25 year shingles.
04/18/02		9,600.00		Labor and materials: To remove and dispose of old sheathing. Resheath entire roof to prepare for new shingles.
04/19/02		4,210.00		Repair tile in shower, parts and labor.
11/02/01		150.00		
2301 Pleasant St. Total	7,600.00	13,960.00	21,560.00	
2307 Pleasant St.				
05/13/03	500.00			new toilet and stove - labor & materials
07/16/03	7,500.00			Cleaned up fallen tree (cut up & hauled off) Fixed walls, windows and siding that had bad carpenter ant damage - replaced windows due to age & damage Replaced deck boards that were rotten Replaced garbage disposal

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

<u>Invoice Date</u>	<u>American Contractors Totals</u>	<u>Known costs prior to American Contractors</u>	<u>Total Costs per site</u>	<u>Description of Work Billed to DOT</u>
2307 Pleasant St.				
08/06/03	4,300.00			Water damage to basement ceiling from water leaking in from Deck. Drywall had big water bubble Moisture test showed 50% drywall along outside wall was holding moisture Tore out dry-wall, put fan up into floor joists to dry out the drywall that could be saved. New drywall, mud and texture Repainted entire ceiling to match New Blocks on exterior walls between joists, caulk, and insulated
09/23/03	9,355.00			Flashed and Caulked where deck attaches to house Tore out sheetrock in basement to find water leak Tore out tile around tub & tore out tub and floor under tub due to excessive water damage Put in new sub floor, dirock and new 3 piece tub surround Replaced vinyl floor and tile wall 3' x 4' Put new shower fixture in shower
09/23/03	1,675.00			New toilet in master bath due to excessive running Resheetrock, tape and texture basement laundry room ceiling Painted entire ceiling to match
10/22/03	380.00			Sprayed for carpenter ants in kitchen floor
10/22/03	870.00			Removed all trees from W. of house due to causing damage to exterior.
12/23/03	4,465.70			Replaced and ran piggy tails to most of the outlets Ran neutral wires to panel Rewired outside lights in front entry & above garage door. Wires corroded from moisture
05/09/02		7014		Split outlets to different circuits to balance load Labor and materials: To remove and dispose of old sheathing. Resheath entire roof to prepare for new shingles. Repair rafters in valleys. Secure chimney. Replace rotted soffit. Replace front entry light.
05/09/02		9850		Labor and materials: To remove and dispose of old shingles. Install new edgings and felt. Install weather watch where needed. Install new 25 year shingles.
2307 Pleasant St. Total	<u>29,045.70</u>	<u>16,864.00</u>	<u>45,909.70</u>	

Schedule 2

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

<u>Invoice Date</u>	<u>American Contractors Totals</u>	<u>Known costs prior to American Contractors</u>	<u>Total Costs per site</u>	<u>Description of Work Billed to DOT</u>
<u>2315 Pleasant St.</u>				
06/27/03	1,400.00			A/C not cooling space, washed out condenser coil & brushed out leaves Blew out conditioner fan blades Recovered gas out of unit & installed suction line access fittings Pulled vacuum on system & charged unit w/5# 6 oz. of R22 refrigerant Replaced 220 volt 30 amp disconnect panel & wired to unit Checked operation of A/C suction 68# discharge 240# Superheat 16f discharge air tem 55f return air 75f
09/16/03	2,750.00			Replaced gutter and down spouts Replaced fascia boards that were rotten Primed and painted
10/03/03	855.00			Ripped out back door to garage, jamb also Replaced rotten king studs and trimmers due to water leakage Patched and painted sheetrock and painted new door jamb and door Reinstalled storm door, had bottom window re-screened
11/25/03	2,980.00			Cut up fallen tree & hauled it away Removed 50' of fence 26' of 2" boarder pipe that ran across top of fence 1 corner post (3" galv. And brackets.) 3 main posts that were bent All posts were put back with concrete footings
09/03/03	4,800.00			A/C condenser not working, shorted to ground Recovered Gas of A/C 7#-12oz. R-22 & removed condenser & A-coil & line set Replaced with new 3 ton Ruid condenser & A-coil New electric to condenser & line set to A-coil New wire to T-stat and new T-stat electronics Pulled vacuum from system and charged A/C operations
No date on invoice		340.00		Labor and materials: To replace garage door opener - service and adjust door.
11/01/01		250.00		Plumbing repair, parts and labor.
2315 Pleasant St. Total	12,785.00	590.00	13,375.00	
<u>2321 Pleasant St.</u>				
08/12/03	96.00			Mowing & trimming
08/09/03	3,650.00			Cut up fallen trees & haul to two dumpsters Trimmed all trees and bushes that were growing into the house Pulled off ivy growing on the house Mowed and trimmed the yard

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

Invoice Date	American Contractors Totals	Known costs prior to American Contractors	Total Costs per site	Description of Work Billed to DOT
08/13/03	7,825.00			Property cleanup Removed old carpet Removed most vinyl due to tears & snags Removed toilets that were leaking Removed lower level bathroom floor that was rotten Removed all damaged doors Removed stove and refrigerator in bad condition Tried to repair some windows and looked for new parts to fix all the locks and cranks that were stripped out. Removed and will replace fiberglass roof sheets that are missing or broken. Removed and replaced 24 sq. ft. of roof, shingles, & rebuilt the overhang that was rotted due to lack of water spout.
08/13/03	1,725.00			Dumpsters & fees
08/15/03	3,100.00			New door hardware on exterior doors Replaced lower bathroom sewer flange with copper Replaced floor joists in lower bathroom due to extensive water damage Removed bathroom vanity in lower bathroom due to floor having water damage Cut out brick in kitchen and steel linall to get a stove installed (to avoid special ordering a stove to fit) Replaced master bathroom faucet Replaced 4'X6' sheetrock in basement family room due to leak from the shut off valve to the hallway bathroom Replaced lower bathroom floor with a 3/4" plywood and put new wood base back on to match existing Carpet and Vinyl throughout entire house
08/25/03	7,200.00			Replaced all rotten fascia & soffit boards
08/25/03	2,100.00			Removed & replaced all gutters due to missing or falling off of house. Had not been attached correctly
08/21/03	9,565.00			Paint trim, walls & ceiling, fixed windows prime, caulk and paint exterior
09/03/03	96.00			Mowing \$480/5 sites

Schedule 2

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

<u>Invoice Date</u>	<u>American Contractors Totals</u>	<u>Known costs prior to American Contractors</u>	<u>Total Costs per site</u>	<u>Description of Work Billed to DOT</u>
09/03/03	3,800.00			A/C condenser blowing main breaker in panel Checked out and compressor was drawing high amps Recover 14 lbs of R-22 from system & took old unit out & disposed of it Leveled new condenser pad & set new 3 ton Ruid condenser & piped it all Pulled vacuum from system & replaced U/C disconnect & wiring to condenser Replaced T-Stat w/ new one & charged new unit & tested operations Tested A-coil & it tested ok Put new furnace filter in. Very dirty
09/16/03	96.00			Mowing \$480/5 sites
09/02/03	3,700.00			Prime, caulk and paint exterior
09/23/03	9,880.00			2 new shower faucets Had sewer drains unplugged Replaced garage water supply due to leaking Had new wiring run from breaker box, due to neutral wires running through the entire basement, family room and garage Scraped, caulked, primed and painted two coats of paint (exterior)
10/15/03	1,580.00			Installed 80' of chain link fence & repaired fence where tree fell Poured concrete for all posts and installed like all existing yards
10/22/03	1,970.00			Sprayed for carpenter ants that were active in gar. walls
8/13/2001		331.00		Removed, replaced, primed & painted walls Labor and materials: To replace radio equipment w/2 remotes, replace rollers on garage door, replace cables, service and adjust door and operator.
2321 Pleasant St. Total	56,383.00	331.00	56,714.00	
2401 Pleasant St.				
06/13/03	300.00			Remove & replace trim in bathroom
06/13/03	9,465.00			Water damage from leak behind bathroom wall Tear-out walls in bathroom around tub Tear out floor in bath due to water damage Replace with 3/4" flooring with 1X4" sub flooring Replaced old galvanized plumbing with new copper Remove & replace cast iron tub with new 3 piece surround Have new vinyl put in bathroom Remove & reinstall toilet with new wax ring Remove & replace trim in bathroom Repair closet sheetrock and shelves due to water damage.

Department of Transportation
A Review of Selected Service Contracts

Detail of Mowing, Maintenance and Repair Costs for Pleasant Street Right-Of-Way Properties

Invoice Date	American Contractors Totals	Known costs prior to American Contractors	Total Costs per site	Description of Work Billed to DOT
2401 Pleasant St.				
06/17/03	300.00			Vacuum and dust entire upstairs, final cleaning
07/14/03	900.00			Installed new dishwasher & hauled away old
10/03/03	650.00			New garage door spring, new cables & poll. Aligned tracks with door
10/31/03	750.00			Remove & replace kitchen faucet Fix P-trap and plumbing to disposal Put new shut-offs under sink Fixed shower faucets in hallway bath. Needed to take them off & readjust to get more hot water
06/03/02		9,734.00		Labor and materials: To remove and dispose of old singles. Install new edgings, felt, and weather watch. Install new 25 year shingles.
09/12/02		6,700.00	**	Labor and materials: To remove and dispose of old sheathing, re-sheath entire roof to prepare for new shingles.
2401 Pleasant St. Total	<u>12,365.00</u>	<u>16,434.00</u>	<u>28,799.00</u>	
Total	<u>167,899.80</u>	<u>81,292.00</u>	<u>249,191.80</u>	

Source: DOT paid vouchers and ROW Property Management files.

* Invoice date is out of sequence in relation to the description of work completed. According to DOT ROW Property Management staff and documents, the work was apparently billed on a late invoice.

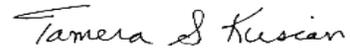
** The invoice dated 9/12/02 was out of sequence in relation to the description of work billed to the DOT. However, according to ROW Property Management records and staff, the DOT received a late bill for work completed prior to shingling.

A Review of Selected Department of Transportation Service Contracts

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
Mark C. Moklestad, CPA, Senior Auditor
Marc D. Johnson, Staff Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

A Review of Selected DOT Service Contracts

Minimum Contract Clauses Required for Computer Consultant Service Contracts

DOT policy requires the following contract clauses, at a minimum, to be included in other professional and technical services contracts, such as computer consultant services:

1. Clearly define the parties to the contract.
2. Clearly state the date to proceed with work, completion schedules for the services to be performed, and the time period covered by the contract, normally no longer than 3 years.
3. Include an integration clause stating that the entire agreement between the parties is contained in the contract, and that any representations made prior to signing the contract are void.
4. Clearly define the scope of services to be provided.
5. Clearly define the specifications for the work.
6. Contain payment terms. These terms address items such as payment timing, invoicing, progress reports, allowable costs, retainage, auditing and overpayments. The contract must specify a maximum amount payable under the contract.
7. Include a non-availability of funds clause.
8. Clearly state whether or not the contract is assignable to another party and whether or not a portion of the work may be subcontracted. All subcontracts shall be submitted to the Department for review prior to execution. The contract shall provide that cost under-runs associated with the subcontract are not available for use by the prime consultant without Department approval.
9. As applicable, address the ownership of documents, data, proprietary rights, patent costs, royalties, etc.
10. Provide for and describe the methods of inspection and acceptance of the consultant's work.
11. Specify the process for which extra work orders or supplemental agreements are negotiated, and stat that work not clearly required by the contract shall not be undertaken without the prior approval of the Department.
12. Provide that the Department may terminate or suspend the contract prior to its completion.
13. Allow for extension of time due to unavoidable delays caused by an act of God, war, government actions or similar causes beyond reasonable control of the consultant.
14. Include mediation and arbitration clauses describing the process by which disputes will be settled.
15. Contain an indemnification clause which protects the state from any liability that might result from failure of the consultant to fulfill the terms and duties of the contract.
16. Include a non-raiding clause.
17. Include appropriate references to governing statutes, administrative rules, federal regulations, etc. and that the laws of the State of Iowa will apply.
18. Explicitly contain all applicable Equal Employment Opportunity provisions if the contract will be funded in whole or in part by federal-aid transportation funds.
19. Require the consultant to retain all records pertaining to the contract for 3 years from the date of final payment for inspection and audit by local, state or federal officials (as applicable) or their authorized representatives.

A Review of Selected DOT Service Contracts

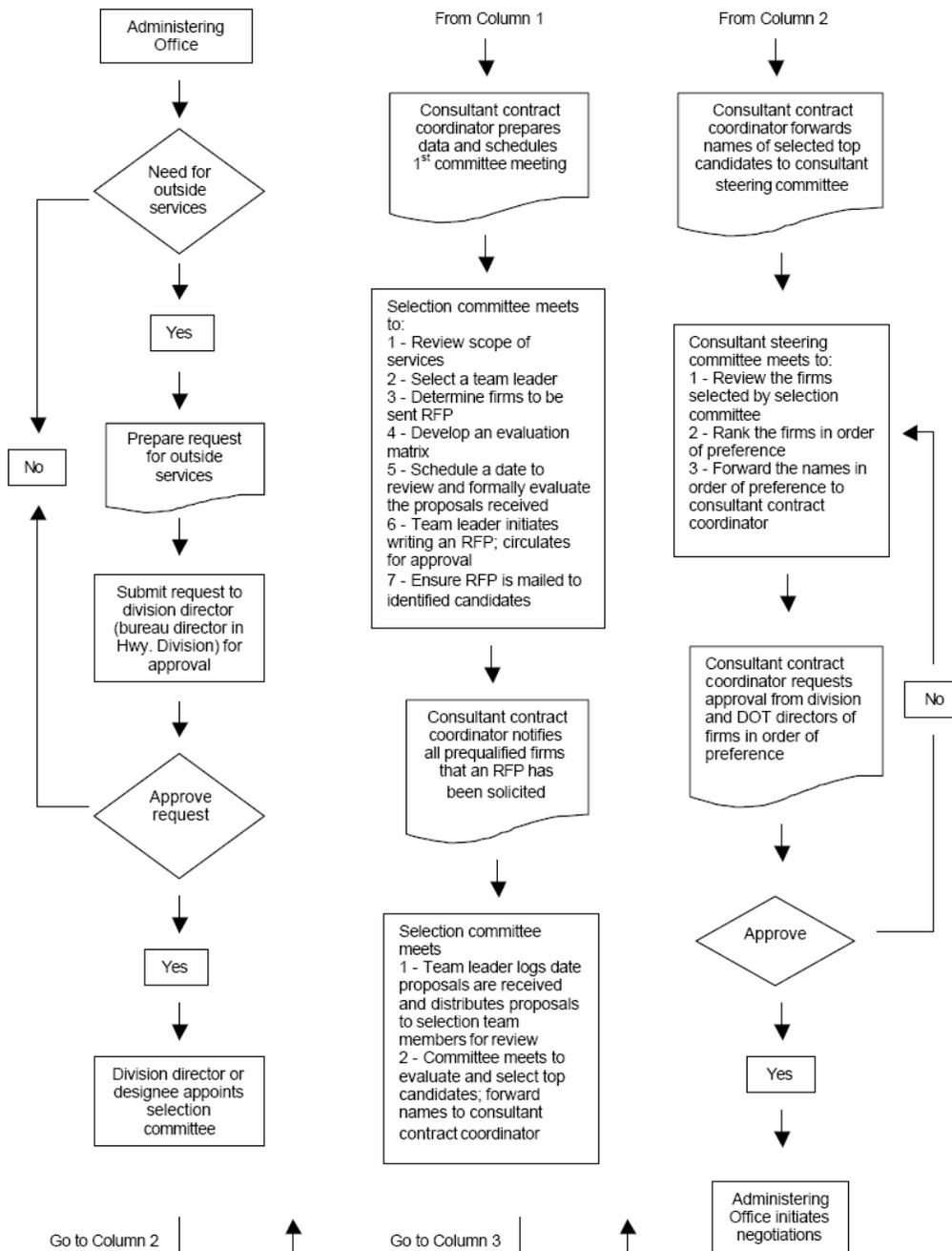
Minimum Contract Clauses Required for Computer Consultant Service Contracts

20. Address severability of contract provisions in the event a portion of the contract is found to be invalid or unenforceable.
 21. Where appropriate, include a default clause.
 22. Include an independent contractor clause.
 23. Include a conflict of interest clause.
 24. Contain a signature block identifying the name and title of each person signing the contract with corresponding space for each person's signature and date of signature.
- In addition, other pertinent requirements, such as liquidated damages for late performance or nonperformance of contract obligations, may be included in a contract.

Source: Department of Transportation Policy 300.13, "Negotiated Contracts for Other Professional and Technical Services"

A Review of Selected DOT Service Contracts

Complete Consultant Contract Selection Process



Source: Appendix A of DOT Policy Number 300.12

**A Review of Selected Department of Transportation Service Contracts
Archon Technologies Inc. Contract Summary**

SOW #	TransSys/ Archon	Effective Date	Description of SOW	Contract Maximum	Amount of SOW	Total VRTS	Total DS
PSA	TransSys	12/01/99	Original Professional Services Agreement	\$ 2,500,000.00			
VRT-001	TransSys	12/01/99	Development of Vehicle Reg and Titling System Functional Requirements; assess Technical Architecture Document, and update if necessary; and develop a Logical System Design. Logical Data Base Design, and Physical Process Flow Diagrams		\$ 1,347,836.00	\$ 1,258,622.50	
DS-001	TransSys	12/01/99	Review the current driver systems and assessing the condition, necessary enhancements, and client requirements for the driver systems; developing a Functional Requirements Document; defining the technical architecture; and developing a plan for continued development of the Driver Services systems		\$ 615,732.00		\$ 429,741.64
Increase	TransSys	04/11/00	Requested increase in funding cap (Staff Action #01-0268)	\$ 1,500,000.00			
VRT-002	TransSys	04/15/00	Provide Motor Vehicle Division (MVD) an internet Web capability allowing MVD customers to access specific information on vehicles owned and to renew vehicle registrations		\$ 957,861.00	\$ 875,944.96	
VRT-003	TransSys	04/15/00	Provide the design, development, testing and implementation for the interface to the National Model Vehicle Title Information System (NMTIS) from the current Iowa Motor Vehicle Division Titling and Registration System		\$ 775,072.00	\$ 516,107.33	
DS-002	TransSys	10/15/00	Provide Iowa Motor Vehicle Division with a Process Description Document and a Functional Requirements Document which describe the requirements for developing and implementing an internet Web capability that will allow Driver Services customers to access specific information concerning driver licenses and driver records and to renew their driver licenses when the license is within the renewal period		\$ 182,510.00		\$ 62,197.30
Increase	TransSys	11/29/00	Requested increase in funding cap (Staff Action #01-0482)	\$ 6,000,000.00			
DS-003	TransSys	01/01/01	Develop a General Design for the Driver License and Driver Records System		\$ 1,633,732.00		\$ 438,492.00

**A Review of Selected Department of Transportation Service Contracts
Archon Technologies Inc. Contract Summary**

SOW #	TransSys/ Archon	Effective Date	Description of SOW	Contract Maximum	Amount of SOW	Total VRTS	Total DS
DS-004	TransSys	01/01/01	Provide the Motor Vehicle Division with a Web Site Architecture Document, Process Description Document, updated Functional Requirements Document, and a Base Functional Prototype. These documents will describe the requirements for developing and implementing an internet Web capability allowing Driver Services customers to send individual driver accident reports to the DOT following an accident, and to renew their driver's license during renewal period		\$ 136,380.00		\$ 136,380.00
VRT-008	TransSys	01/01/01	Development of the Vehicle Registration and Titling System Detailed Design Specifications for all business functions defined within the VRT General Design Document and NMVTIS Project; finalize the Technical Architecture Document and update the previous document with corrections and/or enhancements; and development of the Physical Data Base Design, Screen Flow Diagrams and Basic Screen Layouts		\$ 2,775,282.00	\$ 433,714.00	
VRT-009	TransSys	07/01/01	Continued design and development of the Vehicle Registration and Titling System (VRT). Additionally, TransSys will develop the detailed plans necessary for further design, development and implementation of the future system in the next project phase		\$ 1,476,120.00	\$ 1,476,119.42	
DS-005	TransSys	07/01/01	Continued development of the general design for the Driver License and Driver Records Systems begun within SOW DS-003 and developed a working prototype to include two driver system transactions and each of the processes to which the two transactions will interface		\$ 998,160.00		\$ 998,159.62
Increase	TransSys	06/25/02	Requested increase in funding cap (Staff Action #02-1179)	\$ 5,000,000.00			
VRT-010	TransSys	07/01/02	Continued design and development of the Vehicle Registration and Titling System. This phase of the project is part of a multiyear development effort		\$ 5,254,344.00	\$ 5,254,344.00	
DS-006	TransSys	07/01/02	Detail design of the driver license and driver record systems redesign		\$ 1,041,279.00		\$ 1,041,279.00
Change	Archon	05/15/03	Archon assumes TransSys obligations under the Agreement				

**A Review of Selected Department of Transportation Service Contracts
Archon Technologies Inc. Contract Summary**

SOW #	TransSys/ Archon	Effective Date	Description of SOW	Contract Maximum	Amount of SOW	Total VRTS	Total DS
Software License Agreement	Archon	06/01/03	Grants the Iowa DOT use of the computer programs developed by Archon, and associated user documentation, for development and production intended for integration into the Vehicle Registration and Titling, and Driver System redesign projects, specifically the Archon Transaction Money Manager (ATM2) and the Archon Background Technology for Microsoft.NET (ABT). Total product licensing fee is \$650,000, plus \$78,000 for 2004 and \$78,000 for 2005 ongoing annual maintenance fee.		\$ 806,000.00	\$ 806,000.00	
Increase	Archon	06/10/03	Requested increase in funding cap (Staff Action #03-0987)	\$ 15,000,000.00			
DS-007	Archon	07/01/03	Continuation of DS-006; will provide for the continued detail design of the driver license and driver record systems redesign		\$ 5,950,000.00		\$ 4,407,658.50
VRT-011	Archon	07/01/03	Continuation of VRT-010; will provide for the continued design and development of the Vehicle Registration and Titling System		\$ 6,000,000.00	\$ 5,899,702.50	
Increase	Archon	07/01/04	Requested increase in funding cap (Staff Action #05-0011)	\$ 6,000,000.00			
DS-008	Archon	07/01/04	Continuation of DS-007; it will provide for the continued detail design of the driver license and driver record systems redesign		\$ 6,500,000.00		\$ 6,277,006.75
VRT-012	Archon	07/01/04	Continuation of VRT-011; it will provide for the continued design and development of the Vehicle Registration and Titling System		\$ 1,250,000.00	\$ 1,250,000.00	
Increase	Archon	06/13/05	Requested increase in funding cap (Staff Action #05-0823)	\$ 1,000,000.00			
Software License Agreement ACAM	Archon	06/01/05	Grants the Iowa DOT use of the computer programs developed by Archon, and associated user documentation, for implementation of Archon Customer Accreditation Manager (ACAM) as a replacement for Iowa DOT's Dealer System. The total product licensing fee is \$450,000. Additionally, there will be a \$54,000 ongoing annual maintenance fee.		\$ 450,000.00	\$ 450,000.00	
Increase	Archon	06/30/05	Requested increase in funding cap (Staff Action #05-0916)	\$ 2,000,000.00			
APS	Archon	09/01/04	Redesign of the current APS system and will manage data collection and data management of the Iowa crash database, and manage the accident cases to determine if any action should be taken on drivers/vehicle owners who are involved in an accident		\$ 625,000.00		\$ 283,876.50
							ONGOING
			Total through June 30, 2005	\$ 39,000,000.00	\$ 38,775,308.00	\$ 18,220,554.71	\$ 14,074,791.31
			Combined Total Expenditures for VRTS and DS as of June 30, 2005				\$ 32,295,346.02
			Source: Prepared by DOT Motor Vehicle Division.				