



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 A. Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE _____ February 16, 2010

Auditor of State David A. Vaudt today released a report on a review of the Transportation Enhancement Program (Program) of the Iowa Department of Transportation (the Department) for projects closed out during the period July 1, 2007 through June 30, 2009. The review was completed to determine if the Program was in compliance with Federal regulations, the *Code of Iowa* and Department policies and procedures governing the Program.

The purpose of the Program is to strengthen the cultural, aesthetic and environmental aspects of the nation's intermodal transportation system. The Program provides an opportunity to implement a wide variety of non-traditional transportation related projects. Approximately \$43.7 million of Federal funds were received by the Department during fiscal years 2005 through 2009 for the Program. Program funds are split evenly between statewide and regional projects.

Vaudt reported the Department does not consistently verify the composition and source of actual funds used for the local match and does not consistently monitor the reasonableness of in-kind match amounts reported as part of local match by project sponsors.

Vaudt also reported the Department does not consistently complete on-site monitoring while projects are in progress or consistently complete a thorough review of the appropriateness of documentation submitted by project sponsors for reimbursement prior to approval for payment. As a result, inappropriate costs may be reimbursed. In addition, the Department did not comply with relevant Federal regulations and the Department's policies and procedures.

The report also includes a recommendation the Department verify the composition, source and appropriateness of funds used for local match and the Department consistently complete comprehensive on-site monitoring while projects are in progress. Vaudt also recommended the Department consistently complete thorough reviews of claims submitted for reimbursement of

project costs to ensure costs are sufficiently supported, allowable, reasonable and in compliance with Federal regulations and Department policy.

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/index.html>.

#

**A REVIEW OF THE
TRANSPORTATION ENHANCEMENT PROGRAM
ADMINISTERED BY THE
DEPARTMENT OF TRANSPORTATION**

**FOR THE PERIOD
JULY 1, 2007 THROUGH JUNE 30, 2009**

Table of Contents

	<u>Page</u>
Auditor's Transmittal Letter	3
Program Summary	4-10
Findings and Recommendations:	
Finding A – Local match not sufficiently monitored	10-11
Finding B – Project monitoring needs improvement	11
Finding C – Questionable costs claimed and lack of detailed support submitted	11-12
Finding D – Missing documentation/non-compliance with record retention requirements	12
Finding E – Lack of monitoring of sub-recipient audit reports	12
Finding F – Wages and benefits percentage policy not met	13
Finding G – Final payment made prior to final audit	13
Schedule:	<u>Schedule</u>
Summary of Total Reimbursed to Project Sponsors for Projects Tested	1 16-21
Staff	22



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

Auditor's Transmittal Letter

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

In conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Transportation Enhancement Program (Program) administered by the Department of Transportation (the Department). We reviewed certain activities for projects completed during the period July 1, 2007 through June 30, 2009, including compliance with Federal regulations, the *Code of Iowa* and Department policies and procedures governing the administration of the Program. In conducting our review of the Program, we performed the following procedures:

- (1) Interviewed Department personnel and reviewed related information to obtain an understanding of the administration of the Program.
- (2) Reviewed and determined compliance with Federal and State requirements regarding the administration of the Program, including the eligibility determination process, matching, contracting, allowable costs, reporting and sub-recipient monitoring.
- (3) Reviewed monitoring procedures used by the Department to determine if procedures were adequate and in compliance with Federal requirements.
- (4) Examined selected projects monitored by the Department to determine compliance with the Department's policies and procedures.
- (5) Examined selected project expenditures for state-wide and regional projects to determine compliance with Federal regulations and Department policies and procedures.

Based on these procedures, we determined the Department needs to improve project monitoring. We also developed certain recommendations and other relevant information we believe should be considered by the Governor, the Transportation Commission, the Department of Transportation and the General Assembly.

We extend our appreciation to the personnel of the Department 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

November 23, 2009

PROGRAM SUMMARY

The Department of Transportation (the Department) is authorized by the Federal Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) to administer the Transportation Enhancement Program (Program). The purpose of the Program is to strengthen the cultural, aesthetic and environmental aspects of the Nation's intermodal transportation system. The Program provides an opportunity to implement a wide variety of non-traditional transportation related projects.

Program administration – The Department oversees the Program, which includes statewide and regional transportation enhancement projects. For all statewide projects, the Department's Office of Systems Planning reviews project proposals and application forms and administers and monitors approved projects. Because the Department is responsible for appropriate use of Federal funds received for the Program, the Office of Systems Planning staff also monitors regional projects.

Statewide and regional projects are handled in a similar manner, except regional projects are managed through a unique transportation planning partnership involving the Department and 18 Regional Planning Affiliations (RPAs), six Metropolitan Planning Organizations (MPOs) and three Transportation Management Areas (TMAs). RPAs, MPOs and TMAs are referred to as regional administrative agencies throughout the remainder of this report. This cooperative effort focuses on conducting transportation planning and programming for all areas of the State.

The regional administrative agencies are responsible for the following functions of the Program:

- Receipt of and accounting for regional project funding from the Department,
- Receipt and review of all regional project proposals and application forms,
- Selection of regional projects and awarding of funds for regional projects. The regional administrative agencies are required to send copies of regional project applications and proposals to the Department.

Funding - The Federal Highway Administration (FHWA) provides funding to the Department each fiscal year for the Program. Funds are apportioned by FHWA to the States as prescribed by a Federal statutory formula based on amounts made available under the Federal Surface Transportation Program. The Department allocates 50% of Program funds received to statewide projects and the remaining 50% to regional projects. Personnel from the Office of Systems Planning make recommendations to the Department's Commission for funding of statewide projects each fiscal year. The Commission approves final awards for funding of statewide projects.

Local public agencies (LPAs), such as cities and county conservation boards, may apply directly to the Department for statewide project funding or may apply to the regional administrative agency responsible for their area for regional project funding. Private non-profit organizations may also apply to the Department or regional administrative agencies for statewide or regional project funding, but must have a public agency project sponsor. LPA's and non-profit organizations are referred to as project sponsors throughout the remainder of this report.

The FHWA is occasionally required by Federal regulations to rescind Program funds previously apportioned to states. Therefore, the Department maintains an unobligated balance of funds in anticipation of FHWA rescissions, as recommended by relevant Federal regulations. In addition, although the Department has been awarded funds for the Program by the FHWA, the Department is not authorized to obligate 100% of the amount awarded. According to a Department representative, they are allowed to spend only the "obligation authority" granted to the Department by the FHWA each year. The obligation authority granted varies from year to year but doesn't reach 100% of the funds granted. As a result, the total amount of unused funds grows each year. The Department had an unobligated balance of \$11,526,172 as of June 30, 2009.

Table 1 summarizes the total Program funding received by the Department from FHWA for statewide and regional projects and rescissions of funding during fiscal years 2005 through 2009 for statewide and regional projects.

A Review of the Transportation Enhancement Program

Table 1

Fiscal Year	Statewide project funding	Regional project funding	Total original funding	Rescissions	Final total funding
2005	\$ 4,759,609	4,759,609	9,519,218	-	9,519,218
2006	4,759,609	4,759,609	9,519,218	(4,218,376)	5,300,842
2007	4,765,752	4,765,752	9,531,504	-	9,531,504
2008	4,976,331	4,976,331	9,952,662	(1,147,638)	8,805,024
2009	5,278,329	5,278,329	*10,556,658	-	10,556,658
Total	\$ 24,541,630	24,541,630	49,079,260	(5,366,014)	43,713,246

* - The fiscal year 2009 amount does not include additional funding of \$10,744,873 provided for the Program by FHWA as a result of the American Recovery and Reinvestment Act of 2009 distribution of funds to states.

Federal SAFETEA-LU requirements encourage States to enter into agreements with qualified youth conservation or service corps to perform appropriate Program activities. As a result, the Department allocates a portion of Program funds to projects involving the Urban Youth Corps (UYC). The objectives of the UYC program are to provide transportation-related employment and training opportunities to youth between the ages of 16 and 21 who face barriers to employment and accomplish meaningful and productive improvements to transportation facilities.

Eligibility - According to FHWA guidance, each project must be one of the 12 eligible activities included in 23 United States Code (U.S.C.) 101(a)(35) of the Federal regulations, relate to surface transportation and be accessible to the general public or targeted to a broad segment of the general public. **Table 2** summarizes the 12 eligible activities for projects within 3 primary activity types.

Table 2

Activity type	Eligible activity
<i>Trail and bikeway</i>	<ul style="list-style-type: none"> • Facilities for pedestrians and bicycles • Safety and educational activities for pedestrians and bicyclists • Preservation of abandoned railway corridors, including the conversion and use of those corridors for pedestrian or bicycle trails
<i>Historic and archaeological</i>	<ul style="list-style-type: none"> • Historic preservation • Rehabilitation and operation of historic transportation buildings, structures or facilities (including historic railroad facilities and canals) • Archaeological planning or research • Transportation museums
<i>Scenic and environmental</i>	<ul style="list-style-type: none"> • Scenic or historic highway programs, including provision of tourist and welcome center sites • Acquisition of scenic easements and scenic or historic sites • Landscaping and other scenic beautification • Control and removal of outdoor advertising • Mitigation of water pollution due to highway runoff or to reduce vehicle-caused wildlife mortality while maintaining habitat connectivity

A Review of the Transportation Enhancement Program

Project sponsors must illustrate the relationship of each project to surface transportation in project proposals submitted to the Department. Some factors which establish this relationship include:

- The project's proximity to a highway or a pedestrian/bicycle corridor,
- Whether the project enhances the aesthetic, cultural or historic aspects of the travel experience, and
- Whether it serves a current or past transportation purpose.

Department representatives work with FHWA representatives to ensure projects meet the criteria of relating to surface transportation. Also, each project sponsor must execute a funding agreement with the Department prior to approval of Federal aid for a project.

A summary of the projects we tested, including project sponsor, project name, final audit date and final payment approval date and total reimbursed to project sponsors during fiscal years 2008 and 2009, is included in **Schedule 1**. Overall, the Department does a good job in managing and performing Program functions such as planning, overseeing Program funding, reviewing claims for reimbursement of project costs and completing final audits. The following sections of this report summarize each area of concern we identified during our review and refer to findings and recommendations which include opportunities for Program improvements.

Matching requirements – Federal regulations contained in 23 U.S.C. 120(b), 23 U.S.C. 133(e)(5) and 23 U.S.C. 323 require a minimum local match of 20% for regional projects and a minimum local match of 30% for statewide projects. Project sponsors are allowed by Federal regulations to use appropriate in-kind match of funds, such as donated services, as part of the local match for projects in accordance with Office of Management and Budget (OMB) Circular A-87, which refers to the Federal Common Rule.

The value of donated services may be used to meet matching requirements in accordance with the provisions of the Federal Common Rule contained in 49 CFR section 18.24(c). According to the Federal regulations, the valuation of donated services must be consistent with rates ordinarily paid for similar work in the project sponsor's organization. If the project sponsor does not have employees performing similar work, rates must be consistent with rates paid for similar work in the same labor market.

However, we determined Trees Forever reported hourly rates which were significantly higher than hourly rates paid by project sponsors for similar services provided for other projects tested. It used hourly rates of \$50 and \$35 to calculate the amount of in-kind local match for the 2008 UYC project under the Program. Evidence of Department monitoring of in-kind local match amounts reported by the project sponsors was not available when requested.

We also determined the City of Battle Creek included \$21,048 of State REAP funds as a portion of the local match for the Battle Creek Nature and Recreation Trail project. According to Department of Natural Resources (DNR) staff responsible for administering REAP, Chapter 455A of the *Code of Iowa* is silent regarding whether or not REAP funds received by city project sponsors may be used as part of the local matching funds for projects under other programs. As a result, DNR allows cities to use REAP funds for local matching funds of other programs when permissible by those from whom funds are sought. DNR allows counties to use REAP funds, as necessary and appropriate under Chapter 455A of the *Code of Iowa*, for local matching funds for projects under the Program and other programs, except for local match of habitat stamp, marine fuel tax or other DNR grants received by project sponsors.

According to the Department's Office of Systems Planning staff we spoke with, the Department reviews each project application for reasonableness, but does not verify composition and appropriateness of the source of actual funds used for local match and does not monitor reasonableness of in-kind match amounts reported as part of local match by project sponsors. Findings regarding local match not sufficiently monitored are summarized in **Finding A**.

A Review of the Transportation Enhancement Program

Monitoring projects – While projects funded with Federal money are in progress, the Department is required to complete monitoring of project sponsors in accordance with the Highway Planning and Construction Cluster sub-recipient monitoring requirements contained in OMB Circular A-133 Compliance Supplement. However, we identified the Department did not complete on-site monitoring while projects were in progress for 24 of 32 projects tested.

Also, comprehensive on-site monitoring, including review of files and verification of records, was not completed by the Department for any of the 32 projects tested. In addition, the Department did not consistently monitor or document:

- Project progress to ensure appropriateness of construction activity and materials used for projects were in accordance with the project agreement and specifications and
- Whether project sponsors were complying with relevant Federal requirements and Department procedures and guidelines during the construction phase projects.

Some monitoring was completed for 7 of the 32 projects tested, but 2 of the 7 project files did not include sufficient documentation to support monitoring procedures completed and results. On-site monitoring was not required for 1 of the 32 projects tested since project activity only included the acquisition of property.

According to staff we spoke with, the Department is working towards consistent completion of on-site monitoring visits while projects are in process. Also, the Department's Office of Systems Planning created and requires use of a field visit form to help ensure staff complete and document monitoring, results, follow-up and resolution of issues identified.

Project sponsors submit regional project applications to the regional administrative agencies responsible for selecting and approving projects in its area. Each regional administrative agency uses its own selection process and criteria for project selection and submits copies of regional project applications and notification of awards to the Department.

We determined the Office of Systems Planning does not require regional administrative agencies to submit project scoring summaries to the Department and does not review the project selection process as part of Program monitoring. Therefore, we were not able to determine whether the project selection process for the 16 regional projects included in **Schedule 1** was reasonable.

Department staff believe they do not have enough staff resources to consistently complete comprehensive on-site monitoring visits of statewide and regional projects while they are in progress, including files and records review. In addition, Department staff could not guarantee at least minimal monitoring procedures are completed for each project in progress due to limited resources.

Because the Department is responsible for oversight of the entire Program, sound business practices and management controls dictate monitoring of the regional project selection process. Findings regarding project monitoring improvement are summarized in **Finding B**.

Reimbursement of project costs – The Program is administered by the Department on a reimbursement basis, which means project sponsors pay project expenses up front and then seek reimbursement from the Department by submitting a claim, including support. Prior to incurring reimbursable costs for projects, project sponsors must receive Department and FHWA authorization to proceed with the project, including approval of Federal aid. Project sponsors periodically submit claims for reimbursement to the Department's Office of Systems Planning for review and approval. The claims are then forwarded by Systems Planning to Accounting for final review and approval prior to payment.

The Department is also responsible for determining whether project expenses submitted by project sponsors for reimbursement are allowable under the Cost Principles of OMB Circular A-87 and Program guidance regarding appropriate use of funds. After Department review and approval, project sponsors are reimbursed for costs incurred up to the maximum amount of approved

A Review of the Transportation Enhancement Program

Federal aid based upon the previously agreed to Federal share for properly documented, eligible and authorized project costs.

We identified the following reimbursements to project sponsors under the 2008 UYC program for which we identified concerns:

- \$609.10 was paid to the Dubuque County Conservation Board for repair of a rental van windshield which was damaged while parked at the project supervisor's home. There was a lack of documentation in the project file to clearly identify the rationale for parking the van at the supervisor's home and when and how the damage occurred.
- \$1,692.00 was paid to a Trees Forever supervisor based on an hourly rate of \$35.25 for 48 hours of work reported. The \$35.25 rate appears excessive based on a comparison to hourly rates paid to other supervisors of UYC program projects. The average hourly rate paid to other employees performing similar duties for projects under the UYC program projects was approximately \$20.00. Therefore, a total of approximately \$732.00 of the \$1,692.00 paid appears excessive based on the difference between the hourly rate paid to the Trees Forever supervisor and the average rate paid to other UYC program supervisors.
- \$300.00 of Program funds under the UYC program was paid to the Mahaska County Conservation Board for UYC participants' work completed on a loop trail which appears to be a recreational trail. Projects are required by Federal regulations to have a clear surface transportation purpose. A trail serving a recreational purpose with no transportation function is a recreational trail. For example, a closed loop trail within a park or recreation area would be a recreation trail.
- 5 expenses totaling \$253.13 were submitted by the Dubuque County Conservation Board to the Department for reimbursement of project costs for the UYC program. The 5 expenses include transportation costs, office supplies, copies, phone call charges and cell phone costs. The costs were summarized and submitted in a memo. Supporting detail, such as copies of bills and invoices, were not submitted so we were not able to determine whether the costs were allowable. The Department approved reimbursement of the expenses even though sufficient detail was not submitted.

Department policies and procedures for processing payments and good business practices dictate maintenance of sufficient documentation to support reimbursements made to Program sponsors and thorough review of the appropriateness of documentation submitted for reimbursement prior to approval for payment. A lack of consistent comprehensive review of sufficient supporting documentation may result in reimbursement of unallowable costs to project sponsors and go unnoticed. Findings regarding costs claimed and lack of detailed support for reimbursements are summarized in **Finding C**.

Record retention – Project sponsors must apply for and enter into an agreement with the Department for approval of projects and related Federal funding. Also, project sponsors must submit a final claim for reimbursement to the Department. In addition, project sponsors are required to complete and submit to the Department a pre-audit checklist and the Department's Office of Systems Planning is required to complete and document a final audit of all projects.

The Code of Federal Regulations 49 CFR 18.42 requires financial and programmatic records, supporting documents, statistical records and other records of grantees or sub-grantees be retained for three years from the date of submission of the final expenditure report. We identified instances of documents missing from project files and the Department could not locate the documents which are required to be maintained. Specifically, of the 32 projects tested, documentation was not available for:

- 2 project applications, including the U.S. Highway 20 Interchange Landscaping project sponsored by the City of Dubuque and the Vinton Brick Street Restoration project sponsored by the City of Vinton.

A Review of the Transportation Enhancement Program

- Significant portions of 2 project agreements, including the U.S. Highway 20 Interchange Landscaping project sponsored by the City of Dubuque and the Centerville Gateway project sponsored by the City of Centerville.
- The pre-audit checklist and final audit for the Dubuque Heritage trail project sponsored by the City of Dubuque. According to Department staff, the pre-audit and final audits were completed but documents could not be located. The documents were subsequently located at the District office which was responsible for development of this project.

As a result, the Department did not comply with Federal record retention requirements. Also, as a result of missing documentation, we could not determine the appropriateness of:

- Project eligibility determination for the U.S. Highway 20 Interchange Landscaping project sponsored by the City of Dubuque and the Vinton Brick Street Restoration project sponsored by the City of Vinton.
- Source of funds used for local match for the U.S. Highway 20 Interchange Landscaping project sponsored by the City of Dubuque.
- Whether a final audit was completed prior to making final payments for 2 projects, including the Dubuque County UYC Program sponsored by the Dubuque County Conservation Board and the Dubuque Heritage trail project sponsored by the City of Dubuque.

Findings regarding lack of compliance with record retention requirements are summarized in **Finding D**.

Sub-recipient monitoring – Project sponsors, such as cities, counties, county conservation boards and non-profit entities which administer projects, are subject to the requirements of OMB Circular A-133. Such entities are considered to be sub-recipients of the Department since Federal funds are passed through to those entities for projects. In accordance with OMB Circular A-133, an entity spending \$500,000 or more in Federal awards during a fiscal year is to receive a Single Audit.

The Department has established policies and procedures for completion of sub-recipient desk reviews of sub-recipients' audit reports. However, desk reviews of audit reports received from sub-recipients were not available because the Department's position responsible for monitoring sub-recipient audit reports was vacant during fiscal year 2008 and through April of fiscal year 2009. The Department filled the position responsible for monitoring sub-recipient audit reports during May 2009. However, a finding for the Program is reported since desk reviews were not available for project sponsors of projects tested.

The Department did not review sub-recipient audit reports applicable to project sponsors for the 32 projects included in **Schedule 1**. Because the Department's non-compliance with sub-recipient monitoring requirements was previously reported as a Finding for the Department in the fiscal year 2008 Single Audit report issued by the Office of Auditor of State, we identified current status and briefly summarized findings regarding lack of monitoring sub-recipient audit reports in **Finding E**.

Wages and benefits percentage policy - The Department has established an internal policy which requires at least 55% of project funds approved for use under the UYC program be devoted to UYC participants' wages and benefits. The 55% minimum was originally a Federal requirement for UYC program participants under a different Federal program.

According to Department and FHWA representatives we spoke with, the percentage requirement is a carry-forward policy established by the Department for UYC working on projects. The FHWA representative stated the 55% minimum is not a Federal requirement for the Program, but the Department may impose the requirement if desired. Program funds may be used for UYC activities as long as the work completed is for activities which are eligible for Program funding.

A Review of the Transportation Enhancement Program

We identified 2 Program sponsors which did not use at least 55% of UYC program funds for participants' wages and benefits for projects, as follows.

- The Mahaska County Conservation Board only used approximately 44% of funds received under the 2008 UYC program for projects, which is 11% less than the required 55%. Therefore, at least \$3,920 of additional funds should have been used for participants' wages and benefits.
- The Mahaska County Conservation Board only used about 33% of its funds received under the 2007 UYC program for projects, which is 22% under the required 55%. Therefore, a total of at least \$10,413 of additional Program funds should have been used for participants' wages and benefits.

Department monitoring did not identify the lack of compliance with the 55% policy while reviewing and approving UYC project costs submitted for reimbursement. As a result, the Department did not comply with its policy regarding the 55% minimum required to be used for UYC program participants' wages and benefits when working on projects funded by Program funds. Findings regarding participants' wages and benefits under the percentage established by Department policy are summarized in **Finding F**.

Final audit and payment – Department policy requires final audits of projects be completed prior to authorizing final payment to project sponsors. We identified 3 instances of final audits not being completed by the Department prior to authorizing final reimbursement of costs for the following projects:

- Heritage Conservation Corps/Wabash Trace Nature Trail project sponsored by the Iowa Natural Heritage Foundation,
- Black Hawk County UYC project sponsored by the Black Hawk County Conservation Board and
- Summer 2007 UYC project sponsored by the Iowa City Mayor's Youth Empowerment.

Because final audits are not always completed prior to making final payment to project sponsors, there is increased risk of significant deficiencies occurring and going unnoticed. Department staff we spoke with do not believe the lack of final audit prior to making final payment is a significant problem and is not aware of any significant deficiencies not being corrected even when the final payments were made prior to completion of final audits. Good business practices and internal controls dictate review and approval of documentation submitted for reimbursement of project costs prior to making final payment to project sponsors. Findings regarding final payment made prior to final audit are summarized in **Finding G**.

FINDINGS AND RECOMMENDATIONS

We performed the procedures detailed in the Auditor's Transmittal Letter for the period July 1, 2007 through June 30, 2009. As a result, we identified certain findings and recommendations which should be considered by the Department.

Finding A – Local match not sufficiently monitored

Federal regulations for the Program require a minimum local match of 20% for regional projects and a minimum local match of 30% for statewide projects. Project sponsors are allowed by Federal regulations to use appropriate in-kind match of funds, such as donated services, as part of the local match for projects in accordance with the OMB Circular A-87. The value of donated services may be used to meet matching requirements in accordance with the provisions of the Federal Common Rule.

However, we identified 2 hourly rates used by a project sponsor to value the amount of donated services used for local in-kind match by a project sponsor which appear excessive when compared to hourly rates paid for similar work. Also, the Department does not consistently verify the

composition and source of local match and does not consistently monitor reasonableness of in-kind match used as part of local match. As a result, the Department did not comply with Federal regulations regarding matching.

Recommendation – The Department should:

- Ensure Federal funds are not used for local matching funds and, if State funds are used, ensure use is in accordance with the *Code of Iowa* by reviewing project sponsor records to verify the appropriateness of funds used for the required local match. Verification of local match funds should be completed in conjunction with on-site monitoring visits while completing the review of project files and verification of records.
- Monitor appropriateness of in-kind match funds used by Program sponsors for local match funds to ensure compliance with applicable Federal regulations.

Finding B – Project monitoring needs improvement

The Department is required to complete monitoring of projects while projects are in process in accordance with OMB Circular A-133. However, we identified the Department did not complete on-site monitoring while projects were in progress for 24 of 32 projects tested. Some monitoring was completed for 7 of the 32 projects tested, but 2 of the 7 project files did not include sufficient documentation to support monitoring procedures completed and results. On-site monitoring was not required for 1 of the 32 projects tested since project activity only included the acquisition of property.

Also, comprehensive on-site monitoring was not completed for any of the 32 projects tested. For example, the Department did not include a review of files and verification of records while completing on-site monitoring of projects in progress. As a result, the Department did not comply with Federal requirements regarding on-site monitoring of projects in progress which are funded with Federal aid.

In addition, the Department does not monitor the regional project selection process. While the Department receives a copy of the project applications and notification of award to be submitted for each regional project, the Department does not ensure the regional selection processes are fair and reasonable. As a result, there is increased risk of unfair practices and inappropriate selection and award of funding for regional projects, such as related party transactions, potential conflicts of interest and funding projects which may not otherwise be eligible.

Recommendation – The Department should:

- Complete comprehensive on-site monitoring of construction projects while in progress, including, but not limited to, review and verification of project files and records and other items listed on the field visit form. Also, procedures and results of each on-site monitoring visit should be documented and maintained in the Department’s project files in accordance with Federal regulations.
- Require a review of the regional project selection process for fairness and reasonableness and a verification of regional project scoring summaries to support as part of the comprehensive on-site monitoring or final audit procedures.

Finding C – Costs claimed and lack of detailed support submitted

Federal regulations include guidance regarding determination of whether costs are allowable and sufficiently documented. Also, Department policies and procedures for processing payments and good business practices dictate thorough review of costs claimed for reimbursement prior to approval for payment and maintenance of sufficient documentation to support reimbursements made to project sponsors.

A Review of the Transportation Enhancement Program

The Department did not perform detailed monitoring of documents submitted by UYC project sponsors seeking reimbursement. We also identified certain project costs for the fiscal year 2008 UYC program for which we had concerns, including:

- \$300.00 for work on a loop trail.
- \$609.10 for repair of a rental van windshield.
- \$732.00 for the calculated difference in the supervisory hourly rate paid for the project when compared to the average rate paid for similar work on other projects.

In addition, we identified \$253.13 reimbursed for a variety of transportation costs, office supplies, copies, phone call charges and cell phone costs claimed by a project sponsor which were not supported with sufficient detail to allow determination of whether the costs were allowable. The Department approved the expenses for reimbursement even though sufficient detail was not provided or was not maintained in the project file. As a result, the Department did not comply with applicable Federal regulations regarding allowable costs. The Department also did not comply with its policies and procedures for processing payments and good business practices.

Recommendation – The Department should consistently:

- Complete a thorough review of project cost documentation submitted by project sponsors prior to approving reimbursement to ensure costs are allowable, reasonable and in compliance with Federal regulations and Department policies and procedures.
- Require and maintain sufficient documentation to support project costs claimed.

Finding D – Lack of compliance with record retention requirements

The Code of Federal Regulations 49 CFR 18.42 requires financial and programmatic records, supporting documents, statistical records and other records of grantees or sub-grantees be retained for three years from the date of submission of the final expenditure report. The Department could not locate some documentation required to be maintained for some of the projects tested. As a result, the Department did not comply with Federal records retention requirements.

Also, we could not determine the appropriateness of the Department's determination of project eligibility for 2 projects and the source of local match for 1 project because relevant documentation was not available. In addition, it was not possible to determine whether final payment was made prior to completion of the final audit for 2 projects due to a lack of documentation.

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

Finding E – Lack of monitoring of sub-recipient audit reports

In accordance with OMB Circular A-133, an entity spending \$500,000 or more in Federal awards during a fiscal year is to receive a Single Audit. The Department has established policies and procedures for completion of sub-recipient desk reviews of sub-recipients' audit reports. However, the Department did not review sub-recipient audit reports for sponsors of the projects tested. As a result, the Department did not comply with sub-recipient monitoring requirements contained in OMB Circular A-133.

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

Finding F – Wages and benefits percentage policy not met

The Department established a Program policy requiring at least 55% of project funds approved for use under the UYC program be devoted to UYC participants' wages and benefits. However, we identified 2 instances in which project sponsors did not pay at least 55% of funds received for projects for UYC program participants' wages and benefits as required by Department policy.

Also, the Department did not identify the lack of compliance with the 55% Department policy while monitoring UYC project costs submitted by the project sponsors for reimbursement. As a result, the Department did not consistently comply with its policy regarding the 55% minimum required to be used for UYC program participants' wages and benefits when working on projects funded by Program funds.

Recommendation – The Department should consistently monitor and analyze costs prior to processing reimbursement of costs submitted by Program sponsors under the Program to ensure costs comply with Department policy.

Finding G – Final payment made prior to final audit

Department policy requires final audits of projects be completed prior to authorizing final payment to project sponsors. We identified the Department authorized and made final payments to project sponsors prior to completing final audits for 3 projects. When final payments are made prior to completion of final audits, the Department reduces its ability to require any project deficiencies identified be resolved by project sponsors.

As a result, the Department did not comply with its policy requiring completion of final audits prior to making final payment to project sponsors and violates sound business practices and internal controls.

Recommendation – The Department should consistently complete a final audit of projects prior to authorizing final payment to project sponsors.

**A Review of the
Transportation Enhancement Program
Administered by the
Department of Transportation**

Schedule

Department of Transportation
A Review of the Transportation Enhancement Program

Summary of Total Reimbursed to Project Sponsors for Projects Tested
Fiscal years 2008 and 2009

Project Sponsor/Name	Project Description
<u>Statewide projects:</u>	
Audubon County Conservation Board: T-Bone Trail Phase 4	Construct 2.6 miles of recreational trail from Hamlin to 260th Street
Butler County Conservation Board: Rolling Prairie Trail - Shell Rock to Clarksville	Hard surfacing of 5.6 miles, a segment of a planned 150 mile trail
Butler County Conservation Board: Rolling Prairie Trail Acquisition	Acquisition of 31.75 miles of rail corridor between Allison and Coulter
City of Colo: Reed/Niland Corner Phase 3	Historic preservation of a gas, food and lodging facility for two major highways
City of Prairie City: Bringing Prairie and People Together	Trail head at Prairie City Drive and trail to various locations
Dallas County Conservation Board: Dawson Depot Acquisition/Restoration	Acquisition and restoration of historic depot structure
Iowa Railroad Historical Society: Boone Scenic Valley Railroad - Mainline Rehabilitation	Refurbish freight train and rehabilitate 2.5 miles of railroad track and sites
<u>2007 Urban Youth Corp Program Projects:</u>	
Black Hawk County Conservation Board: Black Hawk County Urban Youth Corps	Trail construction and management, such as clean up and construction of culvert
Iowa City Mayor's Youth Empowerment: Summer 2007 Urban Youth Corps	Rehabilitation and addition of recreation vehicle camping pads at Coralville Lake
Iowa Natural Heritage Foundation: Heritage Conservation Corps - Wabash Trace Nature Trail	Maintain and improve the Wabash Trace Nature Trail and on-the-job training
Mahaska County Conservation Board: Urban Youth Corps	Recreation trail maintenance, construction work and on-the-job training

Final Audit Date	Final payment approval date	Total reimbursed to project sponsors
05/15/08	06/10/08	\$ 186,800.00
01/31/08	02/21/08	239,413.00
Not required	01/13/09	337,731.40
07/30/08	08/19/08	131,363.00
11/20/08	01/19/09	593,454.00
09/18/08	12/22/08	157,500.00
09/29/05	10/20/05*	497,000.00
08/14/07	7/30/007	4,520.63
10/29/07	10/02/07	17,000.00
10/30/07	11/13/07	7,737.95
10/26/07	11/13/07	7,039.19

Department of Transportation
A Review of the Transportation Enhancement Program

Summary of Total Reimbursed to Project Sponsors for Projects Tested
Fiscal years 2008 and 2009

Project Sponsor/Name	Project Description
<u>2008 Urban Youth Corp Program Projects:</u>	
Dubuque County Conservation Board: Dubuque County Urban Youth Corps Program	Recreation trail maintenance, construction work and on-the-job training
Iowa City Mayor's Youth Empowerment: Summer 2008 Urban Youth Corps	Trail head maintenance, including building planting areas, grading and landscaping
Iowa Natural Heritage Foundation: Heritage Conservation Corps - Wabash Trace Nature Trail	Maintain and improve the Wabash Trace Nature Trail and on-the-job training
Mahaska County Conservation Board: Urban Youth Corps	Recreation trail maintenance, construction work and on-the-job training
Trees Forever: Growing Futures Youth Employment Program	Inventorizing public street trees, trail maintenance and litter removal
Subtotal statewide projects	
<u>Regional Projects:</u>	
City of Battle Creek: Battle Creek Nature and Recreation Trail	Develop a walking trail through the city park
City of Burlington: Burlington Recreation Plex Trail Phase 1	Trail from south side of Division Street west of Broadway Street
City of Centerville: Centerville Gateway Project	Enhancement of courthouse square and surrounding intersections
City of Charles City: Charles City Recreation Trail Extension Phase 2	Grading and paving of trail from 5th Street to Grove and from Gilber to a bridge
City of Clearfield: Clearfield Trail	Recreational trail .6 mile along an abandoned rail line on west edge of city

Final Audit Date	Final payment approval date	Total reimbursed to project sponsors
Not dated	10/20/08	7,996.17
09/08/08	09/25/08	31,701.00
10/30/08	10/24/08	16,784.41
10/23/08	12/23/08	17,317.45
10/30/08	02/22/09	26,533.21
		<hr/>
		2,279,891.41
		<hr/>
12/20/07	01/31/08	68,083.13
07/23/08	09/24/08	64,800.00
09/17/08	12/12/08	164,300.00
04/16/08	05/22/08	24,250.00
03/20/08	04/07/08	18,880.34

Department of Transportation
A Review of the Transportation Enhancement Program

Summary of Total Reimbursed to Project Sponsors for Projects Tested
Fiscal years 2008 and 2009

Project Sponsor/Name	Project Description
City of Corning: Main Street Corning - Sally's Alley	Removal of brick pavers, regrading and resurfacing and replacement of pavers
City of Davenport: Three Gateways - City of Davenport	Unique gateways located at south, north and west entries to the city
City of Dubuque: Dubuque Heritage Trail	Develop loop trail under bridge for access to Heron Pond Wetlands Nature Trail
City of Dubuque: U.S. Highway 20 Interchange Landscaping	Landscape the interchange of U.S. 20 and Hill/Bryant Streets
City of Fort Madison: Rodeo Park Trailway Improvements	Regrade, widen and overlay existing Rodeo Park trailways
City of Kingsley: Kingsley Community Biking/Walking Trail	4,200 foot trail to various areas in city and a 700 foot trail from school track area
City of North Liberty: 12th Ave Extension Trail	.7 mile extension of North Liberty Trail from Penn Street to Coyote Street
City of Spencer: Fair View Park - 10th Ave. E. Trail Extension	Extension of recreational core trail into Fair View Park to improve access
City of Urbandale: Raccoon Valley Trail	Develop a 10' wide pedestrian/bicycle connecting trail to Douglas Parkway Trail
City of Vinton: Vinton Brick Street Restoration	Restoration of about 500 linear feet of brick street by 2nd Ave. and 7th Street
Woodbury County Conservation Board: Correctionville - Little Sioux Park Trail	Bridge and trail construction for 10' wide paved trail of about 1.75 miles
Subtotal regional projects	
Total	

* - According to FHWA records, the project was not considered to be complete until August 1, 2008.

Final Audit Date	Final payment approval date	Total reimbursed to project sponsors
11/26/08	12/31/08	21,915.00
09/26/07	11/19/07	220,502.00
Not dated	01/14/08	233,000.00
11/01/07	06/26/08	144,842.00
10/18/07	12/11/07	192,482.70
10/11/07	09/25/08	110,929.80
02/16/07	09/25/08	175,000.00
12/31/07	04/30/08	134,300.00
07/10/08	09/17/08	145,000.00
12/13/07	11/12/08	390,853.00
10/11/07	10/25/07	270,000.00
		<hr/>
		2,379,137.97
		<hr/>
		\$ 4,659,029.38
		<hr/> <hr/>

Department of Transportation
A Review of the Transportation Enhancement Program

Staff

This review was performed by;

Annette K. Campbell, CPA, Director
Deborah J. Moser, CPA, Manager
Mark C. Moglestad, CPA, Senior Auditor
Brett C. Conner, Staff Auditor
Alison P. Baker, Assistant Auditor
Daniel W. Henaman, Assistant Auditor
Jennifer M. Kopp, Assistant Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State