

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

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

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**NEWS RELEASE**

FOR RELEASE

February 22, 2021

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released a report on the Iowa Department of Transportation for the year ended June 30, 2019.

The Department is responsible for planning, developing, regulating and improving the State of Iowa's transportation system to provide and preserve adequate, safe and efficient transportation services.

**AUDIT FINDINGS:**

Sand reported seven findings pertaining to the Department. The findings are on pages 3 through 7 of this report. Sand recommended the Department implement procedures to improve controls over inventory, retainages payable, capital assets and revenue coding. The Department should also implement procedures for hiring or promoting non-merit positions. The Department's responses to the recommendations are included in the report.

One of the findings discussed above is repeated from the prior year. Management of the Iowa Department of Transportation has a fiduciary responsibility to provide oversight of the Department's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" management exercises in its fiduciary capacity.

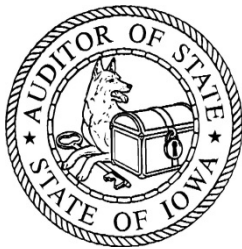
A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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

**JUNE 30, 2019**

**Iowa Department of Transportation**



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February 15, 2021

Iowa Department of Transportation  
Ames, Iowa

Dear Members of the Iowa Department of Transportation:

I am pleased to submit to you the Report of Recommendations for Iowa Department of Transportation for the year ended June 30, 2019. This report includes findings pertaining to the Department's internal control and compliance with statutory requirements and other matters which resulted from the fiscal year 2019 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of Department of Transportation throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand  
Auditor of State

**Iowa Department of Transportation**



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February 15, 2021

To Scott Marler, Director of the Iowa Department of Transportation:

The Iowa Department of Transportation is a part of the State of Iowa and, as such, has been included in our audit of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2019.

In conducting our audits, we became aware of certain aspects concerning the Department's operations for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations, which include findings pertaining to the Department's internal control and statutory compliance and other matters. These recommendations have been discussed with Department personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on the Department's responses, we did not audit the Iowa Department of Transportation's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Department of Transportation, citizens of the State of Iowa and other parties to whom the Iowa Department of Transportation may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audits. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of the Department are listed on page 8 and they are available to discuss these matters with you.

A handwritten signature in black ink that reads "Marlys K. Gaston".

Marlys K. Gaston, CPA  
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor  
Michael Bousselot, Director, Department of Management  
Tim McDermott, Interim Director, Legislative Services Agency

June 30, 2019

**Findings Reported in the State's Single Audit Report:**

No matters were reported.

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

No matters were reported.

**Other Findings Related to Internal Control:**

- (1) Inventory – An effective internal control system provides for internal controls related to ensuring proper accounting for all inventory by maintaining appropriate accounting records along with independent reviews. We noted the following conditions:

- Segregation of Duties – Central Warehouse/Sign Shop inventory – Two employees have access to all areas of inventory system.
- Central Warehouse – For one of twelve inventory items tested for existence, the number of items listed on the DOT system did not match amount of inventory on hand.
- One of eight garages tested did not have a complete inventory listing.
- Two of eight garages tested had items improperly included on the inventory listing.
- Four of eight garages tested had variances in amounts of inventory listed according to the DOT system than what was observed by auditors.

Recommendation – An independent review of each inventory listing should be performed periodically to ensure the completeness and accuracy of the listings.

Response – The Department will continue to analyze segregation of duties to continue to look for ways to reduce risk. The practice has been to include another person in adjustments or receipts to reduce this risk. The Department will look for ways to restrict access within the software application.

The Department will continue to keep business units informed of appropriate inventory practices when maintaining inventory.

Conclusion – Response accepted.

- (2) Retainage Payables – The IDOT retains a percentage of amounts due on projects until the project(s) are complete and meet the IDOT's specifications. The amounts retained at year end are reported on the IDOT GAAP package and, accordingly, are recorded as a liability in the State's Comprehensive Annual Financial Report. We noted the following errors on the IDOT's June 30, 2019 retainages payable amount:

- The retainage payable includes \$204,247 of retainages that were paid as of June 30, 2019 and, accordingly, do not represent amounts owed on that date.
- Two of nine retainages tested were incorrectly calculated, resulting in an understatement of retainages payable of \$21,659.

Recommendation – The IDOT should establish procedures to ensure retainage payables are accurate.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2019

Response – In FY 2020, The Department reviewed projects with remaining retainage payable amounts with no activity for five years and investigated and corrected as needed. All items noted in comment have been corrected. We will continue to annually review the list of contracts with no activity for five years and take action as needed.

For the two items that had incorrect retainage calculated, the Department will remind districts of their responsibility in ensuring the retainage is calculated correctly and will provide additional training for Accounting staff to ensure awareness of how the liability is calculated and where the calculation will show in multiple systems.

Conclusion – Response accepted.

- (3) Excess ROW – The amount reported in the general ledger for excess ROW land did not agree with the amount reported in the ROW land management system by \$132,711 due to an adjustment made in the system in previous years that was not reflected in the general ledger.

Recommendation – The general ledger should be adjusted to properly reflect the previous years adjustment to the ROW land management system.

Response – The general ledger will be adjusted to agree with the ROW land management system before 2020 general ledger is closed.

Conclusion – Response accepted.

- (4) Capital Assets – An effective internal control system provides for internal controls related to ensuring proper accounting for all assets by maintaining appropriate accounting records along with an independent review. Based on our review of capital assets, the following conditions were noted:

- For one of fourteen items tested, the asset could not be located.
- For one of fourteen items tested, the asset tag was incorrectly affixed to a different asset.

Recommendation – An independent review of the capital asset listing should be performed periodically to ensure the completeness of the listing and ensure the assets listed exist and are correctly labeled.

Response – The Department performed an annual inventory in the Fall of 2018 to help ensure asset records were accurate. For the 1 asset not located by auditors, the asset was sold at auction and the equipment system (Asset Works) has been adjusted to reflect this sale. For the asset with incorrect asset tag, the Department is correcting the records, so the equipment system matches the tag on the equipment.

Conclusion – Response accepted.



Report of Recommendations to the Iowa Department of Transportation

June 30, 2019

- (5) Miscoded Revenue – A reimbursement from the State of Illinois totaling \$3,557,360 was miscoded as miscellaneous revenues, rather than reimbursements from other states.

Recommendation – The IDOT should establish procedures to ensure revenues are properly coded.

Response – Finance-Accounting will remind staff about the importance of proper coding when creating documents.

Conclusion – Response accepted.

- (6) Review of Concerns – As a result of concerns brought to the attention of the Office of Auditor of State pertaining to travel of two employees; as well as one of the employee's promotion and related wage increase, we performed the following procedures:

- We reviewed employee A's travel, including the destination and purpose, for the period July 1, 2013 through June 30, 2019. The travel reviewed all appeared appropriate for the employee's position and the travel claims reviewed included expenses only for that employee.
- We reviewed employee B's travel, including the destination, purpose and apparent applicability to that position for the period July 1, 2013 through June 30, 2019. The travel reviewed all appeared appropriate for employee B's position and the travel claims reviewed included expenses only for that employee.
- We reviewed documents obtained from the Human Resources Department pertaining to employee B's promotion to determine whether that individual appeared to be qualified for the new position. We reviewed the job description for the new position, prepared and maintained by the IDOT Human Resources Department, to determine the specific position qualifications and compared those qualifications to the individual's resume. Based on the information in the resume, it appears the individual seeking and obtaining the promotion met the qualifications for that position. We also determined there were two other employees within the IDOT considered for the position.
- We reviewed pay grade ranges for the promotional position on the Iowa Department of Administrative Services web site to determine the propriety of the 49.19% raise included with the above noted promotion. Based on our review, we determined the pay awarded for the promotion was on the lower end of the pay grade range for that position. Based on this information, it appears the pay increase awarded for the promotion is appropriate.

As part of our review of the concerns noted above, we determined a standard process for hiring and promoting non-merit employees, including posting for the positions, accepting applications, interviewing the candidate(s), and documenting justification for the hiring or promotion choice, was not followed. A standard process is followed for hiring and promoting merit employees.

Recommendation – The agency should develop a standard set of written procedures to be followed by all bureaus for hiring and promoting non-merit positions. These written procedures should require documentation of the justification for each hire or promotion be prepared, retained and reviewed by the individual responsible for approving the hiring or promotion.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2019

Response – The IDOT implemented procedures in December 2019 to address this recommendation.

Conclusion – Response accepted.

June 30, 2019

**Finding Related to Statutory Requirements and Other Matters:**

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

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

The TSB procurement goal for the Department for fiscal year 2019 was not set at a level exceeding fiscal year 2018 actual TSB spending. Also, the Department did not provide all required quarterly reports to the TSB Marketing and Compliance Manager of the IEDA within 15 business days as required.

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

Response – The fiscal year 2019 goal increased by one million dollars from previous fiscal year 2018 goal. We have made formal internal changes and improvements to our reporting process alerting all parties responsible for collecting data to be provided to the Purchasing section at least 6 days prior to due date for time to review, compile and send before the due date.

Conclusion – Response acknowledged. The established goal was an increase over the prior year goal, not the prior year actual targeted small business procurements, as required.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2019

**Staff:**

Questions or requests for further assistance should be directed to:

Janet K. Mortvedt, CPA, Manager  
Jenna M. Paysen, Senior Auditor  
Ernest H. Ruben, Jr., CPA, Director

Other individuals who participated in the audits include:

Malika Moutiq, Staff Auditor  
Taran E. McCusker, Staff Auditor  
Terry J. Erlbacher, Staff Auditor  
Maria R. Collins, Assistant Auditor  
Brandon G. Sommers, Assistant Auditor  
Drake J. Caple, Assistant Auditor  
Charles P. Duff, Assistant Auditor  
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