



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

January 11, 2023

Auditor of State Rob Sand today released a report on the Iowa Department of Transportation for the year ended June 30, 2021.

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 five findings pertaining to the Department. The findings are on pages 3 through 5 of this report. Sand recommended the Department implement procedures to improve controls over inventory, reporting of excess right of way land and reporting of operating leases. The Department's responses to the recommendations are included in the report.

Three of the findings discussed above are 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 [Audit Report – Auditor of State](#).

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

JUNE 30, 2021

Iowa Department of Transportation



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Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

January 5, 2023

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 the Iowa Department of Transportation for the year ended June 30, 2021. 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 2021 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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January 5, 2023

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 Annual Comprehensive Financial Report (ACFR) and the State's Single Audit Report for the year ended June 30, 2021.

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

A handwritten signature in cursive script, appearing to read "Ernest H. Ruben, Jr.".

Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

cc: Honorable Kim Reynolds, Governor
Kraig Paulsen, Director, Department of Management
Tim McDermott, Director, Legislative Services Agency

June 30, 2021

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. Inventory is not recorded in the Integrated Information for Iowa (I/3) system, however, is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. We noted the following conditions:

- Segregation of Duties – Central Warehouse/Sign Shop inventory – Three employees have access to all areas of inventory system.
- Combined inventory was not properly reported on the GAAP package due to fuel inventory being incorrectly reported.
- Two of eight garages tested did not have an updated or complete inventory listing.
- Three 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 is in the process of revising our business processes to have goods ordered and direct delivered to field locations. As a part of that business process change the need for significant amounts of on hand quantities at field locations will be reduced and the materials in the field will no longer be considered a part of the combined inventory. The result of the change will likewise eliminate the reporting impact of field inventory for GAAP package purposes.

The department is working to replace the inventory and warehouse management system. The department is aware of the opportunity to improve the internal controls surrounding segregation of duties in the inventory system and is looking to implement improved internal controls in the new system.

Conclusion – Response accepted.

- (2) Excess Right-of-Way (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 \$120,845 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 year's adjustment to the ROW land management system.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2021

Response – The Excess ROW General Ledger account was corrected in February of 2022 by the amount of \$120,845. The ROW Land Management System and Excess ROW GL are being reconciled monthly and have been in agreement through reconciliation since the correction was completed.

Conclusion – Response accepted.

- (3) Operating Leases – The Department leases various buildings for office space and storage. The Department is required to submit an annual GAAP package each year to the Iowa Department of Administrative Services, GAAP Team, to properly report lease activity for the Department in the State's Annual Comprehensive Financial Report. The Department is required to report operating lease payments made during the year and document future lease obligations related to leases where the future obligation is greater than one year. Operating lease payments for fiscal year 2021 were understated by \$26,301 on the GAAP package.

Recommendation – The Department should implement procedures to ensure operating lease payments are accurately reported on the GAAP package.

Response – The corrective action to ensure accurate GAAP reporting of Lessee Operating Lease payments has occurred for the following reason: The fiscal year 2021 worksheet payment calculation setup required formulas that were manually entered to factor the rental rate(s) and often involved a pro-ration over a portion of a fiscal year. This invariably increased the risk of lease payment calculation errors. The change in accounting for leases for fiscal year 2022 resulted in a new set of worksheets whose formulas do not need to be manually entered or adjusted for each separate lease. The computations are all performed in pre-established tables using formulas that are the same for all individual leases that should result a much lower risk of calculation errors.

Conclusion – Response accepted.

- (4) Lessor Operating Leases – The Department leases land and building space and collects lease payments. The Department is required to create and submit an annual GAAP package each year to the Iowa Department of Administrative Services, GAAP Team, to properly report lessor activity for the Department in the State's Annual Comprehensive Financial Report. The Department is required to disclose the future rental revenue to be received on lessor operating leases as of June 30, 2021. Future rental revenue for fiscal year 2022 was overstated by \$23,268 on the GAAP package.

Recommendation – The Department should implement procedures to ensure future lease revenue to be received is accurately reported on the GAAP Package.

Response – The corrective action to ensure accurate GAAP reporting of Lessor Operating Lease payments has occurred for the following reason: The fiscal year 2021 worksheet payment calculation setup required formulas that were manually adjusted cell references and grouping of costs. This invariably increased the risk of lease payment calculation errors. The change in accounting for leases for fiscal year 2022 resulted in a new set of worksheets whose formulas do not need to be manually entered or adjusted for each separate lease. The computations are all performed in pre-established tables using formulas that are the same for all individual leases that should result a much lower risk of calculation errors.

Conclusion – Response accepted.

June 30, 2021

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.

The TSB procurement goal for the Department for fiscal year 2021 was not set at a level exceeding fiscal year 2020 actual TSB spending.

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.

Response – The Department supports and heavily participates in the TSB program. In FY22 the Department spent more than \$36 Million with TSBs.

The Department elected not to set a goal that exceeded the prior year TSB spend because a requirement of perpetual uncapped growth for TSB vendor spending is not sustainable.

The department established a goal which is achievable and will continue to support use of TSB vendors with department purchases.

Conclusion – Response acknowledged. The Department should establish a dollar amount procurement level exceeding the previous fiscal year actual targeted small business procurements, as required.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2021

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Deputy
Janet K. Mortvedt, CPA, Manager
Ashley J. Moser, Senior Auditor

Other individuals who participated in the audits include:

Brett S. Gillen, CPA, Senior II Auditor
Premnarayan Gobin, Senior II Auditor
Molly N. Kalkwarf, Senior Auditor
Kathryn Blumer, Staff Auditor
Mason R. Brown, Staff Auditor
Maria R. Collins, Staff Auditor
Nathan A. DeWit, Staff Auditor
Charles P. Duff, Staff Auditor
Savannah R. Fitz, Staff Auditor
Jon D. Hedgecock, Staff Auditor
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Benjamin D. Wong, Audit Intern