



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

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FOR RELEASE _____ December 18, 2024

Auditor of State Rob Sand today released a reaudit report on the Ten-Fifteen Regional Transit Agency (Transit Agency) for the period July 1, 2018 through June 30, 2021. The reaudit was performed at the request of petitioners pursuant to Section 11.6(4)(a)(2) of the *Code of Iowa*. The request submitted to the Office of Auditor of State asked for a reaudit for activities occurring between 2016 and 2020. However, based on the nature of the concerns presented, the reaudit covered items applicable to the period July 1, 2018 through June 30, 2021.

The reaudit was requested as a result of concerns regarding the business practices and fiscal activities of the Transit Agency, including questionable real property purchases, failure to record vehicle sale proceeds, nepotism in hiring process, and misuse of federal CARES Act funding.

The Transit Authority responded favorably to the recommendations included in the reaudit report.

A copy of the reaudit report is available for review on the Auditor of State's website at [Audit Reports – Auditor of State](#).

TEN-FIFTEEN REGIONAL TRANSIT AGENCY
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2021

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Ten-Fifteen Regional Transit Agency

Ten-Fifteen Regional Transit Agency

Officials

Officials – Before December 31, 2018

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Greg Kenning	Chairman	Dec 31, 2019
Lee Dimmitt	Vice Chair	Dec 31, 2021
John Sellers	Trustee	Dec 31, 2018
Deke Wood	Trustee	Dec 31, 2018
Alan Yahnke	Trustee	Dec 31, 2020
Dennis Smith	Trustee	Dec 31, 2021
Mark Waits	Trustee	Dec 31, 2021
Michael Beary	Trustee	Dec 31, 2022
Steve Wanders	Trustee	Dec 31, 2022
Jay Allison	Director	Indefinite
Ted Nixon	Secretary	Dec 31, 2018

Officials – After January 1, 2019

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lee Dimmitt	Chairman	Dec 31, 2021
Alan Yahnke	Vice Chair	Dec 31, 2020
Dennis Smith	Trustee	Dec 31, 2021
Mark Waits	Trustee	Dec 31, 2021
Michael Beary	Trustee	Dec 31, 2022
Dale House	Trustee	Dec 31, 2022
Wayne Huit	Trustee	Dec 31, 2022
Tom Swearingin	Trustee	Dec 31, 2022
Steve Wanders	Trustee	Dec 31, 2022
Jay Allison	Director	Indefinite
Deke Wood	Secretary	Dec 31, 2022

Ten-Fifteen Regional Transit Agency

Officials

Officials – After January 1, 2020

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lee Dimmitt	Chairman	Dec 31, 2021
Alan Yahnke	Vice Chair	Dec 31, 2020
Dennis Smith	Trustee	Dec 31, 2021
Michael Beary	Trustee	Dec 31, 2022
Dale House	Trustee	Dec 31, 2022
Wayne Huit	Trustee	Dec 31, 2022
Jeff Kulmatycki	Trustee	Dec 31, 2022
Tom Swearingin	Trustee	Dec 31, 2022
Steve Wanders	Trustee	Dec 31, 2022
Jay Allison	Director	Indefinite
Deke Wood	Secretary	Dec 31, 2022

Officials – After January 1, 2021

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Deke Wood	Chairman	Dec 31, 2022
Dale House	Vice Chair	Dec 31, 2022
Wayne Huit	Trustee	Dec 31, 2022
Jeff Kulmatycki	Trustee	Dec 31, 2022
Tom Swearingin	Trustee	Dec 31, 2022
Steve Wanders	Trustee	Dec 31, 2022
Michael Beary	Trustee	Dec 31, 2024
Suzie Drish	Trustee	Dec 31, 2024
Dennis Smith	Trustee	Dec 31, 2024
Jay Allison	Director	Indefinite
Alan Yahnke	Secretary	Dec 31, 2024



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

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Auditor of State's Report on Reaudit

To the Board of Trustees of the Ten-Fifteen Regional Transit Agency:

We received a request to perform a reaudit of the Ten-Fifteen Regional Transit Agency (Transit Agency) in accordance with Section 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the audit report for the fiscal years ended June 30 2019, 2020, and 2021 and the workpapers prepared by the Transit Authority's Certified Public Accounting firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the Transit Agency. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the Transit Agency for the period July 1, 2018 through June 30, 2021.

Based on a review of relevant information and discussions with Transit Agency officials and personnel, we performed the following procedures:

1. Obtained all purchase and closing documentation related to property purchases in question, a map of properties the Transit Agency owns, minutes approving all property purchases, and any available asking prices on properties purchased.
2. Gained an understanding on the Board's review process on purchases, payroll, and vehicle sales procedures.
3. Obtained auction records for all vehicles sold in fiscal years 2020 and 2021. Obtained corresponding receipts that were recorded into the Transit Agency's accounting system to verify sale price and that the auction records were complete.
4. Obtained an understanding of what vehicles are eligible for partial reimbursement from state/federal funding and which vehicles must be paid for with 100% local funding.
5. Obtained and reviewed information to determine if employees were provided housing or vehicles as a taxable fringe benefit and determined if these benefits were properly included as taxable income.
6. Obtained a listing of all employees prior to and after the absorbance of Ottumwa Transit on July 1, 2020 to determine eligibility for health insurance coverage.
7. Interviewed Transit Agency officials to gain an understanding of the Transit Agency's hiring and payroll procedures, including approval of raises and pay for driver wait time.
8. Obtained and reviewed minutes, RFP's and contracts for the construction of the van and bus building projects to determine if bidding procedures were properly followed and amendments to the contracts were properly approved.
9. Obtained payroll reports for calendar years 2020 and 2021 to verify if eligible employees received hazard pay from the CARES Act funding.

Based on the performance of these procedures, we identified five findings. These are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of noncompliance were not identified during the performance of the specific procedures listed above.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the Transit Agency, additional matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the assistance extended to us by the officials and personnel of the Transit Agency during the course of the reaudit.



ROB SAND
Auditor of State

November 26, 2024

Ten-Fifteen Regional Transit Agency

For the period July 1, 2018 through June 30, 2021

Background Information

We received a written request from petitioners to conduct a reaudit of the Ten-Fifteen Regional Transit Agency (Transit Agency) for transactions occurring between 2016-2020. The request detailed specific concerns, including:

- The Transit Agency purchased a property above its assessed value in order to benefit a construction company owned by a friend of the Transit Director, Jay Allison.
- A property owned by the Transit Agency was provided to an employee rent free.
- The Transit Agency purchased other property above its assessed value.
- A variety of vehicles were purchased that were not ADA-compliant. Some of these vehicles were used by employees for personal use.
- The sale of vehicles do not show any gross proceeds recorded.
- Concerns were expressed that only select employees receive health insurance benefits while most of the employees do not receive health insurance benefits.
- Employees have to be available a specific time period each day but are only paid for actual hours driving while they have passengers. They are not being paid for any wait time.
- The Director's relatives are working for Transit Agency.
- The merging of Ottumwa Transit with the Transit Agency took place on July 1, 2020. Approximately \$2,000,000 worth of concrete work was done to the Ten-Fifteen property prior to that date. This was also done by the related party construction company.
- The Transit Agency was awarded money through the CARES Act; however, the funds awarded were not used to pay the drivers as incentive pay, hazard pay, or in lieu of sick time off due to self-quarantine for COVID-19 related symptoms.

As a result of the request, we performed a review of the Transit Agency's audit report and workpapers prepared by the CPA firm engaged by the Transit Agency to determine whether a complete or partial reaudit of the Transit Agency should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for the concerns presented for the period July 1, 2018 through June 30, 2021.

Except as included in this report, no additional findings were identified related to the specific concerns presented with the reaudit request. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed during our fieldwork for the reaudit. Had we performed additional procedures, additional matters might have been identified and included in this report.

Detailed Findings

(A) **Purchase of Property** – The petitioners were concerned the Transit Authority purchased properties for well over the assessed value for those properties. In addition, they were concerned there were conflicts of interest between Transit Agency officials and the owners of the property.

Auditor’s Response – Below is the list of properties owned by the Transit Agency, the purchase date and price, assessed value at the time of purchase per the County Assessor’s website and the current assessed value per the County Assessor’s website.

Description	Purchase Date	Owner	Purchase Price	Assessed Value at Date of Purchase	2024 Assessed Value	Notes
612 S. Madison Ave.	10/11/16	FRASE CONSTRUCTION INC.	\$ 425,450	128,592	280,190	Deed
622 S. Madison	10/11/16	FRASE, JEREMY C	200,000	38,622	421,090	Deed
610 S Madison	12/11/18	TURRADO, ALBERTO/VIVIANA	81,500	59,660	334,570	Adjoining properties
706 S Madison	09/26/18	CHESTNUT, ROY A	94,500	46,440	106,180	Sale to Government
602 S. Madison	07/29/19	DESHATLER, JERENIAH	80,000	28,250	28,250	Sale to Government
516 S. Madison	12/08/20	STOP & GO DRIVE-THRU LLC	195,000	57,780	87,950	Sale to Government
401 E Main Street	12/18/20	FIRST STATE BANK OF LYNVILLE IOWA	80,000	102,290	137,820	Sale to Government (Foreclosure)
S. Jefferson St.	12/18/20	FIRST STATE BANK OF LYNVILLE IOWA	-	14,370	15,230	Sale to Government (Foreclosure)
408 E Main Street	12/14/20	CANODE, RICK/LINDA AND RJ401 LLC	98,000	81,790	172,500	Sale to Government and Quit Claim Deed
532 S Madison	10/6/21	BREON, MILDRED R; MASTERSON SANDY G	78,000	40,030	7,280	Sale to Government

The main office for the Transit Agency is located at 612 S. Madison Ave. Ottumwa, IA. The **Table** shows on October 11, 2016, the Transit Agency purchased 612 and 622 S. Main. In total the Transit Agency paid \$625,450 for the two properties which had a total combined assessed value at the time of purchase of \$167,214.00.

The petitioners stated they believed the purchase price was a result of a conflict of interest between the Transit Agency Director, Jay Allison and the owner of Frase Construction, Inc. The Transit Agency Director, Jay Allison, stated that Jeremy Frase has a sister who was a former spouse of Jay’s cousin.

We contacted the Wapello County Assessor to inquire if there was information available regarding the purchase price of the property. An email received from the Wapello County Assessor stated, “Usually when someone buys an adjoining property, they tend to overpay if they really want or need the property. That’s why they are not considered arm’s length purchases to be considered as fair market value.”

Response – The approval of property purchase is in the April 2016 minutes and contingent on the Public Transit Infrastructure Grant award. The intended purpose was to purchase a property for Ten-Fifteen Transit to operate after the separation from the City of Ottumwa. The intended purchase was approved through the Consolidated application. The first property the Transit Agency tried to buy, per the March 2016 minutes, backed out of the sale and only wanted to lease. The second property that was looked at was around \$500,000, assessed value approximately \$170,000. After the Board viewed the property, they continued looking because of its very poor condition.

Conclusion – Response acknowledged. The Board minutes should contain sufficient detail to document the purpose for properties approved for purchase.

- (B) **Taxable Fringe Benefits** – The petitioners were concerned that vehicles were purchased for personal use by the Transit Agency Director and three employees. The petitioners were also concerned an employee was allowed to live in a house, rent free, owned by the Transit Agency.

Auditor's Response – According to Transit Agency officials, an employee does live in a house owned by the Transit Agency. As defined in Internal Revenue Service (IRS) Publication 15-B "Employer's Tax Guide to Fringe Benefits" this is a taxable fringe benefit.

During our review of the Board minutes, we were able to determine discussion of the Benefit Package for the employee living in a house owned by the Transit Agency was on the agenda; however, the minutes did not include sufficient information to indicate the amount of the fringe benefit, the vote of each Board member, and whether the fringe benefit was in accordance with Chapter 21.3 of the Code of Iowa and IRS rules. Per auditor discussion with an Ottumwa realty agency on May 13, 2022, rent for an 840 square foot one story home with one bath was renting for \$700-950 per month. Discussion and approval for entity owned vehicles provided to employees was also not documented in the Board minutes.

Based on the information provided, the employee does not pay rent to the Transit Agency for the use of the house owned by the Transit Agency. As a result, the Transit Agency and the employee are not in compliance with IRS rules regarding taxable fringe benefits.

According to Transit Agency officials, they provide an entity owned vehicle to the Transit Agency Director and two employees. The three vehicles consist of two Jeep Wranglers and a Jeep Gladiator. According to Transit Agency officials, the vehicles are taken home by employees and then driven back to work, where they can be used by any transit employee for in-town use during work hours. The Transit Agency pays for the insurance on these vehicles. The Board approved the purchase of the cars, but not the use of these cars for personal use.

Based on a review of the three employees' W-2 Wage and Tax Statements for 2021, there is fringe benefit "B" listed in the amount of \$4,250.00. According to Transit Agency officials this is the fringe benefit value assigned for the use of a vehicle owned by the Transit Agency. They could not provide supporting documents showing how the value was calculated. There is no fringe benefit shown on the employees W-2 for the housing.

Recommendation – The Transit Agency should report the fair market value of employer-provided taxable fringe benefits on the employee's W-2 and document the computation of the amount. The Board should also discuss and approve taxable fringe benefits provided to employees outside of the usual compensation package. The Board minutes should include information sufficient to comply with Chapter 21.3 of the Code of Iowa and ensure compliance with IRS rules.

Response – We are reporting, house \$6,000, taxable fringe benefit on the employee’s W-2. This policy was approved by the Board and in minutes April 2022. We are reporting, vehicle, \$4,250 taxable fringe benefit starting in 2020 on the employee’s W-2. This policy was approved by the Board and in minutes December 2022.

Conclusion – Response acknowledged. The auditor viewed corrective W-2 and 941 forms filed after the auditor’s review. The minutes approving the taxable fringe benefits for the vehicles and the house should include sufficient information to indicate the amount of the fringe benefit, the vote of each Board member, and whether the fringe benefit was in accordance with Chapter 21.3 of the Code of Iowa and IRS Rules. In addition, sufficient documentation should be maintained to document the computation of the fringe benefit amount.

(C) **Vehicle Purchases** – Petitioners were concerned the Transit Agency purchased vehicles which were not ADA compliant. The petitioners specially mentioned Jeeps, a 1949 Ford, a Jaguar and a 2019 GEM low speed electric car. In addition, there were concerns vehicles were sold and no proceeds received.

Auditor’s Response – According to Transit Agency officials they purchased the vehicles mentioned in the petition for the following reasons:

- The Transit Agency purchased two Jeep Wranglers and a Jeep Gladiator for employees as part of a fringe benefit package they decided to offer in 2020. These are also addressed in Finding B above.
- The Transit Agency purchased a 1949 Ford for \$5,600.00 in April of 2018. The vehicle is used for advertising and for parades.
- The Transit Agency purchased a 2001 Jaguar in June 2018 for \$5,060.00. The car was used for work trips. According to the Transit Agency’s records, the car was sold in May 2020 for \$1,000.00.
- The Transit Agency purchased a 2019 GEM low speed electric vehicle in October 2018 for \$11,900.00. The vehicle is used for parades and to commute between the S. Madison Avenue office and the Main Street building.

The procedures performed also determined the Transit Agency has a process for the purchases of ADA compliant vehicles with Federal and/or State funds. The procedures include approval by the Board Chair and use of a vendor approved by the Iowa Department of Transportation. We did determine the Board did not approve the payments made for two ADA compliant buses in July 2019 and two ADA compliant large buses in January 2021, because they did not appear on the claims listing provided to the Board for approval in the month following payment.

According to Transit Agency officials, they purchased non-ADA compliant vehicles with local (operating) revenues for the transportation needs of individuals without disabilities. The purchasing process, including selection of the vehicle and the vendor, is handled by the Transit Agency Director. The purchase of non-ADA compliant vehicles is not approved by the Board until after the claim has been paid when it is presented to the Board for approval on the claims listing.

The procedures performed also determined the following:

- A list of vehicles is not maintained. The Transit Agency relied on the CPA firm to maintain a listing. The listing of assets is the responsibility of management and not the CPA firm.
- We were provided documents showing four auctions were held during 2018 and 2020. The documents included receipts from QuickBooks showing who purchased the vehicle and the amount they paid for the vehicle. Two of the four auctions were noted as being “Employee Auctions.”
- In accordance with Board policy, when the vehicles are no longer needed, they are first offered to all employees through a bid process. The employee with the highest bid is awarded the sale, after first meeting any applicable minimum reserve placed on the vehicle’s value.

Recommendation – The Transit Agency should develop policies and procedures requiring approval of the purposed purchase of any vehicles. When purchasing a vehicle, the type of vehicle, the purpose for which the vehicle is being purchased, compliance with ADA and the cost should be documented. Once purchased, an inventory list should be maintained and when an asset is sold, traded, or auctioned off the item should be removed from the listing. All vehicles should be sold using a competitive bid process advertised to the general public or at an auction open to the general public.

Response – The Director uses an inventory list for all vehicles. The CPA firm uses this list for depreciation values. There is also a list of vehicles in the Iowa DOT portal system. All ADA vehicles follow the Iowa DOT process and guidelines. The Board allowed purchase of both ADA and non-ADA vehicles to be approved by the Director for purchases less than \$50,000. We will adopt this policy for records. This process fills the gap because of the Federal/State program that is backlogged and allows us to keep up with current transportation demands. All vehicles are now sold through public auction.

Conclusion – Response accepted.

- (D) **Payroll and Benefits** – The petitioners noted concerns that the Director’s relatives worked for the Transit Agency, staff were not provided health insurance, staff did not receive additional pay from the CARES funds received during COVID, and staff were not paid for wait time between trips.

Auditor’s Response – Based on the procedures performed we identified the following concerns:

- We identified several family members and relatives of the Director, Mr. Allison, work for the Transit Agency. Two family members work as part-time office workers, one works as a part time driver, two work as full-time drivers and one works as a full-time dispatcher.
- The hiring process is overseen by the Operations Manager. The Board of Directors does not authorize the hire of new employees.
- Documentation of the rate of pay authorized for a newly hired employee is not retained.
- Wage increases were approved by the Board of Directors based upon a percentage and the actual approved wages were not documented in the Board minutes.
- The rates of pay recorded in the payroll system are not reviewed in order to ensure the rates agree with the amounts authorized.

- Health insurance is available to employees. Of the 35 employees 22 have elected to participate in the Transit Agency Health Care Program(s).
- Based on a review of selected timesheets, staff were paid their average work hours at the hazard pay rate when staff missed time due to COVID. The only staff who did not receive hazard pay left employment at the start of the pandemic.
- No written policy exists to address driver pay during wait times. “We do not have an on-call policy. Drivers are paid waiting for return trips unless they have requested, or it has been determined they need, to go on break. This unpaid break will be a minimum of one hour or until the next scheduled trip.”

Recommendation – The Transit Agency should develop policies and procedures for the hiring of family members and relatives and pay for driver wait time between trips. The hiring of employees and the approved salary or hourly rate should be approved by the Board and the approval should be adequately documented in the Board of Director’s meeting minutes. Payroll increases should be stated in the Board minutes as an approved salary or hourly rate and not just a percentage increase. Policies and procedures should ensure the rates of pay entered into the payroll system agree with the amounts authorized in the Board minutes.

Response – The Employee Handbook revised March 2022 contains a policy titled “Employment of Relatives.” Full-time employees have an option for insurance. We will include with the next approved percentage wage increase, a wage certification for Board approval with dollar amounts. We do have drivers that operate slip-shifts and are unpaid break between shifts which are not also used for trips during the break.

Conclusion – Response accepted.

- (E) **Construction Projects/Conflict of Interest** – Petitioners were concerned a large amount of concrete work was done prior to the merger of Ottumwa Transit and the Ten-Fifteen Area Transit Agency. The work was done by a vender who may have had a conflict of interest with the Transit Agency Director.

Auditor’s Response – According to documents provided the Transit Agency there were several projects bid for during 2018 and 2020.

- Fiscal year 2019 – The “Bus Building” was competitively bid. The Board approved the lowest bid which was received from Frase Construction and totaled \$674,432.50. Funding for the project was provide by a Public Infrastructure Grant of \$525,000.00 and the remaining funds from local sources.
- Fiscal year 2020 – The “Van Building” was competitively bid. The Board approved the lowest bid which was received from Frase Construction and totaled \$522,750.00. Funding was provided by a \$273,000 Public Infrastructure Grant and the remainder was paid from local sources.

According to Transit Agency officials, there were change orders for both projects listed above. The change orders were not formally documented in writing but were verbal in nature. The only support for the change orders is included in the invoices submitted by Frase Construction. As a result, the change orders were never formally approved by the Board. The Board did approve the payments to Frase Construction.

Transit Agency Director, Jay Allison, stated that Jeremy Frase has a sister who was a former spouse of Jay’s cousin. As a result, there is no conflict of interest in fact according to the Code of Iowa between the Transit Agency Director and the owner of Frase Construction.

Recommendation – The Transit Agency should develop policies and procedures to track all construction projects including change orders. A schedule of construction contracts, including change orders and payments made, should be maintained. Change orders should be formally documented in writing and approved by the Board. In addition, the Board should develop a conflict-of-interest policy requiring all potential conflicts of interest be disclosed by Transit Agency employees and Board members. If a conflict of interest is identified, the individual should abstain from voting on or lobbying for any contracts where the conflict of interest exists. If transactions arise which could lead to the appearance of a conflict of interest, these discussions should be documented in the minutes as it is worthwhile to inform the public of that fact.

Response – The change order was mandated by the City of Ottumwa after the building process started. The Board was made aware of the change order. In the future, we will document all change orders and seek approval from the Executive Board. If needed, the general Board can give authority to the Executive Board to operate in this capacity. We will develop a policy to track all construction projects, including change orders. We will develop a conflict-of-interest policy.

Conclusion – Response accepted.

Ten-Fifteen Regional Transit Agency

Staff

This reaudit was performed by:

Gwen D. Fangman, CPA, Manager
David A. Slocum, CPA, Senior Auditor II
Jared M. Ernst, CPA, Staff Auditor

A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a long, horizontal, slightly wavy line that tapers to the right.

James S. Cunningham, CPA
Chief Deputy Auditor of State