



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

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NEWS RELEASE

Contact: Brian Brustkern
515/281-5834

FOR RELEASE

January 19, 2024

Auditor of State Rob Sand today released a report on the Iowa Department of Transportation for the year ended June 30, 2022.

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 twelve findings pertaining to the Department. The findings are on pages 3 through 8 of this report. Sand recommended the Department implement procedures to improve controls over inventory, financial reporting, reporting of capital assets and reporting of contractual commitments. The Department's responses to the recommendations are included in the report.

Two of the findings discussed above are repeated from the prior year. Management of the Iowa Department of Transportation have 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 website at [Audit Report – Auditor of State](#).

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

JUNE 30, 2022

Iowa Department of Transportation



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Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

January 11, 2024

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, 2022. 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 2022 audit.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Iowa Department of Transportation



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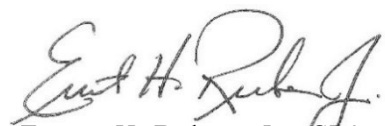
To Scott Marler, Director of the Iowa Department of Transportation:

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, 2022.

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


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

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

June 30, 2022

Findings Reported in the State's Single Audit Report:

No matters were reported.

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

- (1) Financial Reporting – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State's financial statements.

Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

\$20,761,086 in receipts were incorrectly recorded to the miscellaneous revenue category. These receipts should have been recorded to receipts from other entities revenue category. This was properly adjusted for reporting purposes.

Recommendation – The Department should implement procedures to ensure that all receipts are properly classified.

Response – The Department agrees with the finding. The implementation of a new accounting software took place in fiscal year 2022, along with a new revenue coding structure within the Department. We concur that these revenues were posted to an incorrect revenue code. We have performed an exhaustive review of the fiscal year 2023 data to ensure we have all revenues recorded to the appropriate revenue categories. Additionally, our procedures are documented as to which revenue codes are used for each revenue type and follow up training had been provided to the appropriate staff. Finally, the Department now completes a monthly query of the miscellaneous revenue to ensure these revenues are posted to the appropriate category as an additional review step.

Conclusion – Response accepted.

June 30, 2022

Other Findings Related to Internal Control:

(2) 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 – Two 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.
- Six of eight garages tested had variances in amounts of inventory listed according to the DOT system than what was observed by auditors.
- There was an overstatement of \$14,755 in the central office inventory compared to what was observed by the auditor.
- DOT staff did not perform an inventory count for fiscal year 2022.

Recommendation – The Department should review their operating procedures to obtain the maximum internal control possible under the circumstances, including an independent review of each inventory listing performed periodically to ensure the completeness and accuracy of the listings.

Response – The Department agrees with these findings. The Department has eliminated materials at garage locations from our inventory and is in the process of identifying and replacing our inventory tracking system which will provide the Department the ability to improve our segregation of duty controls. The warehouse and distribution staff have also resumed inventory counts.

Conclusion – Response accepted.

(3) Building Depreciation – The Department incorrectly included two months of fiscal year 2023 depreciation for all buildings in fiscal year 2022. Building depreciation and accumulated depreciation for fiscal year 2022 was overstated by \$484,970.

Recommendation – The Department should implement procedures to ensure changes in capital assets and accumulated depreciation are accurately reported.

Response – The Department was using a new financial system for the 2022 fiscal year, in the changes to processes associated with the new system the accounting team inadvertently included the incorrect months. In follow up to this finding, the team discussed and reviewed the issue to ensure we would not repeat the error and have revised our GAAP data assembly procedures.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2022

- (4) Infrastructure Depreciation Review – The Department has developed a spreadsheet to calculate infrastructure depreciation for reporting purposes. In past years to help ensure accuracy, the Department sampled a few of these calculations to ensure these calculations were correct. The Department did not do this in fiscal year 2022.

Recommendation – An independent review of infrastructure depreciation calculation should be performed to ensure completeness and accuracy. The independent review should be documented by the signature or initials of the reviewer and date of the review.

Response – During the fiscal year 2022, GAAP submission process there was substantial staff turnover in the Finance Bureau. The Department has reviewed our GAAP submission procedures and added additional review steps.

Conclusion – Response accepted.

- (5) Procurement Cards – The Department utilizes procurement cards for use by employees for Department business. Department policy requires procurement statements to be paid within 30 days of the statement date. Four of nine monthly procurement card statements tested were not paid within 30 days of the statement date.

Recommendation – The Department should develop procedures to ensure all procurement card charges are paid within 30 days of the statement date as required.

Response – The Department activated new functionality within the ERP system used for DOT accounting. During the months immediately following the go live of the functionality, the Department was beyond the 30-day requirement. Since that initial implementation period, the timeframes have been reduced to be compliant with the 30-day requirement.

Conclusion – Response accepted.

- (6) Construction and Other Contractual Commitments and Retainage Payable – The Department is required to create and submit an annual GAAP Package each year to the Iowa Department of Administrative Services, GAAP team, to assist in the creation of the State's Annual Comprehensive Financial Report (ACFR). We noted the following conditions:

- For five construction contractual commitments tested, the contract obligation balance as of June 30, 2022 was understated. The total understatement was \$38,859.
- For two other contractual commitments tested, the contract obligation balance as of June 30, 2022 was understated. The total understatement was \$14,413.
- For two construction contracts tested, the retainage payable as of June 30, 2022 was understated. The total understatement was \$3,081.

Recommendation – The Department should implement procedures to ensure construction and other significant obligations and retainage payable amounts are accurately reported.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2022

Response – The Department will further review these findings and ensure accurate reporting is being completed.

Conclusion – Response accepted.

(7) Capital Assets – An effective internal control system provides for internal controls related to ensuring proper accounting for all capital assets, including asset deletions, by maintaining appropriate accounting records and ensuring the records are reviewed by an independent person. In relation to capital assets, we noted the following conditions:

- The Department does not maintain documentation approving the deletion of capital assets.
- Capital asset equipment observations/confirmations were not performed in fiscal year 2022.

Recommendation – The Department should develop procedures to document approval for deletion of capital assets.

Policies and procedures should be established to ensure the capital asset record is accurate. The Department has an asset management system, however, due to the large number of capital assets owned by the Department, an annual physical count should be performed as well, at least on a test basis.

Response – Acknowledged. The Department will review our internal controls in this area.

The Department agrees, and we have migrated all capital assets into our new ERP system as our system of record which will allow us to, more effectively, conduct regular asset observations.

Conclusion – Responses accepted.

(8) GAAP Package Supporting Documentation – Departments record receipts and disbursements in the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded in the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS-SAE) in a GAAP package. Departments submit their GAAP packages to DAS-SAE by the first week of September each year.

Supporting documentation for construction commitments should reflect commitments as of June 2022 but the reports were not retained at June 30, and the system will not allow reports to be prepared after June 30 and dated as of June 30. Also, while the ending balance of Sick Leave Insurance Program (SLIP) the support for the additions and deductions was not retained.

Recommendation – The Department should develop procedures to ensure supporting documentation is retained for all activity reported on the Department's GAAP package.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2022

Response – Acknowledged. The systems that this information is stored in does not have the ability to retroactively pull information as of a particular date. During staff turnover in a key GAAP package review position the supporting documentation was not retained. The Department with new staff in the GAAP submission process will retain these documents for the supporting information and audit review.

Conclusion – Response accepted.

- (9) Schedule of Expenditures of Federal Awards (SEFA) Misstatement – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the State’s financial statements.

Each department prepares a SEFA for all federal funds expended in a year. For fiscal year 2022, the Department under reported expenditures of federal awards by \$297,924. This error was subsequently corrected.

Recommendation – The Department should develop procedures to ensure federal expenditures are properly reported on the Department’s SEFA.

Response – The Department agrees. Our process for assembling the SEFA information has required running multiple reports to aggregate grant activity from multiple grant managers. One of the grant managers incorrectly applied an adjustment from a subsequent fiscal year to the fiscal year 2022 SEFA. The Department is working to develop a single reporting capability from our financial systems to reduce the number of individuals involved and eliminate the opportunities that currently exist for individual and compilation errors.

Conclusion – Response accepted.

June 30, 2022

Finding Related to Statutory Requirements and Other Matters:

Targeted Small Business – 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 2022 was not set at a level exceeding fiscal year 2021 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 fully supports the TSB system and is one of the largest contributors to TSB business in the Executive Branch. Due to the nature of the Code language the DOT either must set a goal that is higher than the prior year and risk missing the goal or violate the requirement to set the goal. It is not possible to indefinitely increase the amount of the Department's TSB spending while still following State Competitive Public Procurement laws. The Department will continue to support the TSB program and seek opportunities to expand business dealings with targeted small businesses.

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, 2022

Staff:

Questions or requests for further assistance should be directed to:

Ernest H. Ruben, Jr., CPA, Chief Deputy
Janet K. Mortvedt, CPA, Manager
Brett S. Gillen, CPA, Senior II Auditor

Other individuals who participated in the audits include:

Molly N. Kalkwarf, Senior Auditor
Ashley J. Moser, Senior Auditor
Adam J. Sverak, Senior Auditor
Nathan A. DeWit, Staff Auditor
Charles P. Duff, Staff Auditor
Savannah R. Fitz, Staff Auditor
Patrick A. Stewart, Staff Auditor
Derrick E. Aaron, Assistant Auditor
Therese A. Berning, Assistant Auditor
Christofer S. Kingrey, Assistant Auditor
Brandon A. Krug, Assistant Auditor
Tyler Huntley, Auditor Intern
Benjamin D. Wong, Auditor Intern