



**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**

FOR RELEASE

August 30, 2010

Contact: Andy Nielsen  
515/281-5834

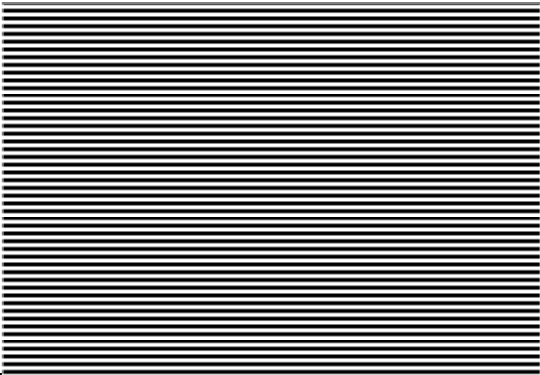
Auditor of State David A. Vaudt today released a report on the Iowa Department of Transportation for the year ended June 30, 2009.

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.

Vaudt recommended the Department review policies and procedures to ensure compliance with Federal requirements and Department policies and to improve controls over receipts. The Department's responses are included in the report.

A copy of the report is available for review in the Iowa Department of Transportation, in the Office of Auditor of State and on the Auditor of State's web site at:  
<http://auditor.iowa.gov/reports/1060-6450-BR00.pdf>

###



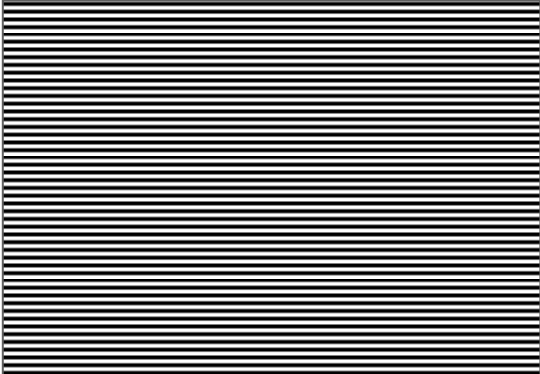
**REPORT OF RECOMMENDATIONS TO THE  
IOWA DEPARTMENT OF TRANSPORTATION**

**JUNE 30, 2009**

Office of  
**AUDITOR  
OF STATE**  
State Capitol Building • Des Moines, Iowa



**David A. Vaudt, CPA**  
**Auditor of State**







**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

August 27, 2010

To Nancy J. Richardson, 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 audits of the State's Comprehensive Annual Financial Report (CAFR) and the State's Single Audit Report for the year ended June 30, 2009.

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 those reported in the State's Single Audit Report and the State's Report on Internal Control, as well as other recommendations pertaining to the Department's internal control. 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 11 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

cc: Honorable Chester J. Culver, Governor  
Richard C. Oshlo, Jr., Director, Department of Management  
Glen P. Dickinson, Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

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

**CFDA Number: 20.205 – Highway Planning and Construction**

**Agency Number: None**

**Federal Award Year: 2009**

**State of Iowa Single Audit Report Comment: 09-III-DOT-645-1**

- (1) Monitoring of Subrecipient Audit Reports – OMB Circular A-133 requires the Department to ensure required audit reports of subrecipients expending \$500,000 or more in Federal awards are completed within nine months of the subrecipient's fiscal year end, issue a management decision on audit findings within six months of the receipt of the subrecipient's audit report and ensure the subrecipient takes timely and appropriate corrective action on all findings.

The Department has established policies and procedures for obtaining and performing desk reviews of audit reports for subrecipients who expend more than \$500,000 from the Department each year. Due to staff turnover and the timing of filling the position responsible for the review of Subrecipient audit reports, there continued to be a backlog of Subrecipient desk reviews of audit reports which were not reviewed timely.

Recommendation – The Department should ensure audit reports for all subrecipients 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 subrecipient desk reviews during staff turnover and leave.

Response and Corrective Action Planned – Corrective action has been taken. The position has been filled and the backlog has been reduced.

Conclusion – Response accepted.

**CFDA Number: 20.205 – ARRA - Highway Planning and Construction**

**Agency Number: None**

**Federal Award Year: 2009**

**State of Iowa Single Audit Report Comment: 09-III-DOT-645-2**

- (2) Schedule of Expenditures of Federal Awards – To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act (ARRA) of 2009, recipients are required to separately identify the expenditures of federal awards under ARRA for reporting on the Schedule of Expenditures of Federal Awards (SEFA).

The Department did not include \$8,296,911 of accrual period ARRA expenditures in the ARRA program line item for preparation of the SEFA. Also, the Department did not report ARRA pass-through funds awarded to subrecipients. Adjustments were subsequently made by the Department to properly report these amounts.

Recommendation – The Department should ensure all ARRA activity and subrecipient pass-through amounts are properly identified and reported on the SEFA.

Response and Corrective Action Planned – Corrective action has been taken.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

**CFDA Number: 20.610 – State Traffic Safety Information System Improvement Grants**  
**Agency Number: PAP-09-040**  
**Federal Award Year: 2009**  
**Passed through Iowa Department of Public Safety**

**CFDA Number: 20.612 – Incentive Grant Program to Increase Motorcyclist Safety**  
**Agency Number: PAP-09-2010**  
**Federal Award Year: 2009**  
**Passed through Iowa Department of Public Safety**

**State of Iowa Single Audit Report Comment: 09-III-DOT-645-5**

- (3) Procurement, Suspension and Debarment – OMB Circular A-133 states the Department is prohibited from contracting with or making subawards under covered transactions to parties which are suspended or debarred. The Department has established procedures to ensure transactions which go through the Office of Contracts are to contractors which are not suspended or debarred. The Department has also established procedures for requests for proposals (RFP's) processed through the Purchasing Department which includes language for procurements when it is known federal funds will be utilized which requires vendors to certify they are not suspended or debarred. Contracts and RFP's may be supplemented with a letter indicating the vendor has been checked to ensure they are not suspended or debarred.

During testing, we noted contracts and/or RFP's which had not been processed through the Purchasing Department and certain contracts and/or RFP's could not be located to determine whether the contract included the standard language requiring vendors to certify they are not suspended or debarred. Additionally, there were no verification procedures performed of vendors for suspension or debarment done by other departments outside of the Purchasing Department.

Recommendation – The Department should ensure established policies and procedures are followed by including the appropriate language in the contracts or by performing verification for covered transactions by checking the Excluded Parties List System at <http://epls.arnet.gov>.

Response and Corrective Action Planned – We will comply with the recommendation.

Conclusion – Response accepted.

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

Financial Reporting – The Department records 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) on a GAAP Package. The GAAP Package is to be submitted to DAS-SAE by the first week of September of each year. The following items were noted.

- (a) The Department coded deferred compensation payments of \$407,859 and flexible spending account payments of \$29,565 relating to the pay period ended June 25, 2009 as fiscal year 2010 expenditures rather than as an accrual for the year ended June 30, 2009.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

- (b) The Department coded a \$166,100 payment to the University of Iowa for auction services provided on May 30, 2009 as a fiscal year 2010 expenditure rather than an accrual for the year ended June 30, 2009.
- (c) The Department did not properly determine the correct fiscal year to report Public Assistance disaster grant revenue. Four projects totaling \$1,305,279 were incorrectly coded to fiscal year 2010. This was properly adjusted for reporting purposes.

Recommendation – The Department should develop procedures to ensure receipts and expenditures occurring near the end of the fiscal year are reviewed and properly recorded in I/3 or included in the GAAP package.

Response – We will comply with the auditor’s recommendation.

Conclusion – Response accepted.

**Other Findings Related to Internal Control:**

- (1) Vendor Control – The Department has two systems, the accounts payable system and the business system, in which vendor names and addresses are added and modified.
  - (a) When a change of address is made in the accounts payable system, it is automatically updated in the business system. A log of the change activity is maintained in the business system. However, when the vendor address is deleted, the activity log is deleted.
  - (b) Vendor information must be entered into the accounts payable system before vouchers can be processed to pay the vendor. A number of employees have the ability to add and update vendor information and give office approval to process voucher information for vendor payment.

Recommendation – To maintain adequate control over original and changed vendor information and to mitigate the risk of making payments to fictitious vendors, the Department should:

- (a) Maintain the log of activity in the business system, including when a vendor is deleted.
- (b) Develop policies and procedures to ensure proper segregation of duties over entering and updating vendor information and applying office approval to process voucher information for vendor payment.

Response – Time was originally allocated in the FY 2009 Information Technology Work Plan to address these two issues but other priorities surfaced and the time was then allocated in the FY 2010 Work Plan. As of April 30, this plan item is 75% complete.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

- (2) Field Manager Voucher System – The Department uses Field Manager software at resident construction offices for submitting project progress information for payment on construction contracts through the contractor pay system. Data for progress payments is uploaded into the Field Manager voucher system by an office manager. A resident engineer is to provide approval before the office manager initiates the upload to the Department's contractor pay system. However, the specific approval documentation is not transmitted into the contractor pay system during the uploading process, so it is not available for Project Accounting and Payables department staff to review prior to further voucher processing.

Recommendation – The Department should develop procedures to ensure the resident construction engineer or designee is the only individual applying approval to vouchers on the Field Manager voucher system and the approvals are maintained throughout voucher processing.

Response – Field Manager, Release 4.4a and 4.5a, added enhancements which identify the user that created the pay estimates. This upgrade was finished in May 2009. From that date forward, the estimate for every office has a field that displays who generated (approved) the estimate.

Conclusion – Response accepted.

- (3) Motor Vehicle Enforcement Salvage Theft Exams – The Department issues pre-numbered salvage theft examination certificates to various local investigators and outside agencies for use when conducting investigations of vehicles designated as salvage or which have a salvage title to be physically examined by a certified peace officer. The exam may enable the owner of a substantially damaged vehicle to obtain a regular title versus a salvage title after repairs have been performed. When a Department of Transportation investigator conducts an examination, \$30 is collected and remitted to the Department in the form of a check or money order payable to the Department, along with a copy of the salvage theft examination certificate. When a local investigator or outside agency conducts an examination, \$20 is to be retained by the local agency and \$10 is to be remitted to the Department, along with the copy of the salvage theft examination certificate. The Department's Motor Vehicle Enforcement staff do not follow up with local investigators regarding missing certificates for salvage theft exams. Reports identifying gaps in the numerical sequence can be generated but are not being printed or monitored. Monitoring the numerical sequence of the examination certificates could reduce the potential for inappropriate use of the examination certificates and improved accountability over collections.

Recommendation – The Department should develop procedures to monitor the numerical sequence of salvage theft examination certificates, with follow up to document valid reasons for any missing certificates.

Response – A review completed over several years did not find any instances of illegal activity with respect to the use of salvage theft exam certificates, only unreported voided documents. The salvage theft exam certificates are only provided to law enforcement personnel, so the risk of illegal use of such forms is very low. When the process was reviewed, it was determined that it was not a valuable use of resources to continue this process using the existing computer program which was intended to assist in monitoring missing certificates. This program is not being used presently because enhancements are needed to improve its utility. When other programming priorities permits, this program will be updated to allow for monitoring of salvage theft examination certificates.

Conclusion – Response acknowledged. As recommended, the Department should develop procedures to monitor the numerical sequence of examination certificates, with follow up to document valid reasons for any missing certificates.



Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

- (4) Background Investigations – The Department hires employees for various positions, including positions which are sensitive in nature, such as information technology staff, individuals with access to cash, etc. The Department’s hiring procedures should include criminal background investigations consistent with the sensitivity of the position. Criminal background investigations are not done as part of the employee hiring process.

Recommendation – The Department should develop procedures to identify sensitive positions and ensure background investigations are performed as part of the hiring process.

Response – The Department now requires applicants for positions that are involved in the manufacture or production of driver’s licenses and non operator’s identification cards or that have the ability to affect identity information that appears on a driver’s license or non operator’s identification card (covered positions), shall be subject to a background check as required by 6 CFR 37.45. The background check shall include the validation of references from prior employment, a name-based and fingerprint-based criminal history records check, and employment eligibility verification otherwise required by law. Covered positions include: accounting clerk 1, 2 and 3, administrative assistant 1 and 2, clerk advanced, clerk specialist, compliance officer 1 and 2, driver’s license clerk, driver’s license clerk senior, driver’s license examiner, driver’s license hearing officer, executive officer 1, 2 and 3, information technology administrator 2, information technology specialists 1 through 5, information technology support planner 3, secretary 1 and 2, statistical research analyst 2, supervisor, telecommunication design specialist, training specialist 1 and 2, transportation division director, and typist advanced.

The criminal history records check is a name-based and fingerprint-based criminal history records check using the FBI’s National Crime Information Center (NCIC) and the Intergrated Automated Fingerprint Identification (IAFIS) database and state repository records on each applicant for a covered positions to determine if the applicant has been convicted of any permanent disqualifying criminal offenses. An applicant has a permanent disqualifying offense if convicted, or found not guilty by reason of insanity, in a civilian or military jurisdiction, of any of the felonies set forth in 49 CFR 1572.103(a).

For positions not listed above, the Department currently requires the hiring supervisor to include two completed reference checks. When possible, the applicant is required to submit two supervisory references. If the applicant is self-employed, they’re required to submit two business references. For internal applicants, one supervisory reference check is sufficient. If any of the final applicants are current state employees, the selecting authority is required to contact the current state agency to request review of the applicant’s personnel file. Reference checks are required for every hire, except contract transfers. The Department is evaluating the potential for more extensive background checks on employees.

Conclusion – Response accepted.

- (5) Receivables – From a control standpoint, the responsibility for preparing loan receivable billing invoices, receiving the loan collections and the ability to cancel a loan receivable billing invoice should be segregated. The Department has not segregated these duties. Cancelled loan receivable billing invoices are not accounted for during the reconciliation process and cancelled invoices are not monitored. The receivables listing at June 30 was not reviewed for completeness. The following additional items were noted:

## Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

- (a) The Department has not received \$4,562 per month from Lee County as stipulated by 2003 transfer of jurisdiction agreement number 2003-TJ-053. The Department has not billed Lee County for the remaining \$50,182 receivable owed to the Department for fiscal year 2009.
- (b) The Department has not received \$28,433 from the City of Donnellson as stipulated by 2002 transfer of jurisdiction agreement number 2002-TJ-017A. According to Department records, the project was completed August 7, 2007. Per the agreement, DOT would receive payment in three equal yearly installments upon completion of the project and receipt of a properly documented billing from the State. The Department has not billed the City of Donnellson for the receivable. Additionally the receivable balance for the City of Donnellson was understated by \$1,012 on the GAAP package.

Recommendation – The Department should review current duties and implement proper segregation of duties for the receivable billing, collection and recording process. The Department should also improve monitoring of outstanding receivables to ensure loan recipients are complying with all stipulations within the agreements.

Response – The Department will review current duties to ensure proper segregation of duties and completeness in processing accounts receivable activity. The Department has or will contact each of these local governments in order to resume payments.

Conclusion – Response accepted.

- (6) Schedule of Expenditures of Federal Awards – The Department provides information for reporting federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) in the State's Single Audit Report. The SEFA is compiled by categorizing federal revenue received by federal program since revenues are recognized based upon reimbursement of allowable federal expenditures. Although the Department's largest volume of revenue is received from the Federal Highway Administration (FHWA), which is coded appropriately, other non-FHWA grant reimbursements are sometimes coded as a revenue source other than federal revenue. Because Department staff rely on the coding of federal reimbursements to federal revenue codes as the basis for preparing the SEFA, certain reclassifications, adjustments and identification of missing CFDA numbers are necessary for proper reporting of non-FHWA grant reimbursements.

During our audit of federal awards, including the SEFA, we noted:

- (a) Department staff preparing the SEFA encounter difficulties with correct federal program identification when revenue is not properly coded to federal revenue object codes.
- (b) Communication of federal grant information, such as the CFDA number, is not always passed on to the Department by the federal awarding agency, pass-through state agency or program administrators.

Recommendation – The Department should improve communication between awarding agencies, program administrators and Department staff preparing the SEFA to obtain the necessary information to reflect all Federal CFDA numbers and ensure revenue coding is to the proper object codes to improve the accuracy of the reported SEFA amounts.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

Response – The Department reviewed with staff the codes that should be used to identify federal activity. The Office of Finance initiates and facilitates communications with other Department offices, state agencies and federal agencies to obtain the information necessary to complete the SEFA. We are continually trying to build awareness with these parties to recognize, properly account for and ensure compliance with reporting federal activity.

Conclusion – Response accepted.

- (7) Disposition of Equipment – The Department has included procedures in the Transit Manager’s Handbook to be followed when disposing of vehicles acquired with Federal Transit Authority (FTA) funds. A transit agency has 45 days to post a notice stating equipment is available for sale/transfer on the Office of Public Transit website after accepting a replacement for a vehicle funded under the statewide grant unless a Delay for Disposition form is filed and an exemption is given. The notice is to be posted for 30 days, after which the transit agency has up to 90 days to dispose of the replaced vehicle. Due to a vacant position, the Office of Public Transit is not consistently monitoring transit agencies for the proper disposition of equipment.

Recommendation – The Department should ensure transit agencies follow established procedures for the proper disposition of equipment acquired with FTA funds. The Department should also consider cross-training employees to perform monitoring of transit agencies for the disposition of equipment during staff turnover and leave.

Response – The position has been filled and is monitoring transit agencies for the disposition of equipment.

Conclusion – Response accepted.

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

No matters were noted.

Report of Recommendations to the Iowa Department of Transportation

June 30, 2009

**Staff:**

Questions or requests for further assistance should be directed to:

Ronald D. Swanson, CPA, Manager  
Scott P. Boisen, Senior Auditor II  
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Michael J. Hackett, Senior Auditor  
Janet K. Mortvedt, CPA, Staff Auditor  
Jenny R. Lawrence, Staff Auditor  
Adam D. Steffensmeier, Staff Auditor  
Ainslee M. Barnes, Assistant Auditor  
Daryl L. Hart, Assistant Auditor  
Daniel W. Henaman, Assistant Auditor  
Kelly L. Hilton, Assistant Auditor  
Casey L. Johnson, Assistant Auditor  
Rosemary E. Nielsen, Assistant Auditor  
Reza Sepehri, Assistant Auditor  
Leanna Showman, Assistant Auditor  
Justin M. Scherrman, Audit Intern  
Daniel T. Schneider, Audit Intern