



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

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NEWS RELEASE

FOR RELEASE _____ September 21, 2017

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released a report on the Iowa Department of Transportation for the year ended June 30, 2016.

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.

Mosiman recommended the Department implement procedures to improve controls over service contracts, uniform purchases and motor vehicle enforcement salvage theft exams. In addition, the Department should improve controls over motor carrier services adjustments. The Department's responses to the recommendations 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 <https://auditor.iowa.gov/reports/1760-6450-BR00>.

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

JUNE 30, 2016

Iowa Department of Transportation



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September 14, 2017

To Mark Lowe, 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, 2016.

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.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

cc: Honorable Kim Reynolds, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 30, 2016

Findings Reported in the State's Single Audit Report:

No matters were noted.

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

No matters were noted.

Other Findings Related to Internal Control:

- (1) Motor Vehicle Enforcement Salvage Theft Exams – The Department is responsible for the Salvage Vehicle Theft Examination process established by Chapter 321.52 of the Code of Iowa. The purpose of the salvage vehicle theft examination is to physically verify stolen parts were not used to rebuild a vehicle and authenticate ownership of the vehicle. In accordance with the Code of Iowa, all vehicles designated as salvage or which have a salvage title are to be physically examined by a peace officer who has been certified by the Iowa Law Enforcement Academy to conduct examinations.

The examination must be completed by a Motor Vehicle Enforcement (MVE) investigator or by a certified local law enforcement agency peace officer who must document the vehicle passed examination on the salvage theft examination certificate. The salvage theft examination certificate must be on prescribed forms provided by the Department. The vehicle owner must pay a \$30.00 fee to the examining officer upon completion of the examination. The fees collected are split between the Department and the local law enforcement agency conducting the exam.

Recommendations – As previously recommended, the Department should implement procedures to improve controls over the following:

- Ensure local agencies issue certificates in sequential order and all voided receipts are properly controlled and provided to the Department by the local agencies. Local agencies should also maintain the pink copy of voided certificates in examination files and mail the white copies to the Department.
- Periodically use the sequential certificate numbers to identify any certificates not submitted to the Department. The Department should also perform periodic reconciliations to ensure the appropriate fees are submitted by the local agencies for the certificates filed with the Department. The Department should investigate and document any voided certificates in conjunction with missing certificates.
- Ensure local agencies have implemented appropriate controls over the certificates maintained at local agencies. The number of certificates on hand should periodically be compared to the number obtained from the Department, the number issued and remitted to the Department and the number voided. The comparison should be completed by someone independent of the individual performing the examinations and collecting the related fees.

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- Update the list of local agencies which complete salvage vehicle theft examinations and ensure only active, trained and authorized local agencies are included. The Department should also ensure local agencies have implemented procedures to comply with administrative rules regarding accepting only checks or money orders for examinations.
- Include sufficient information in the training packet and guidance provided to officers of local agencies to ensure failed examinations are handled in an appropriate manner.

Fiscal Year 2016 Status – Our review of these areas during the fiscal year 2016 financial audit found the above issues were not resolved. Accordingly, the recommendations are repeated.

Response – Effective September 1, 2016, the Salvage Vehicle Theft Exam (VTE) program is 100% paperless. This new system eliminates the control deficiencies previously noted. The payments for these exams are no longer collected by local law enforcement agencies. All money is now sent directly to the DOT via electronic payment and examination disbursements back to agencies who conducted the examinations are also transferred electronically via EFT or by warrant.

Conclusion – Response accepted.

- (2) Invoice Cancellation – The Department scans invoices and retains an electronic image of the invoice on the Electronic Records Management System (ERMS). When an invoice is printed from ERMS, there are no distinguishing marks to indicate the invoice has been paid.

Recommendation – To strengthen controls and to help prevent duplicate payment, a distinguishing mark or watermark should be applied to the invoice when printed.

Response – The Department now has a web based platform that will allow a distinguishing mark (watermark) to be included on all invoices/vouchers printed from the Electronic Records Management System (ERMS). This feature will be implemented in August of 2017.

Conclusion – Response accepted.

- (3) Service Contracts – DOT policy 010.10 requires service contracts between \$500 and \$4,999 to be informally bid and service contracts greater than \$5,000 to be formally bid, unless the State has a contract with the vendor through the Department of Administrative Services (DAS). Also, service contracts should not be performed until all signatures have been obtained. We noted the following regarding service contracts:

- Two contracts were signed after the contract start date.
- Three contracts tested were not bid and did not have a written contract agreement.

Recommendation – The Department should ensure policies and procedures are followed.

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Response – The Department will continue to look for ways to ensure all appropriate documentation is retained for each contract and ensure it is in compliance with policies and procedures.

Conclusion – Response accepted.

- (4) Motor Vehicle Division Uniform Purchases – The Motor Vehicle Division (MVD) purchases clothing which is appropriate for personal use as uniforms from local and online retail vendors rather than through a contract as required by Department policy 100.04.

Recommendation – The Department should establish a written contract with a vendor for clothing purchases considered to be a uniform in accordance with DOT policy 100.04.

Response – The Department is in the process of finalizing a contract with a vendor for clothing purchases covered in DOT policy 100.04.

Conclusion – Response accepted.

- (5) Travel Expense Reimbursements – In a prior year, the Department implemented an electronic travel payment reimbursement system allowing employees to scan/upload original travel receipts into the system. The Department has not established a written policy concerning electronic travel payment reimbursement.

Recommendation – The Department should develop and implement policies related to electronic travel payment reimbursements.

Response – The Department used a gradual implementation of the electronic travel payment reimbursement system. As Offices were transitioned onto the new system each employee received a memo which included directions, policies and procedures on how to use the system. The DOT Policy and Procedure Manual was updated in March 2017 to include the policies related to the electronic travel payment system-

Conclusion – Response accepted.

- (6) Motor Carrier Services Adjustments – The Department collects trip permit fees for oversize and overweight vehicles that drive along state owned interstate and US and Iowa highways. When an employee voids a trip permit they fill out a status worksheet and describe why the trip permit is voided. For no charge adjustments, a description is not required.

Also, the Department prepares a report of all voided and no charge invoices and performs a monthly review of the voided and no charge adjustments however, there is no evidence of the review.

Recommendation – To strengthen controls, the Department should implement procedures to ensure explanations are required for all adjustments. Also, an independent person should review the voided and no charge adjustments report and document the review by signing or initialing and dating the report.

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Response – The Department is anticipating signing a new contract with the software provider of the Iowa Automated Permitting System (IAPS) that will be effective November 2017. As part of this agreement, Iowa Department of Transportation will work to ensure that the system requires “No-Charge” Adjustments to have an explanation field, similar to what currently exists for Voided permits.

Motor Carrier Services will evaluate its process and determine where it would be most effective to implement an independent review (and signing and dating) of the Voided and No-Charge Adjustment reports.

Conclusion – Response accepted.

June 30, 2016

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 2016 was not set at a level exceeding fiscal year 2015 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 Department increased its stated goal and submitted the required reports as directed and approved by Iowa Department of Economic Development Authority (IDEA). The Department will submit the reports on a quarterly basis and within the stated timelines.

The Department is a large participant in the Targeted Small Business program for the State of Iowa, reporting \$24.6 million in expenditures for fiscal year 2017, exceeding the stated goal of \$19 million. The Department has averaged over \$28 million in expenditures over the last 4 years. We will contact IDEA to discuss alternative language in establishing goals when entities participate with high expenditure levels.

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, 2016

Staff:

Questions or requests for further assistance should be directed to:

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