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NEWS RELEASE

FOR RELEASE

August 22, 2012

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Department of Transportation for the year ended June 30, 2011.

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 and expenditures. 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 <http://auditor.iowa.gov/reports/1260-6450-BR00.pdf>.

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

JUNE 30, 2011

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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August 17, 2012

To Paul Trombino III, 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, 2011.

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 8 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 Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

Report of Recommendations to the Iowa Department of Transportation

June 30, 2011

Finding Reported in the State's Single Audit Report:

CFDA Number: 20.205 – Highway Planning and Construction

Agency Number: None

Federal Award Year: 2011

CFDA Number: 20.509 – Formula Grants for Other Than Urbanized Areas

Agency Number: None

Federal Award year: 2011

State of Iowa Single Audit Report Comment: 11-III-DOT-645-1

Federal Funding Accountability and Transparency Reports – The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252) requires prime awardees to submit reports regarding their first-tier subawards to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Reports are due for all applicable subrecipient grants by the end of the month subsequent to the month the grants were awarded. This requirement applies to grants awarded on or after October 1, 2010.

Certain reports submitted in the month of April 2011 were not timely. No other monthly reports were submitted during the year.

Recommendation – The Department should establish policies and procedures to ensure reports are submitted timely and in accordance with the Federal Funding Accountability and Transparency Act.

Response and Corrective Action Planned – The Department will establish policies and procedures to ensure reports are submitted timely.

Conclusion - Response accepted.

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

Financial Reporting – The Department records receipts and disbursements on the Integrated Information for Iowa (I/3) system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to DAS-SAE on a GAAP package. The GAAP package is to be submitted to DAS-SAE by the first week of September each year. The following were noted:

- (a) The Department deposits revenues to an operating clearing account and subsequently prepares a cash receipt modification to record the revenue in the appropriate fund. Fiscal year 2012 revenue was incorrectly recorded to fiscal year 2011. Because the Department did not process the cash receipt modification or identify this in the GAAP package, revenue was overstated by \$40,546,301. This was properly adjusted for reporting purposes.

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- (b) The Department records certain federal receipts on the I/3 system and subsequently prepares an expenditure voucher to reimburse local governments, such as cities and counties, for road projects. During the accrual period certain federal receipts totaling \$2,076,013 were properly recorded to fiscal year 2011, but the corresponding expenditure was incorrectly recorded to fiscal year 2012. The Department subsequently made adjustments to correct this issue for reporting purposes.
- (c) The following findings related to financial information included in the GAAP package submitted to DAS-SAE were noted:
 - (1) Operating leases only included office space. The Department made rental payments on equipment but did not review whether equipment leases should be included in the GAAP package.
 - (2) Expenditures for construction vouchers paid in July and August of 2011 for fiscal year 2011 construction activity were incorrectly included in the construction obligation amount reported on the GAAP package. This resulted in an overstatement of construction obligations at June 30, 2011.

Recommendation – To strengthen controls, the Department should implement an independent review of the activity in the I/3 system and the operating clearing account to ensure activity is properly recorded. The independent review should include the initials of the reviewer and the date reviewed. In addition, the Department should ensure the GAAP package information reported is complete and accurate.

Response – The Department has implemented reconciliation procedures to ensure activity is properly recorded.

In addition, the Department has modified procedures to ensure equipment leases are properly recorded in future GAAP packages. Also, corrections made to the information compiled for the GAAP package omitted an adjustment which overstated the construction obligations. Future corrections will be posted in such a manner to allow all related parts of the GAAP package to be adjusted and correctly stated.

Conclusion – Response accepted.

Other Findings Related to Internal Control:

- (1) 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 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 investigator or outside agency and \$10 is to be remitted to the Department, along with the copy of the salvage theft examination

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certificate. The Department's Motor Vehicle Enforcement staff do not follow up with local investigators or outside agencies regarding missing certificates for salvage theft examinations. 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 – The Office of Vehicle Services receives the completed salvage certificates and accompanying checks but does not have the capability to record or track the exam certificate numbers. County Treasurer staff have been trained to examine the paper salvage certificate to validate the document when it is presented by the customer with title. In an effort to improve this process, legislation was introduced during the 2012 legislative session to allow the DOT to electronically record the salvage theft exam completed by the officer and require the customer to submit the exam fees electronically. This would eliminate the use of paper exam certificates and checks or money orders, and provide automated record keeping of each exam completed. Officers conducting the exam would be provided user access to the exam system and the vehicle record would be documented electronically of the completed exam. The exam could only be completed if the proper fees had been submitted.

The legislation did not pass so this automated process will be recommended for potential legislation in the 2013 session.

Conclusion – Response acknowledged. The recommendation to monitor the numerical sequence of salvage theft examination certificates remains until the proposed changes are approved.

- (2) Review of Federal Funds Analysis – A federal fund analysis is prepared by one person and used by an independent person to prepare a cash receipt document for entry to the I/3 system. However, there is no evidence the independent review was performed.

Recommendation – To strengthen controls, the independent person should document the review of the federal funds analysis by including their signature or initials and the date of the review.

Response – The Department will explore methods to accomplish this goal. The application is currently in an Excel worksheet which is accessible by more than one staff member. We will investigate whether this review can be performed electronically within the spreadsheet.

Conclusion – Response accepted.

- (3) Equipment Depreciation – The Department establishes a useful life unique for each class of equipment by assigning a depreciation key which is used to calculate depreciation expense. The equipment records and the assigned depreciation key are not reviewed by an independent person. A total of 117 pieces of equipment were assigned an incorrect depreciation key, causing an understatement of depreciation expense of \$101,950.

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Recommendation – The Department should develop procedures to ensure an independent review of the equipment records and depreciation keys is performed to help ensure the proper useful life is used in calculating depreciation expense. The independent review should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – The Office of Equipment Services will develop procedures to ensure an independent review of the equipment records and includes the date and initials of the reviewer.

Conclusion – Response accepted.

- (4) 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 will discuss the idea of applying watermarks with the Information Technology Division to determine if this option is available.

Conclusion – Response accepted.

Findings Related to Statutory Requirements and Other Matters:

No matters were noted.

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Staff:

Questions or requests for further assistance should be directed to:

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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in the audits include:

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