



*Tennessee Department of Transportation
Office of Internal Audit*

Government Accountability Professionals

**ANNUAL REPORT 2014
&
WORK PLAN
*For the Fiscal Year
July 1, 2014 – June 30, 2015***

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The mission of the Office of Internal Audit is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within the Tennessee Department of Transportation.

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INTRODUCTION

The Office of Internal Audit (IA) provides audit and assurance; consulting and advisory; education and internal control assessments; and integrity/investigative services for the Department. Our commitment to deliver high-quality internal audit services is what we always strive to achieve. We provide a comprehensive slate of services designed to enhance operational processes and internal controls, support senior leadership initiatives, and increase key stakeholder confidence.

Prioritized from a risk management approach, *audit and assurance services* focus audit resources on areas of high risks. Through pragmatic solutions and recommendations, IA endeavors to provide senior leadership and the function's management structure the best information they can use to make better business decisions. The collaborative approach defines our *consulting and advisory services* designed to initiate and address operational concerns regarding the constantly shifting business environment. Through IA's *education and internal control services*, we strive to provide training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets by Department employees. Finally, IA conducts *integrity and investigation services* to substantiate alleged instances of fraud, waste, and abuse of TDOT funds by employees, contractors, vendors, and grantees.

IA's current staff consists of six government accountability professionals, which include the division director, four auditors, and a lead investigator. In this fiscal year, we expect to make organizational changes through promotional opportunities and staff additions that enable the division to serve the Department better. IA provides auditor cross training to increase internal efficiencies and enable the division work in a variety of engagements and projects.

MISSION

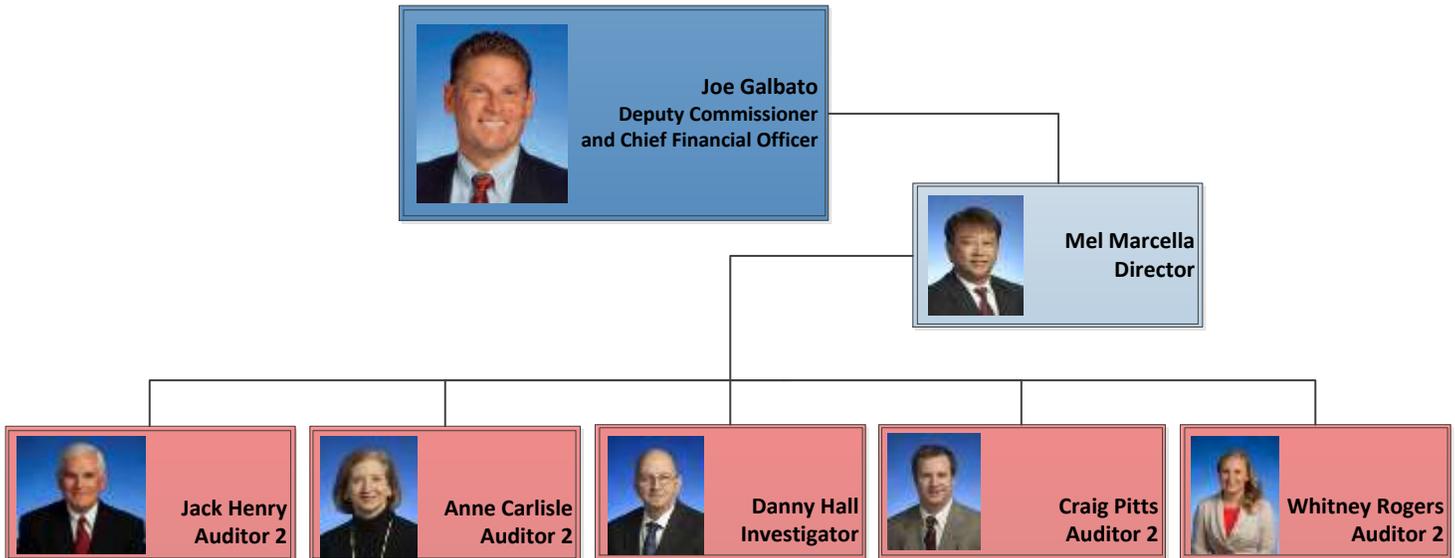
Our mission is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within TDOT.

BUSINESS SERVICES

Service	Description
Audit and Assurance Services	The primary focus of the Division is conducting <i>performance audits</i> designed to ascertain the efficiency, effectiveness, and economy of TDOT's various operational functions, financial programs, key processes, and activities. Performance audits review Departmental processes using a systematic and methodical approach. We select audit engagements through a risk-based procedure and conduct the engagements in accordance with existing Government Auditing Standards.
Consulting and Advisory Services	Consulting and advisory assists a division or a function to develop solutions, implement changes, and address internal control deficiencies. We strive to add value and customer service through a hands-on, roll-up-the-sleeves attitude. Our team of professionals will work to understand business requirements and respond with pragmatic solutions to enable successful, long-lasting results. From benchmarking, process improvements, and performance metrics, our team will work to find solutions tailored to meet organizational needs.
Education Services	Aside from devising instructional videos that provide information and training, IA is in the process of improving internet and intranet content to better disseminate information on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets. For this fiscal year, IA will conduct roadshow presentations at various regional locations to ensure internal controls are in place to support ongoing organizational changes associated with the merger of the construction and maintenance functions.
Integrity Services	In providing this service, our ultimate goal is to provide management information to address instances of fraud, waste, and abuse; identify perpetrators; institute controls to mitigate the opportunities for fraud to occur and prevent the recurrence of the incident. This past year, IA developed formal mechanisms to report allegations of fraud, waste, abuse, and misuse of TDOT funds through the internet and the creation of a hotline number.
Special Projects	These services occur in response to requests by the commissioner, senior leadership, or members of management. Services may vary from limited scope engagements, enterprise risk assessment, unplanned audits, to non-audit type attestations.
Audit Follow-up Services	Follow-up activities are limited reviews performed to ascertain the status issues identified from a prior engagement.

Source: TDOT Internal Audit

ORGANIZATIONAL CHART



Source: TDOT Internal Audit Organizational Chart as of June 30, 2014

STAFFING CHANGES

- Hired Jack Henry CPA, CGFM, Auditor 2 on May 14, 2014
- Hired Whitney Rogers, Auditor 2, on April 21, 2014
- G. Grant Gouveia, CFE, Auditor 4, resigned on May 16, 2014
- Marion Williams, Auditor 3, resigned on June 13, 2014
- Kesha Thomas, Investigator, resigned on February 14, 2014
- Dylan Morse, Investigator, resigned on July 31, 2013

ACCOMPLISHMENTS

- IA completed two scheduled audit engagements and one agreed-upon procedures review
- Completed and closed 15 integrity service engagements
- Successfully assumed responsibilities for the Enterprise Risk Assessment from the Strategic Planning Division
- Deployed electronic working paper system with the help of TDOT Information Technology Division
- Participated in two Government Auditing Standards Peer Reviews for the City of Virginia Beach, Virginia and Memphis, Tennessee
- Updated the IA Standards and Procedures Guide to ensure adherence to Government Auditing Standards
- Established and implemented TDOT integrity line and the online fraud reporting mechanisms

Sensitivity, Centrality, and Materiality

- With help from the Community Relations Division, developed fraud, waste, and abuse outreach and communication materials (logos, posters, cards)
- With help from the Community Relations Division, developed informational videos to help increase employee awareness and education regarding fraud, waste, and abuse

CHALLENGES

- Impending expiration of the Moving Ahead for Progress in the 21st Century Act (MAP 21), which creates a funding vacuum for current and proposed construction activities for TDOT
- Decreased funding sources, at both the state and federal level, increase the need to optimize limited resources
- Helping ensure that all audit issues, whether raised by IA or external oversight authorities such as the Comptroller’s Office or Federal regulators, are addressed sufficiently and satisfactorily per the stated response plan
- Increasing TDOT employee knowledge and helping educate them on ethical behavior, proper use of TDOT assets, appropriate internal controls, and reporting instances of fraud, waste, or abuse
- Helping management identify and mitigate opportunities for the occurrence of fraud

OPPORTUNITIES

- Helping improve the operational process for the oversight and monitoring function for formula grants
- Assist in the process automation of the grants management process
- Providing continuous monitoring and auditing for bulk transactions (such as fuel, parts, and tools purchases)
- Create an atmosphere of goodwill, cooperation, and collaboration through outreach initiatives and customer-focused service
- Increasing internal efficiencies by cross-training IA staff to be able to contribute to the various services the division provides

STRATEGIC INITIATIVES

- Initiate active enterprise risk assessments
- Expansion of educational services and increase visits to regional locations
- Design and implement strategies to incorporate more data driven techniques and processes into each engagement
- Continue participation in Yellow Book (Government Auditing Standards) peer review opportunities
- Implement a Customer Service Survey for services provided

BUSINESS RESULTS

**Exhibit A – Activity Summary
From the Period July 1, 2013 through June 30, 2014**

Service	Results
Audit and Assurance	<p>2 Audits Completed:</p> <ul style="list-style-type: none"> • Salt Management • Change Orders and Supplemental Agreements (Part I) <p>1 Audit in Progress:</p> <ul style="list-style-type: none"> • Change Orders and Supplemental Agreements (Part II)
Special Projects and Integrity	<p>16 Special Project Completed:</p> <ul style="list-style-type: none"> • DMTR Agreed-upon Procedures • Closed 15 investigations <p>4 Special Projects in Progress:</p> <ul style="list-style-type: none"> • DMTR Rail Authority Agreed Upon Procedures • DMTR 5311 Invoice Reviews • 2 outstanding investigations
Internal Audit Initiatives	<p>Internal Audit Outreach</p> <ul style="list-style-type: none"> • Education Videos <p>Fraud Reporting Mechanism</p> <ul style="list-style-type: none"> • Integrity Line (Hotline) • Internal Audit online fraud reporting forms

Source: TDOT Internal Audit as of June 30, 2014

**Exhibit B - Investigative Activity Summary
From the Period July 1, 2013 through June 30, 2014**

<i>Case Reference</i>	<i>Case Description</i>	<i>Date Opened or Referral Date</i>	<i>Status or Date Closed</i>
CASE-2013-001	District 33 Split Invoices	9/12/2012	7/10/2013
CASE 2013-002	Lawrence County Airport	9/19/2011	7/11/2014
SP 2013-005	Employee Trespassing and Fuel Theft	6/24/2013	7/18/2013
FWAH 13-435	Employee Misconduct at Bethel Springs, TN	6/6/2013	8/6/2013
SP 2013-006	Employee Vehicle Abuse	8/9/2013	8/20/2013
SP 2013-007	Improper Donation of IT Equipment	8/6/2013	9/5/2013
SP 2013-008	Time Abuse and Possession of Firearm	7/25/2013	10/1/2013
SP-2013-009	Request for Information, Rail Enhancement	9/3/2013	10/3/2013
SP-2013-010	Allegation of Employees Stealing Aluminum Panels	9/24/2013	11/8/2013
SP-2013-011	Personal use of TDOT Equipment	8/20/2013	11/7/2013
SP-2013-012	Nashville Metro PD Request	11/13/2013	2/4/2014
SP 2014-001	Reserved for DMTR 5311 Grant Invoice Reviews	N/A	N/A
SP 2014-002	Region 3 Uniform Services Fraudulent Representation	2/5/2014	2/14/2014
SP 2014-003	Alleged Employee Misuse of Assigned TDOT Vehicle	2/28/2014	3/21/2014
SP 2014-004	Alleged Excessive Ordering and Parts Overstocking	4/3/2014	5/13/2014
SP 2014-005	Alleged Misuse of Assigned State Vehicle	4/24/2014	5/22/2014
SP 2014-006	Bradley County Theft Allegation	6/9/2014	Open
SP 2014-007	Alleged Fuel Theft at Woodbury, TN	6/9/2014	Open

Source: Office of Internal Audit

**Exhibit C – Budgeted Allocation of Work Hours
For the Period July 1, 2014 through June 30, 2015**

<i>Engagements and Projects</i>	<i>Budgeted Number of Projects</i>	<i>Budgeted Hours</i>
Proposed and Current Performance Audits	3	6,000
Special Projects (Attestations, Consultation, and Limited Scope Services)	2	800
TDOT Enterprise Risk Management	1	650
Follow-up Reviews:		
Comptroller Audit Findings FY 2014	1	250
Right of Way	1	450
Integrity Services (Fraud, Waste, and Abuse Investigations)	6	1,750
Education Services	-	300
<i>Cumulative Hours</i>		10,200**
<i>Total Report Deliverables</i>	14*	

Source: Office of Internal Audit

**Total Projected Reports to be delivered.*

*** Budget is based on a projected resource staff of six; Auditors and one Investigator.*

**Exhibit D - Audit Work Plan
For the Period July 1, 2014 through June 30, 2015**

<i>Engagements (as of June 30, 2014)</i>	<i>Status</i>
AU 2014-001 – Change Orders and Project Cost Variance Process (Part II of II)	<i>Fieldwork</i>
AU 2014-002 – DMTR Agreed-Upon Procedures Review of Rail Authority Invoices	<i>Final Review and Reporting</i>
SP 2014-001 – DMTR 5311 Transit Grant Invoice Reviews	<i>Fieldwork</i>
<i>Planned Performance Audit Engagements (for the fiscal year 2015)</i>	<i>Potential Audit Objectives</i>
AU 2015-001 – Division of Finance Internal Control Process	<ul style="list-style-type: none"> • <i>Are revenue and disbursement cycle internal controls properly designed, effectively implemented, and functioning as intended?</i> • <i>Do processing controls ensure transactions are supported, authorized, and sufficient to safeguard TDOT assets?</i> • <i>Do current business processes comply with existing policies and statutes and adhere to sound business practices?</i>
AU 2015-002 – Diversity Business Enterprise Process	<ul style="list-style-type: none"> • <i>Do existing internal controls ensure DBE firms meet required Federal certification standards?</i> • <i>Are controls in place to ensure DBE proprietary information is safeguarded?</i> • <i>Do current business processes fully incorporate the Unified Certification Procedures (UCP)?</i>
SP 2015-001 – Right of Way Follow-up Review	<ul style="list-style-type: none"> • <i>Were management’s corrective actions effective in addressing observations resulting from the 2012 audit?</i>

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