



*Tennessee Department of Transportation
Office of Internal Audit*

Government Accountability Professionals

**ANNUAL REPORT 2012
&
WORK PLAN
*For the Fiscal Year
July 1, 2013 – June 30, 2014***

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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 provides Audit and Assurance, Consulting and Advisory, Education, and Integrity services for the department. The primary focus of the Division is conducting Performance Audits designed to ascertain the efficiency, effectiveness, and economy of TDOT's various operational and financial programs, processes, and activities. Audit and Assurance services are prioritized from a Risk Management approach to focus resources on areas of high risks. The ultimate objective is to provide the management structure and senior leadership with information they need to make better decisions - through practical, cost beneficial, recommendations geared toward improving TDOT's operations. Consulting and Advisory services are designed to initiate a collaborative approach to address concerns regarding the ever changing business environment. Education services include providing training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets to department employees. Integrity services are performed to substantiate alleged instances of fraud, waste, and abuse of TDOT funds by department employees, contractors, vendors, and grantees.

The Office is currently staffed with five positions: a lead auditor, an information technology auditor, and three investigators on the integrity unit. In the near future, we expect to bring in a Principal Auditor and another lead auditor to complete the function. The auditors and investigators usually work in their primary area: auditors lead audits and investigators are assigned to investigations or help in projects that can utilize their skills. The cooperative approach enhances Internal Audit efficiency.

MISSION

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

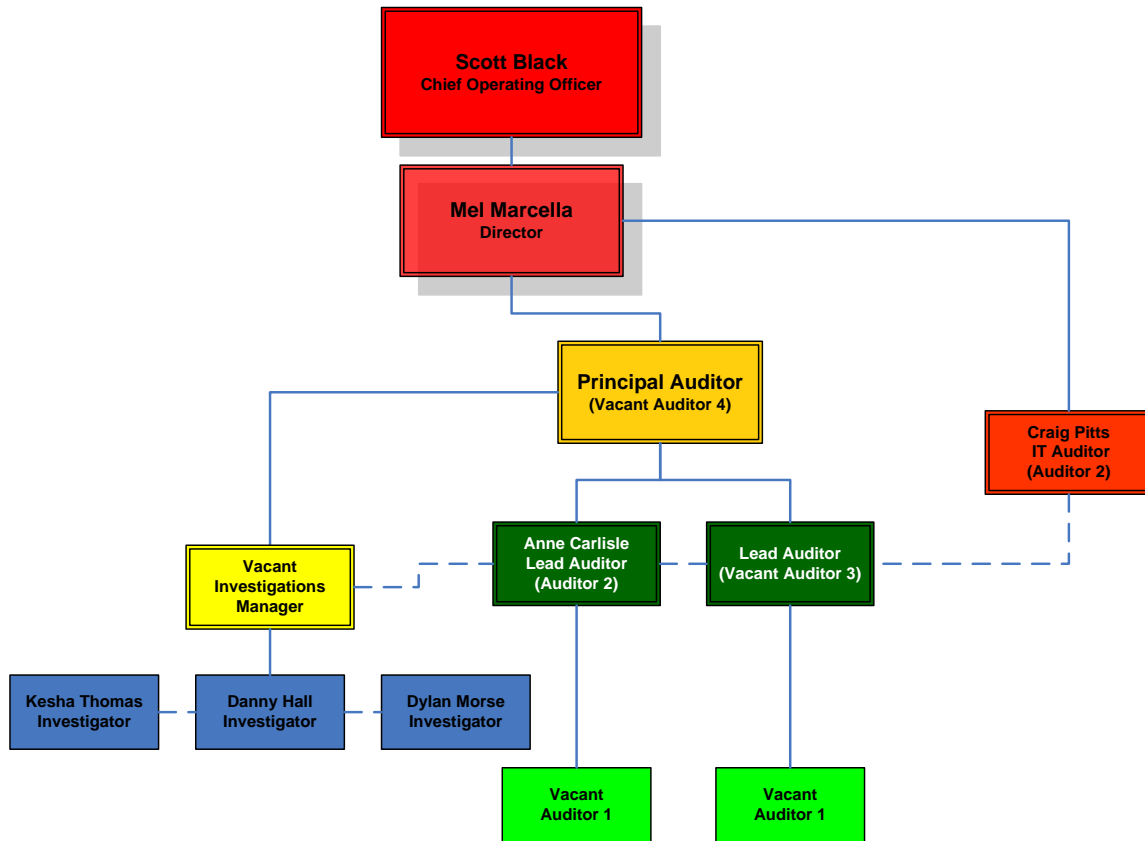
LINES OF BUSINESS

Audit and Assurance Services	<p>Our commitment to delivering high-quality audit and assurance services is at the heart of what we do. We provide comprehensive services designed to deliver real value and underpin senior leadership and key stakeholder confidence.</p> <p>Performance Audits are designed to review departmental processes using a systematic and disciplined approach. Audits are selected through a risk-based annual audit planning process and are conducted in accordance with Government Auditing Standards.</p>
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<p>Consulting and Advisory Services</p>	<p>These services provide a resource to assist management in developing solutions, implementing changes, and addressing deficiencies in internal controls to continuously improve TDOT.</p> <p>We strive to add value and customer service with a hands-on, roll-up-the-sleeves attitude. Our team of professionals will work with you to understand your requirements and respond with solutions to create successful, long-lasting results. From benchmarking, process improvement, and performance metrics, our team will work to find solutions tailored to meet your needs.</p>
<p>Education Services</p>	<p>These services include providing training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets to department employees.</p>
<p>Integrity Services</p>	<p>Are performed in response to allegations of fraud, waste, abuse, and misuse of TDOT funds. Our ultimate goal is to provide management with information to address the situation; with the knowledge that frauds occur because of a breakdown in internal controls.</p>
<p>Special Projects</p>	<p>These services occur in response to requests by the Commissioner, Senior Leadership, or members of management. Services may vary from audit to non-audit type engagements.</p>
<p>Follow Up Review Services</p>	<p>Follow-up activities are limited reviews performed on outstanding audit issues to determine whether management has resolved the issues identified in an audit report.</p>

Source: TDOT Internal Audit

ORGANIZATIONAL CHART



Source: TDOT Internal Audit Organizational Chart as of June 30, 2013

STAFFING CHANGES

- Philip McGovern, Audit Manager, has retired on May 15th 2013.
- Ty Decker, Auditor 3, has transferred to TDOT Finance as a Payroll Specialist.
- Rhonda Coleman, Investigations Manager, has transferred to Bid Analysis & Estimating Office.
- Internal Audit is working closely with Human Resources Division to fill the Auditor 4 and Auditor 3 positions. We expect to have new staff members in the following month.

ACCOMPLISHMENTS

- Instituted an Internal Audit Charter that delineates authority and responsibility for the Division of Internal Audit.
- Devised and established Internal Audit - Audit Procedures Guide that abides by Government Auditing Standards, December 2011 revision.

- Devised and established Internal Audit – Investigation Standard and Procedure Guide for conducting fraud, waste, and abuse investigations.
- Commenced accountability measures for staff audit and investigative works.
- Began an information technology audit capability within the division.
- Initiated the finalization and closure of 12 outstanding investigations that were opened prior to November 14, 2012.
- Established TDOT integrity line, a fraud reporting mechanism.
- Improved external communications by updating Internal Audit website and creating a unified message of cooperation and unity within the department.

CHALLENGES

- In June 2012, the 112th United States Congress passed the Moving Ahead for Progress in the 21st Century Act (MAP 21) which is a funding and authorization bill to govern federal surface transportation spending. MAP 21 sets the course for transportation investments by:
 - *Strengthening America’s Highways*
 - *Establishing a performance-based program.*
 - *Creating jobs and supporting economic growth*
 - *Supporting the Department of Transportation’s (DOT) aggressive safety agenda*
 - *Streamlining Federal highway transportation programs.*
 - *Accelerating project delivery and promoting innovation.*
- Providing management with assurances regarding proper internal controls under the combination of construction and maintenance units, the implementation of the studio concept, and the restructuring of districts into super-districts.
- Helping ensure that all audit issues, whether raised by the Comptroller’s Office or Federal regulators (identified for each particular division), 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.
- Increasing office efficiencies by cross-training Internal Audit staff to be able to contribute to the various services the division provides.
- Breaking down barriers of perception of the Internal Audit function within, and outside of, the Internal Audit Division
- Completing Audits and Investigations in a timely manner with the resources available.

OPPORTUNITIES

- Helping TDOT better manage the Grants Management process especially within the oversight and monitoring function for formula grants by creating a dedicated Grants Oversight unit.

- Incorporating into the workflow and providing continuous monitoring for bulk transactions (such as fuel purchases).
- Development of a truly professional integrity function.
- Create an atmosphere goodwill, cooperation, and collaboration through outreach initiatives and customer focused service.
- Active engagement of TDOT's Senior Leadership and management through the development of the Enterprise Risk Assessment process.
- Development of audit automation through the acquisition of audit management software.
- Developing control–self assessment toolkits for use after the transition into the studio concept.

STRATEGIC INITIATIVES

- Initiate active enterprise risk assessments
- Design and implement a strategy to incorporate Information Technology auditing techniques.
- Participate in Yellow Book (Government Auditing Standards) peer review opportunities.
- Implement a Customer Service Survey for audit and investigative work.
- Implement tracking system for Strategic Priorities and Performance Measures.
- Update Office's policies and procedures Manual.
- Implement continuous process improvement techniques into our working paper and report review processes.

BUSINESS RESULTS

Note: the results herein were compiled from data beginning November 14, 2012 through June 30, 2013.

<p>Audit Services</p>	<p>1 Audit Completed:</p> <ul style="list-style-type: none"> • TDOT ROW <p>3 Audits In-Progress:</p> <ul style="list-style-type: none"> • Salt Management • Grant Expenditures and Cash Management (Postponed) • Change Orders and Supplemental Agreements (Postponed)
<p>Integrity Services</p>	<p>Investigative Reports:</p> <ul style="list-style-type: none"> • 3 Investigations Completed <p>Closed or Inactive Investigations:</p> <ul style="list-style-type: none"> • 16 Closing Memos <p>New Evaluations</p> <ul style="list-style-type: none"> • 2 Allegations under review
<p>Special Projects</p>	<p>2 Special Projects Completed:</p> <ul style="list-style-type: none"> • Follow-up to the Comptroller's Management Letter • Follow-up to the FTA and Comptroller's Single Audit Findings <p>2 Special Projects In-Progress:</p> <ul style="list-style-type: none"> • TDOT's Enterprise Risk Management • Division of Multimodal Transportation Resources Agreed Upon Procedures
<p>Internal Audit Initiatives</p>	<p>Internal Audit Outreach</p> <ul style="list-style-type: none"> • Education Videos and Tri-fold brochures • Regional Presentations and content for TDOT Connects • Anti-Fraud Posters <p>Proactive Investigations</p> <ul style="list-style-type: none"> • Asset Management • Facility Security <p>Fraud Reporting Mechanism</p> <ul style="list-style-type: none"> • Integrity Line • Internal Audit website forms

Source: TDOT Internal Audit as of June 30, 2013

**Exhibit B - Investigative Activity Summary
From the Period November 14, 2012 through June 30, 2013**

Cases Open as of 11/13/2012	Case Description	Date Opened or Referral Date	Status or Date Closed
N-10-0245	Protective Coatings	1/11/2010	7/10/2013
N-10-0251	District 11 HELP Truck	3/1/2010	2/26/2013
N-10-0258	Suppliers of End Walls	2/1/2009	12/18/2012
CASE 2013-002	Lawrence County Airport	8/17/2011	7/10/2013
N-11-0285	Mountain States DBE	11/3/2011	12/20/2012
N-12-0290	Tubb Time Abuse	3/7/2012	11/26/2012
CASE 2013-003	First TN Human Resource Agency	5/24/2012	7/10/2013
N-12-0296	Region 3 Grainger Purchases	5/25/2012	12/17/2013
N-12-0300	Hazelwood Theft Allegations II	8/22/2012	2/22/2013
N-12-0301	Weakley County Supervisor	8/24/2012	12/28/2012
CASE 2013-005	Region 3 Capital Consultants	8/30/2012	2/20/2013
N-12-0303	District 33 Purchasing	9/12/2012	7/10/2013
CASE 2013-004	Region 3 Maintenance	1/8/2013	1/18/2013
SP 2013-001	Referral: Hickman County Looting Allegations	2/26/2013	3/8/2013
SP 2013-002	Referral: FWAH Referral from Comptroller's Office	3/25/2013	4/8/2013
SP 2013-003	Referral: FWAH Referral from Comptroller's Office	6/12/2013	7/10/2013
SP 2013-004	Referral: Lawrenceburg Garage Theft Incident	6/24/2013	Open

Source: Office of Internal Audit Analysis

**Exhibit C - Updated Audit Work Plan Allocation of Work Hours
For the Period July 1, 2013 through June 30, 2014**

<i>Current Work Plan Status</i>	<i>Number of Projects</i>	<i>Budgeted Hours (or Hours to Completion)</i>
<i>Audit and Assurance</i>		
Current Audits	3	1,600
Proposed Audits	2	2,600
<i>Consulting and Advisory</i>		
Current Engagements	1	1,000
Proposed Engagements	1	400
Enterprise Risk Management	1	1,400
<i>Education</i>		
Outreach	1	650
Presentations	4	300
<i>Internal Audit Initiatives</i>		
TDOT Integrity Line Database	1	250
ACL GRC and Analytics	1	200
<i>Integrity Service</i>		
Current Investigations in Progress	2	500
Proactive Investigations (Site Visits)	22	2,800
Budgeted Cases	6	1,800
<i>Administrative, Leave, and Training</i>		1,500
<i>Deliverables*</i>		15,000**

Source: Office of Internal Audit

**Total Projected Reports to be delivered.*

*** Budget is based on a projected resource staff of eight: five Auditors and three Investigators.*

WORK PLAN

Annual Work Plan

July 1, 2013 – June 30, 2014

Audit and Assurance

- Finish outstanding audits in-progress:
 - Salt Management Process
 - Change Order Process and Supplemental Agreements
 - Grant Expenditures and Cash Management Process
- Begin Audit of the DBE Certification Process
- Begin an Audit of the Design Consultant Evaluation Process

Integrity Services

- Any cases in-progress will be worked as well as new cases received or requested during the year.
- Continue the proactive approach of evaluating regional asset inventory management practices.

Follow Up Reviews

- TDOT – Right of Way Process – Status of Corrective Actions

Special Reports

- Division of Multimodal Transportation Resources - Agreed Upon Procedures