



*Tennessee Department of Transportation
Office of Internal Audit*

Government Accountability Professionals

**ANNUAL REPORT 2013
&
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 provides audit and assurance; consulting and advisory; education and internal control assessments; and integrity/investigative 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. 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 audited function's management structure the best information they can use to make better business decisions. The collaborative approach highlights 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 to department employees. Finally, IA conducts integrity services and investigations to substantiate alleged instances of fraud, waste, and abuse of TDOT funds by department employees, contractors, vendors, and grantees.

The current staff includes five positions, four auditor IIs and a lead investigator. In the near future, we expect to make staffing additions to enable the division to better serve the department. IA trains auditors to work in a variety of engagements and projects help in projects that can utilize their skills. The cooperative approach enhances Internal Audit efficiency.

MISSION

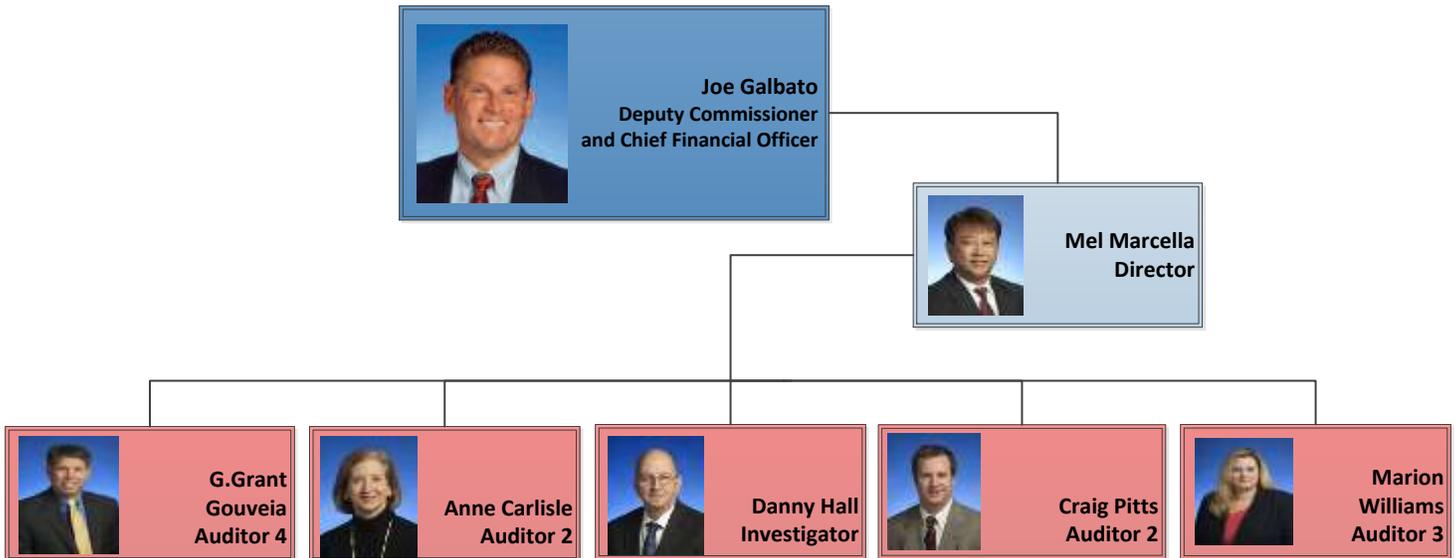
The mission of the TDOT Office of Internal Audit is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within TDOT.

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>
Consulting and Advisory Services	<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>
Education Services	<p>These services include providing training on ethical behavior, fraud awareness, internal controls, and the proper use of TDOT assets to department employees.</p>
Integrity Services	<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>
Special Projects	<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>
Follow Up Review Services	<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, 2014

STAFFING CHANGES

- Hired G. Grant Gouveia, Auditor 4, on August 2013; he moved to the Department of Financial Institutions on April 2014.
- Marion Williams, Auditor 3, was hired on October 2013; she resigned on June 13, 2014.
- Dylan Morse, Investigator, transferred to the Comptroller's Office
- Kesha Thomas, Investigator, transferred to the Comptroller's Office

ACCOMPLISHMENTS

- Updated the IA Standards and Procedures Guide to ensure adherence to Government Auditing Standards.
- 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 and OPPORTUNITIES

- 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. highlighting the importance of sound internal controls to prevent waste and misuse
- 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 divisional 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 engagements in a timely manner with the resources available
- 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, 2014.

<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
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	TDOT Hamblen County - Employee's Wife Complaint	N/A	N/A
SP 2014-002	Region 3 AramarkUniform Services	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	6/9/2014	Open
SP 2014-007	Alleged Fuel Theft	6/9/2014	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