



*Tennessee Department of Transportation
Office of Internal Audit*

Government Accountability Professionals

**ANNUAL REPORT 2015
&
WORK PLAN**
*For the Fiscal Year
July 1, 2015 – June 30, 2016*

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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 eight government accountability professionals, which include the division director, six auditors, and a lead investigator. In this fiscal year, we expect provide cross training engagements to increase internal process 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.

VISION

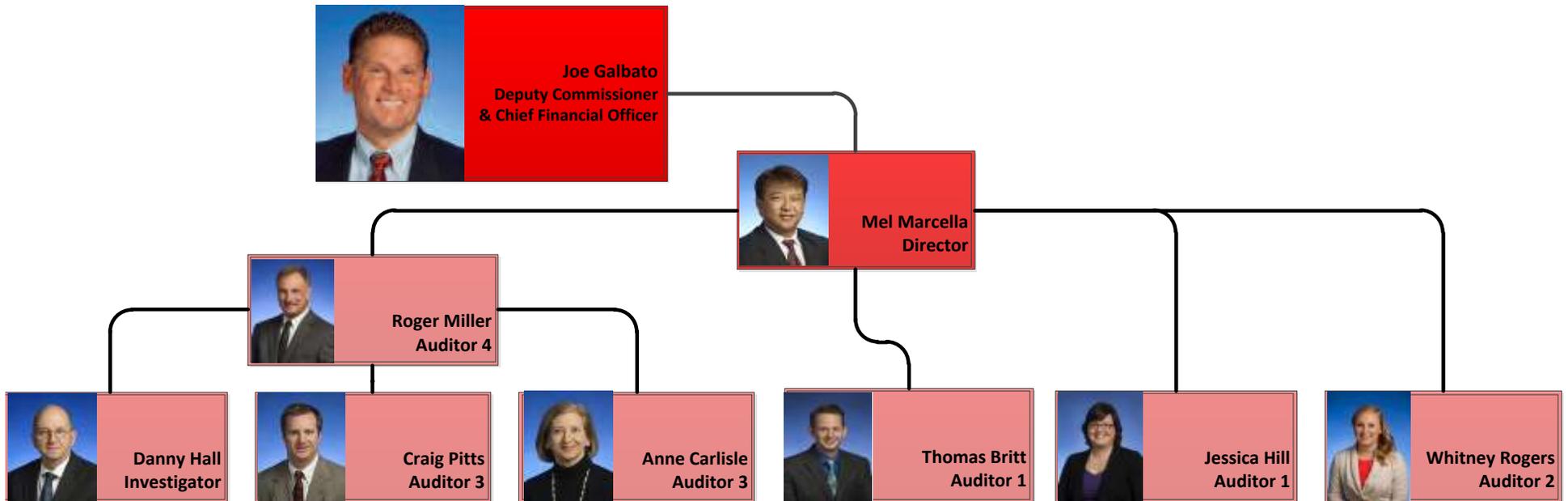
Our mission is to provide objective analysis and information critical to better decision making and enhancing the overall governance capability within TDOT

SERVICES

| Line of Business | 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 15, 2015

STAFFING CHANGES

- Jack Henry CPA, CGFM, Auditor 3, retired on September 30, 2014
- Hired Jessica Hill, MBA, Auditor 1* on October 6, 2014
- Hired Thomas Britt, MBA, Auditor 1* on October 6, 2014
- Hired Roger Miller, CPA, Auditor 4 on March 7, 2015

ACCOMPLISHMENTS

- IA completed one scheduled audit engagements and one agreed-upon procedures review
- Completed and closed 15 integrity service engagements Updated the IA Standards and Procedures Guide to ensure adherence to Government Auditing Standards
-
- 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
- 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

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, 2014 through June 30, 2015

| Service | Results |
|--------------------------------|--|
| Audit and Assurance | 1 Audits Completed: <ul style="list-style-type: none">• Change Orders and Supplemental Agreements (Part I)• 1 Audit in Progress: <ul style="list-style-type: none">• Finance Division Revenue Cycle Process |
| Special Projects and Integrity | 16 Special Project Completed: <ul style="list-style-type: none">• DMTR Agreed-upon Procedures• Closed 15 investigations 4 Special Projects in Progress: <ul style="list-style-type: none">• DMTR Rail Authority Agreed Upon Procedures• DMTR 5311 Invoice Reviews• 2 outstanding investigations |
| Internal Audit Initiatives | Internal Audit Outreach <ul style="list-style-type: none">• Education Videos Fraud Reporting Mechanism <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, 2014 through June 30, 2015**

| <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, 2015 through June 30, 2016**

| <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 2015-001 – Division of Finance Internal Control Process | <i>Fieldwork</i> |
| AU 2015-002 – Diversity Business Enterprise Process | <i>Pre-Planning</i> |
| SP 2015-001 – Right of Way Follow-up Review | <i>Pre-Planning</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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