

**Office of Internal Audit
Biennial Report
July 1, 2007 – June 30, 2009**

TDOT Office of Internal Audit
Suite 1800 James K. Polk Bldg.
Nashville, TN 37243
615-741-1651 (Phone)
615-532-6760 (Fax)

www.tdot.state.tn.us/internalaudit/index.htm

Table of Contents

	<u>Page</u>
I. Introduction	3
II. Lines of Business	3
III. Organizational Chart	4
IV. Audit Plan - Fiscal Year 2008	5
V. Audit Plan - Fiscal Year 2009	7
VI. Business Results July 1, 2007 – June 30, 2009	8
VII. Staffing Changes	9
VIII. Challenges	9
IX. Strategic Targets	9
X. Audit Plan – Fiscal Year 2010	10

I, Introduction

The purpose of the Tennessee Department of Transportation Office of Internal Audit (Office) is to provide Audit, Consulting, and Investigative services for the Commissioner and department management. The Office is staffed with an Audit Manager and four staff auditor positions, and an Investigations Manager and four staff investigator positions. The auditors and investigators usually work in their primary area: auditors on audits, and investigators on investigations. However, often the auditors and investigators work together on projects in order to best utilize both disciplines' particular areas of expertise.

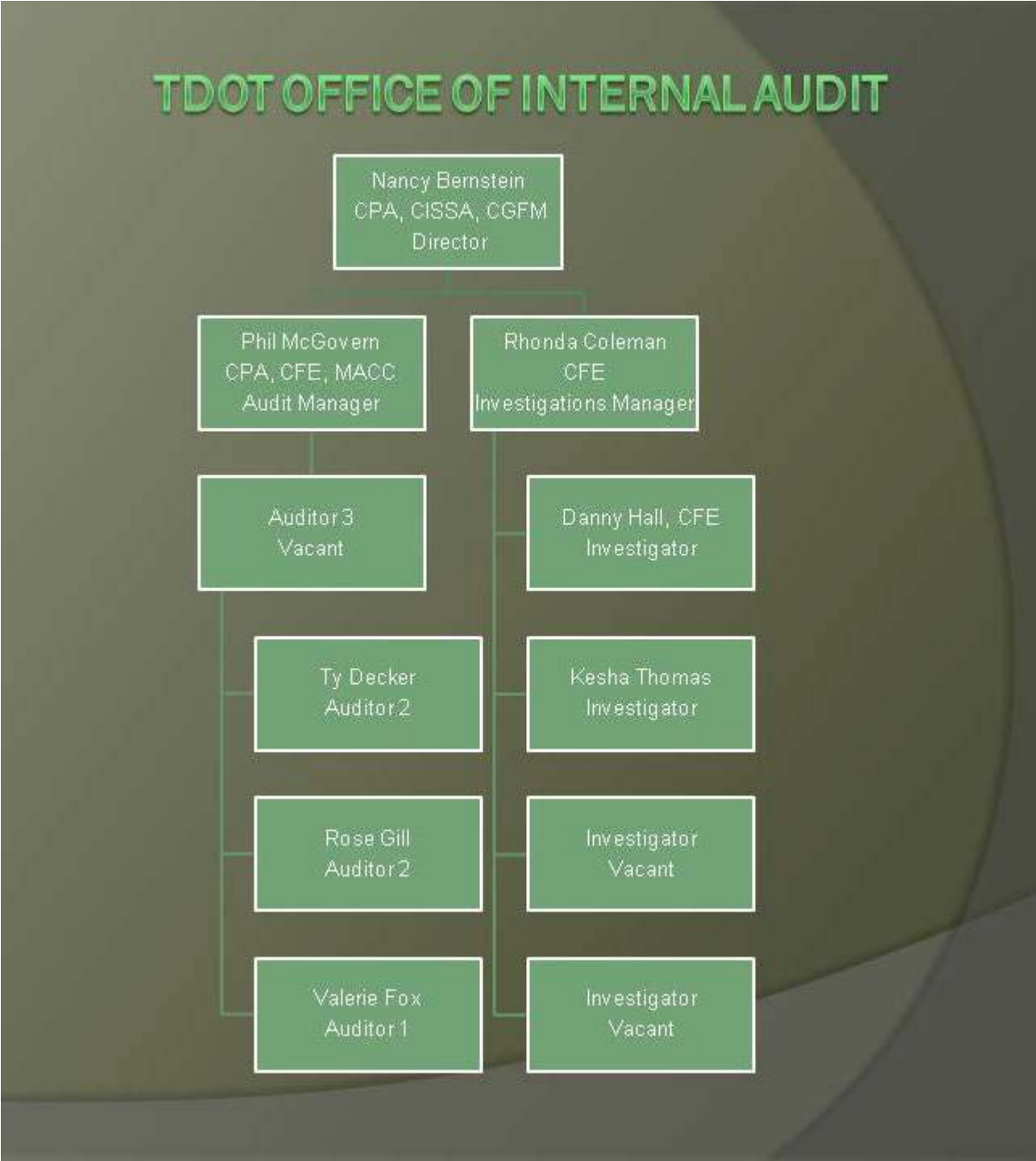
Internal auditors perform their work effectively by maintaining "Independence" within the Department. Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

The mission of the TDOT Office of Internal Audit is: To add value by partnering with management to improve effectiveness and efficiency of department operations and resources by promoting internal controls. We accomplish our mission through the following lines of business:

II. Lines of Business

Audit Services	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 the International Standards for the Practice of Internal Auditing promulgated by the Institute of Internal Auditors.
Follow Up Review Services	Audit Follow-Up Reviews are limited reviews performed on outstanding audit issues to determine whether management has resolved the issues identified in the audit report. These are performed on an annual basis until the issues are all resolved.
Investigative Services	Investigations are performed in response to allegations of fraud, waste, or abuse and provide management with facts to better enable them to address the situation. Investigations are performed on an "as-needed" basis.
Consulting Services	Consulting Services provide a resource to assist management in developing and implementing changes to continuously improve the Department.
Special Projects	From time to time the Commissioner or members of management request our assistance with special projects of various types.

III. Organization Chart



IV. Office of Internal Audit Annual Work Plan July 1, 2007 – June 30, 2008

Investigations

Cases initiated in prior years still ongoing will be worked as well as new cases received during the year.

Special Projects

- Test Report Project
- Public Transportation Review
- Risk Assessment for 2007 Financial Integrity Act and FY 2008 Audit Planning
- Unplanned special requests from the Commissioner

Audits

- Johnson City - Finish 2007 audit
- Region 1 Construction Offices:
 - Construction – Unit 1033 – Greenville
 - Construction – Unit 1042 – Maryville
 - Construction – Unit 1034 – Morristown
 - Construction – Unit 1031 – Elizabethton
 - Construction – Unit 1052 – Harriman
 - Construction - Unit 1041 - Newport

Follow Up Reviews

- Construction - Unit 3053 - Lawrenceburg - Finish 2007 audit
- Construction - Unit 3031 - Nashville - Finish 2007 audit

State Audit Follow Up Reviews:

- Performance Audit Follow Up April 2007 (Gold)
- Audit Results from CAFR June 2006 (Gray)

1st Follow Up Reviews:

- Region 1 ROW FUP
- Region 3 ROW FUP
- Region 4 ROW FUP
- Construction – Unit 1043 – Knoxville
- Construction – Unit 1051 - Lafollette
- Construction – Unit 1032 - Johnson City – Follow Up and/or Final Records Audit

2nd Follow-Up Reviews

- Railroad Safety FUP
- Rail and Water FUP
- Construction – Unit 2041 – Cleveland
- Construction – Unit 3032 – Nashville
- Construction – Unit 3034 FUP – Gallatin stockpile - none to test in FY 2007 - need to FUP in FY 2008 if possible
- Construction – Unit 4034 – Trenton stockpile - none to test in FY 2007 - need to do 2nd FUP in FY 2008 if possible

3rd Follow-Up Reviews

- Public Transportation FUP

4th Follow-Up Reviews

- Construction – Unit 3031 – Nashville

V. Office of Internal Audit Annual Work Plan July 1, 2008 – June 30, 2009

Investigations

Cases initiated in prior years still ongoing will be worked as well as new cases received during the year.

Audits

- Final Records Audit / 1st FUP - Construction Unit 1032 - Johnson City
- Construction Unit 1052 - Harriman

Follow Up Reviews

- 2nd FUP - Rail & Waterways Office
- 3rd FUP - Office of Public Transportation
- 4th FUP - Construction Unit 3031 - Nashville

Special Reports

- Follow Up: State Audit - Spring 2008 Blue Cover Report
- Follow Up: Spring 2006 Blue Cover Report dated February 2007

VI. Business Results July 1, 2007 – June 30, 2009

Audit Services	5 Audits Completed \$3,470,946.29 – Dollar Value of Audit Issues Identified \$58,257,104.67 – Dollar Value of Contracts and Grants Audited
Follow Up Review Services	12 Follow Up Reviews Completed \$179,766.14 – Dollar Value of Follow-Up Review Issues Identified \$66,713,040.90 – Dollar Value of Contracts and Grants reviewed during Follow Up Reviews 9 Follow Up Reviews with all Audit Issues resolved
Investigation Services	35 Ongoing Cases from Prior years 41 New Notifications 14 Investigation Reports 38 Closing Memos (Investigation - no Report) 24 Cases Ongoing \$333,865.57 Recovered
Special Projects	6 Special Projects

VII. Staffing Changes

- Rhonda Coleman became our Investigations Manager in September 2008.
- Valerie Fox became our newest Auditor in August 2009.

VIII. Challenges

- In February 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA) in order to create jobs, spur economic activity, and invest in long-term growth while maintaining unprecedented levels of accountability and transparency in government spending. The construction and road and bridge repair work included among the many ARRA funded projects has created a huge additional influx of federal dollars to TDOT requiring the attention of TDOT Internal Audit.
- In September 2008 the State of Tennessee went “live” with the new “Edison” system’s payroll module and in July 2009 TDOT went “live” with the Edison financial component of the system. Edison has created numerous challenges for all state employees, including TDOT Internal Audit. Information which used to be readily available has been difficult and sometimes not yet possible to obtain with the new system, thus creating additional challenges for Auditors and Investigators.
- The office continues to face challenges working through the state’s personnel system to hire and/or promote auditors to ensure adequate audit coverage of ARRA and non-ARRA funded projects.
- Investigation resources are continually stretched as the office’s case load remains quite high and the investigator position remains challenging to fill.

IX. Strategic Targets

- Design and implement a strategy to incorporate Information Technology auditing techniques.
- Prepare Biennial Report for Internal Audit Office.
- Implement a Customer Service Survey for audit 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.

X. Office of Internal Audit Annual Work Plan July 1, 2009 – June 30, 2010

Audits

Audit activities this year will be directed toward programs funded through the ***American Recovery and Reinvestment Act (ARRA)***, the federal stimulus legislation passed this spring by Congress and signed by President Obama. This program has been categorized as “high risk” by federal and state government overseers as well as by TDOT’s risk management program due to the large amount of dollars required to be obligated in a very short timeframe and due to a large amount of transparency reporting required.

Construction “ARRA” Audits:

- ARRA Construction Audits (highway, bridge etc... i.e. TDOT let projects) will be coordinated with Follow Up reviews of Construction Offices which have outstanding audit issues from previous audits.
- Construction Offices without previous unresolved audit issues will also be audited for compliance with ARRA and other TDOT requirements. We will attempt to perform audits of this nature in each of TDOT’s four regions.
- These audits will cover some areas we typically review in Construction Office audits such as review of Engineer Estimates, Davis Bacon compliance, and Stockpile Payments; as well as some of the new requirements imposed by ARRA including contract provisions.

Transit “ARRA” Audit(s):

- Some ARRA projects administered by TDOT’s Multimodal Division will be audited. These audits will include areas such as program monitoring and contract provisions as well as eligibility of program costs.

Headquarters or Oversight “ARRA” Audit:

- This audit will include a review of certain high risk areas of the overall administration of the ARRA program at TDOT. This audit will include reviewing controls over areas such as reporting requirements.

Local Programs “ARRA” Audit(s):

- Some audits will be conducted over ARRA projects administered by the Local Programs Office at TDOT (i.e. projects let by local governments). These audits will in effect be “grant audits”. Areas including eligibility of program expenses, local oversight, and monitoring will be considered in developing audit programs over these areas.

Follow Up Reviews

- Johnson City FUP – This follow up review is currently in process and will be completed during the State’s 2010 Fiscal Year.
- Rail and Water – This follow up review will involve looking at a few outstanding audit issues from a previous audit of the Rail and Water program at TDOT.

Investigations

- TDOT Investigators will continue work on ongoing investigations.
- Work will also be performed on anticipated new allegations which will most likely be received during the fiscal year.
- TDOT Investigators will also cooperate with other investigatory entities as requested.