

Department of Transportation

May 2004

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Charles K. Bridges, CPA
Assistant Director

Elizabeth M. Birchett, CPA
Audit Manager

Debby Myers, CISA
In-Charge Auditor

Lisa Clifford
Cindy Dunn, CFE
Kevin Fearn
Jane Terry
Staff Auditors

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

May 27, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Gerald F. Nicely, Commissioner
Department of Transportation
Suite 700, James K. Polk Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Transportation for the period July 1, 2002, through January 31, 2004.

The review of internal control and compliance with laws and regulations resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/eb
04/053



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897 FAX (615) 532-2765

March 2, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Transportation for the period July 1, 2002, through January 31, 2004.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Department of Transportation's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Department of Transportation is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/eb

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Transportation
May 2004

AUDIT SCOPE

We have audited the Department of Transportation for the period July 1, 2002, through January 31, 2004. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the Help Truck Program, the Highway Beautification Program, Express Shipping, Overweight and Overdimensional Permits, the Ethics Policy, and the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT FINDINGS

The audit report contains no findings.

Financial and Compliance Audit Department of Transportation

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Financial and Compliance Audit Department of Transportation

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Transportation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

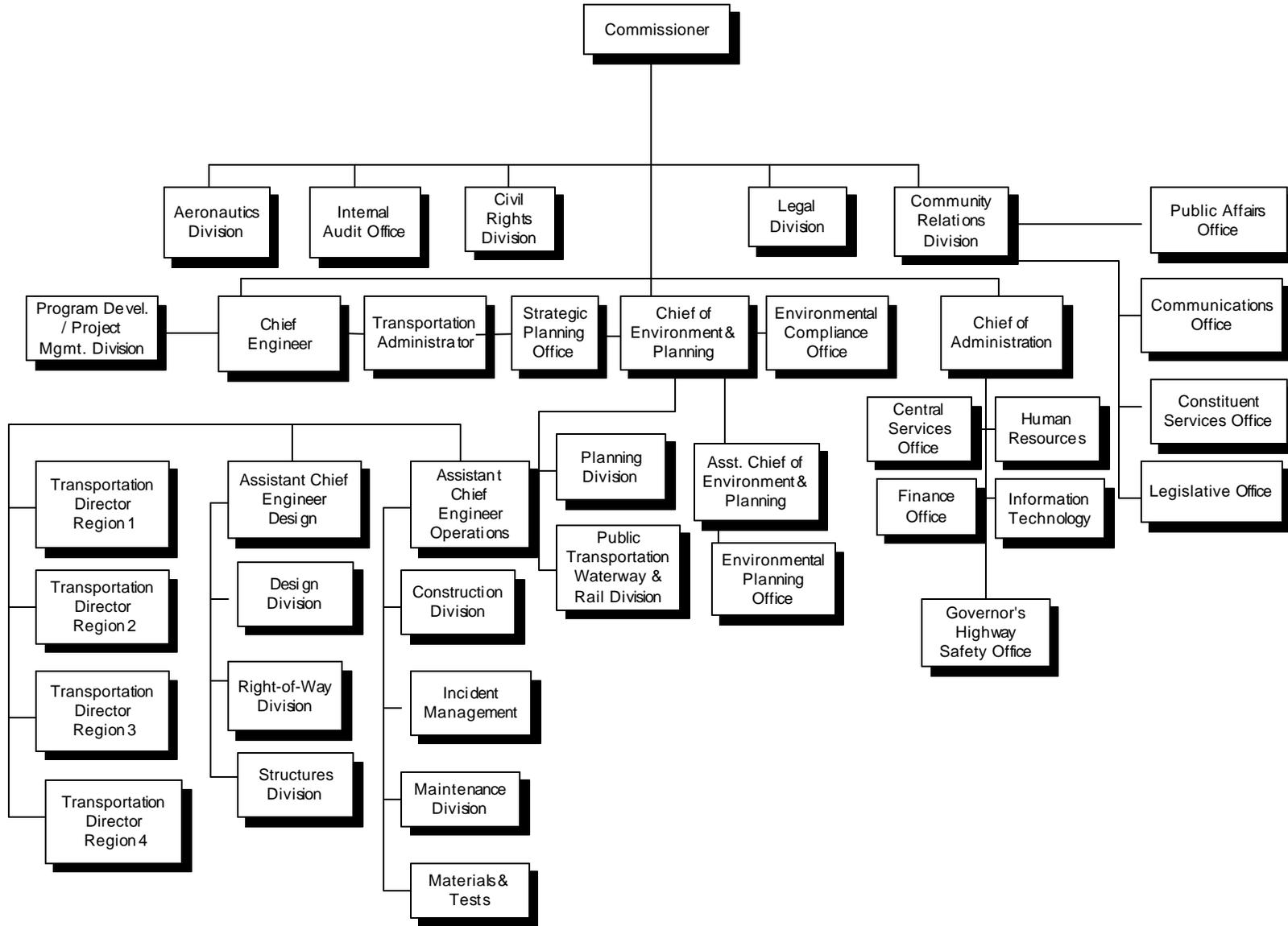
BACKGROUND

The mission of the Department of Transportation is to plan, implement, maintain, and manage an integrated transportation system for moving people and products, with emphasis on quality, safety, efficiency, and the environment. In order to fulfill this mission, the department has a Bureau of Engineering that administers all phases of transportation programs from planning, constructing, and maintaining of highways to administering field work.

Along with its roadway activities, other duties for the bureau include planning and developing rail transportation, providing aerial photography and mapping services, maintaining and operating state-owned aircraft, issuing permits for overdimensional vehicles, funding assisting publicly owned airports, and controlling outdoor advertising on state highways. The department also provides maintenance on the department’s general vehicle fleet and technical and funding assistance to over 300 public transportation agencies.

With approximately 4,500 employees and a budget over one billion dollars, the department is one of the largest agencies in state government. An organization chart of the department is on the following page.

Department of Transportation Organization Chart



AUDIT SCOPE

We have audited the Department of Transportation for the period July 1, 2002, through January 31, 2004. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of the Help Truck Program, the Highway Beautification Program, Express Shipping, Overweight and Overdimensional Permits, the Ethics Policy, and the Financial Integrity Act. The audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

STATUS OF PRIOR AUDIT FINDINGS

Most Recent Financial and Compliance Audit

Audit report number 02/101 for the Department of Transportation, issued in May 2003, contained four audit findings. Three of these findings were also included in the State of Tennessee *Single Audit Report* for the year ended June 30, 2002. The updated status of these three findings was determined and reported in the *Single Audit Report* for the year ended June 30, 2003. The updated status of the fourth finding as determined by our audit procedures is described below.

Resolved Audit Finding

The current audit disclosed that the Department of Transportation has taken action to correct the previous audit finding concerning the inappropriate procurement of advertising services.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

HELP TRUCK PROGRAM

The Tennessee Department of Transportation operates Help Trucks on Tennessee's most heavily traveled highways in Chattanooga, Knoxville, Memphis, and Nashville. The Help Truck Program began in 1999 for the purpose of reducing traffic congestion, improving safety, and assisting motorists in distress. This program is a coordinated effort by Tennessee Department of Transportation and other agencies and jurisdictions to enhance the traffic flow on urban interstates and freeways in order to maximize the operation of the highway network. The Help Truck Program helps stopped vehicles by providing minor on-site mechanical assistance, the availability of cellular phone service, and the removal of the vehicle to a safer spot off the main travel lanes.

The objectives of our review of the controls and procedures in the Help Truck Program were to determine whether

- the policies and procedures were adequate and based on current state law;
- expenditures were adequately supported, properly approved, and in compliance with program policies and procedures;
- “First Responder” employees held an active license with the Tennessee Department of Health; and
- Operator Daily Reports were properly completed.

We reviewed applicable laws and regulations relating to the Help Truck Program. We interviewed key personnel to gain an understanding of the program’s policies and procedures. We performed test work on a sample of expenditures to determine whether the transactions were adequately supported, properly approved, and in compliance with program policies and procedures. We verified the license status of all First Responder employees with the Tennessee Department of Health. We reviewed a sample of Operator Daily Reports to determine if the reports were properly completed.

Based on interviews, observations, review of supporting documentation, and test work, it appears that the Help Truck Program’s policies and procedures were adequate and based on current law; expenditures were adequately supported, properly approved, and in compliance with program policies and procedures; First Responder employees all held an active license; and Operator Daily Reports were properly completed.

HIGHWAY BEAUTIFICATION PROGRAM

The Tennessee Department of Transportation developed the Highway Beautification Program to clean up Tennessee highways. Some of the programs in place include Adopt-A-Highway, Junkyard Control, Litter Grant, Outdoor Advertising Control, Wildflowers, and Vegetation Control. Our review focused on the areas of Junkyard Control, Outdoor Advertising Control, and Vegetation Control. Junkyard Control regulates the establishment, operation, and maintenance of junkyards adjacent to interstate and primary highways for aesthetic purposes. Outdoor Advertising Control restricts the use of outdoor advertising on interstate and primary highways. Vegetation Control issues permits for the cutting, trimming, or removal of vegetation located on highway rights-of-way adjacent to outdoor advertising.

The objectives of our review of the controls and procedures in these areas of the Highway Beautification Program were to determine whether

- the policies and procedures were adequate and based on current state law;
- controls over funds collected for permits and fees in these areas were adequate; and
- receipts of the program were adequately supported, properly computed, and in compliance with program policies and procedures.

We reviewed applicable laws and regulations to determine the responsibilities of Junkyard Control, Outdoor Advertising Control, and Vegetation Control. We interviewed key personnel to gain an understanding of policies, procedures, and controls. We performed test work on a sample of receipts to determine whether the transactions were adequately supported, properly computed, and in compliance with program policies and procedures.

Based on our interviews, review of supporting documentation, and test work, it appears that the policies and procedures for the areas of Junkyard Control, Outdoor Advertising Control, and Vegetation Control in the Highway Beautification Program were adequate and based on current law; controls over funds collected for permits and fees in these areas were adequate; and receipts were adequately supported, properly computed, and in compliance with program policies and procedures.

EXPRESS SHIPPING

The Department of Transportation utilizes the services of an express carrier to process and ship overnight packages. The objectives of our review of the controls and procedures over express shipping were to determine whether the policies and procedures were adequate, disbursements to express carriers were adequately supported and properly approved, and the express shipping services were for business (not personal) purposes.

We interviewed key personnel to gain an understanding of policies and procedures. We performed test work on a sample of disbursements to express carriers to determine whether the transactions were adequately supported and properly approved, and the express shipping services were for business purposes.

Based on our interviews, review of supporting documentation, and test work, it appears the department's policies and procedures for express shipping were adequate, disbursements to express carriers were adequately supported and properly approved, and the express shipping services were for business purposes.

OVERWEIGHT AND OVERDIMENSIONAL PERMITS

The Department of Transportation issues permits for moving overweight and overdimensional vehicles on Tennessee highways. In the interest of public safety and the preservation of highways, these permits are necessary for the transportation of oversize, overweight, or overlength articles or commodities that cannot be reasonably dismantled or conveniently transported otherwise.

The objectives of our review of the controls and procedures relating to Overweight and Overdimensional Permits were to determine whether

- the policies and procedures were adequate and based on current state law;
- controls over funds collected for permits and fees were adequate; and

- receipts were correctly recorded in the accounting system, adequately supported, properly computed, and in compliance with program policies and procedures.

We reviewed applicable laws and regulations relating to Overweight and Overdimensional permits. We interviewed key personnel to gain an understanding of policies, procedures, and controls. We performed test work on a sample of receipts to determine whether the transactions were correctly recorded in the accounting system, adequately supported, properly computed, and in compliance with program policies and procedures.

Based on our interviews, review of supporting documentation, and test work, it appears that the policies and procedures for Overweight and Overdimensional permits were adequate and based on current law; controls over funds collected for permits and fees were adequate; and receipts were correctly recorded in the accounting system, adequately supported, properly computed, and in compliance with program policies and procedures.

ETHICS POLICY

The Department of Transportation implemented an ethics policy effective February 26, 2003, requiring all employees to sign a statement on ethics. The policy also incorporates Executive Orders 1, 2, and 3, issued by Governor Phil Bredesen, as applicable. The objectives of our review were to determine whether the department's policy supplemented, without contradicting, the Executive Orders and whether the department's policy has been appropriately implemented.

We reviewed the department's ethics policy and Executive Orders 1, 2, and 3. We interviewed key personnel to gain an understanding of the policy and procedures for ensuring compliance with the policy. We performed test work on a sample of employees to determine if the required ethics statement(s) had been signed.

Based on our review, interviews, and test work, it appears the department's ethics policy supplements, without contradicting, the Executive Orders and that the department's policy has been appropriately implemented.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the department's June 30, 2003, responsibility letter and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the department's evaluation of its internal accounting and administrative control was properly maintained; and
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the department's procedures. We also reviewed the June 30, 2003, responsibility letter and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*. The department did not identify any weaknesses in the report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of Transportation filed its compliance report and implementation plan on June 30, 2003.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

Department of Transportation allotment codes:

401	Transportation Headquarters
402	Bureau of Administration
403	Planning and Programming
405	Environment and Planning
411	Bureau of Operations
412	Engineering Administration
414	Claims for Injury and Damage
416	Area Mass Transit
417	Waterways and Rail Construction
430	Equipment Administration
440	Planning and Research
451	Maintenance and Marking
452	Betterments
455	State Aid
461	Rural Roads Construction
462	Federal Secondary Construction
470	State Industrial Access
471	State Construction
472	Interstate Construction
473	Primary Construction
475	Forest Highway Construction
476	Appalachia Construction
478	Local Interstate Connectors
480	State Highway Construction
481	Capital Improvements
482	Other Construction
484	Great River Road
487	Metropolitan-Urban
488	Bridge Replacement
489	Highway Safety Construction
494	Transportation Equity Fund