

**Audit Results From
CAFR and Single Audit Procedures**

Department of Transportation

**For the Year Ended
June 30, 2004**

**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**

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**Department of Transportation
For the Year Ended June 30, 2004**

TABLE OF CONTENTS

	<u>Page</u>
Executive Summary	1
Transmittal Letter	2
Results of Procedures	3
Finding and Recommendation	5
Status of Prior Audit Findings	6

**Department of Transportation
For the Year Ended June 30, 2004**

EXECUTIVE SUMMARY

Finding

System administrative and security controls need improvement.

This report addresses reportable conditions in internal control and noncompliance issues found at the Department of Transportation during our annual audit of the state's financial statements and major federal programs. The scope of our audit procedures at the Department of Transportation was limited. During the audit for the year ended June 30, 2004, our work at the Department of Transportation focused on the Highway Fund, a major fund in the *Tennessee Comprehensive Annual Financial Report*. Our audit of the fund included determining whether the department had an adequate system of internal control over financial reporting. We also performed certain audit procedures to obtain reasonable assurance about whether the State of Tennessee's financial statements were fairly presented. In addition, our work at the Department of Transportation included one major federal program: Highway Planning and Construction. We audited this federally funded program to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the program to ensure compliance. Management's response is included following the finding.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 24, 2005

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 are the results of certain limited procedures performed at the Department of Transportation as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2004, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in a finding which is detailed in the Finding and Recommendation section.

Sincerely,

John G. Morgan
Comptroller of the Treasury

05/011



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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NASHVILLE, TENNESSEE 37243-0264
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December 3, 2004

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Transportation as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2004. The scope of our work included the Highway Fund, a major fund in the *Tennessee Comprehensive Annual Financial Report*. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Transportation.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal program administered by the Department of Transportation. We performed certain audit procedures on this program as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

**Major Federal Program Administered by the
Department of Transportation
For the Year Ended June 30, 2004
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
20.205	Highway Planning and Construction	\$601,159

Source: State of Tennessee's Schedule of Federal Financial Assistance for the year ended June 30, 2004.

The Honorable John G. Morgan
December 3, 2004
Page Two

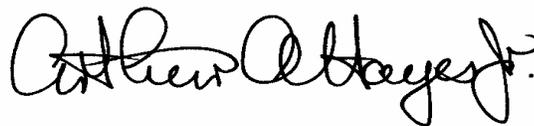
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in Government Auditing Standards, issued by the Comptroller General of the United States.

We have issued an unqualified opinion, dated December 3, 2004, on the State of Tennessee's financial statements for the year ended June 30, 2004. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified an internal control issue related to the major federal program at the Department of Transportation. This issue, along with management's response, is described immediately following this letter. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Transportation's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent "A" at the beginning.

Arthur A. Hayes, Jr., CPA,
Director

FINDING AND RECOMMENDATION

System administrative and security controls need improvement

Finding

The Department of Transportation needs to improve its controls over the authorization and approval of computer user access as well as improving controls over the elimination of user access for terminating employees. The following exceptions were noted:

- a. The process for authorizing users in the Department of Transportation State Transportation Accounting and Reporting System (DOT STARS) is not sufficiently documented. For 20 of 25 users tested (80%), there was no supporting documentation authorizing their access to the system.
- b. Access was not appropriately terminated for 9 of 25 users tested (36%). These nine individuals were not employees during the audit period but still had access to the DOT STARS system.

Strong computer security controls will help prevent the unauthorized access, deletion, or alteration of data. Security controls will also limit a user's system access so that access is granted on a "need-to-know, need-to-do" basis. The proper administrative controls will assist management in maintaining the appropriate level of computer security.

Recommendation

Management should implement the proper computer administrative and security controls over the authorization and approval of user access as well as improving controls over the termination of user access. Authorization and approval should be maintained on file for all users of the department's significant information system. The authorization should specify the system capabilities required by the user and should be approved by appropriate management. User access should be reviewed regularly to determine whether it is still appropriate, based on the employee's current job responsibilities.

Controls should be implemented to ensure that user access is revoked immediately after employment ends or when the user no longer requires access.

Management's Comment

We concur. Rather than indefinitely keep on file individual requests for user authorization, annually all authorized users will be verified. Users with more than "inquiry only" security level will be verified by the unit or division director. Individual authorization requests

received after the most recent verified list of users will be maintained on file. All other requests will be destroyed.

RACF security controls user access to all mainframe applications, including STARS. Therefore when a user's RACF ID is removed, access to STARS is effectively removed. In addition to the current process, all authorized STARS users will be verified against a list of active TDOT employees and user records not on the active TDOT employee list will be deleted.

STATUS OF PRIOR AUDIT FINDINGS

State of Tennessee *Single Audit Report* for the year ended June 30, 2003

Audit findings pertaining to the Department of Transportation were included in the *Single Audit Report*. The updated status of these findings as determined by our audit procedures is described below.

Resolved Audit Findings

The current audit disclosed that the Department of Transportation has corrected the previous audit findings concerning controls over construction-in-progress and the Davis-Bacon Act.

Most Recent Financial and Compliance Audit

Audit report number 03/100 for the Department of Transportation, issued in May 2004, contained no audit findings.