TN TDOT Department of Transportation

Performance Audit of the Finance Division's

Payroll Integrity and Damage Claims Process

Tennessee Department of Transportation - Division of Internal Audit

Government Accountability Professionals

Final Report | March 2016

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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Results in Brief

We conducted a performance audit of the Finance Division's payroll and damage claims processes covering the period July 1, 2012 through June 30, 2015. The audit results indicated that, for a majority of transactions, the integrity of payroll transactions appears intact. However, the damage claim activities require major process flow improvements, more robust internal controls, and proper accounting treatment of transactions to ensure compliance with existing statutes and improve current cost recovery practices. Audit objective questions and conclusions included ascertaining the following:

- ***Were controls in place to ensure the integrity, validity, and accuracy of payroll transactions?***

Generally yes. Internal controls were in place and working as intended. Minor process improvements coupled with observance and application of existing controls will further enhance transactional integrity and accuracy.

*Internal Control Evaluation**: Managed***

- ***Were internal controls and current practices, for damage claims, designed to maximize the recovery of costs for guardrail and cable barrier repairs?***

No. Current practices and procedures do not have sufficient internal controls, are not designed for optimal process flow, and do not ensure successful cost recovery activities.

*Internal Control Evaluation: **Repeatable***

Key Recommendations

- Management should utilize and promote strict adherence to internal controls currently in place for the approval and validation of payroll hours submitted.
- Management should develop a comprehensive approach to the administration of the damage claims activity. Formalization should include (a) the development of a procedures guide; (b) devising efficient process flows; (c) delineating lines of authority; (d) use of proper accounting and information systems; (e) consistent cost accounting methodology; (f) standardized collection procedures; (g) universally applicable fines and penalties; and (h) how to handle transaction exceptions. Conversely, management should consider whether it is in best interest of the Department to delegate parts of the activity or the entire function to a specialized unit dedicated solely to the program.

Introduction

Audit Initiation

We conducted a *Performance Audit of the Finance Division* in fulfillment of the annual audit plan for the fiscal year 2015, as presented to the Commissioner of Transportation, the Deputy Commissioner of Transportation, and the Comptroller of the Treasury.

The overarching goal of every performance audit engagement conducted by the Office of Internal Audit (IA) is to assist those charged with governance by providing information to help improve operational performance, reduce costs, facilitate decision-making, and contribute to public accountability

Background

The Finance Division (Finance) is one of 30 divisions within the Tennessee Department of Transportation (TDOT) and is responsible for the administration of the Department's accounting system. The varied operational functions of Finance include the following:

Although ancillary transactions occur statewide, Finance retains final approval authority for all of the Department's financial transactions.

- Handling all billing and receipts for department payables
- Approving payment vouchers for contracts and trade payables
- Creating and approving vouchers for utility payments
- Requesting and tracking reimbursements from federal agencies for qualifying TDOT expenditures
- Processing checks and cash received from Regional operations and at headquarters
- Controlling access and user rights to the Financial Supply Chain Management (FSCM) module of the State's ERP system for all TDOT employees
- Preparing the Department's annual budget
- Approving and submitting employee time-keeping information for employee payroll
- Fiscal monitoring of grant sub-recipients and other external parties
- Tracking TDOT inventory, fixed assets, and mobile equipment

Finance also interacts with other TDOT employees across the state that perform ancillary financial duties such as ordering and bill paying, tracking and recording project

financial data, and recording employee hours worked. Finance retains final transaction approval authority for all payment and financial functions within the Department.

Operational and Financial Information

The Finance Division operates out of a centralized organizational structure, having all division employees located at the TDOT headquarters in Nashville. The Director of Finance heads the Division, and two administrative reporting sections further subdivide nine functional areas within the division (see Exhibit C).

Payables, Cost Accounting and External Audit – This first organizational subdivision has overall responsibility for contracts payable (construction and consultant), trade accounts payable, cost accounting, and fiscal monitoring. The flow of funds through these functional areas totaled approximately $1.6, $1.4, and $1.4 billion in fiscal year 2013, 2014, and 2015 respectively. Additionally, Finance tracks approximately $270 million in inventory, consisting of fleet vehicles, equipment, and storeroom inventory (see Exhibit A).

Exhibit A – Payables Transaction Summary

Payable Vouchers Issued			
Source	**FY 2013**	**FY 2014**	**FY 2015**
Highway Construction Payables	$ 988,846,570	$ 865,838,049	$ 831,938,748
Other Contracts Payables	$ 434,771,783	$ 430,855,997	$ 429,700,539
Trade Accounts Payables	$ 173,876,070	$ 145,005,659	$ 127,031,951
Total Vouchers Issued	**$ 1,597,494,423**	**$ 1,441,699,705**	**$ 1,388,671,238**

Source: Financial information from Edison as provided by Finance

Receivables, General Ledger and Edison Support, Budget, and Payroll - The second reporting area has overall responsibility for accounts receivable, budget, payroll disbursements, and Edison administration (See Exhibit B). The Receivables function initiates billings to federal agencies for reimbursement of qualifying monies expended by TDOT for a variety of transportation and transit related activities. Finance requests reimbursements from the Federal Highway Administration (FHWA) on a weekly basis, and monthly from the Federal Aviation Administration (FAA), the Federal Transit Administration (FTA), and the National Highway Traffic Safety Administration (NHTSA).

In the three previous fiscal years (2013, 2014, and 2015), this subdivision consistently processed approximately $1 billion annually in federal reimbursement transactions. During the same preceding three-year period, the payroll function processed approximately $143, $146, and $144 million of payroll expenses (salaries) respectively.

Revenue Collections (Fuel Taxes, Licenses, and Permits) - The Tennessee Department of Revenue (DOR) handles the collection and distribution of all receipts of state taxes and fees to all state departments. TDOT receives funds for gasoline and fuel taxes, vehicle inspection fees, vehicle registration fees, and taxes on aviation, railroad, and waterway fuels. DOR allocates these monies to TDOT using a monthly journal entry. These transfers from DOR totaled $680 million in fiscal year 2013 and $675 million in fiscal year 2014.

Exhibit B – Receivables and Deposits Transaction Summary

Receipts and Deposits Processed			
Source	**FY 2013**	**FY 2014**	**FY 2015**
FHWA	$ 991,101,902	$ 929,976,944	$ 794,777,715
FAA	$ 11,019,469	$ 17,235,536	$ 13,733,078
FTA	$ 22,790,771	$ 27,580,212	$ 24,713,226
NHTSA	$ 25,679,934	$ 26,246,296	$ 32,364,306
iNovah (Cash and Checks)	$ 55,412,798	$ 45,086,042	$ 44,815,980
Local Govt. Investment Pool	$ 446,600	$ 6,705,250	$ 4,234,078
Credit Cards	$ 154,280	$ 278,559	$ 157,274
Other	$ 1,941,864	$ 49,393	$ 719,991
Total Receipts	**$ 1,108,547,617**	**$ 1,053,158,232**	**$ 915,515,648**

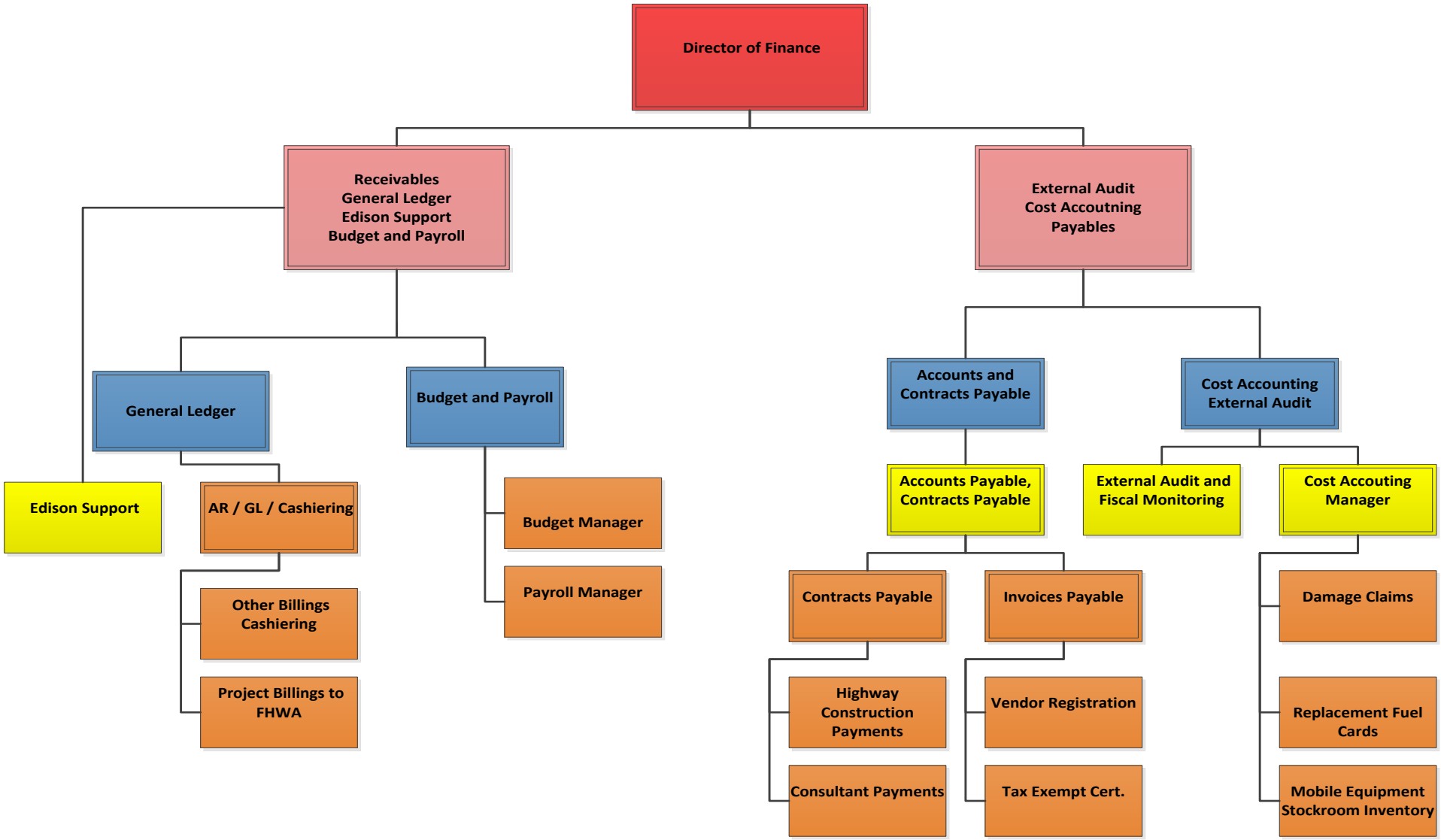
Source: Financial information from Edison as provided by Finance

Payroll: Background and Process Flow

The Payroll section within Finance has final control over the process of paying TDOT's ~3,500 employees. Employees, or the employee's designated timekeeper, are responsible for entering time worked, leave requests, leave time used, and overtime requests in order to receive compensation. A designated supervisor reviews and approves the employee's timecard in Edison (the State's official accounting system) for each pay period.

The Payroll function reviews submitted time and generates exception reports from Edison at the end of each pay period. Supervisors must clear exceptions in order to generate payable time for an employee. In the event that the supervisor does not clear exceptions, Payroll overrides the review process and clears the exceptions; this ensures that an active employee receives a paycheck for the period in question.

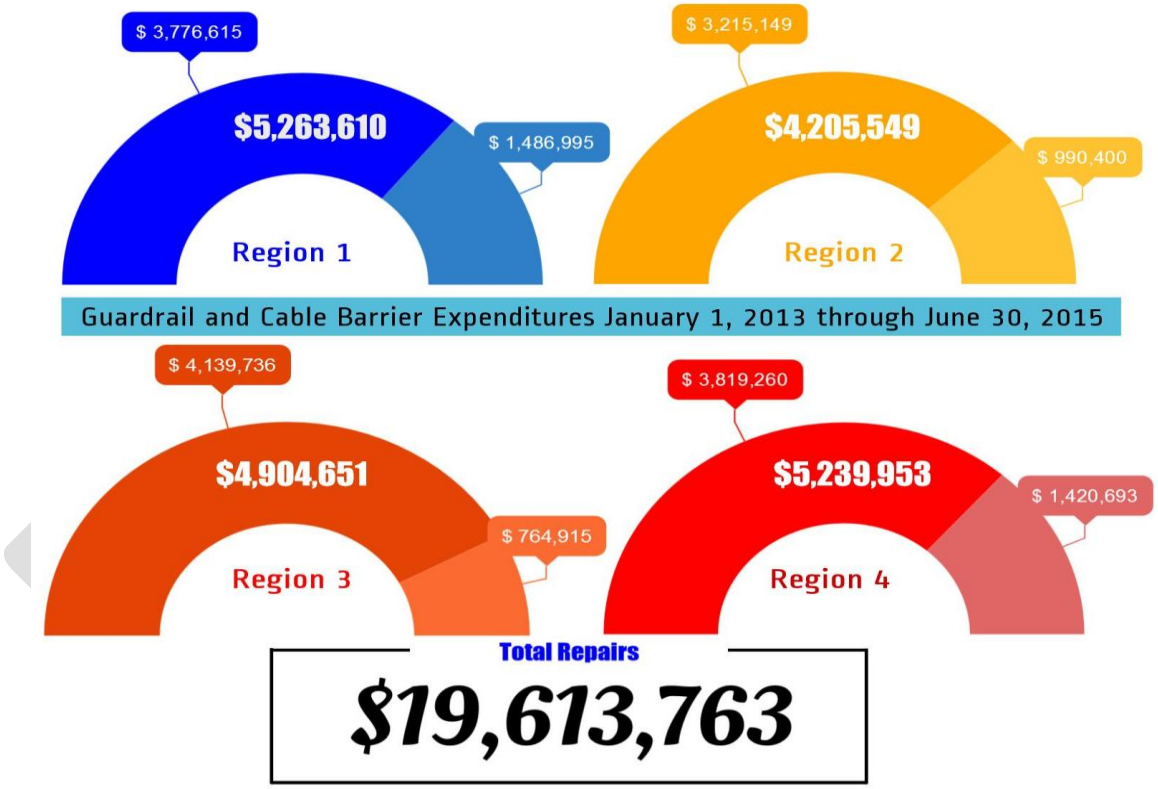
Exhibit C – Finance Division Organizational Chart



Damage Claims: Background and Process Flow

The Damage Claims function is in charge of the billing, record keeping, and collections of reimbursement from operators and drivers responsible for causing damage to Tennessee's highway infrastructure such as guardrails, cable barriers, signs, fences, or bridges. We limited the scope of audit work to guardrail and cable barriers to allow traceability of contracted work. Exhibit D delineates the monetary expenditures on guardrail and cable barriers repairs.

Exhibit D – Guardrail and Cable Barrier Repair Summary from January 1, 2013 through June 30, 2015



Source: Contracted transactions from SiteManager

As the current process is applied, Finance relies upon annually downloaded incident reports, provided by the Department of Safety (DOS), to identify parties responsible for property damages. Finance culls the list provided by DOS and identifies incidents involving damage to TDOT property including guardrails, cable barriers, signs, fences, or bridges. Once identified, Finance sends the accident information to the four regions.

Field operations at the regions attempt to reconcile the accident information with historical repair activities based on incident location. Once regional personnel identify a positive match, they package and return the information to Finance. Finance uses the information provided by the regional personnel to prepare an invoice and send a bill to the responsible party identified in the incident report. At this point, Finance enters the transaction in the *Black Book*, an off-records and unauthorized accounting system, which does not interface with Edison. Under the current process, accounts receivables are not booked in Edison when Finance sends out invoices and billings to the responsible party. When a payment is, or payments are, received, Finance deposits the funds and books the transaction(s) into Edison as miscellaneous revenues. Exhibit E shows the financial summary of damage claims transactions for the audit period, Exhibit F shows the cumulative repair expenditures for three years, and Exhibit G depicts the current damage claims process flow.

Exhibit E – Damage Repair and Damage Claims Transaction Summary from January 1, 2013 through June 30, 2015

Region	Total Expenditures	Damage Claims Billed[1]	Billing Percentage	Total Amount of Collected Claims	Recovery Percentage
1	$ 5,263,610	$ 2,982,764	57%	$ 1,580,161	30%
2	$ 4,205,549	$ 1,350,243	32%	$ 749,171	18%
3	$ 4,904,651	$ 1,484,910	30%	$ 905,013	18%
4	$ 5,239,953	$ 443,756	8%	$ 251,090	5%
Totals	$ 19,613,763	$ 6,261,673	32%	$ 3,485,436	18%

Source: Finance Division transactions from SiteManager and Black Book

Exhibit F – Damage Repair Summary from January 1, 2013 - December 31, 2015

Region	2013	2014	2015[2]
1	$ 2,312,195	$ 1,763,404	$ 2,780,266
2	$ 1,768,711	$ 1,697,773	$ 1,737,913
3	$ 2,095,779	$ 1,750,067	$ 2,564,968
4	$ 1,975,945	$ 1,643,503	$ 2,284,939
Totals	$ 8,152,629	$ 6,854,747	$ 9,368,085

Source: Finance Division transactions from SiteManager

[1] Billed amounts may vary from the actual cost of repairs paid to contractors because billed or invoiced amounts include other charges that are not under contract such as the cost of TDOT inspectors overseeing the repair, cost of equipment utilized by TDOT inspectors, replacement of damaged highway signs or markers, and landscaping costs. We extracted billing and collection information from the only available source, the *Black Book* database. Per Government Auditing Standards (GAS) 6.27 (b), we placed limited reliance on the reliability of the *Black Book* due to severely deficient internal controls.

[2] For comparative evaluation, we annualized the values presented for the calendar year 2015, based on SiteManager information covering the period January 1, 2015 through December 31, 2015. Actual audit scope covered transactions from January 1, 2013 through June 30, 2015. See Appendix D.3 for additional details.

Exhibit G – Damage Claims Process Flow as of December 31, 2015

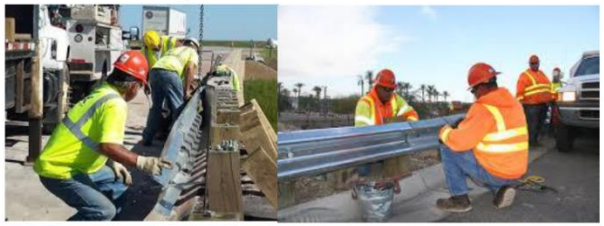
1. Motorist accident causes Guardrail damage

2. Law enforcement officer writes a citation of the incident

3. Details of the traffic citation are subsequentlly stored in TITAN database managed by the Department of Safety.

4. TDOT Finance Division performs the following:
a. Pays the contractor monthly based on information in SiteManager
b. On an annual basis, downloads TITAN data and culls accident data from TITAN and sends the information to the 4 regions; accident data could be 1 month or 12 months old.

2. TDOT initiates repair of the damaged guardrai or cable barrier using contractors.



3. Regional Project Managers record repair data and costs, information is then entered into the SiteManager Database. Project cost information in SiteManager is used by Finance to pay contractor performing the repair work.

5. Regional Project Managers perform the following:
a. Attempt to match accident data with Guardrail/cable barrier repair data.
b. If a positive match is identifed,the Regional Project Manager sends the information back to Finance. Average turn around time is 3 months

6. After receiving matched information from the regions, Finance performs the following :
a. Enters the information in a "*Black Book*", an unofficial accounting database
b. Files a damage claim and sends a bill to the identified responsible party for the cost of repairs
c. Receives payments from the responsible parties
d. Records payments received as "*Miscellaneous Revenue*" in the official accounting system, Edison; on average, payments are received 17 months after the accident occurred.

Audit Overview

The aim of the *Performance Audit of the Finance Division* engagement was to provide TDOT's Senior Leadership and the management of the Finance Division, information used for: oversight, stewardship of public resources, accountability, transparency, and improvements of government programs and operations.

We utilized a risk management based methodology to provide an assessment of (a) general accounting controls, (b) transparency and accuracy of transactions, and (c) compliance with policies and statutes. Our audit activities also delved into areas of process improvements that will enable the efficient use of limited resources, promote cost avoidance, improve cost recovery procedures, and enhance effectiveness of service delivery.

Audit activities focused on efficient use of resources, promoting cost avoidance, improving cost recovery processes, and effectiveness of service delivery.

The audit scope covered the transactions, balances, procedures, and policies in effect for the period July 1, 2012 through June 30, 2015. During the period under review, we relied on:

- quantitative information provided by Finance;
- query outputs from Edison;
- records within the Maintenance Management System (MMS);
- benchmarking information provided by other state DOTs (Virginia, Washington State, Indiana, and New York);
- benchmarking information provided by the Legal Department of the Metropolitan Government of Nashville and Davidson County;
- information provided by TDOT Human Resources Division;
- information provided by TDOT Strategic Transportation Investments Division;
- outputs from the iNovah cashiering system;
- information contained within the Tennessee Integrated Traffic Analysis Network (TITAN) from access provided by the Tennessee Department of Safety;
- interviews and information provided by regional operations; and
- interviews and discussions with Finance personnel

to test management assertions of (a) existence, (b) occurrence, (c) rights and obligations, (d) valuation, and (e) accuracy.

Objectives and Conclusions

I. Are controls in place to ensure the integrity of payroll transactions?

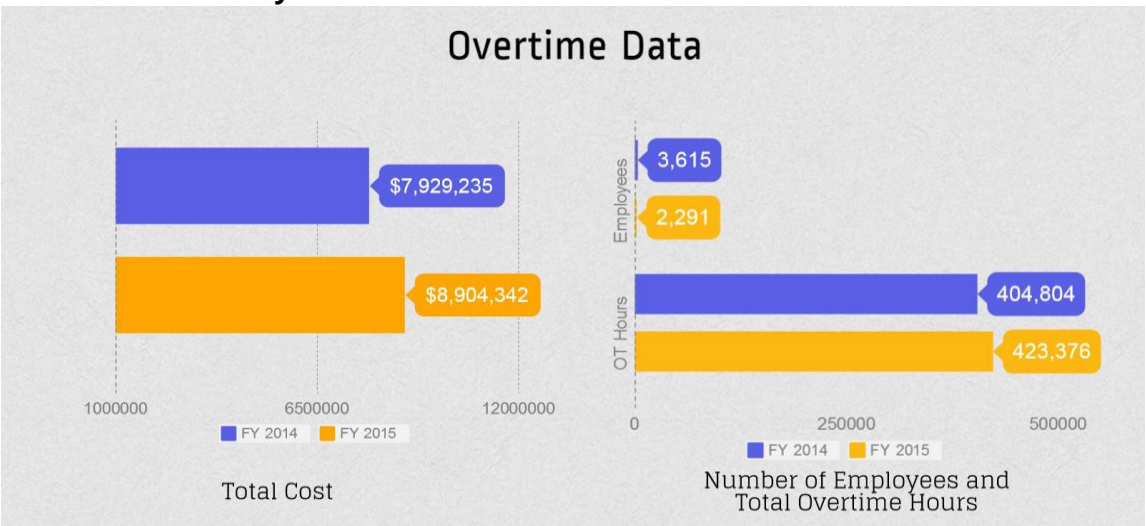
Generally yes. Results of the work conducted indicated that payroll transactions appear to be valid and properly supported for a majority of the transactions evaluated. However, process improvements related to appropriate timesheet approvals, adequate supervisory review, proper access controls, and reconciliation of disparate information systems require specific actions to create a more robust and secure transaction environment. We conducted the following procedures to ascertain the overall integrity of the payroll function.

> *Process improvements and strict adherence to existing internal controls will result in a more secure and accurate payroll system.*

Review of overtime transactions

For the audit period, we obtained the *Accumulated Payroll Overtime Reports* for fiscal years 2014 and 2015 from Finance. This report identifies all employees who received overtime compensation during each fiscal year. Exhibit H depicts a summary of the reported overtime transactions.

Exhibit H – Summary of Overtime Transactions for FY2014 and FY2015



Source: Finance Division, Accumulated Payroll Overtime Earnings Report

For fiscal year 2014, overtime payments totaled $7.9 million paid to 3,615 employees. In fiscal year 2015, overtime pay increased to $8.9 million with only 2,291 employees receiving overtime compensation. We reviewed a sampling of overtime transactions and noted issues with appropriate approvals of overtime transactions.

Exhibit I – Overtime Transaction Averages for FY2014 and FY2015

	FY2014	FY2015
Average OT Hours per Employee (annualized)	112 Hours	185 Hours
Average OT Cost per Employee	$ 2, 193	$ 3,887

Source: Finance Division, Accumulated Payroll Overtime Earnings Report

Our test work on overtime compensation included evaluating all employees earning overtime compensation in excess of four standard deviations above the average for each fiscal year. Our test samples resulted in identifying 53 employees earning overtime totaling $815,000 in fiscal year 2014 and 52 employees earning overtime of $1,121,000 in fiscal year 2015. To assess transactional validity of overtime compensation for the tested employees, we used Edison reports to evaluate the appropriate approval level. If an employee's payable time goes through MMS, we vouched the transaction to the Daily Work Report. In cases where an employee's time arises directly from entries in Edison, we accepted the Time and Labor Supervisors' sign-off as indicative of a valid transaction. We considered overtime hours not supported by Daily Work Report or the approval of an official Time and Labor Supervisor as an exception.

Exhibit J – Summary of Test Result – Time Approval Test Work

	FY2014	FY2015
Number of Employees in Test Sample	53	52
Employee Hours Evaluated[3]	37,660	44,177
Hours Approved by Time and Labor Supervisor	34,600	40,065
Percentage of Total Transactions	92%	91%
Hours Approved by Finance Payroll Function (Hours)	3,061	4,112
Percentage of Total Transactions	8%	9%

Source: Internal Audit Test Work

[3] Includes regular time and overtime hours worked.

The results of our work showed that Time and Labor Supervisors approved 92% and 91% percent of tested hours reported in fiscal year 2014 and fiscal year 2015, which also indicated that the payroll function performed supervisory overrides of 8 to 9 percent of the tested hours (See Observation A).

Review of holiday time entries

The state designated 13 official paid holidays in both fiscal year 2014 and 2015. Employees are not required to enter holiday time if they do not work any given holiday; Edison performs this time entry function automatically. However, if a TDOT employee is required to work on any given holiday, the employee or their timekeeper will enter time into Edison. The subsequent time entry enables the employee to receive payment for both the holiday and the time worked.

We tested holiday pay by first identifying all employees who had reported hours worked on any holiday during the fiscal year 2014 and 2015. We then selected a judgmental sample consisting of employees reporting time for the most number of holidays during each year, with a minimum sample size of 30. For fiscal year 2014, we identified 33 employees who reported time on seven or more holidays. For the fiscal year 2015, we identified 30 employees who had reported time on eight or more holidays.

Exhibit K – Summary of Test Result - Overtime Review

	FY2014	FY2015
Number of Holidays an Employee Worked a Holiday	7 or more Holidays	8 or more Holidays
Number of Employees Tested	33	30
Total Holiday Hours Tested	2,428	2,872
Hours Approved by Time and Labor Supervisor	2,237	2,612
Percentage of Total Transactions	92.1%	90.9%
Hours Approved by Finance Payroll Function	191	260
Percentage of Total Transactions	7.9%	9.1%

Source: Internal Audit Test Work

Override and approval sequence issues encountered during the evaluation of overtime compensation, reflect similar percentages on our review of holiday compensation (See Observation A).

Review of duplicate time entries

We performed a review of duplicate time entries and noted several exceptions. We conducted a separate inquiry into the nature of these transaction anomalies because of potentially fraudulent activities. We noted system vulnerability issues, which we immediately brought to management's attention. Our recommendations pertinent to this issue reflect upon the need to improve access controls and output reconciliation (See Observation B).

Searching for ghost employees

Ghost employees refer to individuals not employed by TDOT or former employees, which have separated from TDOT and remain active in the payroll. A potential risk arises when a separated employee or a ghost employee exists in the active payroll roster that can potentially receive unearned compensation. Because the State's practice of holding payable time for two weeks in arears, an employee separating from TDOT will continue to receive compensation for either the 1st or 2nd payday after the effective separation date. We reviewed all employees that separated from TDOT and State service from July 1, 2013 through June 30, 2015. We excluded employees who transferred from TDOT to another state agency. We evaluated a sample of 96 employees to determine the existence of payable time after the official employee separation date. We did not note a single exception during this test, and we did not observe any other issues.

II. Are controls in place to optimize the efficiency, effectiveness, and economy of cost recovery practices for damage claim transactions?

No. We conducted a comprehensive review of the damage claims process and the results of our work indicated significant issues related to numerous internal controls deficiencies that require considerable process revisions to ensure compliance with statutes, existing policies, accounting standards, and prudent business practices.

The results of our work also indicate that current process flows do not optimize available resources to enable efficient and effective cost recovery practices. When evaluating for process efficiencies, we define efficiency as the input/output ratio. On the other hand, we define effectiveness as the variance between the expected and actual outcome.

Assessing the Accuracy of Transactional Information

We quantitatively evaluated the reliability of the information contained in *Black Book* by analyzing 4,090 damage claims records with initial invoice dates within the audit period. The results of the analyses identified data validation errors that included the following:

- Four records with accident dates which are in the future
- 16 records included first invoice dates, which were prior to the date of the accident
- Four records included initial invoice dates, which were in the future
- We noted 89 different gaps in assigned claims numbers
- Four records indicating *paid in full* with the date field unfilled

Erroneous record keeping indicated information system deficiencies arising from a variety of causes, which ultimately reduces the reliability of transactional information (See Observations C, D, and E).

Compliance with Existing Standards

We requested Finance to provide us with any existing policies and procedures manual related to the damage claim activity, which they were unable to provide. Statements by damage claim personnel indicated that ad hoc activities abound throughout the process. For example, Finance personnel utilized off the records accounting database, *Black Book*, but was unable to provide any documentation that the system in use had approval from the Department of Finance and Administration (F&A). Serious internal control issues arise when the department employs an off the records accounting system

with no transparency to the official accounts. Additionally, Finance personnel also indicated that they have the ability to initiate installment payment plans and enter into contracts, on behalf of the Department, without providing us with the express documentation that authorizes the activity.

In addressing compliance with accepted accounting standards, we noted that the damage claims process does not recognize accounts receivable when Finance sends damage claim bills to the responsible party. Finance Policy 23 states that, as a rule, *agencies are required to identify, record, and collect all amounts due to the state where goods and services have been provided and payment is due.* Additionally, guidance provided by the Government Accounting Standards Board (GASB) Statement Number 33 states that, *revenue recognition arises when the government has an enforceable legal claim to the resources or the resources received, whichever is first* (See Observations C and E).

Internal Controls over Transactions

To evaluate properly the intactness of cash, auditing procedures require following the flow of funds from the time of receipt to its entry into the accounting system. We noted internal control issues with accurate recording of accounting transactions beginning at the point of entry. Testimonial statements indicated that Finance receives cash and checks for damage claims payments. We noted the absence of any official mail logs, or a receipt book. What we have observed are multiple spreadsheets and some effort to standardize the documentation of transactions. Because of these issues, we could not provide any reasonable assurance that transactions are accurate and complete. In the absence of appropriate controls, the veracity of transactions becomes difficult to ascertain; as such, the integrity of the transactions become compromised regardless of the perceived integrity of those who perform the tasks (See Observations C and E).

> *The absence of proper internal controls tends to compromise the integrity of the underlying transactions, regardless of the perceived integrity of the individual performing the activity.*

In evaluating compliance with cash handling policies, we assessed current procedures against F&A Policy 25. The policy requires that *funds be deposited within 24 hours of receipt.* We evaluated 69 damage claims records for each of the fiscal years 2013, 2014, and 2015. Within the 207 sampled transactions, we traced 124 payments marked *paid in full* with a reported date of receipt, as recorded in *Black Book*. We traced each payment to a corresponding deposit in the iNovah cashiering system. The results of testing indicated that Finance deposited monies in accordance with policy. However, we noted

one recorded transaction was marked *paid in full* even though the deposit amount was $80.00 less than the claim amount recorded, indicating an ability to apply ad hoc decisions on a case-by-case basis (See Observations C and E).

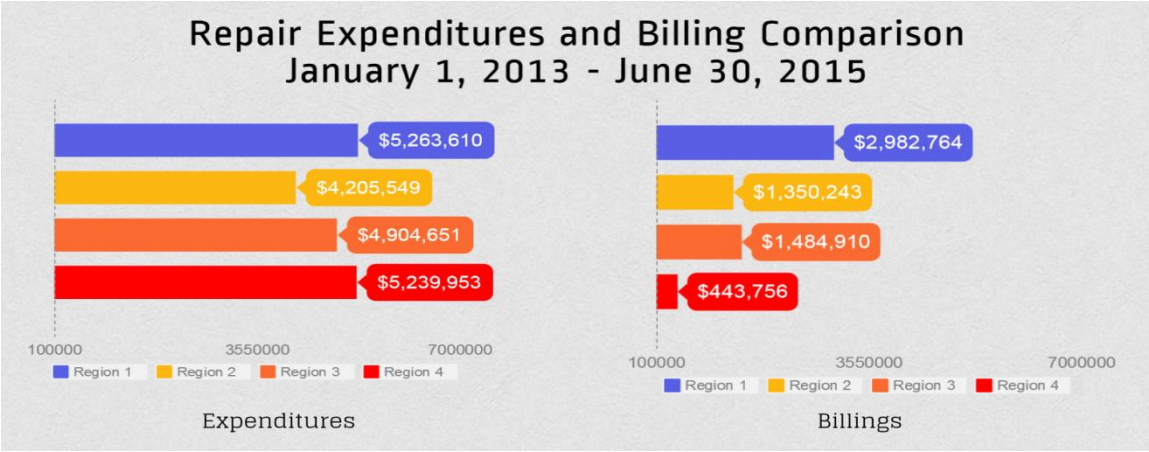
Assessing the Overall Effectiveness of Cost Recovery Procedures

In order to evaluate the effectiveness of the overall damage claim process, we performed a review of available transactional information within the *Black Book* database. To accomplish the task, we first performed a data normalization routine that resulted in producing 3,834 unique records. For comparative evaluation with the actual contractor payments for repairing guardrail and cable barriers, we culled the records further to include only transactions from January 1, 2013 through June 30, 2015. These transactions represented 3,310 records, representing $19.6 million in repairs, $6.2 million of identified and billed amounts, and $3.5 million in recovered costs. We complemented the analytical transactional review with an overall process flow analysis, mapping the procedures from activity initiation to termination and noted several factors that affected the overall cost recovery efforts (See Observations D).

Timeliness in Identifying Parties Responsible for Damages

Our comprehensive process flow evaluation showed that timely identification of responsible parties result in quicker collection turnaround times. Critical to the identification process is the ability to match responsible parties named on the accident report to the repairs performed.

Exhibit L – Guardrail and Cable Barrier Repair Expenditures and Billing Summary from January 1, 2013 through June 30, 2015



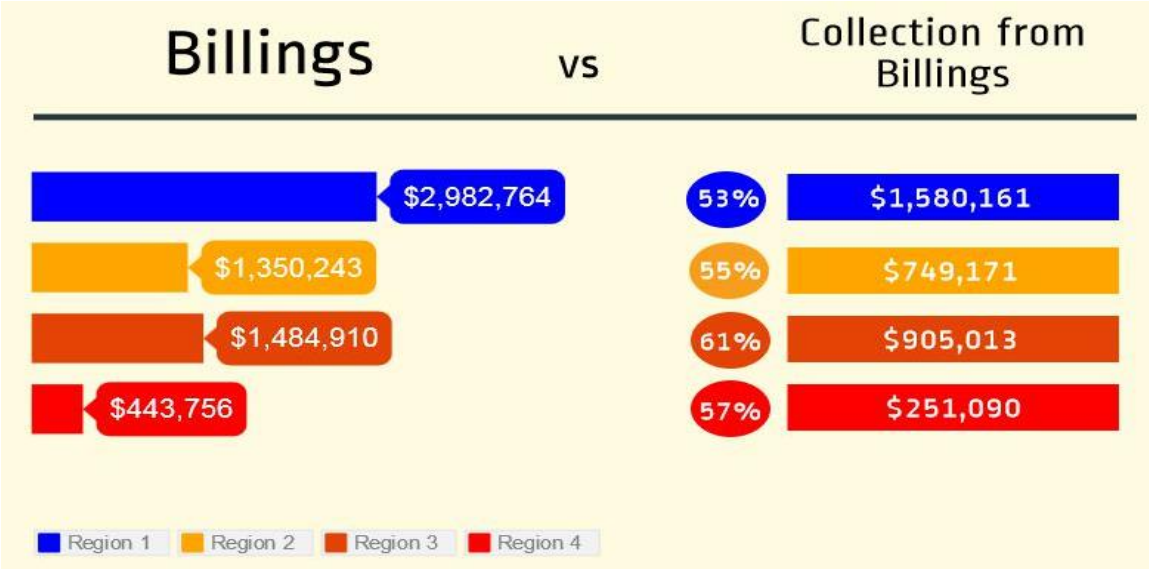
Source: Finance Division transactions from Black Book

Under the current system, regional personnel receive a listing of the downloaded accident reports from Finance on an annual basis. Regional personnel would then attempt to reconcile historical repair records, which could be as old as 14 months, with the accident report information. This tedious process becomes more imprecise and less exacting with the passage of time. Exhibit L depicts the financial flow of resources for repair expenditures and the amount that finance is able to identify and bill.

When TDOT does not recover the cost of repairs, everyone unduly shares the burden ultimately reducing the Department's ability to provide other services.

Performance by region varies with Region 1 leading the way in identifying responsible parties and Region 4 being the least effective. For the period evaluated, we noted that Region 1 had a 57 percent success rate while Region 2, 3, and 4 had 32, 30, and 8.5 percent success rate respectively. The overall average rate was approximately 32 percent, indicating the inability to identify and match almost 68 percent of the repairs; notwithstanding hit and run events where motorists and operators damage TDOT property, flee the scene, and evade detection by law enforcement authorities. When TDOT does not recover the full cost of repairs, residents and other motorists bear the burden of someone else's responsibility, straining the Department's limited resources (See Observation D).

Exhibit M – Damage Claim Billings and Collections Summary from January 1, 2013 through June 30, 2015



Source: Finance Division transactions from Black Book

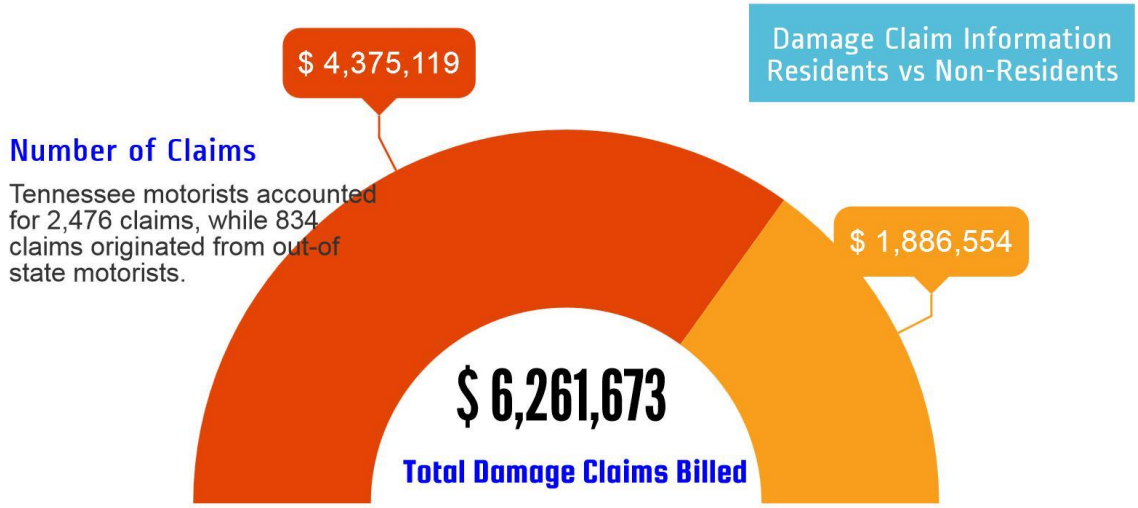
Collection Procedures

Evaluating the collection process was extremely difficult from the standpoint of using a defined evaluative criterion. Finance did not have a defined policies and procedures manual that provides a standard operating protocol for performing the activity and guidance when dealing with transaction exceptions.

Having no criteria from which to gauge activity results, we had to rely upon objective information from *Black Book* and observations from reviewing files within the damage claim folders. We compared collection activity by region and observed minor variances in collection percentages (see Exhibit M).

Additionally, we performed a comparative assessment of damage claim collection activities as it pertained to Finance's ability to collect from in-state and out-of-state motorist/operators. The results of our analysis indicated that there were no significant deviations in collection rates regardless of the offender's state of domicile (see Exhibit N). We noted that improvements in collection practices should result in higher collection rates (See Observation E).

Exhibit N – Billed Damage Claims for Residents and Out-of-State Operators



Source: Finance Division transactions from Black Book

Observations and Recommendations

A – The Payroll Function Overrides Supervisory Controls.

In conducting our review of transactional validity for overtime compensation, we noted that the payroll function consistently performed overrides of supervisory controls in approving overtime transactions. In our test sample, we observed that the Payroll function approved 7 to 9 percent of the tested overtime hours. Transactional override percentages mimicked holiday pay transactions. In our test work, we noted that Payroll approved approximately 8 percent and 9 percent of the holiday time entries for fiscal year 2014 and 2015 respectively.

The results of the work indicate that current processes have sufficient controls but require strict adherence to help mitigate the risk of approving unearned compensation. Principle 10.03 of the *Green Book*[4] states that management designs appropriate types of control activities for the entity's internal control system, which includes segregation of duties and proper execution of transactions. According to the guidance, *transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel.*

> *Payroll overrides of time exceptions, without the express approval of direct supervisors, defeat internal controls, which signifies that time entries are valid.*

When payroll overrides approval authority of time and labor supervisors, to expedite payroll processing or for any other reason, they implicitly attest to the validity of the time entries without express knowledge of the true nature of the underlying transactions. The Payroll function has no way of knowing whether time entries for overtime or holidays resulted from actual work performed; only the employee's direct supervisor can attest to the validity of the time entries. By overriding controls, the

[4] The Green Book is the moniker attributed to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* adapted from the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control - Integrated Framework* specifically for a government entity.

Payroll function actually amplifies the risk of employees receiving unearned compensation.

Criteria:

- Green Book Principle 10 – Design Control Activities
- COSO Internal Control – Integrated Framework
- Prudent business practices

Risks or Effects:

- Employees are paid for unearned compensation
- Undue increases in payroll costs
- Improper application of existing controls provides opportunities for defrauding the Department and the State

Recommendation(s):

A.1- Management should refrain from approving time entries that are the purview of the appropriate time and labor supervisor. If transaction exceptions inhibit the expedient processing of payable time, the Payroll function should not clear transaction exceptions without first receiving express authorization from the approving authority. In the absence of express authorization, Payroll should not approve the overtime or holiday transactions.

A.2 – Management should provide training and education to TDOT supervisory personnel, to remind them of their responsibility in maintaining the integrity of payroll transactions.

B – Improper Access Controls Enabled Unauthorized Transactions.

During the course of reviewing duplicate time entries, we noted system vulnerabilities that we immediately brought to management's attention. These system vulnerabilities have led to several occurrences of unauthorized transactions, which resulted in a separate engagement. In accordance with Government Auditing Standards (GAS), and due to the nature of the vulnerability, we are excluding detailed information regarding this finding per guidance provided by Tennessee Code Annotated § 10-7-504.

Principle 11.11 of the Green Book discusses internal controls pertaining to the design of security management and states that, *Management designs control activities for security*

management of the entity's information system for appropriate access by internal and external sources to protect the entity's information system.

Criteria:

- Green Book Principle 11 – Design Activities for the Information System
- Prudent business practices

Risks or Effects:

- Facilitation of unauthorized transactions
- Undue increases in departmental expenditures

Recommendation(s):

B.1 – Management should work with the Human Resources or Information Technology Division to develop appropriate access control measures to prevent further occurrences of unauthorized transactions.

B.2 – Management should perform system reconciliations to ensure the accuracy and integrity of payable time.

C – Current Accounting Information System Requires Significant Improvements.

The result of our work, in evaluating the damage claim process, indicated that Finance maintains damage claim records in an in-house developed access database, *Black Book*, which resides outside the State's official accounting system. Although we noted that there is a current system in place and there are apparent efforts to standardize the process, it is far from a formalized structure with appropriate controls to ensure the integrity of transactions. The issues we noted include the following:

- Finance does not have a policies and procedures manual that delineates authority and responsibility for the damage claims process
- Finance was unable to provide us explicit authorization to employ an off-balance sheet accounting system
- Finance was unable to provide us documentation, from F&A and the Comptroller of the Treasury, allowing a variance from utilizing accrual accounting

- In relation to observed departure from accrual accounting, Finance does not recognize receivables at the time invoices for the cost of repair are sent to responsible parties
- Because receivables are not recorded, uncollectible accounts are not recognized or written off per policies established by F&A
- The damage claim staff has the ability to apply subjective and arbitrary determinations with regards to billing, billing amounts, initiating payment terms, defining payment terms, frequency of collection efforts, performing conditional releases, and debt forgiveness; without providing us proof of this expressed authority

Principle 11 of the *Green Book* recommends that management should design controls over information processing to achieve:

- **Completeness** – transaction that occur are recorded and not understated
- **Accuracy** – transactions are recorded at the correct amount in the right account on a timely basis at each stage of processing
- **Validity** – recorded transactions represent economic events that actually occurred and were executed according to prescribed procedures

Internal controls are impersonal and, if applied properly, should function independent of any personnel performing the task.

Additionally, Principle 10 of the *Green Book* recommends that, *all transactions be clearly documented in a manner that allows the documentation to be readily available for examination*. Internal controls are impersonal and, if applied properly, are not reliant on the personnel performing the task. Maintaining damage claim information in an unofficial accounting system presents numerous internal control issues.

Criteria:

- Green Book Principle 10 – Design Control Activities
- Green Book Principle 11 – Design Activities for the Information System
- GASB Statement No. 33 – Accounting and Financial Reporting for Non-exchange Transactions
- Department of Finance and Administration Policy 23 - *Accounts Receivable - Recording, Collection, and Write-Offs*
- Rules of Department of Finance and Administration Chapter 0620-1-9 - *Policy and Procedures Governing Write-Off of Accounts Receivable*
- Prudent business practices

Risks or Effects:

- Inadequate application controls enables the misrepresentation of the completeness and accuracy of the records and the validity of the entries made therein
- Inadequate input controls enables the manipulation of data
- Inadequate segregation of incompatible duties arise when system access rights and authorities are ill-defined beginning at the point of receiving payments and recording the transactions in *Black Book*

Recommendation(s):

C.1 – Management should formalize the administration of the damage claim process, beginning with the development of a policies and procedures manual that defines and delineates process flows, lines of authority, staff responsibilities, and how exceptions are handled.

C.2 – Management should work with the Information Technology Division to develop a Damage Claims database application that will house all pertinent transaction information. The database will enhance transactional security, improve transparency of operations, enable efficient field activity for regional personnel, and prevent unauthorized alteration of information.

C.3 – Management should utilize proper handling of damage claim funds by employing appropriate accounting methodology throughout the damage claims process. Finance management should maintain mail logs, receipt books, deposit forms, and perform periodic reconciliations of damage claim transactions.

C.4 – Management should record receivables for damage claims once they have identified and invoiced responsible parties, to record transactions in compliance with F&A policies and generally accepted accounting practice. Otherwise, Finance management should seek explicit documented exemption, to utilize an alternate accounting system, from F&A and the Comptroller of the Treasury.

D - Streamline the Damage Claims Process Flow to Optimize Identification of Responsible Parties.

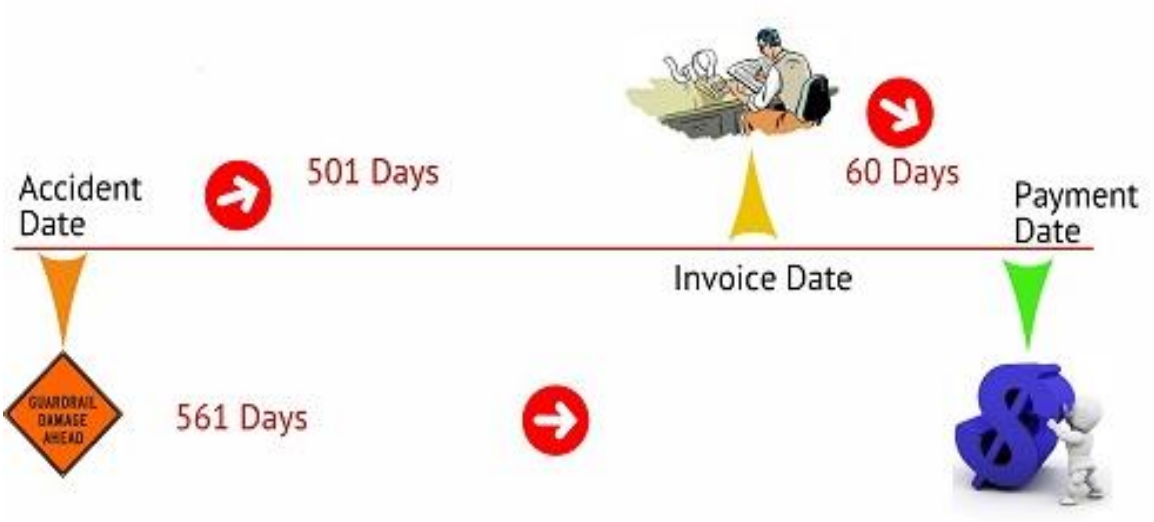
Our evaluation of the damage claims process noted a positive correlation between three factors, the ability to identify responsible parties, the billing rates, and the collection

percentages. We gained an understanding of the issues by performing process walkthroughs with Finance and regional personnel involved in the activity.

Additionally, we conducted pilot testing of seven claims records by recalculating repair costs and comparing the values to claim amounts. The results of our work indicated the following:

- Claim amount calculations were based on repair documentation created at the time of billing rather than the original field repair reports
- Repair records did not include inspector time or equipment usage but were included in the claim amount
- Claim amounts and installed items included in the claim were inconsistent with the repair information supplied by regional personnel

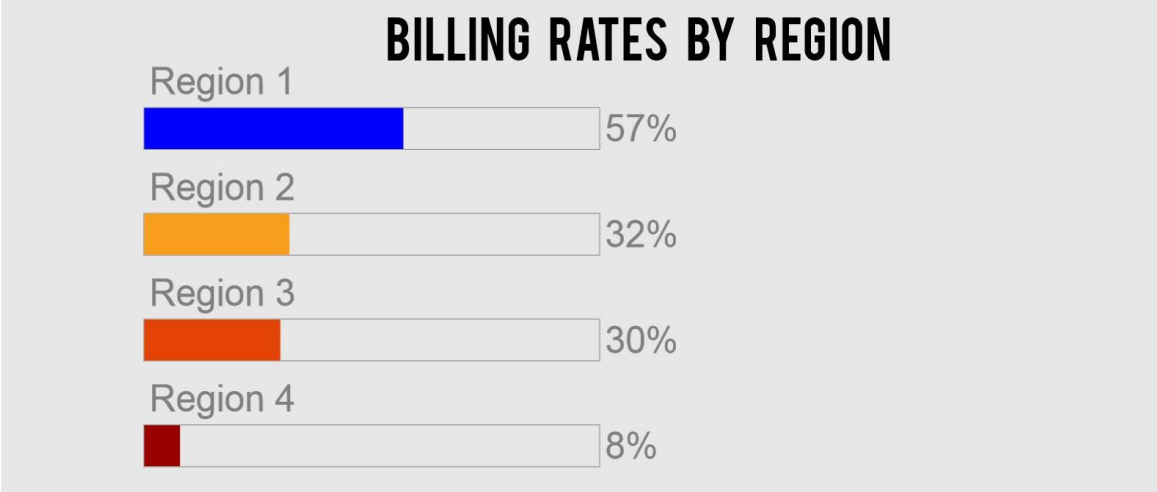
Exhibit O – Transaction Timeline Averages



Source: Finance Division transactions from Black Book

Using a modified root cause analysis we determined that time lag issues, from the time the law enforcement officials create an official recording of the incident to the time the events are matched to historical repair activities at the regions, create inefficiencies that impact the billing process. The average time from the accident date to the billing date is 501 days, with the shortest turnaround time of 3 days and the longest turnaround time of 4,452 days. In terms of realizing revenues, the average time from the date invoices are sent to the date payment is received is 60 days, with the shortest turnaround time of 0 day (paid on the same day) and the longest turnaround time of 918 days.

Exhibit P – Comparative Billing Rates



Source: Finance Division transactions from Black Book

As it is, the current billing process relies heavily upon the diligence, availability of personnel, and the accuracy and availability of repair records at the regions to identify parties responsible for the damages. We quantified the flaws in the current process as shown in Exhibit P, which depicts varying rates in identifying responsible parties. The ideal process flow, from our perspective, is to use the record of the accident to drive the repair activity, thereby hastening the identification of the responsible party and significantly shortening the billing process (See Appendix B).

Criteria:

- GASB Statement No. 33 – Accounting and Financial Reporting for Non-exchange Transactions
- Department of Finance and Administration Policy 23 - *Accounts Receivable - Recording, Collection, and Write-Offs*
- Rules of Department of Finance and Administration Chapter 0620-1-9 - *Policy and Procedures Governing Write-Off of Accounts Receivable*
- Prudent business practices

Risks or Effects:

- Inappropriate billing procedures inhibit the recovery of Departmental funds
- Additional and unnecessary encumbrance of Departmental resources
- Undue burden to otherwise uninvolved Tennesseans and motorists
- Delayed billing for property damages increases the rate of uncollectible claims.

Recommendation(s):

D.1 – Management should look into overhauling the damage claim process to utilize current resources more efficiently. The recommended process flow involves a proactive and more frequent distribution of accident information to regional personnel as well as enabling the incident reports to drive the repair work.

D.2 – Management should devise standardized cost accounting methods to ensure that TDOT invoices responsible parties for the actual cost of repair including materials, labor, and equipment and that the field repair reports support the amounts invoiced.

D.3 – Management should work with Regional personnel to develop a process to invoice parties responsible for damage to State assets as soon as all costs are known and contractors have completed the repair(s).

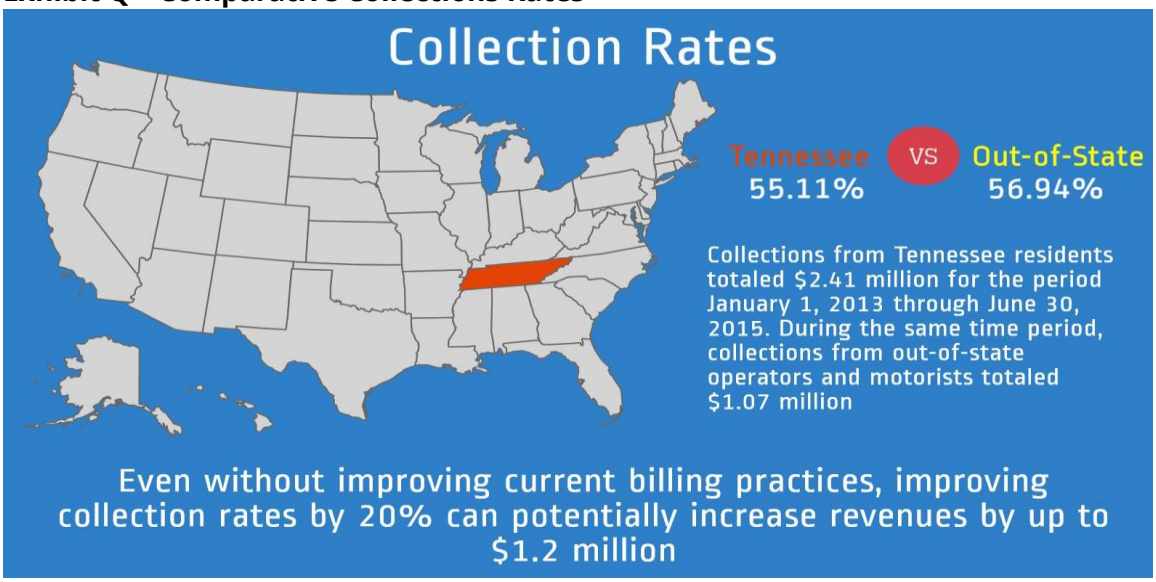
E – Standardize the Damage Claims Collection Process.

F&A Policy 23 advises that prompt collection efforts are more effective and state agencies should establish collection procedures to accommodate their business situation. Additionally, Principle 10 of the *Green Book* requires the *prompt recording of transactions and events in controlling operations and making decisions and is applicable to the entire process or life cycle of a transaction or event.*

Without factoring hit and run incidents, there are $16.1 million of recoverable costs that remain unbilled, uncollected, or both.

In our evaluation of the overall collection process, we noted that collection rates remained consistent regardless of the offender's state of residence. Exhibit Q provides a comparative look at the impact of an offender's state of residence with Finance's ability to collect. The comparative analysis shows no significant distinction in collection rates. We did however note that a slight improvement in the collection rate translates into significant inflows of funds. Additionally, the reader must note that the collection rates shown on Exhibit Q only reflect the realized returns from the billed amounts not the overall recoveries when compared to total repair expenditures.

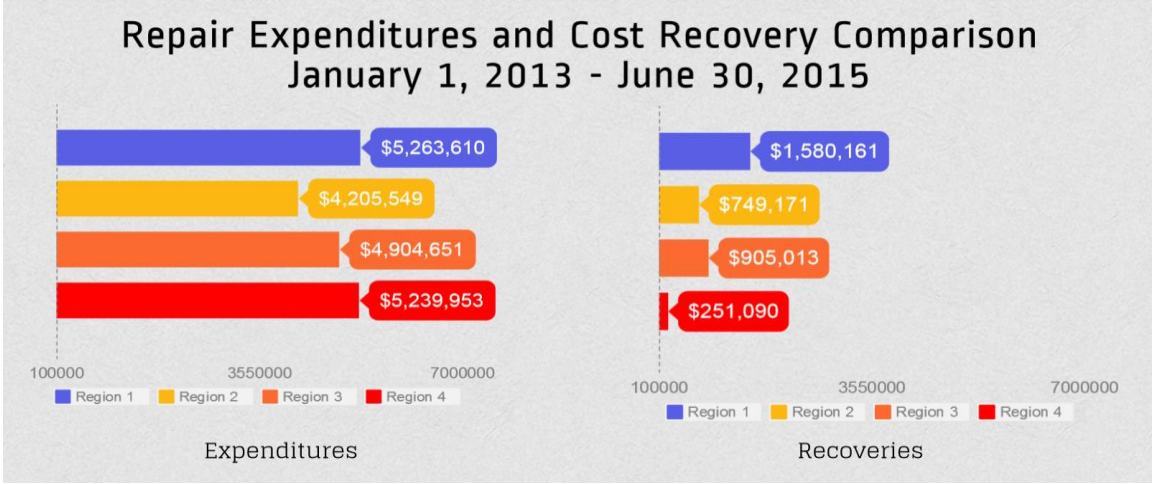
Exhibit Q – Comparative Collections Rates



Source: Finance Division transactions from Black Book

When we factor the entire repair activity, the overall collection rate becomes a marginal 18 percent of total repair expenditures. In actual dollars, this translates into approximately $16.1 million of recoverable but unrecovered costs. Exhibit R provides an insight into actual recoveries versus expenditures.

Exhibit R – Comparative Expenditures and Recovered Cost Summary



Source: Finance Division transactions from Black Book

Criteria:

- TCA § 55-12- Tennessee Financial Responsibility Law of 1977
- GASB Statement No. 33 – Accounting and Financial Reporting for Non-exchange Transactions
- Department of Finance and Administration Policy 23 - *Accounts Receivable - Recording, Collection, and Write-Offs*
- Rules of Department of Finance and Administration Chapter 0620-1-9 - *Policy and Procedures Governing Write-Off of Accounts Receivable*
- Prudent business practices

Risks or Effects:

- Inefficient collection procedures inhibit the recovery of Departmental funds
- Additional and unnecessary encumbrance of Departmental resources
- Undue burden to otherwise uninvolved Tennesseans and motorists

Recommendation(s):

E.1 – Management should look into revising current procedures that will facilitate increasing the collection rates. Possible solutions include the development of systematic and well-documented collection procedures, establishment of a dedicated collection function, or outsourcing the collection activity altogether.

E.2 – Management should develop a regimented process for imposing penalties on non-responsive motorist by working with Department of Revenue to revoke all registrations of the owner and/or operator of a vehicle involved in an unpaid damage claim as allowed for by TCA § 55-12.

Discussion

We performed comparative performance benchmarking to determine best practices for managing the damage claims process. Our work indicated that New York State Department of Transportation (NYSDOT) exhibited best in class process flow for implementing an accident damage recovery program (ADRP). NYSDOT's management of the process begins with a well-defined procedures guide that outlines activities and responsibilities for the personnel involved in the activity. The management system also includes a proprietary database, accessible throughout its 11 regions, which tracks the lifecycle of a transaction from initiation to its final disposition (New York State Department of Transportation, 2011). Our contacts at the NYSDOT provided us with a report obtained from the system, which showed an overall 94 percent collection rate, recovering $18.3 of $19.5 million claims billed for the calendar year 2014.

Washington State Department of Transportation (WSDOT) estimates that it annually incurs about $9.3 million in damages to state highways. In 2012, by assembling a professional team of three to handle damage claims, WSDOT recovered approximately $6.9 million from 3,600 payments. The claim recoveries provided a buffer for emergency contract work and other related expenses (McClain, 2012).

Other state DOTs such as Virginia and Indiana have formalized processes for the recovery of accident repair expenditures but did not disclose objective figures for the activity. Although each state DOT individually developed procedures based on statutory limitations within their respective state, the common attributes for the program appear to include the following:

- a standard operating procedure guide,
- a central repository of records integrated with the official accounting system,
- specialized personnel dedicated to the activity
- well-defined collection procedures (whether performed in-house or outsourced),
- defined and consistently applied penalties for non-payment
- involvement from their respective legal functions

Recovered costs help extend transportation dollars especially in the period of diminishing revenues and rising costs (Crowe, 2012; DeLeon, 2015; Hanagan, 2010; Schouten, 2012). TDOT's damage recovery program is full of opportunities for expanding the program to include traditionally unbilled accident costs such as site cleanup at the time of the incident, traffic control costs (at the time of the incident and at the time of repair), inspector costs during the initial survey of the accident site, and many others. Developing the appropriate activity-based costing methodology enables the recovery of these costs and helps ensure the responsible use of taxpayer dollars.

General Audit Information

Statement on Compliance with GAGAS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the work to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations based on our audit objectives.

Scope and Methodology

The audit period focused primarily on payroll and damage claims activities by the Finance Division for transactions covering the period July 1, 2012 through June 30, 2015. The methodology employed throughout this audit was one of objectively reviewing and evaluating various forms of documentation including accounting and financial information, written policies and procedures, contracts, and data in various forms as well as performing test of details, analysis, and benchmarking.

Criteria

In conducting the audit, we evaluated Finance against existing State of Tennessee statutes, F&A policies, and internal policies applicable to the function of the Finance Division. We also utilized other standards such as COSO Internal Control-Integrated Framework, Green Book, and COBIT 5.1. We also used industry and other business norms as supplementary criteria, especially as they pertained to internal controls and prudent business practices, to complete the objectives of this engagement.

Staff Acknowledgment

Anne Carlisle, MBA, CIA – Internal Auditor Co In-Charge
Craig Pitts, MBA, MACC – Internal Auditor Co In-Charge
Thomas Britt, MBA – Staff Internal Auditor
Jessica Hill, MACC – Staff Internal Auditor
Whitney Rogers – Staff Internal Auditor
Roger Miller, CPA – Audit Manager and Quality Assurance
Mel Marcella, CPA, CMA, CIA, CISA, CFE – Quality Assurance

Appendix A – Management Responses

Acknowledgement Letter and Response Matrix
In the Following Pages

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DEPARTMENT OF TRANSPORTATION
FINANCE DIVISION
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505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402
(615) 741-2261

JOHN C. SCHROER
COMMISSIONER

BILL HASLAM
GOVERNOR

February 29, 2016

Mel Marcella
Director of Internal Audit
505 Deaderick Street, Suite 1800
Nashville, TN 37243

Dear Mr. Marcella,

This letter acknowledges that the Finance Division is in receipt of the report entitles *Performance Audit of the Finance Division's Payroll Integrity and Damage Claims Process*, conducted by the Office of Internal Audit.

We have reviewed the audit report and evaluated all of the observations raised in this report. Attached please find our formal responses to the recommendations and the proposed plan of action. This audit will serve as a valuable instrument and management tool in helping the Tennessee Department of Transportation meet its objectives and goals.

Sincerely,

Jennifer Herstek

Jennifer Herstek
Director of Finance

cc: Joe Galbato
Laurie Clark
Kenitha Reed

Finance Division
Management Responses to Audit Recommendations – March 2016

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
A.1- Management should refrain from approving time entries that are the purview of the appropriate time and labor supervisor. If transaction exceptions inhibit the expedient processing of payable time, the Payroll function should not clear transaction exceptions without first receiving express authorization from the approving authority. In the absence of express authorization, Payroll should not approve the overtime or holiday transactions.	***Accept*** We concur. Information was given to all Division Directors on December 9th at the Commissioner's All Directors meeting of the importance of supervisory payroll approval. Furthermore, the Commissioner stated that effective with the March 1-15th payroll, the Finance Office will no longer approve payroll without the approval of the employee's time and labor supervisor.	Andrew Rogers	Payroll Period Ending March 15, 2016
A.2 – Management should provide training and education to TDOT supervisory personnel, to remind them of their responsibility in maintaining the integrity of payroll transactions.	***Accept*** We concur. Emails were sent to all TDOT employees on December 10 and December 21, 2015 to discuss this issue and employee/supervisory responsibility. Edison created training manuals were attached so that employees and supervisors could review and understand their responsibilities. At one time, Edison had online time and labor training available, but due to upgrades the training no longer works. After the new HCM upgrade scheduled for 2017, Edison intends to create new online training.	Jennifer Herstek	December 21, 2015

Finance Division
Management Responses to Audit Recommendations – March 2016

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
B.1 – Management should work with the Human Resources or Information Technology Division to develop appropriate access control measures to prevent further occurrences of unauthorized transactions.	***Reject*** Per Tennessee Code Annotated § 10-7-504, and due to information security concerns, we are excluding detailed responses regarding this finding.	Not applicable	Not applicable
B.2 – Management should perform system reconciliations to ensure the accuracy and integrity of payable time.	***Accept*** Per Tennessee Code Annotated § 10-7-504, and due to information security concerns, we are excluding detailed responses regarding this finding.	Not applicable	Not applicable
C.1 – Management should formalize the administration of the damage claim process, beginning with the development of a policies and procedures manual that defines and delineates process flows, lines of authority, staff responsibilities, and how exceptions are handled	***Accept*** We concur. Practices within the section are being revamped in an effort to speed up the timeliness of getting accident reports to the field and to better monitor responses from the field. Once those processes are up and running, processes will be documented in a policies and procedures manual. Policies will be written (and approved by upper management) for accepting installment payments and adjusting and/or closing out of claims.	Lance Goad	Intermediate goal of March 31, 2016 for approved installment procedures. The estimated completion date for a policies and procedures manual is September 30, 2016.

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
C.2 – Management should work with the Information Technology Division to develop a Damage Claims database application that will house all pertinent transaction information. The database will enhance transactional security, improve transparency of operations, enable efficient field activity for regional personnel, and prevent unauthorized alteration of information.	***Accept*** We concur. While the current Access database does maintain a history of contacts and correspondence related to claims it is off-limits to field personnel. Our goal to replace this system would be one that the field could access and record notes as necessary. This could potentially enhance the speed of recovery of the information and make for a more robust and informative claims system. Information Technologies has been made aware of the need for development or purchase of new software as a potential replacement for our black book database and will fit this system into their priority schedule as soon as they can. We will work closely with the IT Division to accomplish this recommendation.	Lance Goad and Michelle Frazier	TBD – unsure where this system fits into the IT priority schedule for the department.
C.3 – Management should utilize proper handling of damage claim funds by employing appropriate accounting methodology throughout the damage claims process. Finance management should maintain mail logs, receipt books, deposit forms,	***Accept*** We concur. While the Finance Office has always recorded receipts and kept deposit records, personnel in the claims section were often first to open the mail and post checks to the	Jennifer Herstek	February 12, 2016

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
and perform periodic reconciliations of damage claim transactions.	database. This process has changed. Effective February 12, 2016, all checks and cash received are first recorded in the Cash Receipts book by the Secretary opening the mail. Copies of the receipts and checks will be provided to the claims section to record payments in the database. The claims section will not have access to the actual check or cash. A weekly reconciliation will be performed by a third party to reconcile the receipts in the Cash Book/iNovah with payments in the database as soon as the IT Division is able to create a report from the database. IT expects to be able to create this report by the middle of March.		
C.4 – Management should record receivables for damage claims once they have identified and invoiced responsible parties, to record transactions in compliance with F&A policies and generally accepted accounting practice. Otherwise, Finance management should seek explicit documented exemption, to utilize an alternate accounting system, from F&A and the Comptroller of the Treasury.	***Accept*** A copy of the draft audit report was furnished to Mike Corricelli, Chief of Accounts for the State of Tennessee in the Department of Finance & Administration with the explicit request to determine if our damage claims process should be recorded as a receivable in Edison, and if so, how we would accomplish that process. Once we receive the answer our intent is to follow F&A guidance on the matter. Preliminary thoughts	Mike Corricelli	The Department of Finance and Administration, Chief of Accounts for the State of Tennessee will make a final Decision by March 15, 2016

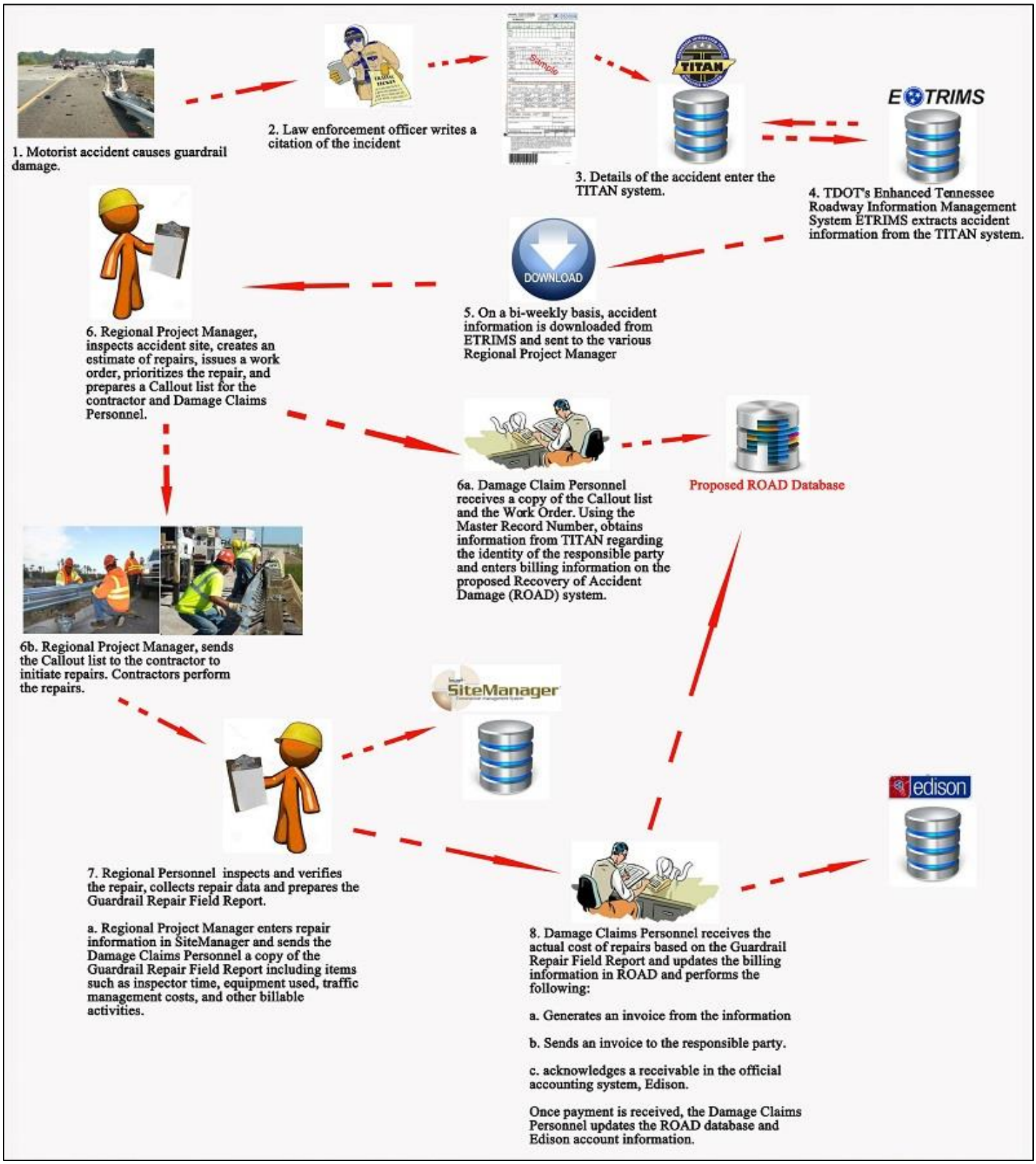
Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
	from other F&A staff members did not think the type of revenue required it to be recognized as a receivable in Edison. We have been advised to expect a decision by the middle of March		
D.1 – Management should look into overhauling the damage claim process to utilize current resources more efficiently. The recommended process flow involves a proactive and more frequent distribution of accident information to regional personnel as well as enabling the incident reports to drive the repair work.	***Accept*** We concur. We are now receiving a weekly feed from the DOS Titan system that provides the latest updates on accident reports. While our processes are still in the development stage, we are entertaining either a weekly or bi-monthly mail out of reports to regional personnel. Hopefully, any new damage to state property computer system will enable personnel in both the Finance Office as well as the Regional offices to utilize our resources more efficiently.	Lance Goad	March 31, 2016
D.2 – Management should devise standardized cost accounting methods to ensure that TDOT invoices responsible parties for the actual cost of repair including materials, labor, and equipment and that the field repair reports support the amounts invoiced.	***Accept*** We concur. It has been our long standing practice to bill for repairs that have a reasonable relationship to the damages reported in the accident report. This sometimes means billing for costs less than the total repair cost. For example, if the contractor replaced 4 sections of	Lance Goad	March 31, 2016

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
	guardrail totaling 100 feet, but the accident report supported the vehicle striking guardrail in one spot with minimal damage, the cost billed would be limited to 2 sections. This is based on the premise if hit where the sections join, both pieces would be damaged. The end result is the motorist is billed for a reasonable portion of the damages and does not get billed for repairs likely caused by others. The State recovers a portion of the cost that it can reasonable substantiate and does not suffer ill will by billing for damages in excess of what was incurred by the single accident. In other instances, minimal fees were added to the repair cost for the inspector's time and mileage. These were applied when the information was missing or in cases where the labor or mileage reported was unreasonable. In the future, if there are discrepancies between costs reported by the regional offices and the property damage shown on the claim, the Finance Office will send the information back to the regional office for further analysis. The region will make the final determination as to the		

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
	cost of the repair.		
D.3 – Management should work with Regional personnel to develop a process to invoice parties responsible for damage to State assets as soon as all costs are known and contractors have completed the repair(s).	***Accept*** We concur. As mentioned in the response to D.1, we have initiated a process whereby we are getting accident reports weekly as they become available to the Department of Safety. Discussions are also taking place with the Regions, which will help mold our new practices.	Lance Goad	March 31, 2016
E.1 – Management should look into revising current procedures that will facilitate increasing the collection rates. Possible solutions include the development of systematic and well-documented collection procedures, establishment of a dedicated collection function, or outsourcing the collection activity altogether.	***Accept*** We concur. We think increasing the timeliness of getting accident reports out to the field and better monitoring of the responses will result in increased collections. There is a cost involved. The current claims section has 3 people working near capacity. It is a time consuming and arduous task when billing insurance companies and the public. More timely reporting, better monitoring of returns and the resulting additional claims will require more resources. Over the course of the next several months, management will explore what options are available to gain the best return. This includes	Lance Goad	June 30, 2016

Report Item and Description	Responses to Recommendations/Action Plan	Assigned Responsibility	Estimated Completion
	using an outside collection agency when deemed necessary**.**		
E.2 – Management should develop a regimented process for imposing penalties on non-responsive motorist by working with Department of Revenue to revoke all registrations of the owner and/or operator of a vehicle involved in an unpaid damage claim as allowed for by TCA § 55-12.	***Accept*** We concur. It has been a long standing practice to report motorists that do not pay to the Department of Safety for revocation of driver licenses. It is one of our primary means of compelling motorists to settle the claim. Motorists risk forfeiture of their license if they were uninsured at the time. TCA 55-12-114 provides that in addition to revoking the license that Safety shall request the Department of Revenue to revoke all registrations in the motorist's name. To our knowledge, this is not being done but we will discuss with Safety and Revenue the possibility of enforcing this provision.	Lance Goad Dept. of Safety	June 30, 2016

Appendix B – Recommended Process Flow



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Appendix D – Tables and Charts

Appendix D.1 – Capability Maturity Model Integration

Process Capability-Maturity Continuum

	Ad Hoc	Repeatable	Defined	Managed	Optimized
Procedures	No formal procedures exist.	Some standard procedures exist.	Procedures are well documented, but are not regularly updated to reflect changing business needs.	Procedures and controls are well documented and kept current.	Processes and controls are continuously reviewed and improved.
Controls and Process Improvements	Controls are either non-existent, or are primarily reactionary after a "surprise" within the company..	Detective controls are relied upon throughout the company.	Both preventive and detective controls are employed throughout the organization.	Best practices and benchmarking are used to improve process in certain areas of the company.	Extensive use of best practices and benchmarking throughout the company helps to continuously improve processes
Metrics	There are no metrics or monitoring of performance.	Few performance metrics exist, thus there is infrequent monitoring of performance.	Some metrics are used, but monitoring of performance is primarily manual.	Many metrics are used, with a blend of automated and manual monitoring of performance.	Comprehensive, defined performance metrics exist, with extensive automated monitoring of performance employed.

Source: Carnegie Mellon University

Appendix D.2 – Damage Claims by State or Country of Residence

State or Country of Residence	Number of Claims Billed	Total of Claims Billed	Number of Claims Collected	Total of Claims Collected
AL	75	$ 129,133	55	$ 100,075
AR	17	$ 97,951	6	$ 23,003
AZ	9	$ 20,443	5	$ 15,226
CA	16	$ 40,550	8	$ 22,911
CO	3	$ 8,693	1	$ 4,225
CT	1	$ 899	-	-
FL	31	$ 56,026	16	$ 32,414
GA	92	$ 186,504	51	$ 98,400
IA	7	$ 87,882	5	$ 28,051
ID	2	$ 5,354	2	$ 5,354
IL	37	$ 98,635	23	$ 66,015
IN	37	$ 73,679	28	$ 48,198
KS	3	$ 6,331	1	$ 1,733
KY	86	$ 192,626	49	$ 119,928
LA	6	$ 12,521	3	$ 8,132
MA	2	$ 2,100	1	$ 899
MD	7	$ 12,061	4	$ 5,542
ME	1	$ 3,511	1	$ 3,511
MI	27	$ 69,415	17	$ 37,620
MN	5	$ 10,725	4	$ 7,873
MO	18	$ 31,348	11	$ 20,723
MS	17	$ 39,777	7	$ 20,096
MT	2	$ 3,685	1	$ 252
NC	86	$ 171,781	51	$ 108,487
NE	3	$ 58,352	2	$ 57,891
NJ	8	$ 10,474	6	$ 9,182
NM	2	$ 8,439	-	-
NY	7	$ 11,106	3	$ 4,167
OH	41	$ 70,152	27	$ 45,938
OK	17	$ 35,630	9	$ 13,413
OR	2	$ 3,499	2	$ 3,499
PA	22	$ 61,784	12	$ 21,147
SC	32	$ 59,333	18	$ 30,274
TN	2476	$ 4,375,119	1376	$ 2,411,253
TX	32	$ 61,418	13	$ 29,175
UT	3	$ 6,819	2	$ 4,013
VA	58	$ 101,275	32	$ 59,039
WA	2	$ 2,606	2	$ 2,606
WI	10	$ 17,039	7	$ 11,620
WV	3	$ 3,119	1	$ 1,072
Canada	4	$ 7,328	1	$ 2,477
Not Identified	1	$ 6,551	-	-
Grand Total	3310	$ 6,261,673	1863	$ 3,485,436

Source: Finance Division transactions from Black Book, January 1, 2013 through June 30, 2015

Appendix D.3 – Damage Claims Collection Summary from January 1, 2013 through June 30, 2015

	2013		2014		2015[5]		
Region	**Count of Collected Claims**	**Amount of Collected Claims**	**Count of Collected Claims**	**Amount of Collected Claims**	**Count of Collected Claims**	**Amount of Collected Claims**	**Regional Totals**
1	287	$ 514,885	404	$ 768,215	129	$ 297,061	$ 1,580,161
2	98	$ 164,405	238	$ 386,437	68	$ 198,330	$ 749,171
3	205	$ 369,023	240	$ 410,186	58	$ 125,805	$ 905,013
4	35	$ 77,203	48	$ 91,604	53	$ 82,283	$ 251,090
Total Claims	625		930		308		
Average Recovery per Claim		$ 1,801		$ 1,781		$ 2,284	
Annual Recoveries		**$ 1,125,515**		**$ 1,656,441**		**$ 703,479**	

Source: Finance Division transactions from Black Book

[5] The 2015 values only covers the period January 1 through June 30.