



July 9, 2014

Liza M. Joffrion, Director  
Division of Multimodal Transportation Resources  
Tennessee Department of Transportation  
505 Deaderick Street, Suite 1800  
Nashville, TN 37243

**Independent Auditor's Report on Applying Agreed-Upon Procedures**

Dear Ms. Joffrion:

The Tennessee Department of Transportation's Office of Internal Audit (IA) performed the agreed-upon procedures described in the attached Schedule A. IA and Management (you) of the Division of Multimodal Transportation Resources (DMTR) agreed to the procedures in order to provide technical assistance in ascertaining the veracity and validity of invoiced transactions from the various Rail Authorities.

IA conducted these agreed-upon procedures in accordance with Government Auditing Standards (GAS), 2011 revision. GAS incorporates Statements on Standards for Attestation Engagements (SSAE) established by the American Institute of Certified Public Accountants (AICPA). The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Schedule A for the purpose for which this report has been requested or for any other purpose. Schedule B includes recommendations to enhance current practices. Recommendations are suggestions for process improvements designed to address variances from current to desired conditions. They are intended to provide DMTR management information on how to achieve the desired state but should not be construed as prescriptive requirements. Other measures, not mentioned herein, could be enacted by DMTR management to achieve the desired results.

We were not engaged to and did not perform an audit or an examination, the objective of which would be the expression of an opinion or negative assurance on the specified elements, accounts, items, efficiency, and effectiveness of your operations, or government service delivery. Accordingly, we do not express such an opinion here. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users of this report and should not be used by those who have not agreed to the procedures and taken

responsibility for the sufficiency of the procedures for their purposes. Management is responsible for the risk management and internal control responses.

We appreciate the courtesies and cooperation extended to us.

Kind regards,

Mel Marcella, CPA, CMA, CIA, CISA, CFE  
Director, Division of Internal Audit  
Tennessee Department of Transportation  
505 Deaderick Street, Suite 1800  
Nashville, TN 37243

## Schedule A Agreed-Upon Procedures Engagement Procedures and Observations

IA performed the following agreed-upon procedures for the Division of Multimodal Transportation Resources (DMTR). The scope of the engagement covered the period July 1, 2013 through February 12, 2014.

### Agreed-Upon Items

IA's tasks included the determination of whether invoiced transactions, submitted by various Railroad Authorities, for the scope period were allowable under the terms of the applicable contracts and state accounting requirements. Additionally, IA evaluated whether the Railroad Authorities complied with contract stipulations, including but not limited to, the list of items below.

- *Food and refreshments provided at meetings*
- *Charges for room reservations for board meetings or community outreach events*
- *Reimbursement of travel expenses for board members attending meetings*
- *Honoraria paid to board members for attending board meetings*
- *Miscellaneous legal expenses*
- *Cost of annual audit.*
- *Annual dues to the Tennessee Shortline Railroad Alliance*
- *Utilities (phone, water, internet access and electricity)*
- *Office furniture/equipment*
- *Other items*

### Procedures

For *all* items included in the agreed-upon procedures, IA conducted the following:

- Obtained copies of all reimbursement requests pertaining to track and bridge rehabilitation contracts
- Isolated and categorized all reimbursements for administrative expenses
- Evaluated the expense item and reviewed the supporting documents
- Validated the nature of the transactions against contract provisions and the Shortline Railroad Policies and Procedures

During the period July 1, 2013 to February 12, 2014, IA observed 36 invoices from 12 Railroad Authorities containing administrative charges totaling \$112,041.03. The Rail Authority contract provisions state that reimbursement requests should include only actual, reasonable, and necessary expenditures required in the delivery of service in this contract. The provisions also state that if the costs to be reimbursed are *joint costs*, involving allocation to more than one program, such costs shall be allocated.

## Observations

### *Food and Refreshments Provided at Meetings*

Total Amount:	\$2,337.94
Requests for reimbursement:	12
Number of Rail Authorities:	2

IA observed 12 requests for reimbursements for food and refreshments, which appear to consist of both dine-in and take-out meals. There were seven requests to reimburse dine-in meals that totaled \$902.94. Each dine-in request consisted of service for 7 to 12 meals. There were five requests to reimburse take-out meals, which totaled \$1,435.00, and each take-out request consisted of service for 25 to 30 meals. The Railroad Authorities provided either cash register receipts or *hand-written* order tickets (not official receipts) with each request. IA observed no other documentation regarding the purpose of the meals; and without adequate supporting information, we cannot ascertain the validity of these transactions. (See recommendations A, B, C, and D.)

### *Charges for Room Reservations for Board Meetings or Community Outreach Events*

IA did not identify any reimbursement requests for room reservations for either board meetings or community outreach events.

### *Reimbursement of Travel Expenses for Board Members Attending Meetings*

Total Amount:	\$826.27
Number of Invoices:	12
Number of Rail Authorities:	2

Reimbursement requests for travel expenses for board members consisted of both mileage and overnight travel to Nashville. IA observed four reimbursement requests for mileage totaling \$317.08. Each mileage reimbursement request showed between one and seven people per request. The stated purpose of the travel on the reimbursement request was mileage for Board of Directors meeting, but IA did not observe documentation of the meeting minutes or the business discussed. Without the appropriate support, IA cannot verify the legitimacy of the transaction.

IA also noted one request for reimbursement for a trip to Nashville, which totaled \$493.19. The reimbursement request stated the purpose of the trip pertained to an *Alliance Meeting*, but IA did not observe documentation regarding the nature of the organization, the meeting, the business purpose, or the role of the individual who attended the meeting.

Additionally, IA observed that reimbursements for mileage, meals, and hotel, for this particular submission, exceeded the rates as required in the *State Comprehensive Travel Regulations*. (See recommendations A, B, C, and D.)

*Honoraria Paid to Board Members for Attending Board Meetings*

Total Amount:	\$2,700.00
Number of Invoices:	4
Number of Rail Authorities:	1

IA observed four reimbursement requests for honoraria totaling \$2,700.00. Each request included honoraria for between two and 12 people per request. The stated purpose of the travel on the reimbursement request was honoraria for board of directors meeting, but IA did not observe documentation of the meetings or of the business discussed (meeting minutes). Without sufficient documentation to substantiate the reimbursements, IA cannot ascertain the validity of these transactions. (See recommendations A, B, C, and D.)

*Miscellaneous Legal Expenses*

Total Amount:	\$21,226.01
Number of Invoices:	7
Number of Rail Authorities:	4

IA noted seven reimbursement requests, attributable to four Rail Authorities, for legal expenses, which totaled \$21,226.01. We observed that five reimbursements contained an itemization of charges, but they did not contain information that would relate the cost of services to a particular contract or project. One reimbursement contained no itemization of the legal work performed. Additionally, IA observed an invoice totaling \$4,095.00, which contained a description and itemization of work that was not related to the terms or purpose of the contract for which it was seeking reimbursement. Validity and appropriateness of the reimbursed expense is undeterminable without the proper support. (See recommendations A, B, C, and D.)

*Cost of Annual Audit*

Total Amount:	\$14,456.94
Number of Invoices:	5
Number of Rail Authorities:	4

IA observed five requests for reimbursement submitted for the cost of services rendered for the Authorities' annual financial statement audits, which totaled \$14,456.94. In three

reimbursements observed, invoices from CPA firms specified audit work done for the fiscal year ending 6/30/2013; with respect to these three invoices, no other issues noted. Another charge for audit services appears to be for the fiscal year 2012. However, IA noted discrepancies in one reimbursement request. In this instance, documentation provided by the Rail Authority did not include sufficient description or support for the audit work performed. The Rail Authority contract provisions state that the department shall have no obligation for services or expenditures completed outside the contract period. (See recommendations A, B, C, and D.)

Annual Dues to the Tennessee Shortline Railroad Alliance

Total Amount:	\$1,900.00
Number of Invoices:	3
Number of Rail Authorities:	3

IA observed that three Rail Authorities requested either partial or complete reimbursement of dues for the Tennessee Shortline Railroad Alliance. IA further observed that the reimbursement requests contained copies of invoices from the Railroad Alliance, but the requests did not contain additional documentation regarding the nature of the dues or why they were deemed necessary to administer the track and bridge rehabilitation program. (See recommendations A, B, C, and D.)

Utilities (phone, water, electric, internet)

Total Amount:	\$2,925.18
Number of Invoices:	9
Number of Rail Authorities:	3

IA observed nine requests for reimbursement of utility expenses, which appear to be for telephone, water, internet access, and electricity. The reimbursement request contained copies of utility bills. IA did not observe any documentation pertaining to allocation methodology that would help ensure joint costs involving more than one program were properly allocated. (See recommendations A, B, C, and D.)

Office Furniture/Equipment

Total Amount:	\$1,244.46
Number of Invoices:	1
Number of Rail Authorities:	1

IA observed one reimbursement request for purchase of office furniture and equipment, which totaled \$1,244.46. The documentation consisted of a typed list labeled *Office Expenses* and contained the following items: Neat Desk, chair, wireless adapter, printer ink, paper towels, lawn care, and projector screen. We observed store receipts for four out of the seven items contained on the list. IA did not observe store receipts for three of the reimbursed items, totaling \$651.81. (See recommendations A, B, C, and D.)

#### Other Items

In addition to the nine categories of administrative expense reimbursements in the Agreed-Upon Procedures, IA noted observations in three additional reimbursement categories.

#### Other Membership Dues and Real Estate Taxes

Total Amount:	\$11,232.93
Number of Invoices:	3
Number of Rail Authorities:	3

IA observed that there were three requests for reimbursement for *other membership dues and taxes* that included memberships in three local Chambers of Commerce at the cost of \$6,000.00, real estate taxes at the cost of \$5,182.93, and membership to the Tennessee Operation Lifesaver for \$50.00. We observed that invoices from the Chambers of Commerce and Tennessee Operation Lifesaver were included in the reimbursement request. However, proof of transaction for the real estate taxes was provided only as a typewritten list and did not include actual tax documents. Additionally, a portion of the reimbursed real estate taxes was outside the time stipulated in the contract. (See recommendations A, B, C, and D.)

#### Office Administrative Expenses

Total Amount:	\$36,506.02
Number of Invoices:	15
Number of Rail Authorities:	6

Reimbursement for *office administrative expenses* included salaries for \$14,460.24, previous years' administrative costs (not specified) for \$11,861.28, *future administrative work* \$10,000.00, and incidentals for \$184.50. Salary expenses included seven invoices that reflected a wage rate between \$15.00 and \$75.00 per hour. Two other invoices showed a flat fee with no hourly rate specified.

IA observed one request for reimbursement from one Rail Authority dated October 29, 2013, which requested reimbursement for *Administrative Costs* for *FY9/10 and FY10/11*, which totaled \$11,861.28. IA observed no supporting documentation or explanation for submitting costs incurred prior to the effective contract date.

In three other invoices, from the same Rail Authority, IA observed requests for reimbursement, which totaled \$10,000 for services not yet rendered. The Rail Authority did not provide additional documentation regarding the nature of the work, the purpose of the claim, or other pertinent details. (See recommendations A, B, C, and D.)

Accounting Services

Total Amount:	\$11,629.48
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Number of Invoices:	8
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Number of Rail Authorities:	5
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IA observed eight requests for reimbursements for accounting and bookkeeping expenses, which totaled \$11,629.48. The Rail Authority did not provide documentation regarding the scope of work done. Therefore, IA cannot substantiate the validity of the transaction. (See recommendations A, B, C, and D.)



## Schedule B

### Agreed-Upon Procedures Engagement Recommendations

#### ***A – Develop a schedule of specific allowed reimbursable administrative expenses.***

DMTR should develop a specific schedule of reimbursable administrative expenses to provide definitive guidance to all Rail Authorities requesting reimbursement. Additionally, standardized categories would streamline internal review processes and aid DMTR personnel when assessing the validity of transactions.

The Department of Finance and Administration (F&A) has defined administrative cost in *Policy 3 - Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies (Revised 12/97)*. Under Policy 3, administrative costs are those costs that benefit the operations of the entire agency, but cannot be identified to specific programs and include:

- *Executive Director's salary and benefits (or administrative portion thereof if the Executive Director spends time on program-related activities)*
- *Fiscal Officer's salary and benefits*
- *Purchasing staff's salary and benefits*
- *Secretarial support of administrative employees*
- *Supplies of administrative employees*
- *Travel of administrative employees*
- *Occupancy costs (e.g., rent and utilities) of administrative employees*
- *Postage and telephone costs of administrative employees*
- *Liability insurance*

#### ***B – Develop protocols for reviewing, approving, or rejecting administrative expenses not specified in the allowable list.***

DMTR should implement an internal process that would review, document, approve, or reject Rail Authorities reimbursement requests that fall outside of the defined criteria. The process should include documented steps for DMTR management approval or rejection of exceptions to the allowed list.

A defined list of allowable administrative expenses, coupled with a robust review process, will strengthen DMTR's overall internal control structure over reimbursements. The process will provide immediate evaluation of questionable transactions, yet retains the flexibility needed for unforeseen, but necessary, administrative expenses. The revised processes enhance DMTR's control and accountability over the entire reimbursement process.

***C – Define specific supporting documentations required to accompany the Request for Reimbursement.***

Standardized documentation requirements will increase DMTR's ability to evaluate submissions for accuracy, validity, and eligibility. These documentation requirements could include, but not be limited to, such items as:

- Copies of paid invoices with itemized description of charges
- Minutes of meetings
- Proof of payment, consisting of a copy of the cancelled check or other preprinted acknowledgement of payment
- In the case of payments to individuals and employees, a signed request of payment with dates, hours worked, hourly rates, and administrative work performed (a certified payroll form would provide the information and controls necessary to help prevent the presentation of fraudulent information)
- Information regarding allocation of the expense to a specific contract (for example, minutes of board meetings can help to determine applicable allocations of any board expenses to individual contracts)

***D – Design and implement an internal checklist for DMTR employees responsible for evaluating the Requests for Reimbursement submitted by the Rail Authorities.***

A checklist for DMTR would include, but not be limited to, ascertaining whether:

- An expense is included on the allowed list
- Adequate and sufficient documentation attached to the Request for Reimbursement
- Expenses were completed within specified contract period
- Reimbursement of travel expenses conform with amounts and limitations per the *State Comprehensive Travel Regulations*
- Each invoice clearly and accurately details the reimbursement requested (actual, reasonable, and necessary expenditures required in the delivery of service described in this grant contract)
- Reimbursement requests are not for future expenditures
- Costs involving more than one program or activity are allocated and reported, with adequate supporting documentation