



**July 11, 2016**

Jim Ozment, Director  
Environmental Division  
Tennessee Department of Transportation  
505 Deaderick Street, Suite 900  
Nashville, TN 37243

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

Dear Mr. Ozment:

The Tennessee Department of Transportation's (TDOT) Division of Internal Audit (IA) has performed procedures described in the attached Schedule A. We performed these agreed-upon procedures in order to assist you in evaluating the integrity of transactions pertaining to the Environmental Division's grant management program. Specifically, we applied the agreed-upon procedures to all subrecipient reimbursement requests for Grant Number **GR-1438899** - *Construction of an Interpretive Visitor Center for the Great River Road-Tennessee at Reelfoot Lake Park* awarded to *Mississippi River Corridor - Tennessee, Incorporated* (MRCT) including any associated amendments for the period August 15, 2013 to the current period.

We performed this agreed-upon procedures engagement in accordance with Government Auditing Standards (GAS), December 2011 Revision, which incorporates the 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.

We provided a separate management letter to accompany this report. Schedule B of the management letter delineates our suggestions and recommendations to enhance current practices. Recommendations are suggestions for process improvements designed to address gaps from actual to expected outcomes and provide your Division's management structure the information needed to achieve the desired outcomes. Recommendations are not prescriptive but rather suggestive; your management team could enact other measures, not mentioned in Schedule B, to achieve similarly desired results.

**Environmental Division Agreed-Upon Procedures**

**Date: July 11, 2016**

**Page 2 of 9**

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 of processes, effectiveness of operations, and 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.

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

We performed the following agreed-upon procedures for the Environmental Division. The scope of the work was for the period August 15, 2013 through June 30, 2016. We have detailed the procedures and results below.

### **Agreed-Upon Procedure #1**

*Conduct a forensic accounting review of Grant Number GR-1438899. In particular, we evaluated all subrecipient reimbursement requests for the following:*

- Accuracy and valuation of transactions
- Completeness of transactions
- Existence and occurrence of transactions
- Rights and obligations of transactions

### **Procedures and Observations**

IA performed a forensic accounting review by conducting the following:

- Obtained copies and reviewed the relevant elements of the grant application, related proposals, and stipulations of the awarded grant contract(s)
- Obtained and reviewed a copy of the Office of Management and Budget's (OMB) Circular A-110 *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*
- Obtained and reviewed copies of OMB Circular A-122 *Cost Principles for Non-Profit Organizations*
- Obtained and reviewed a copy of the Federal Highway Administration's (FHWA) matrix as it applies to *Non-Highway Construction or Service Contracts*
- Obtained and reviewed a copy of the State of Tennessee's *Amended Procurement Procedures Manual of the Central Procurement Office*
- Obtained and reviewed a copy of the Department of Finance and Administration's *Policy 3*, which provides uniform reporting requirements for subrecipients of federal and state grant monies
- Obtained and reviewed a copy of the Tennessee Comptroller of the Treasury's *Accounting and Financial Reporting for Not-For-Profit Recipients of Grant Funds* manual
- Researched information regarding the *Mississippi River Corridor - Tennessee, Incorporated* (MRCT), its organizational structure and current composition
- Interviewed staff members within the Environmental Division involved with grant contract management and administration
- Obtained copies of email communications and grant related documents from the Environmental Division

**Environmental Division Agreed-Upon Procedures**

**Date: July 11, 2016**

**Page 4 of 9**

- Obtained copies of reimbursement requests submitted by the grantee to TDOT and Tennessee Department of Environment and Conservation (TDEC), and the accompanying supporting documents
- Created a lead schedule to delineate every occurrence of claimed expenditures presented for reimbursement
- Performed analytical procedures to ascertain discernible patterns of activity related to program objectives of the grant contract
- Performed financial analyses of associated program costs and the relative distribution and reasonableness of expenditures presented

In performing the aforementioned procedures, we noted the following observations:

- The MRCT is a 501(C)(3) nonprofit Tennessee corporation whose *mission is to identify, conserve and interpret the region's natural, cultural and scenic resources to improve the quality of life and prosperity in West Tennessee*
- The grant was awarded for the purpose of constructing an interpretive visitor center for the Great River Road Tennessee National Scenic Byways in Reelfoot Lake State Park
- The total value of the grant contract is \$1.89 million. TDOT, through the Environmental Division, had responsibility for 80% or \$1.512 million of the grant. TDEC provided \$372,000 of the matching funds, while the grantee was responsible for \$6,000 of matching funds
- Management of the 20% match was later assigned to the Department of General Services (DGS)
- Grant contract stipulations required that the grantee *shall comply with all applicable state and federal laws and regulations in the performance of the contract*

To assess transactional accuracy and reasonableness, we performed analytical procedures on the overall program expenditures. Results of the procedures showed that in two individual line items, actual expenditures exceeded budgeted amounts. We noted that the grantee has utilized 110% of the budgeted *Salaries, Benefits, & Taxes*, and found this *unreasonable* considering the stage of construction activities on the project (see Exhibit B).

**Exhibit A – Comparison of Budgeted to Actual Expenditures**

	<b>Budgeted Amounts</b>	<b>Actual Amounts Reimbursed By TDOT</b>	<b>Variance</b>	<b>Current Status</b>
Salaries, Benefits, & Taxes	\$ 200,000	\$ 220,037	\$ 20,037	<i>Exceeds budgeted amounts</i>
Professional Fees	\$ 1,261,000	\$ 443,830	\$ (817,170)	<i>Within budgeted limits</i>
Supplies	\$ 30,000	\$ 25,212	\$ (4,788)	<i>Within budgeted limits</i>
Travel & Conferences	\$ 15,000	\$ 18,552	\$ 3,552	<i>Exceeds budgeted amounts</i>
Insurance	\$ 6,000	\$ 3,425	\$ (2,575)	<i>Within budgeted limits</i>
<b>Totals</b>	<b>\$ 1,512,000</b>	<b>\$ 711,056</b>		

*Source: Internal Audit summary output resulting from reviews of invoice detail as provided by MRCT*

**Exhibit B – Construction Progress at the Interpretive Visitor Center**



Source: Diana Threadgill, Executive Director, MRCT, Inc.

Our review of 19 reimbursement requests presented to TDOT and 13 reimbursement requests presented to DGS indicated multiple issues with the consistency and accuracy of transactions. We observed that (a) reimbursements for *Salaries, Benefits, & Taxes* did not have the appropriate supporting timesheets to document the project management efforts relevant to the project; (b) the grantee submitted different invoices to TDOT and DGS; and (c) the grantee received payments for compensation **in advance** of the grantee incurring the actual expense (see Exhibit D).

**Exhibit C – Summary Results of Invoice Detail Comparisons**

Description	Count	Total Value	Amounts Paid by TDOT	Amounts Paid by DGS
Total Count of Transactions Presented for Reimbursement (TDOT + DGS)	524	\$ 908,361	n/a	n/a
Number of Transactions invoiced to TDOT	506	\$ 888,821	\$ 711,057	n/a
Number of Transactions not Invoiced to TDOT	18	\$ 19,540	n/a	\$ 3,908
Number of Transactions invoiced to DGS	167	\$ 595,396	n/a	\$ 115,474
Number of Transactions not Invoiced to DGS*	329	\$ 273,589	n/a	n/a

Source: Invoice submissions from MRCT

\* Excludes 28 transactions without supporting documents from DGS

**Exhibit D– Disallowed Compensation Expenses paid in Advance**

Description		Compensation Period	Date Paid	Invoiced Amounts	Amounts Paid by TDOT
Diana & Karen, Grant Work	Compensation	11/01/2014 to 11/30/2014	11/03/2014	\$ 8,607	\$ 6,886
Diana & Karen, Grant Work	Compensation	12/01/2014 to 12/31/2014	12/01/2014	\$ 8,607	\$ 6,886
Diana & Karen, Grant Work	Compensation	02/01/2015 to 02/28/2015	01/30/2015	\$ 8,666	\$ 6,933
Diana & Karen & Kathy, Admin	Compensation	03/01/2015 to 03/30/2015	02/27/2014	\$ 11,346	\$ 9,077
Diana & Karen & Kathy, Admin	Compensation	04/01/2015 to 04/30/2015**	04/01/2015	\$ 11,346	\$ 9,077
Diana & Karen & Kathy, Admin	Compensation	04/01/2015 to 04/30/2015**	04/01/2015	\$ 11,346	\$ 9,077
Diana & Karen & Kathy, Admin	Compensation	05/01/2015 to 05/01/2015*	05/01/2015	\$ 11,346	\$ 9,077
<b>Billed in Advance to TDOT</b>				<b>\$ 71,264</b>	<b>\$ 57,013</b>

Source: Invoice submissions from MRCT

\* Per invoice support

\*\*Duplicate payments for the same period

Exhibit C provides a summary of observations regarding inconsistent invoice detail presented to TDOT and DGS. We observed 524 individual line items invoiced by MRCT to the program. We noted that MRCT invoiced TDOT for 506 of those line items totaling \$888,821. Subsequently, TDOT paid \$711,057 of the invoiced amounts. MRCT did invoice DGS for only 167 transactions, highlighting the inconsistent and inaccurate treatment of purportedly valid grant expenditures.

The results of this portion of the review raised serious concerns regarding the accuracy, valuation, and integrity of transactions presented for reimbursement.

**Agreed-Upon Procedure #2**

*Determine whether documentation requirements, under the aforementioned grants, are being met and whether the activities submitted for reimbursement reflected program requirements.*

For this portion of the agreed-upon procedures, we relied on additional analytical procedures and detailed review of supporting records performed for procedure #1. Our procedures included a detailed line-by-line evaluation of transactions and activities submitted for reimbursement. We assessed the validity of each transaction as it related to direct costs and as presented for reimbursement. MRCT did not have an approved indirect cost rate.

We observed that although supporting documentation for reimbursement requests met the base minimum requirements for grant manager approvals, MRCT did not provide substantive detailed timesheets and activity reports to enable the proper tracing of charges to *Salaries, Benefits, & Taxes*. We interviewed the MRCT's executive director who stated she does not keep timesheets. The executive director also stated that it was her practice to expense all personnel costs to the grant. Subsequent to our interview, MRCT's executive director sent us supposed *timesheets* delineating direct grant activity. The additional documentation provided by MRCT's

**Environmental Division Agreed-Upon Procedures**

**Date: July 11, 2016**

**Page 7 of 9**

executive director did not provide sufficient support to allow us to tie-in compensation expenses to direct time charged to the grant.

We observed that only \$301 of \$25,212 of *Supplies* expense had a direct relevance to the program. We noted MRCT invoiced TDOT for travel expenses totaling \$18,552 of which, only \$1,725 had a direct consequence to the purpose of the grant. We noted that in numerous instances, the grantee presented travel and meal invoices that did not follow requirements stated within the State's travel policy.

In reviewing professional fees and services, we noted that MRCT awarded the architectural and engineering (A&E) firm the architectural contract worth \$136,000 without going through the required competitive procurement procedures. We also observed that the representative of the A&E firm is a member of MRCT's board of advisors. Subsequently, we received communication from the executive director of MRCT indicating that the principal of the A&E firm was involved in the development of the grant proposal. We found no issues with the selection of the general contractor for the construction of the interpretive visitor center at Reelfoot Lake because there were satisfactory documentation to demonstrate compliance with competitive procurement procedures.

**Agreed-Upon Procedure #3 and #4**

- *Provide on-site review of the grantee's accounting information and verification of supporting documents for reimbursement requests.*
- *Interview appropriate personnel regarding program related activities and transactions.*

To perform agreed-upon procedures #3 and #4, IA scheduled a meeting with the executive director of MRCT at the Memphis TDOT facility. During that meeting, we interviewed the executive director and MRCT's current accountant to ascertain the existence of additional supporting documentation needed to validate the veracity of submitted reimbursement claims. During the interview, the executive director stated that she compiled all of the information needed to substantiate the transactions (receipts) and that she was solely responsible for creating the periodic reimbursement requests submitted to TDOT and DGS.

During the site visit, we also conducted a review of all invoices presented to TDOT under the grant contract. At the time of the site work, we were unable to perform payroll reconciliations due to missing time records and activity reports. Subsequent to the site visit, the executive director and the staff of MRCT emailed documents containing what they claim to be official *timesheets*.

We observed that MRCT was not properly accounting for direct time performed on the project and that it was MRCT's practice to charge all of their operational compensation to the grant. We

also observed that supposed *timesheets* and activity report documents provided by MRCT, meant to demonstrate a link between direct activities and amounts charged to the grant, instead clearly established they had billed the grant for non-program related activities.

**Agreed-Upon Procedure #5**

*Determine whether all invoices submitted for reimbursement were allowable under the terms of the applicable contract(s), Federal regulations, and State of Tennessee requirements.*

IA reviewed 19 invoices presented to TDOT and covered under this engagement. Subsequently, we created a detailed line item schedule showing all expenditures presented for reimbursement to assess whether MRCT followed through on program requirements.

We invalidated \$218,213 of *Salaries, Benefits, & Taxes* in light of missing timesheets or insufficient activity reports. We could not vouch or trace purported timesheets provided by MRCT to a particular final cost objective relevant to the grant. Additionally, we disallowed \$156,900 of professional fees primarily attributed to A&E charges for noncompliance with the grant contract requirements. Overall, we disallowed a total of \$420,277 of expenditures. Exhibit E shows the breakdown of allowable and disallowed expenditures.

**Exhibit E – Allowable and Disallowed Reimbursements**

	Allowable	Disallowed	Totals
Salaries, Benefits, & Taxes	\$ 1,824	\$ 218,213	\$ 220,037
Professional Fees	\$ 286,929	\$ 156,901	\$ 443,830
Supplies	\$ 301	\$ 24,911	\$ 25,212
Travel & Conferences	\$ 1,725	\$ 16,827	\$ 18,552
Insurance	\$ -	\$ 3,425	\$ 3,425
<b>Totals</b>	<b>\$ 290,779</b>	<b>\$ 420,277</b>	<b>\$ 711,056</b>

*Source: Internal Audit output resulting from reviews of invoice detail as provided by MRCT*

In addition to issues noted with the allowability of expenses, we also observed that the grantee falsely presented over \$22,000 in program expenditures by duplicating invoices on 16 different instances. The executive director accomplished this by duplicating line items, sometimes on the same reimbursement request or by re-invoicing the same expense on a subsequent reimbursement request. Exhibit F shows the duplicated reimbursed line items.



**Environmental Division Agreed-Upon Procedures**

**Date: July 11, 2016**

**Page 9 of 9**

**Exhibit F – Duplicate Reimbursed Line Items**

<b>Invoice Number</b>	<b>Description</b>	<b>Amount Invoiced</b>
1369 & 1388	US Post (Shipping)	\$ 34.35
1491 & 1501b	API Photographers (Video) *	\$ 2,000.00
1521 & 1543	Magnetic SEO (Internet, Marketing)	\$ 250.00
1549 & 1561	Tom Harrison (Accounting)	\$ 410.00
1549 & 1561	Trey Heath (Website)	\$ 390.00
1549 & 1561	Comcast (Internet)	\$ 163.60
1549 & 1561	Mail Center (Printing)	\$ 365.16
1301 & 1301	Holiday Inn Express (room 309 X 2)	\$ 83.00
1220 & 1228	Grant Compensation	\$ 6,104.82
1228 & 1228	Supplies*	\$ 17.52
1228 & 1228	Supplies	\$ 56.26
1228 & 1301	Supplies	\$ 329.49
1569 & 1561	Tom Harrison (Accounting)	\$ 400.00
1348 & 1369	MRPC Meeting	\$ 195.00
1476 & 1476	Storage Facility	\$ 116.00
1476 & 1488	Grant Compensation	\$ 11,345.89
	<b>Total:</b>	<b>\$ 22,261.09</b>

*Source: Internal Audit output resulting from reviews of invoice detail as provided by MRCT*

*\*We allowed the first instance of these two line items*

**Agreed-Upon Procedures #6 and #7**

*Provide a report of procedures and observations. Provide suggestive recommendations for process improvements and highlight opportunities for improved internal controls.*

Procedures and observations are included in this report. The accompanying Management Letter enumerates suggestions for enhancing process improvements and strengthening internal controls.