



July 11, 2016

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

Management Letter

Dear Mr. Ozment:

We have recently completed our agreed-upon procedures engagement, which we conducted in accordance with Government Auditing Standards (GAS), December 2011 Revision. GAS incorporates the Statements on Standards for Attestation Engagements (SSAE) established by the American Institute of Certified Public Accountants (AICPA).

In accordance with our normal practice, we write this management letter to draw your attention and to inform you of certain matters that we identified during the engagement. Those issues are set out in the attached *Schedule B* and include recommendations to enhance current practices. Because an agreed-upon procedures attestation engagement does not comprise an audit, our recommendations are propositions for process improvements rather than prescriptive requirements. You and your team could enact other methods to achieve equally desired outcomes.

We would like to thank you and your staff for their assistance and cooperation during the engagement, and we would be pleased to provide any clarification that you may require regarding the issues raised in this management letter.

Kind regards,

Mel Marcella, CPA, CMA, CIA, CISA, CFE
Director, Division of Internal Audit

Schedule B Agreed-Upon Procedures Engagement Recommendations

A – Request remuneration from MRCT for disallowed expenditures

The Environmental Division should work with TDOTs Finance Division to request payment for \$420,277 of disallowed reimbursements from the *Mississippi River Corridor –Tennessee, Incorporated* (MRCT).

B – Terminate for cause the current grant contact with MRCT

We suggest that the Environmental Division immediately terminate the current contractual relationship with MRCT in light of gross noncompliance with stipulations set forth under the grant contract.

C – Cease prospective contractual relationship with MRCT

We suggest careful consideration of any future contractual relationship with MRCT considering our findings of gross noncompliance with the terms of the current grant contract.

D– Proactive review of contractual commitments against actual performance

We suggest that Environmental Division personnel prospectively include defined monitoring procedures to verify grantees perform as contractually obligated. Grant management staff should evaluate the proposal elements of the grant, or the purpose of the grant, against actual results. To achieve this, we suggest Environmental Division utilize some form of *Reimbursement Claims Checklist*, which incorporate the following:

- A determination of the allowability of transactions presented for reimbursement
- Requiring the grantee to provide additional supporting documents on any questionable transactions, **prior to approving a claim**, to ensure that transactions are valid
- Require program-specific proof to support direct costs presented for reimbursement

E – Incorporate analytical procedures for grant monitoring activities

Grant monitoring personnel should include preliminary analytical procedures to identify trends and potential red-flag transactions when conducting monitoring activities. Specifically, analytical procedures should include:

- A process for identifying whether expenditures for budgeted line items pass the reasonable test
- Periodic review of historical expenditure trends to identify potential fraud red flags
- Implement a tiered invoice review and approval process for grant invoices
- Incorporate a random supervisory spot check of approved invoices to ensure quality of work

F – Provide periodic grant management training

As a component of proper internal controls, we suggest that the Environmental Division provide periodic training to employees with grant management responsibilities. Having a continuous training and development program enables the division to obtain, apply, and disseminate current and prospective federal or state regulatory requirements within the division and to external grantees.