

External Audit Update

State Transportation Board Finance Committee

March 18, 2009



External Audit Findings

Findings	Complete	Findings
2		Improper revenue recognition criteria were utilized by GDOT that resulted in improper advanced construction projects being initiated prematurely
3		GDOT general ledger was materially misstated and was not suitable for day-to-day management
4	✓	GDOT sub-ledgers at the 'fund source' level were not properly maintained
5	✓	GDOT's general ledger did not contain a 'contingency reserve account' that would measure and report the estimated future costs associated with on-going projects
6	✓	GDOT did not properly monitor the status of outstanding contractual obligations
7	✓	GDOT's contractual liabilities (encumbrances) were understated due to two pricing indices included in construction contracts
8	✓	Budget amendments were submitted and approved that erroneously increased GDOT's annual operating budget
9	✓	Material weaknesses in internal control were noted regarding the GDOT's ability to record, process, and report contractual obligations and supplemental agreements
10	✓	GDOT did not maintain adequate accounting records at the legal level of budgetary control as prescribed by the Appropriation Act

External Audit Recommendations and Status

Finding 2	Recommendations	GDOT Response	Status
<p>Improper revenue recognition criteria were utilized by GDOT that resulted in improper advanced construction projects being initiated prematurely.</p>	<p>GDOT should strictly adhere to the revenue recognition criteria to the financial statements. GDOT should be aware of their financial position at all times and only execute contracts when unobligated funds are available.</p>	<p>State general funds will continue to be booked quarterly. The yearly motor fuel appropriation will be booked in total during the month of July to create a reconciling item when balancing the general ledger. To ensure that recorded revenues do not exceed available funds, GDOT will contact GSFIC and SRTA to inquire about available funding prior to accruing revenue for GARVEE and GO Bonds proceeds each quarter and at year end.</p> <p>To ensure that recorded revenues do not exceed the federal obligation limitation ceiling, GDOT will record revenues when qualifying statutory expenditures are recorded. In order for Advanced Construction projects to comply with the Constitution of the State of GA, GDOT will ensure sufficient unobligated State Funding is on hand at the time the contracts are executed.</p>	<p>The State general funds are booked quarterly. The motor fuel funds are booked at the beginning of the fiscal year and the reconciliation has been noted.</p> <p>Revenue is being accrued for the GARVEE and GO bonds according to availability information from GSFIC and SRTA.</p> <p>Any Advanced Construction encumbrances that were outstanding as of June 30, 2008 were covered as part of the deficit. GDOT is not doing any new Advanced Construction that will not be converted in the current fiscal year.</p>

External Audit Recommendations and Status

Finding 3	Recommendations	GDOT Response	Status
<p>GDOT's general ledger was materially misstated and was not suitable for day-to-day management.</p>	<p>Record revenues in PeopleSoft on a statutory basis rather than on a GAAP basis. Ensure that recorded revenues do not exceed fund availability and record grant awards in memo accounts. Utilize internal audit staff to test accuracy of GDOT general ledger on a regular basis. Record post-closing adjustments and audit adjustments upon request.</p>	<p>State general funds will continue to be booked quarterly. The yearly motor fuel appropriation will be booked in total during the month of July to create a reconciling item when balancing the general ledger. To ensure that recorded revenues do not exceed available funds, GDOT will contact GSFIC and SRTA to inquire about available funding prior to accruing revenue for GARVEE and GO Bonds proceeds each quarter and at year end. To ensure that recorded revenues do not exceed the federal obligation limitation ceiling, GDOT will record revenues when qualifying statutory expenditures are recorded. In order for Advanced Construction projects to comply with the Constitution of the State of GA, GDOT will ensure sufficient unobligated State Funding is on hand at the time the contracts are executed. Reimbursement funds will be tracked in contra accounts (memo accounts) in the same manner as the general fund. The Office of Internal Audits will test the general ledger on a regular basis. Post closing adjustments and audit adjustments will be forwarded to the Office of General Accounting to be entered into People Soft. GDOT is in the process of implementing a financial reporting unit within the Office of General Accounting who will be responsible for preparing financial statements on a regular basis.</p>	<p>See response to audit Finding 2.</p> <p>In addition, the internal audit office is reviewing the general ledger on a regular basis and making recommendations for improvements or corrections. The assistant office head position for the new financial reporting section has been filled. We have submitted critical hire requests for filling 2 general ledger accountant positions to support this section.</p>

External Audit Recommendations and Status

Finding 4	Recommendations	GDOT Response	Status
<p>GDOT's sub-ledgers at the 'fund source' level were not properly maintained.</p>	<p>GDOT should ensure that all fund source ledgers are adequately maintained with in the accounting system in accordance with the State of Georgia Accounting Procedures Manual. A fund source identifier should be used to designate revenue sources and track expenditures made against those revenues. In addition, State organization that administer Federal programs must maintain sufficient accounting records to allow for the recording of federal funds at an expenditure level adequate to establish that the fund have not been used in violation of Federal laws and regulations. Therefore, for Federal programs, a separate fund source must be established for each grant received.</p>	<p>GDOT has engaged an out side consulting firm to work with the Office of Financial Management and the Office of General Accounting on the preparation of a Project Costing to General ledger reconciliation at the funding source level within PeopleSoft. Also with in the scope of the engagement is correcting funding source errors currently found in PeopleSoft.</p>	<p>Development of the PeopleSoft reconciliation at the fund source level is complete. The Office of General Accounting began reconciling at the fund source level for the month of February. This reconciliation will be performed monthly.</p>

External Audit Recommendations and Status

Finding 5	Recommendations	GDOT Response	Status
<p>GDOT's general ledger did not contain a 'contingency reserve account' that would measure and report the estimated future costs associated with on-going projects</p>	<p>GDOT management should evaluate and implement an estimation process to properly designate unobligated funds available.</p>	<p>Project Managers are now required to incorporate contingencies into estimates for all project phases. These contingency amounts will be reserved for each project phase. For projects under construction prior to this requirement, contingency amounts will be reserved from FY 2009 funding. For projects under construction and less than 50% complete, the contingency will be added to the individual project budgets. For projects under construction that are greater than 50% complete, the contingency reserve will be maintained as a lump sum and applied to projects on an as needed basis.</p>	<p>Division of Pre Construction has incorporated contingencies into their estimating process. They have fully implemented the contingency phases in all of their projects.</p>

External Audit Recommendations and Status

Finding 6	Recommendations	GDOT Response	Status
<p>GDOT did not properly monitor the status of outstanding contractual obligations.</p>	<p>Improvements are needed to ensure that balances do not remain on completed contracts. We recommend that the FIRE unit revise its PeopleSoft queries to extract only those contracts with 'no payment activity' in excess of one year. A query of this nature would produce a smaller population of contracts to focus on. Additionally, this population would most likely identify unspent funds available for other projects.</p>	<p>The current PeopleSoft queries, which are available to all State agencies, do not provided the information being requested. GDOT staff is currently working with the ANTEO Group project team to create queries that will assist with monitoring the status of outstanding contractual obligations.</p>	<p>We have met with the ANTEO Group to discuss if a special report or query can be built in order to address the auditors finding. However, the current reports and queries are standard statewide and would require a modification to PeopleSoft. They are in the process of developing a query but it hasn't been finalized.</p>
			<p>The FIRE unit continues to monitor the status of outstanding contractual obligations using existing queries and sending letters of inquiry to Project Managers regarding the status of contracts.</p>

External Audit Recommendations and Status

Finding 7	Recommendations	GDOT Response	Status
<p>GDOT's contractual liabilities (encumbrances) were understated due to two pricing indices included in construction contracts.</p>	<p>All new contracts containing an Asphalt Cement Adjustment Price Index should state the maximum amount that could be paid to the contractor. Likewise, the liabilities for each new contractual arrangement should be recorded at the maximum amount. For contracts previously executed, GDOT should continue to estimate and record the maximum liability on its financial statements until all such contracts have been complete. GDOT should ensure that the Fuel Adjustment Price Index included a cap for all new contracts and should consult the AG of Georgia regarding this matter.</p>	<p>GDOT has implemented procedures to ensure that contractual liabilities due to Asphalt Cement Price and Fuel Price Indices are limited to a maximum and are included in project budgets both retrospectively and prospectively. The maximum exposure due to the Asphalt Cement Price Index is being amended in to all active project budgets where there are associated quantities left in the contract. All active contracts are being amended to include a 125% maximum cap on increases in fuel costs. Additionally, this financial exposure is being budgeted in the project budgets. Beginning with the July 2008 letting, procedures were in place in which contractual liabilities associated with the indices maximums are established for all applicable contracts and added to project budgets at the time of award.</p>	<p>All exposure figures for the asphalt and fuel index have been determined. Beginning with the July 2008 letting, all maximum exposure figures for the indices are submitted to Financial Management at the time of award. Beginning with the September 2008 letting, all applicable projects have a maximum of 125% increase associated with the fuel index.</p>
			<p>The Office of General Accounting is in the process of encumbering asphalt and fuel adjustments on all prior year and current year contracts. Current business processes are being re-evaluated to ensure asphalt and fuel adjustment information is provided to the Office of General Accounting with the contract so indices can be encumbered as contracts are received.</p>

External Audit Recommendations and Status

Finding 8	Recommendations	GDOT Response	Status
<p>Budget amendments were submitted and approved that erroneously increased GDOT's annual operating budget.</p>	<p>GDOT should not submit budget amendments to increase its obligation authority unless supported by actual revenues and/or currently available grant awards.</p>	<p>The Department has implemented procedures to ensure budget amendments are supported by actual revenues and/or currently available grant awards. Any budget amendments submitted to the Office of Planning and Budget will be fully supported by accompanying documentation to verify the funding availability.</p>	<p>The Budget Office has implemented procedures to ensure budget amendments are supported by actual revenues and/or currently available grant awards. Any budget amendments submitted to the Office of Planning and Budget will be fully supported by accompanying documentation to verify the funding availability.</p>

External Audit Recommendations and Status

Finding 9	Recommendations	GDOT Response	Status
<p>Material weaknesses in internal control were noted regarding the GDOT's ability to record, process, and report contractual obligations and supplemental agreements.</p>	<p>All contractual obligations and supplemental agreements should be recorded into the PeopleSoft accounting system upon execution.</p>	<p>The Office of General Accounting has implemented procedures to ensure contractual obligation and supplemental agreements are recorded in PeopleSoft upon receipt.</p>	<p>All contracts and supplemental agreements identified in the audit were entered into PeopleSoft in October. All new contracts and supplemental agreements are entered daily if funding is available. If funding is not available, Contracts Payable notifies the Budget Office.</p>

External Audit Recommendations and Status

Finding 10	Recommendations	GDOT Response	Status
<p>GDOT did not maintain adequate accounting records at the legal level of budgetary control as prescribed by the Appropriation Act.</p>	<p>GDOT should obtain additional guidance and training as needed to ensure they are recording revenues and expenditures at the legal level of budgetary control as prescribed in the Appropriations Act. PeopleSoft budget comparison reports should be monitored on a regular basis to ensure that activity at the funding source within program level is accurate.</p>	<p>The Department is currently identifying and implementing measures to ensure revenues and expenditures are recorded accurately on the appropriate fund source and program. Further, the Department is undergoing a process review within the financial areas to identify areas for training opportunities. The process for recording revenues and expenditures correctly has already been identified as an area for additional training. To support this training, budget comparison reports will be reviewed on a bi-monthly basis to ensure that activity at the fund source level within programs is accurate. Finally, financial statements reporting at the legal level of budgetary control will be provided to the State Transportation board on a monthly basis.</p>	<p>The Budget Services Office has identified a dedicated resource to monitor and research any anomalies at the program level, which is required for budgetary compliance. Further, the budget comparison reports are monitored on a weekly basis to identify areas that need further research to ensure accurate activity at the program fund source level. The Budget Services Office is working with the General Accounting Office, and Internal Audit Office to establish procedures, and controls, for recording revenues and expenditures in the correct program.</p>