

External and Internal Audit Update

State Transportation Board Finance Committee

February 18, 2009



External Audit Findings

Findings	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. Unappropriated general funds will be tracked in a contra account. 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 SRТА 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 s 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. End of the second quarter available funding at GSFIC and SRТА will be confirmed to ensure recorded revenues do not exceed available funds. The memo accounts will be established at the end of the third quarter after available balances are confirmed .</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 under the current process.</p>

External Audit Recommendations and Status

Finding 3	Recommendations	GDOT Response	Status
<p>GDOT 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. Unappropriated general funds will be tracked in a contra account. 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 recoded 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 s 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 hired and will begin on March 1st.</p>

External Audit Recommendations and Status

Finding 4	Recommendations	GDOT Response	Status
<p>GDOT 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>The PeopleSoft reconciliation is under way. Fund source level reconciliation is being developed as part of the Project Costing re-implementation.</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 project team hired for the Project Costing upgrade to create queries that will assist with purchase order monitoring.</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. 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 advertised and interviews should occur within the next month.</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>OFM has received the asphalt index analysis from Greg Mayo and is in the process of verifying funding to cover the projects identified in the year end audit. A post closing journal entry has been posted in PeopleSoft and will be reversed once the actual numbers have been provided.</p> <ol style="list-style-type: none"> 1. All exposure figures for the asphalt index have been submitted to Financial Management 2. All exposure figures for the fuel index have been submitted to Financial Management 3. We are still in progress on attempting to get a no cost supplemental agreement for the incorporation of a maximum for the fuel index in each applicable contract. 4. Beginning with the July 2008 letting, all maximum exposure figures for the indexes are submitted to Financial Management at the time of award. 5. Beginning with the September 2008 letting, all applicable projects have a maximum of 125% increase associated with the fuel index.

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>Completed. 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 were entered into the system in September. 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>

Internal Audit Findings and Status

	Findings	Related to External Audit Findings #
Cash	\$601 million of cash were misrepresented in the financial statements as Accounts Receivable	3
Revenue	Revenue miscoding	2
Coding and Data Entry Errors	Coding errors and data entry errors	3
Journal Entries	Excessive number of journal entries	3
Accounts Receivable	Accounts Receivable misstatements in the financial statements	3
Internal Controls Over Financial Reporting	Weak internal controls over Financial Reporting	9
Transparency of Financial Information	Transparency of financial information	N/A

Internal Audit Recommendations and Status

	Recommendation	Status
Cash	<ol style="list-style-type: none"> 1) Accounting should review the chart of accounts to find a cash account series that could be available for use. The cash that currently resides in the accounts receivable accounts should be moved via journal entry to these set of accounts. 2) Accounting should research the GDOT Project Account that currently exists at OTFS to determine the true purpose of this account. 3) Accounting should use online banking to access banking information on a daily basis. 4) Transparency and communication between the budget department and the accounting department needs to be enhanced to ensure that transfers between accounts are known to the accounting department for proper recording in the accounting system. 5) Accounting should consult with Right of Way to determine if there is a system in place to determine if escrow payments to attorneys for land purchases are monitored. 6) A reengineering of the revenue and cash collection process should be undertaken. 	<ol style="list-style-type: none"> 1) A/R is being reclassified. 2) SAO will have to be consulted on the GDOT project account. 3) Online banking is being requested. 4) Coordination improved; transfers need to be initiated by accounting. 5) Not yet started. 6) Piloting software in one district.

Internal Audit Recommendations and Status

	Recommendation	Status
<p>Revenue</p>	<ol style="list-style-type: none"> 1) To report revenue accurately for financial reporting purposes, accurate fund source coding will be required. We recommend that internal controls be strengthened to ensure proper fund source classification. 2) We recommend ongoing review of the miscellaneous revenue account with the objective of recording only current year miscellaneous revenue in this account. Internal Audits will recommend alternative accounting treatment of miscellaneous revenue transactions when appropriate. 3) Georgia code provides for permit fees in excess of expenses to be used for public road maintenance. We recommend that Permit Fee operations are reviewed and the status of GDOT's agreement with the Georgia Department of Public Safety is updated. We recommend that an account from the 750xxx series, Other Financing Uses - Transfer Out is used to record payments to GDPS instead of reducing permit revenue. 4) We recommend that GDOT develops a system of budgetary accounting to record revenue. This system would match revenues with expenditures. 5) We recommend that Accounting makes adjusting entries to correct program code errors. We recommend that GDOT reviews and develops program coding of federal funds to correspond with GDOT Catalog of Federal Domestic Assistance (CFDA) programs, such as 20.205, Highway Planning and Construction; 20.500, Federal Transit Capital Investment Grants; 20.106, Airport Improvement Program; 20.509, Formula Grants for Other Than Urbanized Areas. 6) We recommend that Accounting makes adjusting entries to correct budget period errors. 	<ol style="list-style-type: none"> 1) Corrections being made 2) Reviewing current business processes. 3) Reviewing current business process. 4) Revise current business process to accrue revenue quarterly rather than at year-end. 5) Outstanding- must be researched. 6) Agreed.

Internal Audit Recommendations and Status

	Recommendation	Status
<p>Coding and Data Entry Errors</p>	<ol style="list-style-type: none"> 1) We recommend that the number of fund sources available be streamlined. 2) We recommend that Accounting, OFM, and Budget develop a methodology to review fund sources at least on an annual basis. Fund sources that are no longer viable should be deactivated. 3) Inquiry with the State Accounting Office should be initiated to request a report that indicates all active fund sources and all deactivated funds sources. In addition, a fund source roll-up report should also be requested. 4) A complete listing of all GDOT chart of accounts with descriptions matched with appropriate object classes, funds and funding sources should be made available at GDOT's home page for quick reference and review. 	<ol style="list-style-type: none"> 1) Clean up unit is deactivating closed projects which will impact fund sources. 2) Will work across office lines to review fund sources and projects quarterly. 3) In process. 4) Charge codes are available on GDOT's home page.
<p>Journal Entries</p>	<ol style="list-style-type: none"> 1) Establish a general ledger section within the accounting department to process, review, and analyze general ledger transactions 2) Centralize all journal entries to the general ledger section. 3) Scan all journal entries into a central database. 4) Run the PeopleSoft report GL 4840404-Online Post/Unpost journal Report each day. 5) Establish transparency between OFM and the contracts payable department. 	<ol style="list-style-type: none"> 1) Manager of section hired. Critical hire requests submitted for remainder of positions. 2) Approval process in place for journal vouchers. 3) Can use PeopleSoft query to extract. 4) Using project balance report to ensure Journal Voucher posts correctly. 5) Need to reengineer the Purchase order process.

Internal Audit Recommendations and Status

	Recommendation	Status
<p>Accounts Receivable</p>	<ol style="list-style-type: none"> 1) Review the receivable balances in the accounting records and remove cash balances from these accounts to reflect only the true receivable balances. 2) Centralize all billing from within the Accounting department utilizing a billing module within PeopleSoft, if applicable. All invoices should be standardized and sent from one central location in an accounts receivable department. 3) If billing is not centralized then a policy should be established whereby the accounting department is routed on all invoice related transactions for proper inclusion in the accounting records or set up a shared folder where all invoices would have to be generated from that accounting would have access to. 4) Establish transparency between OFM and accounting to ensure all billings made by OFM to GSFIC and SRTA are included in the accounting records in the month in which the invoice was generated. 5) Establish a designated email box within the accounting department for all invoices to be scanned into by any department submitting invoices. 6) Utilize and develop the current invoicing system (MXS) that is compatible and can be interfaced with PeopleSoft. 7) Segregate duties within the accounting department, consideration should be given to establishing a lockbox system. 8) The current reconciliation process of the PeopleSoft system for account receivables should be reviewed, a monthly review and reconciliation of the aging schedule should be completed and customers should be notified on a monthly basis of their account status with follow up for delinquent accounts. 9) Accounts that have been determined to be uncollectible should be written off the accounts receivable account. 	<p>1) Reclassify receivables in conjunction with SAO as discussed.</p> <p>2-8) Will look for ways to reengineer the accounts receivable process to ensure that all invoices are reflected correctly and that delinquent invoices are followed up on a timely basis.</p>

Internal Audit Recommendations and Status

	Recommendation	Status
<p>Internal Controls Over Financial Reporting</p>	<ol style="list-style-type: none"> 1) Establish a general ledger section within the Accounting Department. 2) Establish a month end close out process prior to the beginning of the next period and perform a monthly close out checklist of activities to ensure all financial transactions have been recorded in that month's accounting records. 3) Hand out a monthly close out checklist to all employees in the accounting department with the date of each month's period end close 4) Run PeopleSoft reports and perform analytical on account and fund source balances prior to the end of the month. Unusual balances should be investigated and followed up on. 5) Follow up with departments to inquire about any financial related transactions pertaining to the period for proper inclusion in that month. 6) Insist on transparency on a daily basis with any departments performing accounting related functions to ensure that the accounting department has been made aware and properly records all financial transactions. 	<p>1) In process. Manager hired. 2 - 5) To be done with February close. 6) Ongoing.</p>
<p>Transparency of Financial Information</p>	<p>Financial updates should be provided via GDOT's external web site at least on a quarterly basis.</p>	<p>Will be done for third quarter.</p>