AUDIT REPORT

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
AUDITING DIVISION

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Audit Report on the Administration and Internal Controls of the Office of Communication

SMA-08-01-07

January 23, 2008

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State of West Virginia
Department of Transportation
Auditing Division

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AUDIT REPORT IN BRIEF

The purpose of an "administrative audit" is to provide an objective, third party review of administrative functions relating to the business of the organization. It can assist the organization in improving administrative operating procedures, help protect the organization from future fraudulent activity and build organizational credibility. Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives, and in doing so, support performance-based management.

In the audit process, policies and procedures will be reviewed and data will be tested for accuracy. While not primarily designed to investigate or verify the absence or presence of fraudulent activity, it does seek to isolate policies and procedures that expose the organization to potential fraudulent activity.

Audit Findings and Conclusions

Based on the results of this audit, the administration of the Office of Communication is satisfactory. However, there were deficiencies noted which are considered findings and will require formal responses.

Formal replies to this Special Miscellaneous Audit (SMA) should be directed to Transportation Auditing Division, by the Director of the Office of Communication, within thirty calendar days from the date of this report. See DOT Administrative Procedures, Volume 1, Chapter 8. Your office should receive a status report of planned implementation of suggestions from Transportation Auditing within 60 days from the date of this report.

The opinions and recommendations expressed in this report are provided for the information of the Secretary of the West Virginia Department of Transportation, the Commissioner of the West Virginia Division of Highways, the Audit Committee and other affected parties. The contents of this report and supporting documentation are considered open records and may be obtained from Transportation Auditing upon request.

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INTRODUCTION

Background

The West Virginia Department of Transportation, Office of Communication is divided functionally into four sections. These sections are Administrative Section, Multi Media Section, Media Relations Section and Special Events Section.

The Administrative Section is responsible for all administrative work related to office personnel, project budgets, etc. The Administrative Section assists the Director and Assistant Director in daily office functions which include but are not limited to: correspondence, directing media inquiries and handling confidential matters. The Administrative Section has freedom to utilize its own discretion in carrying out assigned duties.

The Multi Media Section assembles the elements of visual and/or audio media to effectively communicate the message of the West Virginia Department of Transportation via untraditional conduits, and to better reach an audience which has become conditioned to receive their information through media such as television, internet, and presentations, as well as traditional visual tools like collateral material.

The Media Relations Section creates, manages, controls and disseminates information, both internally and externally, regarding the West Virginia Department of Transportation and its divisions to department employees, media outlets and the general public in a variety of formats.

The Special Events Section is the location for the West Virginia Department of Transportation agencies' public relation's needs. The goal of the Special Events Section is to make a positive impression on the media and general public.

Objective

The objective of the audit was to determine the organization's level of compliance with department directives, policies and procedures; and, to determine if internal controls are in place which are designed to provide reasonable assurance regarding the achievement of management's objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.
- Safeguarding of assets.

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Scope and Methodology

The scope of this audit was Fiscal Year 2008. This audit consisted of an examination of principle records and the facility, in general, to determine the organization's level of compliance with department directives, procedures and policies. This audit was conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) and included such tests as deemed appropriate. This audit included collection of data, analysis of data, both area by area and as a whole, and the report of findings. A review of internal control was conducted and the results of that review have been included in this report.

This audit was conducted by Bob Heckert, Auditor for Transportation Auditing and Anthony Lopez, Reviewer for Transportation Auditing, during November and December 2007.

Discussion of Audit Results

The matters covered in this report were discussed with the Office of Communication management during this audit. A preliminary draft report was sent to the Director of the Office of Communication for review.

ADMINISTRATIVE AUDIT

Organization and Personnel

- Nine employees are assigned to the Office of Communication; five of these employees are assigned to the Office of the Commissioner, 0069 and four of the employees are assigned to the Executive Division, 0056.
- The Office of Communication does not have a budget for its operations. Operational expenses are paid either by the Office of the Commissioner or Executive Division.
- The Office of Communication is a distinct operating group within the Department of Transportation.

Recommendation

1. **We recommend that the Secretary of Transportation designate the Office of Communication as a budgeted organization with appropriate budget allocations and authorities over expenses for the Office of Communication.**

Review of documentation contained in employee's personnel files, indicated that current evaluations have not been completed for the organization's nine employees. This includes the Director of the Office of Communication. Department of Transportation Administrative Procedures state in Volume III, Chapter 8 that "Supervisors will rate each employee's work performance at least every twelve months."

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Recommendations

2. **We recommend that the Director of the Office of Communication have employee evaluations performed at least annually.**

3. **We recommend that the Director of the Office of Communication request an annual employee evaluation from her supervisor.**

Review of documentation contained in employee files indicated that for three of nine files reviewed, employee orientation forms were not available. Two of the employees have less than four years with the Department of Transportation. The other employee is a long term employee with more than ten years.

Department of Transportation Administrative Procedures (Volume III, Chapter 13, Part I) states the following:

> "A check sheet comprising items pertinent to beginning employment with the DOT is to be used in each orientation interview [Form DOT-534 is recommended, but DOT agencies may use their own form or forms, provided that all the items on Form DOT-534 are included (including references to the DOT and DOH Administrative Procedures). All such forms must be submitted to Transportation Human Resources Division for approval.] The supervisor and employee must sign the form, it must be dated, and two copies must be made: one for the new employee and one for the employee's personnel file at his or her organization. The original must be submitted to Transportation Human Resources Division."

Recommendation

4. **We recommend that the Director of the Office of Communication ensure that all new employees have employee orientation interviews and include an orientation check sheet in his/her file.**

Time and Payroll

- The auditor reviewed Employee Time Reports for the month of October 2007 for signatures by the employee and supervisor. In addition, the leave slips for those dates were compared to the Employee Time Reports. For the time sheets reviewed, there were two employees for each time period that did not have the Employee Time Report signed by the supervisor. In addition, one of the employees had not signed his Employee Time Reports for the month of October 2007. Leave slips for one employee for the month of October were completed on November 26, 2007 and had not been signed by the employee's supervisor.

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Recommendations

5. **We recommend that the Director of the Office of Communication ensure that all Employee Time Reports are signed by the employee and the supervisor in a timely manner.**

6. **We recommend that the Director of the Office of Communication ensure that leave slips are completed and approved in a timely manner. The Office of Communication has developed a procedure for completion and approval of leave slips and adherence to this procedure would have prevented the error noted.**

- Our review did not indicate that anyone associated with time reporting or supervision had been maintaining a log for family sick leave.

Recommendation

7. **We recommend that the Director of Communication designate an individual within her organization to track family sick leave.**

- The reporting of time consists of employees in the Office of Communication telling the Administrative Secretary the hours worked. The Administrative Secretary records the time on a DOT-12. This DOT-12 is signed by the Administrative Secretary as the preparer. The Director of the Office of Communication signs this DOT-12 as the approver. The DOT-12 is sent to Executive Division. The information from the DOT-12 is transferred to a pre-printed DOT-12. Neither the DOT-12 used by the Office of Communication nor the one used by Executive Division is the current form available, which was last revised 12/98. The information is entered by the Secretary of the Executive Division. The DOT-12 is rubber stamped with the Business Manager's name as the supervisor. The initials of the person entering the time are on each DOT-12. Because the DOT-12 is pre-printed, the labor code assigned one employee had not been updated when the employee got promoted.

Recommendations

8. **We recommend that the Director of the Office of Communication develop a method to ensure completion of DOT-12's and have the DOT-12 information entered by a member of the Office of Communication.**

9. **We recommend that the Director of the Office of Communication ensure that the wage codes shown on the DOT-12 accurately reflect an employee's classification.**

10. **We recommend that the Director of the Office of Communication use the proper DOT-12 when recording daily time worked.**

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11. We recommend that a proper, manual signature be used by the Approver of the DOT-12.

- The auditor reviewed overtime during the month of October 2007. Overtime was incurred by one employee and was not justified. The procedures established for approving overtime were developed for the Division of Highways and not the Department of Transportation. It is our opinion that the procedures established for the approving of overtime should apply to Department of Transportation organizations also.

Recommendation

12. We recommend that the Director of Communication document justifications for excess hours charged by employees of the Office of Communication.

Expense Accounts

- Based on our review of expense accounts for the Office of Communication, it is our opinion that expense accounts are reasonable.
- Expenses for lodging for out-of-state conferences exceed the CONUS rates for the areas stayed. Based on our recent reviews, this is not an uncommon occurrence. There is no way that as auditors, we can make a judgment as to the benefit of these conferences on the Department of Transportation. The director is in a position to make that judgment as to the benefit of the out-of-state conferences. A policy has been instituted within the Department of Transportation that limits employees to two out-of-state conferences. There was no indication of multiple out-of-state trips by employees.

Recommendation

13. We recommend that the Director of the Office of Communication monitor the cost of conferences compared to the benefits derived by the Department of Transportation for attending the conferences. In addition, we recommend that the Director of the Office of Communication monitor conferences to ensure that not more than two out-of-state conferences are attended by an employee.

Fraud

- Procedures have been established within the Office of Communication for the handling of allegations or suspicion of fraud. There were no instances of fraud noted by responders to the fraud questionnaire. Within the Office of Communication no evidence of fraud was noted, and no further testing was deemed necessary.

EDP Access

- Mainframe accesses for employees within the Office of Communication do not appear to be appropriate for employee duties. The director and administrative secretary have access

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functions in REMIS, including daily entry of time. Currently, neither the director nor administrative secretary enters daily time. Even though the Office of Communication is a small organization and the director does not enter daily time, the director is in a position to approve and enter daily time.

Recommendation

14. We recommend that the Director of Communication review REMIS access and job functions of employees within the Office of Communication to ensure that access levels are appropriate to job duties.

Miscellaneous

- While performing the audit, the auditor noted that individuals appeared to be working each day. The work area was generally well maintained from a cleanliness standpoint, and housekeeping was acceptable from a safety standpoint as well.
- Individuals working adjusted work schedules are monitored by their supervisors.

INTERNAL CONTROL ASSESSMENT

In order to strengthen the Internal Controls for the WVDOT, Transportation Auditing is conducting mandatory management/supervisor training in the area of Internal Control and Risk Assessment. This course is directed specifically at the challenges and needs of the WVDOT.

The Director of the Office of Communication attended the previously mentioned training. Prior to this training, internal controls and risk assessment had not been stressed within the Department of Transportation. With an emphasis on internal control, the Director of the Office of Communication should be able to devise a plan to have greater internal controls within her organization.

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility and organizes its people; and the attention and direction provided by the highest level of management.

To formalize the control environment, policies and procedures need to be developed that address hiring, orientation, training, evaluations, counseling, promotions, compensation, and disciplinary actions. The control environment is greatly influenced by the extent to which individuals recognize that they will be held accountable.

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From a broad prospective, the Department of Transportation has developed policies and procedures for hiring, orientation, training, evaluations, counseling, promotions, compensation and disciplinary actions. These processes have not been augmented by the Office of Communication.

While the cost of an internal control system should never exceed the benefits that can be derived from that system, all actions within an organization can have a financial benefit or detriment. An effective internal control system considers these risks and addresses the risks effectively and efficiently.

The Office of Communication sets the tone at the top by leading by example. Management acts in an ethical manner. The division has not developed formal procedures and policies that define proper conduct in situations that employees within the Office of Communication could realistically face. The employees of the Office of Communication, with encouragement from the Director of the Office of Communication, have been engaging in ethical behavior.

Recommendation

15. We recommend that the Director of the Office of Communication establish a code of ethics for members of the Office of Communication. This code of ethics should be certified annually by each employee of the Office of Communication.

During our review, it was noted that employees had not had annual evaluations performed. Ms. Watkins was aware that evaluations had not been completed for all employees. Ms. Watkins stated that she had been evaluated once in her career. A recommendation to perform annual evaluations has been made previously in this report.

The Office of Communication was created from the Commissioner's Office and Executive Division. The personnel working for the Office of Communication appear to be talented and dedicated employees.

Risk Assessment

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

The Office of Communication has performed a risk assessment and is aware of the risks that it must manage and has prioritized them. The goals and objectives of the Office of Communication have not been formalized and a plan to achieve these goals and objectives has not been developed. In performing a formal risk assessment, the Office of Communication needs

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to define its goals, document the consequences for failing to meet these goals and document the processes that will be used to ensure that the goals are obtained.

Recommendation

16. We recommend that the Director of the Office of Communication document the risk assessment performed and define the goals and objectives of the Office of Communication; document the consequences for failing to meet these goals and objectives; and finally, document the processes that are to be used to ensure that the goals and objectives are obtained.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

The Office of Communication has not documented its risk assessment and defined control activities necessary to prevent or detect errors. The Office of Communication has formulated internal policies and procedures.

Recommendation

17. We recommend that the Director of the Office of Communication document defined control activities for her organization.

Information and Communication

Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to make informed business decisions and external reports. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities related to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Communication and information may exist formally such as computer information systems and staff meetings. Communication and information may exist informally such as conversations

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with vendors and within work groups. Whichever manner that communication and information are shared within an organization, it must be accurate and timely.

Our review indicated that information and communication within the Office of Communication is good.

Monitoring

Internal control systems need to be monitored – a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management.

Internal control is adequately designed and properly executed if all five internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring) are present and functioning as designed.

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies operations, (2) determine proper actions in response to findings and recommendations from audits and reviews and (3) complete, within established time frames, all actions that correct or otherwise resolve the matter brought to management's attention.

The Office of Communication has not had previous internal audits performed. The Director indicated that peer reviews for the Communication functions within highway organizations have not been established. A self-assessment has been performed.

Recommendation

18. We recommend that the Director of the Office of Communication perform a self-assessment to determine the adequacy of internal controls existing within the Office of Communication.

Internal Control Evaluation

Attached to this report (**ATTACHMENT 1**) is an evaluation of the internal control assessment that has been performed. This evaluation compares the five components of internal control with the Committee of Sponsoring Organizations (COSO) operating categories. The results shown on the evaluation are supported by this report.

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Concluding Comments

The mission of the Office of Communication is such that control weakness noted could have a material impact on the Department of Transportation, as a whole. The Office of Communication serves as the public face of the West Virginia Department of Transportation.

Resolving the recommendations and suggestions contained in this memorandum will have a positive effect on the operations of the Office of Communication and the Department of Transportation, as a whole. Due to the unique mission of each organization within the Department of Transportation and the general nature of our review, the recommendations do not state specific actions that will resolve the reason for the recommendation. Transportation Auditing will follow-up on the above recommendations and suggestions at a later date. In the meantime, representatives of Transportation Auditing are available to assist in the development of actions that can implement solutions to the recommendations and suggestions.

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Attachment

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ATTACHMENT 1

INTERNAL CONTROL ASSESSMENT

Office of Communication

Internal Control Component	Number of Factors	Total Possible Score	Score	Percentage	Rating
A. **Control Environment**					
1. Integrity and Ethical Values	4	20	20	100.00%	Strong
2. Commitment to Competence	3	15	11	73.33%	Good
3. Management Philosophy and Operating Style	7	35	18	51.43%	Adequate
4. Organization Structure	4	20	19	95.00%	Strong
5. Assignment of Authority and Responsibility	5	25	19	70.00%	Good
6. Human Resources Policies and Practices	8	40	26	65.00%	Adequate
Total for Section		**155**	**113**	**72.90%**	**Good**
B. **Risk Assessment**					
7. Organization Goals and Objectives	8	40	23	57.50%	Adequate
8. Risk Identification and Prioritization	6	30	19	63.33%	Adequate
9. Managing Change	6	3	28	93.33%	Strong
Total for Section		**100**	**70**	**70.00%**	**Good**
C. **Control Activities**					
10. Written Policies and Procedures	2	10	8	80.00%	Good
11. Control Procedures	14	70	35	50.00%	Adequate
12. Controls Over Information Systems	3	15	9	60.00%	Adequate
Total for Section		**95**	**52**	**54.74%**	**Adequate**
D. **Information and Communication**					
13. Information and Communication	7	35	25	71.43%	Good
Total for Section		**35**	**25**	**71.43%**	**Good**
E. **Monitoring**	3	15	8	53.33%	Adequate
14. Monitoring		**15**	**8**	**53.33%**	**Adequate**
Total for Section					
Total for Internal Control Assessment					
Definition of Ratings		**The internal control assessment considered the COSO Operating Categories including the effectiveness and efficiency of operations; reliability of financial reporting; compliance with laws and regulations; and safeguarding of assets.**			
10% to 29% -- Weak					
30% to 49% -- Needs Improvement					
50% to 69% -- Adequate					
70% to 89% -- Good					
90% to 100% -- Strong					

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