

# STATE OF COLORADO

**DEPARTMENT OF TRANSPORTATION  
Office of Policy and Government Relations**

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**To:** Transportation Commission

**From:** Herman Stockinger / Barb Gold

**Re:** Summary of Policy Directive Submitted for Approval: 4.0 “Audit Division Standards and Procedures”

**Date:** August 2, 2013

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Executive Summary: As part of CDOT’s review of all existing policies and procedural directives, the Director of the Audit Division commenced a review of all directives related to that division in January 2013. Policy Directive 4.0 was adopted on October 4, 2007 with a review date of October 2012. The Audit Division determined that Policy Directive 4.0 was value to the Department, given the Division’s autonomous role within CDOT. The Audit Review Committee reviewed and approved updated Policy Directive 4.0 at its meeting in July 17, 2013.

1. Action Requested: Approval of Policy Directive 4.0 “Audit Division Standards and Procedures”
2. Documents Included in this Agenda Submission:
  - A. Memorandum “Summary of Policy Directive Submitted for Approval”
  - B. Proposed Resolution
  - C. Policy Directive 4.0
  - D. Redline of Changes to Policy Directive 4.0
3. Date of Policy Directive: October 4, 2007
4. Significant Changes to Policy Directive 4.0:
  - Section I Purpose: clarified and added references to the governing statutes and made reference to the oversight role the Audit Review Committee;
  - Section II Authority: included a more comprehensive list of governing audit authority;
  - Section III Applicability: states that the policy applies not only to CDOT personnel but also in some cases OIT employees, consultants and vendors.
  - Section IV Policy, B.: clarifies that the Audit Division reports administratively to executive management and functionally to the ARC as an independent appraisal function to examine and evaluate agency activities.
  - Section IV Policy, C.: sets out the roles of the Audit Division
  - Section IV Policy, E.: changes “directors and managers” to Appointing Authorities and clarifies that the Audit Division must be notified as soon as notice of an external audit is received.
  - Section IV Policy, F.: states that executive management is responsible for responding in a timely manner to audit issues.
  - Section IV Policy, G.: states that the Audit Director has authority to determine whether a document related to an audit is confidential prior to its being released to a third party.

<b>COLORADO DEPARTMENT OF TRANSPORTATION</b>		<input checked="" type="checkbox"/> <b>POLICY DIRECTIVE</b> <input type="checkbox"/> <b>PROCEDURAL DIRECTIVE</b>
Subject <b>Audit Division- <u>Policy</u></b>		Number <b>4.0</b>
Effective <b>TBD</b>	Supersedes <b>10/04/2007</b>	Originating Office <b>Audit Division</b>

## I. PURPOSE

~~This policy is to provide guidance for the auditing function within the Colorado State Department of Transportation (CDOT).~~ It is the policy of the Colorado Department of Transportation to establish and support an internal auditing division as an independent appraisal function to examine and evaluate agency activities as a service to management, the Audit Review Committee, and the Transportation Commission.

Pursuant to § 43-1-106 (12)(e), C.R.S., it is the intent of the general assembly to shift reporting of, supervision of, and control of the Department's internal auditor to the Transportation Commission.

Pursuant to § 43-1-106 (12)(c), C.R.S., the Commission shall establish an audit review committee from the Commission membership which shall oversee the operations of the internal auditor and his or her staff.

## II. AUTHORITY

Transportation Commission, Audit Review Committee, § 43-1-106(12)(c) and (e), C.R.S.

2 CFR 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl)

GAGAS (Government Auditing Standards, 2011 Revision) <http://www.gao.gov/assets/590/587281.pdf>

AASHTO Subcommittee on Internal/External Audit 2012 Uniform Audit & Accounting Guide [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl)

§ 43-1-106(8)(o) and (12)(a) through (e), C.R.S.

§ 24-103-601(2), C.R.S.

The Audit Division Charter <http://internal.dot.state.co.us/Audit/Background/Authority/charter.asp>

## III. APPLICABILITY

This Policy Directive applies to all divisions, regions, offices and branches of CDOT and the employees of the Office of Information and Technology, where applicable. It also applies to consultants contracting with CDOT as well vendors performing work for CDOT.

#### IV. POLICY

A. The Audit Division exists to provide the Transportation Commission (Commission) and CDOT executive management with independent information on CDOT operations. ~~The Audit Division will furnish the Commission and CDOT executive management with opinions, analysis, recommendations, and information on the activities, entities and contracts reviewed.~~ The Audit Review Committee (ARC) of the Transportation Commission ~~has approved~~ approves the Charter for the Audit Division, which outlines the Division's duties and responsibilities.

B. The director of the Audit Division reports directly to the ~~Audit Review Committee (ARC)~~ of the Transportation Commission, which supervises and oversees the operations of the Division.

~~The Executive Director has been delegated administrative oversight of the Audit Director and, the Executive Director may direct the Audit Director to conduct other audits as deemed necessary. Note: This language has been moved to Procedural Directive 4.1.~~

The Audit Division reports administratively to executive management and functionally to the ARC as an independent appraisal function to examine and evaluate agency activities.

~~The ARC shall approve the annual workplans and general assignments for the Audit Division. Note: moved this detail to Procedural Directive 4.1.~~

~~The Audit Director will insure that:~~

~~a. The Audit Division adopts appropriate, generally accepted, and recognized audit standards.~~

~~b. The work is performed in accordance with the adopted standards.~~

~~e. Assignments are selected through a risk-based analysis supplemented by requests from the Audit Review Committee, the Executive Director, and CDOT Executive Management.~~

~~d. The results of the audits, the findings, opinions, conclusions, and recommendations are reported to the Audit Review Committee of the Transportation Commission, and the Executive Director. Note: moved a. through d. to Procedural Directive 4.1.~~

C. The Audit Division provides CDOT executive management assurance that controls are operating effectively and efficiently. The Audit Division conducts and supervises: internal audits on the Department; external audits on persons or entities entering into contracts with the Department; federally required audits; financial audits in order to ensure the financial integrity of the Department, and performance audits to determine the efficiency and effectiveness of the operations of the Department.

D. In carrying out duties and responsibilities, the Audit Division shall have full, free, and unrestricted access to all agency activities, records, property, and personnel.

- E. ~~CDOT directors and managers are responsible for taking appropriate and timely action to resolve the issues identified in the audit reports. All Appointing Authorities are responsible for notifying the Audit Division of external audits as soon as notification is received. The Audit Director shall coordinate with and act as a liaison to external auditors performing audits on CDOT operations. The Audit Director, or his or her designee, shall be the designated representative on behalf of CDOT concerning Qualifying Services resulting in written recommendations to all external auditors performing audits on CDOT operations.~~
- F. The CDOT executive management is responsible for taking appropriate and timely action to respond to the issues identified in the audit reports.
- G. Audit reports and all related documents, including work product and investigations, shall remain confidential and shall not be released to a third party absent express approval by the Audit Director.

## V. IMPLEMENTATION PLAN

- A. This Policy Directive shall be effective immediately upon signature.
- B. The Originating Office shall confirm within one week of the effective date that all employees in the Audit Division have received a copy of the Policy Directive.
- C. The Originating Office will provide a copy of this Policy Directive to all Auditees along with the Notice of Engagement.

## VI. REVIEW DATE

This Policy shall be reviewed on or before October 2012 May 2018.

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Secretary, Transportation Commission

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Effective Date

**Resolution # TC-**

**Approval of Policy Directive No. 4.0 “Audit Division Standards and Procedures”**

**WHEREAS**, § 43-1-106 (8)(a) C.R.S. gives authority to the Transportation Commission of Colorado (“Commission”) to formulate general policy with respect to the management, construction, and maintenance of public highways and other transportation systems in the state; and

**WHEREAS**, § 43-1-106 (12)(c) C.R.S., gives authority to the audit review committee (ARC) comprised of the Commission membership to oversee the operations of the internal auditor and her staff; and

**WHEREAS**, Policy Directive 4.0 previously titled “Audit Division” was adopted by the Transportation Commission on October 4, 2007; and

**WHEREAS**, Policy Directive 4.0 was scheduled for review on or before October 2012; and

**WHEREAS**, over the last year, the Director of the audit division has conducted a review of all existing policies and procedural directives related to the audit division and as part of that process has revised this policy to clarify the divisions responsibilities and procedures; and

**WHEREAS**, Policy Directive 4.0 “Audit Division Standards and Procedures” adds value to the Department by setting forth procedures for CDOT with regard to internal and external audits which conform to governing federal and state law and best practices; and

**WHEREAS**, Policy Directive 4.0 “Audit Division Standards and Procedures” has been reviewed and approved by the ARC on July 17, 2013.

**NOW THEREFORE BE IT RESOLVED**, the Commission herein approves Policy Directive 4.0 “Audit Division Standards and Procedures.”

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**Transportation Secretary**

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**Date**

<b>COLORADO DEPARTMENT OF TRANSPORTATION</b>		<b>POLICY DIRECTIVE PROCEDURAL DIRECTIVE</b>	
Subject <b>Audit Division Standards and Procedures</b>			Number <b>4.0</b>
Effective	Supersedes <b>10/04/2007</b>	Originating Office <b>Audit Division</b>	

## I. PURPOSE

It is the policy of the Colorado Department of Transportation to establish and support an internal auditing division as an independent appraisal function to examine and evaluate agency activities as a service to management, the Audit Review Committee, and the Transportation Commission.

Pursuant to § 43-1-106 (12)(e), C.R.S., it is the intent of the general assembly to shift reporting of, supervision of, and control of the Department's internal auditor to the Transportation Commission.

Pursuant to § 43-1-106 (12)(c), C.R.S., the Commission shall establish an audit review committee from the Commission membership which shall oversee the operations of the internal auditor and his or her staff.

## II. AUTHORITY

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consultants contracting with CDOT as well vendors performing work for CDOT.

#### **IV. POLICY**

A. The Audit Division exists to provide the Transportation Commission (Commission) and CDOT executive management with independent information on CDOT operations. The Audit Review Committee (ARC) of the Transportation Commission approves the Charter for the Audit Division, which outlines the Division's duties and responsibilities.

B. The director of the Audit Division reports directly to the ARC of the Transportation Commission, which supervises and oversees the operations of the Division. The Audit Division reports administratively to executive management and functionally to the ARC as an independent appraisal function to examine and evaluate agency activities.

C. The Audit Division provides CDOT executive management assurance that controls are operating effectively and efficiently. The Audit Division conducts and supervises: internal audits on the Department; external audits on persons or entities entering into contracts with the Department; federally required audits; financial audits in order to ensure the financial integrity of the Department, and performance audits to determine the efficiency and effectiveness of the operations of the Department.

D. In carrying out duties and responsibilities, the Audit Division shall have full, free, and unrestricted access to all agency activities, records, property, and personnel.

E. All Appointing Authorities are responsible for notifying the Audit Division of external audits as soon as notification is received. The Audit Director, or his or her designee, shall be the designated representative on behalf of CDOT concerning Qualifying Services resulting in written recommendations to all external auditors performing audits on CDOT operations.

F. The CDOT executive management is responsible for taking appropriate and timely action to respond to the issues identified in the audit reports.

G. Audit reports and all related documents, including work product and investigations, shall remain confidential and shall not be released to a third party absent express approval by the Audit Director.

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**VI. REVIEW DATE**

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Secretary, Transportation Commission

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Effective Date