

**COLORADO STATE TRANSPORTATION COMMISSION**  
**AUDIT REVIEW COMMITTEE**  
Commissioners Les Gruen, Doug Aden, Ed Peterson, Steve Parker  
Meeting Location: CDOT Headquarters Building, Denver, Colorado

**MEETING AGENDA: July 18, 2013**

1. **Call to Order:** (Roll will be noted by the Secretary to the ARC)
2. **Approval of the Minutes of the Last ARC Meeting** Page 2
3. **Status Updates**
  - 3.1. Action Items from April 18, 2013 meeting Verbal
  - 3.2. Outstanding Audit Recommendations Page 6
4. **FY13 Audit Plan**
  - 4.1. Update Page 11
  - 4.2. Reports Issued
    - 4.2.1. Electrical System Bid Item on CDOT Project ES6 CO10-101 Page 16
5. **Approval to Release Audit Reports**
  - 5.1. None to be released
6. **Audit Division Discussion Items**
  - 6.1. Revisions to Audit Division Policy and Procedural Directives 4.0 and 4.1 Page 17
7. **ARC Questions and Requests**

**Colorado Transportation Commission**  
**Audit Review Committee**  
**MEETING MINUTES**  
**April 18, 2013**  
**9:45 A.M. – 10:10 A.M.**  
**CDOT Headquarters Auditorium**

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**COMMISSIONERS PRESENT:** Les Gruen, ARC Chairman, Ed Peterson, Doug Aden, Steve Parker, Gilbert Ortiz, Gary Reiff, and Heather Barry.

**ALSO PRESENT:** Don Hunt, Executive Director; Heidi Bimmerle, DoHRA Director; Barbara Gold, Audit Director; Trent Josten, Auditor; Joe Mahoney, Manager of Administration; Scott McDaniel, Staff Branches Director; Gregg Miller, BPA; Samuel K. Nnuro, Auditor ; Naomi Smith, Audit Manager; Rachel Bowden, Audit Admin. Asst. & ARC Secretary; David Root, IT Security Operations Manager; Andre Compton, Finance – FHWA; Kathie Kelly, Finance Manager – FHWA; Kathy Young, Chief Transportation Counsel; Jaimie Given, Project Coordinator – Johnson Controls.

**AND:** Other staff members, organization representatives, and the public.

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**1. Call to Order**

ARC Chairman Gruen called the meeting to order on April 18, 2013, at 9:45 A.M. The meeting was held in the Auditorium at the Headquarters of the Colorado Department of Transportation. Roll was noted by the Secretary to the ARC.

**2. Approval of Minutes of the Last ARC Meeting**

ARC Chairman Gruen asked for approval of the meeting minutes for January 17, 2013. Approval of the minutes was moved by Commissioner Aden, and seconded by Commissioner Peterson. The minutes were adopted as published in the agenda.

**3. Business Status Updates – Outstanding Audit Recommendations**

Audit Director Barbara Gold presented the CDOT Outstanding Audit Recommendations report. She stated that the follow up on the outstanding audit recommendations has been a slow process. It involved many individuals from the Senior Management Team (SMT) and others, as listed on page 7, who were very collaborative and cooperative in this process. Some of the changes made to the process include, the following:

- An implementation of six to eight months or less going forward;
- The audits will be much more focused;
- More frequent follow-ups; and
- Recommendations will be addressed to each SMT member, who will be responsible for the implementation of that recommendation.

The Audit Director noted that the charts in the report summarize the outstanding recommendations data. The first graph on page 10 is the audit recommendations by source. The second graph on page 11 is audit by department or area within CDOT. About half of the audit recommendations are with Human Resources and Administration, which includes a significant amount from IT.

Audit has met with the SMT on all of the 45 outstanding recommendations, as summarized on page 12 and listed in greater detail beginning on page 13.

Executive Director Hunt stated that from an external audit point, the Governor's office has requested that CDOT step up their response, especially with the open OIT audit recommendations. He said that CDOT is to involve the Governor's office, to coordinate with the OIT office to resolve if needed.

Commissioner Aden applauds everyone for focusing on this process. It is something that has concerned him for a long time. He stated that there should be zero tolerance for not responding to an audit finding. Also, he stated that there needs to be accountability, which belongs to the Senior Managers for getting it done.

Commissioner Peterson agreed with Commissioner Aden, and stated that it is very important.

Commissioner Gruen commented that at the bottom of page 11, there were several statuses indicated. He agreed with the other Commissioners concerning the audit findings that need to be addressed and recognized. If they are not important or do not fit in the other categories, they should be removed or added to another category to eliminate waste. If audit findings are not addressed, they should be eliminated or somehow dealt with.

Executive Director Hunt agreed with Commissioner Gruen. He stated that going forward CDOT needs to focus on the high risk recommendations to work within the budget constraints.

#### **4. Audit Report Presentations and Presentations**

##### ***A. Audit Plan and Organization***

Audit Director Gold presented the CDOT Audit Plan for Performance Year 2014 (page 17). She commented that Audit was excited about the new plan and her staff worked very hard on it. As a team, they have included training and revised the mission and vision statements. Audit wants to become an add value component of CDOT by having shorter audits, more frequent follow-ups, specifying an individual to be responsible, and a more collaborative approach.

She stated that the current audit plan is based on a risk approach. The most significant difference between the current plan and the prior plans is that the current plan is based on a risk approach to auditing. The Audit Division conducted a number of researches and looked into a variety of issues in the organization to determine the risks. The Audit Division conducted interviews with the SMT, the Executive Director, and FHWA to find out their concerns and most pressing issues. Based on the probable outcomes and magnitude of loss, a rough grid was created and a list of risks. Instead of an hours allocation as it has been done in the past, Audit will adopt a risk based approach and move resources as needed. When the audit process stops adding value, the audit will stop.

Audit will continue to look at all of its internal processes and improve them. One improvement has been the implementation of TeamMate for the automated work papers, which will make the office more efficient.

Audit has updated their organization chart (page 20) and is moving to a more functional or matrix management. The first six to 12 months will be focused on professional development to get the Audit team up to speed and to meet audit standards. A performance metrics will be added and a baseline set to be able to report back on the progress made.

Commissioner Gruen noted that the Audit Division is the only group at CDOT that reports to the Commission. He said there have been significant changes in the Audit Division and seems to be better organized since Ms. Gold took over. He pointed out that there are several vacancies and another vacancy since the chart was made, and that the re-organization of this Division is a lot more focused and streamlined. He hopes all of the staff feels they are more involved and a more important component. Hopefully find it more effective. He asked Ms. Gold how she went about reorganizing the Division.

Ms. Gold replied that change is difficult. The communication has improved a lot.

Commissioner Gruen stated that Ms. Gold and her whole team has been very receptive to thinking about how they can organize their division to working more effectively, rather than just do the things the way they have always been done.

Executive Director Hunt also applauded Ms. Gold and her staff. Mr. Hunt said that as much as anyone in the entire Department right now, Ms. Gold and her staff will be able to use the risk based management and focus on where we have our current resources.

One of the Commissioners also commented it is real easy to start spending time on things that do not make a real difference, and need to focus on where the real risks are.

Another Commissioner commented that one real example is not just allocating time to different projects, and understanding way into the year that things might crop up that are going to require more time versus things that might not require much of any time. He said that CDOT needs to be flexible and act accordingly.

***B. Johnson Controls Audit***

Audit Director Gold introduced the Johnson Controls Audit memo on page 25. Trent Josten was the auditor, and was present if anyone had any questions or would like him to present any details.

The purpose of the examination was to determine the actual cost related to the design piece associated with the TEA contract.

The Audit Division is not requesting the ARC to take action on the memo because we were not asked to issue an opinion by management. She then introduced the auditor, Trent Josten.

Mr. Josten explained that it is an actual audit termination memo, and it is not an official audit. The audit that was performed was based on various limitations, and what we were able to obtain in the initial planning phases. This memo lays out what was requested to be done, and what information was able to be obtained and why the audit was terminated.

Commissioner Gruen asked if anyone had questions for Ms. Gold and/or Mr. Josten. No one had any questions. He then asked if Ben Stein was present to ask him some questions, and he was not present

**5. Adjournment**

Commissioner Gruen announced that the meeting was adjourned at approximately 10:10 a.m.

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**Action Items** Report back on progress of performance metrics.

# STATE OF COLORADO

## DEPARTMENT OF TRANSPORTATION

Division of Audit  
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DATE: July 3, 2013

TO: Audit Review Committee

FROM: Barbara Gold, Audit Director

SUBJECT: Outstanding Audit Recommendation (Audit Number 14-003) Status Update

The Audit Division continued its review of the implementation status of previously reported outstanding audit recommendations. During the April 2013 Audit Review Committee (ARC) meeting, we reported on the status of 36 outstanding audit recommendations. We performed audit procedures on each of the outstanding recommendations and have updated this status. Our audit procedures included interviewing key personnel responsible for implementing the recommendation, obtaining and reviewing relevant supporting documentation, and contacting external audit parties for their status of the recommendations. We performed audit work to confirm CDOT's implementation status for recommendations written by an external auditor.

Of the 36 outstanding recommendations reported in April 2013, only 12 remain in progress as of July 3, 2013. During the quarter, two additional reports were released by external auditors – the Office of the State Auditor's audit on the Outdoor Advertising Program and the Federal Highway Administration's audit of Region 4 Section 106 Process. As a result there are six additional recommendations, which brings the total open audit recommendations to 18 as of July 3, 2013. The table below reflects the updated implementation status of the recommendations.

| CDOT Audit Division<br>Changes in Outstanding Recommendations<br>March 31, 2013 through July 3, 2013 |          |
|--|----------|
| Outstanding Recommendations March 2013   | 36       |
| Less: Implemented  | 13       |
| Less: Closed and Closed-Audit Plan   | 11       |
| Total In Progress  | 12       |
| <b>Add: New</b>  | <b>6</b> |
| Outstanding Recommendations July 3, 2013   | 18       |

Based on our audit procedures completed as of July 3, 2013 we summarized our conclusions into one of the statuses below. These statuses reflect changes from ARC comments about spending time on things that make a difference and having flexibility in our audit plan.

- **Implemented** – The recommendation has been implemented as written;
- **In Progress** – The business group is working on implementing the recommendation;
- **Closed** – Management disagrees with the recommendation;
- **Closed-Audit Plan** – The follow up found that the recommendation may no longer be relevant; however, risk still exists and the Audit Division may conduct another audit of the area;
- **New** – Audit recommendations that were not in the database as of March 31, 2013, and are in progress.

Management and other CDOT employees worked hard over the last three months to implement 13 recommendations. The audit work we performed also found that some of the recommendations were no longer applicable due to management accepting the risk in one instance; changed processes since the recommendation was presented; or management utilized Lean to implement the recommendations. For those instances where a Lean Event is being used, the audit team will follow up and review the recommendations that result from the event to ensure that the risks were addressed and mitigated with appropriate controls.

### Added Value

With the implementation of the recommendations, the six audit reports noted below were closed, management improved controls and processes to mitigate risk, provided improved communication to employees on those controls and processes, improved relationships with outside parties to better CDOT programs, and improved compliance with Federal and State guidelines. Specifically, the implementation of these recommendations added value by:

1. FTA 2012 State Management Review
  - Added Value: Improving deficiencies the FTA identified within Transit and Rails program and financial management and grant administration. Policies and procedures were developed to ensure that open grants are submitted timely and with the required information. The State Plan was revised and now contains procedures to monitor sub-recipient compliance with Federal regulations.
2. Fuel Card Internal Controls
  - Added Value: Improving policies and procedures to improve identification and reporting of potential fraudulent fuel purchases.
3. Fuel Reconciliation Audit Summary Report
  - Added Value: Improved reconciliation procedures for CDOT's fuel consumption.
4. MS4 New Development and Redevelopment Program
  - Added Value: Requiring coordination between CDOT and CDPHE and achieving a mutual understanding of current requirements. This resulted in a revised proposal between CDOT and CDPHE that complies with permanent water quality requirements and helps them meet their business needs. The revisions also provide clarity and consistency across CDOT regions.
5. Preconstruction Engineering – one of the recommendations is part of RAMP, which will be included in our audit plan

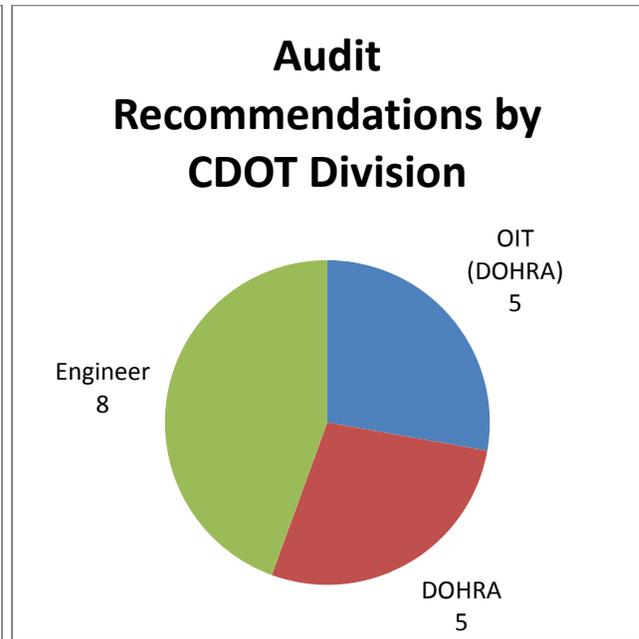
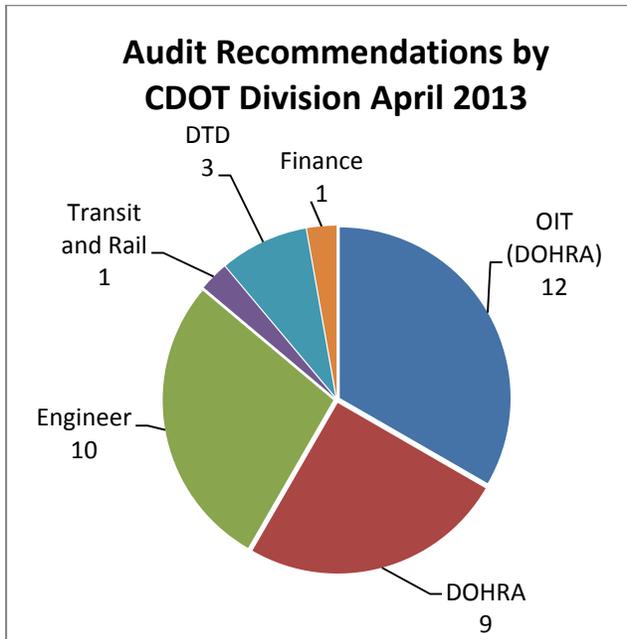
- Added Value: Providing additional areas to improve project management such as creating additional metrics that measure and will help monitor the quality of construction plans and specifications.
6. Region 1 Business Office Audit
- Added Value: Improving policies and procedures to prevent unauthorized payments and statutory violations.

The chart below shows the summary of the implementation status as of July 3, 2013, by CDOT area.

| <b>CDOT AUDIT</b>                       |   |             |          |                          |                |            |  |
|---|---|-------------|----------|--------------------------|----------------|------------|--|
| <b>Outstanding Audit Recommendation</b> |   |             |          |                          |                |            |  |
| <b>Change in Implementation Status</b>  |   |             |          |                          |                |            |  |
| <b>April 2013 - July 2013</b>           |   |             |          |                          |                |            |  |
| CDOT Area                               | April 2013<br>Balances -<br>Outstanding | Implemented | Closed   | Closed-<br>Audit<br>Plan | In<br>Progress | <b>New</b> | July 2013<br>Balances -<br>Outstanding |
| DOHRA and OIT                           | 12                                      | 4           |          | 3                        | 5              |            | 5                                      |
| DOHRA                                   | 9                                       | 2           | 1        |                          | 5              |            | 5                                      |
| Engineer                                | 10                                      | 3           | 1        | 5                        | 2              | <b>6</b>   | 8                                      |
| Transit and Rail                        | 1                                       | 1           |          |                          |                |            | 0                                      |
| Safety                                  | 0                                       |             |          |                          |                |            | 0                                      |
| DTD                                     | 3                                       | 3           |          |                          |                |            | 0                                      |
| Finance                                 | 1                                       |             |          | 1                        |                |            | 0                                      |
| <b>Totals</b>                           | <b>36</b>                               | <b>13</b>   | <b>2</b> | <b>9</b>                 | <b>12</b>      | <b>6</b>   | <b>18</b>                              |

Source: CDOT Audit analysis

The charts below compare the breakdown of the 36 outstanding recommendations from April 2013, and the 18 outstanding audit recommendations by area within CDOT as of July 2013.



Source: CDOT Audit analysis

Following are additional details, including the status, for all outstanding recommendations as of July 3, 2013.

Outstanding Audit Recommendations  
July 3, 2013

| Ref # | Auditor | Recommendation   | Area           | Implementation Status - July 3, 2013 |
|-------|---------|--|----------------|--------------------------------------|
| 1     | CDOT    | The Region 4 Planning and Environmental Manager should develop a method to ensure that projects are cleared, as required, by a Historian and that the project files have documentation to support this compliance.   | Chief Engineer | In Progress                          |
| 2     | FHWA    | CDOT should provide training on CDOT's Section 106 procedures at the next Transportation Environmental Workshop. All RPEMs, Environment Project Managers and Historians should be highly encouraged and/or required to attend.   | Chief Engineer | New                                  |
| 3     | FHWA    | FHWA, CDOT, and the SHPO should explore revising the PA to allow certain classes of projects to be reviewed by knowledgeable environmental staff, even if they are not historians. There would be criteria that would have to be reviewed to ensure that a project was not an unusual case (e.g. could have historic effects even though it is a class of projects that normally does not, such as projects in historic districts).  | Chief Engineer | New                                  |
| 4     | OSA     | CDOT should establish adequate controls over outdoor advertising signs located along interstates and controlled highways to ensure compliance with federal and state requirements by: a. establishing a comprehensive monitoring process through written policies and procedures and training staff on this process. b. Ensuring that regional inspectors are informed of their roles and responsibilities. c. Establishing a standard process for enforcing federal and state laws and Department regulations when illegal signs are identified. d. Ensuring that permit holders affix their permit decals to the signs in a conspicuous location and amending rules. e. providing training to the Department's regional field staff on Outdoor Advertising Program laws and regulations. | Chief Engineer | New                                  |
| 5     | OSA     | CDOT should strengthen its internal controls over the Outdoor Advertising Program's renewal permit process by: a. implementing segregation of duties. b. Seeking clarification, through consultation with the Attorney General's Office, as to when late fees should be charged and implementing rules and policies as needed to ensure such fees are applied consistently.  | Chief Engineer | New                                  |
| 6     | OSA     | CDOT should ensure that it complies with all statutory requirements related to the Outdoor Advertising Program by: a. Creating and using a dedicated roadside advertising fund, or seeking statutory change to remove the requirement. b. Reviewing the fee schedule for outdoor advertising permit applications and renewals.   | Chief Engineer | New                                  |
| 7     | OSA     | CDOT should establish an effective monitoring process for the TODS and LOGO Sign Programs contract by conducting regular fiscal reviews of the financial data required in the contract to determine if the revenue and program data reported by the contractor are accurate.   | Chief Engineer | New                                  |
| 8     | CDOT    | The Maintenance and Operations Branch Manager should establish performance monitoring indicators for building projects; these indicators should be comparable to those used for road and bridge projects.  | Chief Engineer | In Progress                          |
| 9     | CDOT    | The Director of the Division of Human Resources and Administration and the SMT to make strategic decisions necessary for CDOT's document retention policies including: centralized or decentralized and whether to use an EDMS system.   | DOHRA          | In Progress                          |
| 10    | CDOT    | Once strategic decisions above have been made, the Manager of Administration should update Record Management Procedural Directives including a list of all project documents that should be sent to Central Files, and a process to ensure future updates.   | DOHRA          | In Progress                          |
| 11    | CDOT    | The Manager of Administration should ensure that updated policies and procedural directives specifically include the process for disposal of documents.  | DOHRA          | In Progress                          |
| 12    | CDOT    | The CORA Coordinator should ensure that procedural directives for open record requests are updated and accurate.   | DOHRA          | In Progress                          |
| 13    | CDOT    | The CORA Coordinator should create a process that centralizes the process for open records requests.   | DOHRA          | In Progress                          |
| 14    | CDOT    | Scan the web application regularly for SQL injection and XSS threats.  | DOHRA-OIT      | In Progress                          |
| 15    | CDOT    | We recommend that the Director of Services Management work with OIT and the Business Process Architect to create policy and procedures for reviewing SAP log data and highlight suspicious transactions or data patterns.  | DOHRA-OIT      | In Progress                          |

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DATE: July 5, 2013

TO: Audit Review Committee

FROM: Barbara Gold, Audit Director

SUBJECT: Audit Plan Update and 2<sup>nd</sup> Quarter Audit Schedule

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Every quarter the Audit Division will provide an update on the activities performed for the previous quarter, audits selected for the upcoming quarter, and any significant changes to the plan.

### **Update for April – June 2013**

#### Compliance Audits

There are several areas in which a compliance review is required by regulatory guidelines and are not audits that are selected by the Audit Division and CDOT Management. The Audit Division performs the following required compliance reviews.

- Sole Source Reviews
  - Requests from CDOT purchasing agents to review sole source procurements greater than \$100,000 for fair and reasonable pricing.
  - Added Value: Sole Source requests contain an inherently higher risk. Audit's review of these requests mitigates this risk by providing independent assurance to the CDOT's Procurement Office that the request pricing is fair and reasonable prior to approval.
- Fraud Hotline
  - The Audit Division manages the hotline through an application that allows us to maintain a centralized database for documenting the steps taken by the organization to investigate allegations reported via the hotline. The allegations are reviewed and the information is disseminated to the appropriate party such as the supervisor, Human Resources, and the Audit Committee.
  - Added Value: Provides the framework and ability for an effective anonymous reporting program. This function provides a proactive approach and engages CDOT employees to promote an ethical workplace and organization and thereby limit liability and loss due to fraud and misconduct in the workplace.
- Fringe Benefit Reviews
  - Requests from CDOT management to review fringe benefit rates.
  - Value Added: Provides management with additional documentation as to the reasonableness of a fringe rate.

- Consultant New Selection Reviews
  - The Audit Division’s objective is to determine that the direct labor rates, overhead rates, billing rates, or in the alternative, Fee Schedule Billing Rates are fair and reasonable.
  - Added Value: Provide CDOT’s Contracts and Agreements Section with assurance that the rates submitted are fair and reasonable per Federal Acquisition Regulations. If the rates are not reasonable, Audit provides our determination of recommended reasonable rates.
- Master Pricing Agreement Reviews
  - The Audit Division’s objective is to determine that the direct labor rates, overhead rates, billing rates, or in the alternative, Fee Schedule Billing Rates are fair and reasonable.
  - Added Value: Provide CDOT’s Contracts and Agreements Section with assurance that the rates submitted are fair and reasonable per Federal Acquisition Regulations. If the rates are not reasonable, Audit provides our determination of recommended reasonable rates.
- A-133 Reviews
  - Entities that receive federal grant monies from CDOT are required to submit, annually, an Audit Compliance Certification Form. Audit reviews the report and form for exceptions on programs impacting CDOT.
  - Added Value: Assists CDOT Management in its responsibilities with the provisions of OMB A-133 requirements relative to audit compliance. We also document and follow-up, with the sub-recipient, on any exceptions noted in the audit report which impact CDOT programs.
- Disputes and Claims
  - Audit Division reviews disputes between CDOT and the contracted vendor including terms of contract, work performed, and allowable/unallowable costs.
  - Added Value: Provide CDOT Management with additional support for the quantum of the dispute or claim.
- Follow Up on Outstanding Recommendations
  - Audit Division performs procedures to determine the disposition of audit recommendations.
  - Added Value: Provides CDOT Management with updates on the disposition of recommendations they agreed to implement which are important to attaining their objectives.

The table below notes the work performed on the areas mentioned above. Auditors focused their time primarily on determining the status of the 36 outstanding audit recommendations.

| CDOT Audit Division<br>Audit Work for April – June 2013 |                  |
|---|------------------|
| Audit Procedure   | Number Completed |
| Sole Source Reviews                                     | 2                |
| Fraud Hotline   | 10 notifications |
| Fringe Benefit Reviews                                  | 4                |
| Consultant New Selection Reviews                        | 32               |

|  |    |
|--|----|
| Master Pricing Agreement Reviews               | 13 |
| A-133 Reviews                                  | 0* |
| Disputes and Claims                            | 0  |
| Follow up on Outstanding Audit Recommendations | 36 |

\*Note: The Audit Division is revising the Audit Compliance Certification Form and transmittal letter which will be sent to the sub-recipients by July 31, 2013 for the 2012 reporting year.

### External Audits

External Audits are those audits conducted by entities external to CDOT such as those conducted by the Office of the State Auditor or the Federal Highway Administration.

CDOT Managers shall notify the Audit Director when an external party conducts an audit of CDOT operations, according to Policy and Procedural Directives 4.0 and 4.1. Below is the status of CDOT's external audits.

| CDOT Audit Division<br>External Audit Status<br>April – June 2013 |  |   |
|---|--|---|
| External Auditor  | Type of Audit  | Status  |
| Office of the State Auditor (OSA)                                 | Performance Audit of the Outdoor Advertising Program | Completed – OSA presented the report to the Legislative Audit Committee on June 4, 2013 |
| BKD CPAs and Advisors   | Statewide Financial Audit for Fiscal Year 2013       | Fieldwork   |

### Training

This fiscal year we committed to building a strong, value added Audit Team that collaborates with management to help them achieve CDOT's objectives. As part of that commitment, Audit Management's focus is on two areas: the professional development of our audit team and the audit methodology. To maintain competency through continuing professional education (CPE), each auditor must take a minimum 80 hours of CPE in a 2-year period, with at least 24 hours directly related to government auditing, government, or the area in which we operate. This year Audit Management will be more directly involved in the types of CPE each auditor receives so that we can ensure that auditors are receiving the professional development needed to build a stronger audit division. All auditors attended the training classes noted below and some of the auditors attended conferences. Auditors are required to report back to the team what they learned and how it would apply to our division.

#### Auditor Professional Development:

- Continuing Professional Education Training
  - RBIA (Risk Based Integrated Auditing)
  - Audit Fundamentals
  - Conferences

- Association of Government Accountants Denver Chapter 2013 Professional Development Conference
- Colorado Fiscal Managers' Association (CFMA) and the Colorado State Managers' Association (CSMA) Spring Educational Seminar

We are also working on improving the Audit Division's processes and audit programs. During this year, we will review and revise our policies, procedures, charter, risk assessments, and our audit programs for all audits we perform. We have been working on the areas noted below.

**Audit Methodology:**

- Revision of the Audit Division Policy and Procedural Directives;
- Revision of the reports provided for our reviews of the Master Pricing Agreements and new selections (Consultant Audits).

**Audit Schedule for July – September 2013**

As part of the audit plan, we work with CDOT Management to determine the highest risk areas for the Audit Division to focus our efforts. This is developed between the SMT member and the Audit Director. Every month the Audit Director and Audit Manager meet with SMT members and Division Directors to communicate concerns effecting their achievement of the objectives of their division. As a result, the following audits have been selected for the upcoming quarter. As these meetings continue and new issues identified, the audits performed may change based on new priorities and risks. Audit Schedule for the 2<sup>nd</sup> Quarter:

| <b>CDOT Audit Division<br/>Audit Schedule<br/>July – September 2013</b> |                                    |                       |               |
|---|------------------------------------|-----------------------|---------------|
| <b>Audit</b>  | <b>Division</b>                    | <b>SMT<br/>Member</b> | <b>Status</b> |
| FASTER Dollars  | Chief Engineer                     | Tim Harris            | Fieldwork     |
| CDOT Indirect Cost Rate Review  | CDOT                               | Don Hunt              | Fieldwork     |
| Sanborn Cognizant Review  | Audit Division                     | Barbara Gold          | Planning      |
| Property Controls   | Division of Accounting and Finance | Ben Stein             | Not Started   |
| Fuel Cost Audit Follow up   | Chief Engineer                     | Tim Harris            | Not Started   |
| Outstanding Recommendations   | Various                            | Various               | Fieldwork     |

The audits above are the priorities for the quarter. In addition, outstanding audits that we plan to complete and issue include:

- David Evans (Final Cost Audit)

- Water Quality (Performance Audit)
- Scrap Metal (Performance Audit)
- Structures (Dispute)

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DATE: June 14, 2013

TO: Audit Review Committee, Colorado Transportation Commission

FROM: Trent Josten, CDOT Auditor  
Barbara Gold, CDOT Audit Director

SUBJECT: Summary on Review of Costs Incurred for the Electrical System Bid Item  
CDOT Project: ES6 CO10-101 SA 17170

### **Background:**

The Audit Division was asked to review all costs incurred for the electrical work related to the pump station on CDOT Project ES6 CO10-101. During construction, the electrical sub-contractor identified issues that center on the original plans for the electrical system not being adequate for what was to be installed. This resulted in 13 Change Orders on the electrical system alone. CDOT agreed that the changes were necessary, but could not justify the cost requested by the contractors.

Project ES6 CO10-101 consisted of the removal and replacement of the Alameda Bridge over Interstate 25 and new cofferdam and pump house construction. The electrical work related to the pump house was originally bid as a lump sum item for the price of \$205,000. The contractor, Jalisco International, and its subcontractors Glacier Construction and Big Pine Electrical submitted supporting documentation for additional costs incurred related to the changes related to the electrical system.

The Audit Division performed the review in June 2012 and received additional documentation from the contractors in December 2012.

### **Results of the Review:**

The contractors provided documentation to support total costs for the electrical system of \$388,974. Prior to final settlement of the costs related to this issue, CDOT paid Jalisco \$340,300 for the electrical system pay item.

The CDOT Audit Division concluded with reservations that the contractors incurred \$359,774 of cost for the electrical system work. Our reservations with regard to these costs are generally related to project management costs and final testing of the pump house.

CDOT paid Jalisco additional compensation in March 2013 for a total of \$359,775 for the electrical system work.

# STATE OF COLORADO

## DEPARTMENT OF TRANSPORTATION

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DATE: July 8, 2013  
TO: Audit Review Committee  
FROM: Barbara Gold, Audit Director  
SUBJECT: 4.0 and 4.1 Policy and Procedural Directive Revisions

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The Audit Division commenced a review of all Policies and Procedural Directives in January 2013. All audit policies were adopted in October 2010 with a review date of October 2012. The review included:

- Policy Directive 4.0 “Audit Division”;
- Procedural Directive 4.1 “Audit Division”;
- Procedural Directive 4.2 “Recommendation Tracking Report”; and
- Procedural Directive 4.3 “Coordination for Outside Audits and Studies”

The Audit Division determined that keeping a policy in place was of value to the Department, given the Division’s autonomous role it plays within CDOT. It consolidated three Procedural Directives into one. With this memo you will find:

- The red-line version of PD 4.0;
- The proposed version of PD 4.0;
- The proposed version of PD 4.1;
- The previous versions of PD 4.1, 4.2, and 4.3.

Please see the red-line version of Policy Directive 4.0 to compare the deletions and additions. Significant changes to Policy Directive 4.0 include:

- Section I Purpose: clarified and added references to the governing statutes and made reference to the oversight role of 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; and further states that the Audit Director or his or her designee shall be the designated representative on behalf of CDOT to all external auditors.
- 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 Directive has authority to determine whether a document is confidential prior to its being released to a third party.

Regarding Procedural Directive 4.1, a red-line draft is not provided given that three directives were combined into one and completely revised. The previous directives are attached for your reference. New Procedural Directive 4.1:

- Contains additional definitions;
- Contains one section called “General Requirements” which sets out the governing standards followed by the Audit Division and makes reference to the Audit Manual and Charter.
- Includes language previously found in PD 4.0 regarding risk-based audit work plans and other responsibilities of the Audit Director and the division.
- States that the Audit Director shall provide a status update to ARC at every meeting and shall inform ARC of those audits requested by the Audit Director;
- Clarifies the handling of internal audit reports, external audit reports, and other reports;
- States the process to follow with regard to confidentiality of documents;
- States the record retention requirements for audit-related documents.
- Contains a section on the roles and responsibilities of the Audit Director and Division personnel; a section on the responsibilities of CDOT executive management and personnel;
- Contains a section on responsibilities regarding third parties; and
- Contains the language from statute giving the Audit Division the ability to request records from contractors, subcontractors and vendors and requires these entities to maintain records for three years.

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

Deleted:

### 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.

Deleted: This policy is to provide guidance for the auditing function within the Colorado State Department of Transportation (CDOT).

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.

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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.

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### 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 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.~~

~~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.~~

~~Note: moved this detail to Procedural Directive 4.1.~~

~~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. ~~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 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.~~

**Deleted:** The Audit Division will furnish the Commission and CDOT executive management with opinions, analysis, recommendations, and information on the activities, entities and contracts reviewed.

**Deleted:** has approved

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**Deleted:** Audit Review Committee (

**Deleted:** )

**Deleted:** 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.

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**Deleted:** The ARC shall approve the annual workplans and general assignments for the Audit Division.

**Deleted:** The Audit Director will insure that.¶

¶

<#>The Audit Division adopts appropriate, generally accepted, and recognized audit standards.¶

¶

<#>The work is performed in accordance with the adopted standards. ¶

¶

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

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**Deleted:** 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.

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**Deleted:** CDOT directors and managers are responsible for taking appropriate and timely action to resolve the issues identified in the audit reports.

**Deleted:** The Audit Director shall coordinate with and act as a liaison to external auditors performing audits on CDOT operations.

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.

\_\_\_\_\_  
Secretary, Transportation Commission

\_\_\_\_\_  
Effective Date

Page 2 of 2

draft 6.28.13

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

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)

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§ 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 Review Committee of the

Transportation Commission (ARC) approves the Charter for the Audit Division, which outlines the Division's duties and responsibilities.

B. 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 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 May 2018.

\_\_\_\_\_  
Secretary, Transportation Commission

\_\_\_\_\_  
Effective Date

draft 6.28.13

|   |                                 |   |
|---|---------------------------------|---|
| <b>COLORADO DEPARTMENT OF TRANSPORTATION</b>              |                                 | <input type="checkbox"/> <b>POLICY DIRECTIVE</b><br><input checked="" type="checkbox"/> <b>PROCEDURAL DIRECTIVE</b> |
| Subject<br><b>Audit Division Standards and Procedures</b> |                                 | Number<br><b>4.1</b>  |
| Effective<br><b>TBD</b>                                   | Supersedes<br><b>10/04/2007</b> | Originating Office<br><b>Audit Division</b>   |

## I. Purpose

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. To establish procedures for the Colorado Department of Transportation in accordance with applicable nationally-accepted auditing standards and the Audit Division Charter.

## II. Authority

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

Executive Director, § 43-1-103, 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)  
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§ 43-1-106(8)(a) and (o), and (12)(a) through (e), C.R.S.

§ 24-103-601(2), C.R.S.

CDOT Policy Directive 4.0 “Audit Division Policy”

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

## III. Applicability

This Procedural 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. Definitions

“Audit Review Committee” or “ARC” shall mean the committee established from Transportation Commission membership pursuant to § 43-1-106(12)(c), C.R.S. which oversees the operations of the internal auditors and his staff.

“Auditee” shall mean a division, region, office, or branch of CDOT, or a contractor, consultant or vendor performing work for CDOT on which an audit is being performed.

“External Audit Report” shall mean a report resulting from an audit generated by the CDOT Audit Division on an entity, including but not limited to a consultant, a contractor, a subcontractor or vendor under a contract or subcontract with CDOT .

“Internal Audit Report” shall mean an audit generated by the CDOT Audit Division on CDOT activities, including audits required by state or federal law, performance audits or financial audits.

“Third Party Audit Report” shall mean an audit conducted by an outside party on CDOT activities.

**V. Procedure**

A. General Requirements

1. Standards and Procedures

a) Audits performed by the Audit Division shall be conducted in conformance with the standards set forth in the *Government Auditing Standards* (2011 Revision).

<http://www.gao.gov/assets/590/587281.pdf>

b) Other work performed by the Audit Division shall be conducted in accordance with the applicable professional standards for the type of work performed in accordance with the authority set forth above and other applicable state and federal law.

c) The Audit Division shall perform all audits in accordance with the Charter and CDOT Audit Manual.

2. Annual Work Plans and Audit Assignments

a) The Audit Division shall annually develop a risk-based audit work plan.

b) The ARC shall approve the annual work plan for the Audit Division.

c) The Audit Director, or his or her designee, shall prepare audit assignments from the approved work plan or from specific audit requests from the Executive Director, management, or from the ARC.

d) The Audit Director shall provide a status update to ARC at every meeting.

e) The Audit Director shall keep the ARC informed of audits requested by the Executive Director executive management or his designee.

3. Internal Audit Reports

## a) Internal Audit Reports shall:

- (1) Include the Auditee's written responses and plans for implementing the recommendations;
- (2) Contain findings and any necessary recommendations from the audit work performed;  
and
- (3) Be submitted to the ARC for review, consideration and action.

## b) The ARC may:

- (1) Refer the report back to the Audit Director for any action deemed appropriate;
- (2) Refer the report to the Transportation Commission for consideration and action; or
- (3) Approve the report for release.

c) Following approval by the ARC, the Audit Division shall provide a copy of the Internal Audit Report to the Executive Director, other CDOT management as appropriate, and to the Federal Highway Authority.

## 4. External Reports

a) External Audit Reports or Financial Audit Reports on contracts with private vendors, consultants or contractors, contain advice on contract issues, such as payments made to private vendors. These reports include a determination of contract and regulatory compliance, and a determination on payment accuracy.

b) Copies will be provided to the Auditee, to the FHWA, the CDOT Controller and other CDOT management as necessary. The ARC and the Executive Director shall receive an executive summary of all external or financial audit reports, and may request any additional documentation.

## 5. Other Reports

- a) The ARC, the Executive Director, or executive management may request the Audit Division to conduct special projects or investigations, or provide advisory memoranda.
- b) Audit Division staff may conduct special projects or investigations as a result of requests from information provided from the Employee Hotline, <http://www.mysafeworkplace.com/>.
- c) The Audit Director shall provide the ARC and the Executive Director regular status reports on the types and results of these projects or investigations.

## 6. Confidentiality and Release of Reports

- a) The Audit Director shall make the determination on behalf of CDOT when necessary as to the confidentiality of audit reports or other related documentation. The Audit Director or his or her designee shall handle all audit-related Colorado Open Records Act (“CORA”) requests for audit reports or any other documentation.
- b) Audit Division personnel shall maintain confidentiality regarding all matters under investigation or review until such time as a report is released and made public.
- c) Audit Reports. Audit Reports and all related documentation, including drafts, correspondence, work product, or other papers shall be confidential. Upon signature by the Audit Director, the Internal Audit Report shall be considered a public document.
- d) Other Special Reports. Other special reports, including investigations requested by the Executive Director, the ARC, or arising from information obtained from the “Employee Hotline” <http://www.mysafeworkplace.com/>, shall be considered confidential. Release of these reports will be at the discretion of the Audit Director and/or the ARC.

7. Retention of Records. All Reports shall be retained by the Audit Division as permanent files and shall be marked as confidential. All related documentation, including drafts, correspondence, work product, or other papers shall be retained pursuant to the established and approved retention schedule.

B. Roles and Responsibilities

1. Audit Director and Audit Division Personnel

- a) The Audit Director shall report directly to the ARC which oversees the operations of the Division.
- b) The Executive Director appoints the Audit Director pursuant to section 13 of article XII of the state constitution and shall give presumptive consideration to the recommendation of the ARC. See § 43-1-106(12)(a), C.R.S.
- c) The Audit Director will ensure that:
  - (1) The Audit Division adheres to generally accepted and recognized audit standards.
  - (2) Assignments are selected through a risk-based analysis supplemented by requests from the ARC, the Executive Director, and CDOT executive management.
  - (3) The results of the audits, the findings, opinions, conclusions, and recommendations are reported to the ARC, the Executive Director and other CDOT management as appropriate.
- d) In carrying out their duties and responsibilities, Audit Division personnel are to have full, free, and reasonable access to all CDOT activities, records, property, and personnel.

|                                 |               |
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| Audit Division Responsibilities | Number<br>4.1 |
|---------------------------------|---------------|

2. CDOT Executive Management, CDOT Personnel and OIT Personnel, Where Applicable

- a) All CDOT management, directors and managers are responsible for taking appropriate and timely action to respond to requests from the Audit Division and resolve the issues identified in the audit reports.
- b) The Auditee shall be given ten calendar days to prepare written responses to the audit recommendations.
- c) The Audit Director or his or her designee shall be the main point of contact for all audit matters concerning CDOT and handle all internal requests for audit reports.

3. Responsibilities Regarding Third Party Audits

- a) The Audit Director, or his or her designee shall be the main point of contact and liaison on behalf of CDOT regarding any and all third party audit matters.
- b) CDOT executive management, managers or personnel shall notify the Audit Director or his or her designee immediately upon receipt of notice whenever outside or third party auditors notify CDOT of an audit of CDOT operations.
- c) CDOT executive management, managers or personnel shall inform the Audit Director immediately when they become aware of fraud or financial improprieties involving CDOT, a CDOT employee, a vendor, a contractor, a local entity or anyone receiving funding or payment from CDOT.

4. Contractors, Subcontractors and Vendors

- a) Pursuant to § 24-103-601(2), C.R.S., the Audit Division shall be entitled to audit the books and records of any contractor or subcontractor under any negotiated contract or subcontract to the extent that the books and records related to the performance of a state contract or subcontract, in conducting any such audit, to maintain the confidentiality of any information contained in the books and records that is deemed proprietary as determined by the state. Such books and records shall be maintained by the contractor for a period of three (3) years after the date of final payment under the contract or subcontract, unless a shorter period is otherwise authorized in writing.

**VI. Documents Referenced in this Procedural Directive**

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

**VII. Implementation Plan**

|                                 |               |
|---------------------------------|---------------|
| Audit Division Responsibilities | Number<br>4.1 |
|---------------------------------|---------------|

1. This Procedural Directive will be effective immediately upon signature.
2. 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 Procedural Directive.
3. The Originating Office will provide a copy of this Procedural Directive to all Auditees along with the Notice of Engagement.

**VIII. Review Date**

This procedural directive shall be reviewed on or before May, 2018.

\_\_\_\_\_  
Executive Director

\_\_\_\_\_  
Effective Date

draft 6.28.13

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|---|---------------------------------|---|----------------------|
| <b>COLORADO DEPARTMENT OF TRANSPORTATION</b>      |                                 | <input type="checkbox"/> <b>POLICY DIRECTIVE</b><br><input checked="" type="checkbox"/> <b>PROCEDURAL DIRECTIVE</b> |                      |
| Subject<br><b>Audit Division Responsibilities</b> |                                 |   | Number<br><b>4.1</b> |
| Effective<br><b>10-04-07</b>                      | Supersedes<br><b>03-15-2001</b> | Originating Office<br><b>Audit Division</b>   |                      |

**PURPOSE**

To establish procedures and identify standards for audits conducted by Audit Division of the Colorado Department of Transportation (CDOT).

**AUTHORITY**

Colorado Revised Statutes, Section 43-1-106  
 CDOT Policy Directive 4  
 23 CFR 172

**PROCEDURE**

1. Standards –
  - a. The Audit Director will assure that audits performed by the Division are conducted in conformance with the standards set forth by the Comptroller General of the United States, United States General Accounting Office, *Government Auditing Standards*.
  - b. The Audit Director will assure that other work performed by the Division is conducted in accordance with the applicable professional standards for the type of work performed. The standards applied may be taken from the Institute of Internal Auditors, American Institute of Certified Public Accounts, Office of Management and Budget Circular A-133, Code of Federal Regulations, Colorado Revised Statutes, etc.
  
2. Annual Work-plans and Audit Assignments –
  - a. Each year, the Audit Director will develop audit work-plans for external and internal audits. The work-plan(s) will be developed using a risk-based approach.
  - b. The Audit Director shall prepare internal audit assignments from the approved workplan or from specific audit requests from the Executive Director or from members of the ARC. The Audit Director shall keep the ARC informed of audits requested by the Executive Director or his designee.
  
3. Discussions with CDOT Management and Private Vendors -
  - a. Entrance Conferences –
 

Before any audit fieldwork is conducted, audit staff will contact CDOT managers, and/or the private vendor, responsible for the area being audited to inform them of the audit assignment. The Audit Director shall schedule the audit fieldwork in a manner to minimize disruption to CDOT staff and operations.
  - b. Exit Conferences and Responses to the Audit Recommendations –
 

Once the audit fieldwork is completed, auditors will conduct discussions with CDOT managers, and/or the private vendor responsible for the area being audited, to inform them of the audit findings and

|                                 |               |
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| Audit Division Responsibilities | Number<br>4.1 |
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recommendations. The auditee shall be given ten calendar days to prepare written responses to the audit recommendations.

4. Internal Audit Reports –

- a. Internal audit reports are to be submitted to the ARC for review, consideration and action. The ARC can:
  - Refer the report back to the Audit Director for any action deemed appropriate.
  - Refer the report to the Transportation Commission for consideration and action.
  - Approve the report for release.
- b. Audit reports will contain findings from the audit work performed and any necessary recommendations.
- c. Draft audit reports will be confidential internal documents and, except where noted in section 4(d) below, shall be released only upon action of the ARC.
- d. Prior to the ARC meeting, the Audit Director shall furnish copies of the draft confidential reports directly to the Executive Director, the Deputy Director, the CDOT Controller, FHWA financial liaison, and the Division Director impacted by the audit.
- e. Internal audit reports will include the auditee’s written responses and plans for implementing the recommendations.

5. External and Financial Reports –

- a. External audit reports are provided directly to management to advise on contract issues, such as payments made to private vendors. These reports usually include a determination of contract and regulatory compliance, and a determination on payment accuracy.
- b. The Audit Director will work with the Center for Procurement Services to conduct financial reasonableness reviews of some of the larger non-competitively bid contracts, such as sole source contracts, to assist in determining a reasonable costs for various services.

6. Other Reports

- a. Executive management may request the Audit Division conduct special projects or provide advisory memoranda.
- b. Audit Division Staff may conduct special projects or investigations as a result of requests from management, or information provided from the Audit Hotline. The Audit Director will provide the Audit Review Committee and the Executive Director regular status reports on the types and results of these projects or investigations.

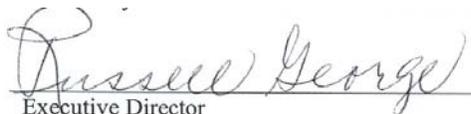
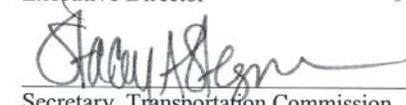
7. Release of Reports

- a. Upon approval for release by the ARC, the Audit Director shall sign the final internal audit report and send copies to the CDOT managers responsible for implementing the audit recommendations, . The original report will remain in the Audit Division files. Upon release by the ARC, the report is considered a public document.
- b. External or Financial Audit Reports, on contracts with private vendors, consultants or contractors, may

be released as soon as the report is completed. Copies will be sent to the firm being audited, to Central Files and to the Center for Accounting. If there are significant findings in the report, copies of the report may also be sent to the Audit Review Committee, the Executive Director, the Agreements Office, and the unit responsible for administering the contract.

- c. Other special reports, such as investigations requested by the Executive Director, shall be considered confidential internal reports provided to the Executive Director and the ARC. Release of these reports will be at the discretion of the Executive Director.
- 8. Audit reports and working papers shall be retained pursuant to the established and approved retention schedule.
- 9. CDOT managers shall contact the Audit Director whenever outside or third party auditors begin an audit of CDOT operations.
- 10. CDOT Managers shall inform the Audit Director whenever they become aware of fraud or financial improprieties involving CDOT, a CDOT employee, a vendor, a contractor, a local entity or anyone receiving funding or payment from CDOT.

**REVIEW:** This procedural directive shall be reviewed by October of 2012.

|   |          |
|---|----------|
|   | 10/04/07 |
| Executive Director  | Date     |
|  | 10/04/07 |
| Secretary, Transportation Commission  | Date     |

|  |                               |   |                      |
|--|-------------------------------|---|----------------------|
| <b>COLORADO DEPARTMENT OF TRANSPORTATION</b>     |                               | <input type="checkbox"/> <b>POLICY DIRECTIVE</b><br><input checked="" type="checkbox"/> <b>PROCEDURAL DIRECTIVE</b> |                      |
| Subject<br><b>Recommendation Tracking Report</b> |                               |   | Number<br><b>4.2</b> |
| Effective<br><b>10/07/2010</b>                   | Supersedes<br><b>12/15/04</b> | Originating Office<br><b>Audit Division</b>   |                      |

## **PURPOSE**

This directive establishes procedures for monitoring and reporting on the disposition of recommendations from Audit Division or other Qualifying Reports.

## **AUTHORITY**

Colorado Transportation Commission Charter for the Audit Division;  
Policy Directive 4.0, Audit Division; and  
Executive Director, Colorado Department of Transportation

## **APPLICABILITY:**

This Directive applies to all managers of divisions and activities of the Colorado Department of Transportation (CDOT).

## **DEFINITIONS**

**Audited Unit** refers to the unit or activity subject to or receiving an Audit Division audit or qualifying services.

**Qualifying Reports** include reports from all audits, assessments, reviews, or special studies by persons internal or external to the Department (e.g. state, federal, or private firm) that result in written recommendations that the Department is expected to implement.

## **PROCEDURES**

### **Audit Division Responsibilities**

1. The Audit Division will:
  - a. Track management responses to recommendations contained in Audit Division reports and other qualifying reports,
  - b. Periodically solicit implementation status of recommendations from managers, and
  - c. Report to the ARC and the Executive Director on the disposition and status of recommendations at least two times each year,
2. In preparing the Recommendation Tracking Report, the Audit Division will rely upon the responses provided by CDOT managers. The Audit Division may periodically conduct separate follow-up audits to verify the accuracy or the adequacy of the response or implemented solution.

**Manager Responsibilities**

3. Each manager of an audited unit is responsible for:
  - a. Ensuring that copies of the final released reports for qualifying services are provided to the Audit Division.
  - b. Monitoring the timely implementation of recommendations requiring management actions.
  - c. Periodically responding to the Audit Division on the status or resolution of any recommendations.
4. The manager's response should address whether or not the recommendation is rejected, implemented, or implementation is in process. In addition,
  - a. If the recommendation is rejected, the response should state:
    - The basis for rejecting the recommendation.
    - How or why CDOT Managers are willing to accept the risk of not implementing the recommendation.
    - What if any action has been taken to resolve the issues identified in the original report.
  - b. If implementation of the recommendation is in process, the response should state the:
    - Corrective action that has been or will be taken to implement the recommendation.
    - Time period or date in which the recommendation was or will be implemented.

**REVIEW DATE**

This procedural directive will be reviewed by July 2017.




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Executive Director

**10/07/2010**

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Date

|  |                        |   |
|--|------------------------|---|
| <b>COLORADO DEPARTMENT OF TRANSPORTATION</b>           |                        | <input type="checkbox"/> <b>POLICY DIRECTIVE</b><br><input checked="" type="checkbox"/> <b>PROCEDURAL DIRECTIVE</b> |
| Subject<br>Coordination for Outside Audits and Studies |                        | Number<br>4.3   |
| Effective<br>10/07/2010                                | Supersedes<br>12/15/04 | Originating Office<br>Audit Division  |

## **PURPOSE**

These procedures provide specific guidance for enabling the Audit Division to act as the liaison and coordinator for all qualifying services provided by external auditors as defined below. The Audit Division is to coordinate external auditor activity at the Colorado Department of Transportation to:

- Avoid to the extent possible the redundancy of audit activity;
- Maintain a listing of audits and evaluations conducted and provide historical information on various audits;
- Assist CDOT staff in understanding the audit process and auditor objectives;
- Provide Department auditee management with an independent understanding of the audit results;
- Track and evaluate corrective actions planned or taken as a result of the audit.

## **AUTHORITY**

Policy Directive 4.0, Audit Division  
**Executive Director, Colorado Department of Transportation**

## **APPLICABILITY:**

These procedures apply to all personnel within the Department of Transportation (CDOT)

## **DEFINITIONS**

**Auditee** refers to the unit or activity subject to or receiving to the qualifying services.

**External Auditor** is defined as any non-Department of Transportation auditor or persons (e.g. state, federal, or private firm) who provide qualifying services.

**Qualifying Services** include all audits, assessments, or special studies by parties external to the Department that will result in written recommendations that the Department is expected to implement.

## **PROCEDURES**

### **Notification of Audit or Other Qualifying Service**

1. Managers of areas being audited shall ensure that the Audit Division is notified of all audits or other qualifying service engagements. The managers will also ensure that CDOT Audit receives a copy of all reports, including CDOT management responses.

**Entrance Conference**

2. The Audit Division may participate in any entrance conference with external auditors and CDOT management to review the objectives and scope of the audit or other qualifying service prior to the start of the field work.

**Requests specific information or interviews**

3. After the entrance conference, all requests for specific information or interviews with staff should be arranged through the appropriate auditee management or designated personnel.

**Exit Conference**

4. When the audit or other qualifying service has been completed, the manager of the area subject to the service will inform the Audit Director of the scheduled exit conference between the external auditors and appropriate Department personnel.

**Implementation of Recommendations**

5. CDOT auditee managers will be responsible for preparing any responses to the report and for implementation of recommendations.

**Responsibility for implementation**

6. The CDOT Audit Division will track and report to the Audit Review Committee of the Transportation Commission, on the resolution of recommendations.
7. The responsibility for implementation of this procedure rests with the management of the areas subject to the audit or other qualifying service who must notify the Audit Division as soon as notification of a pending engagement is received.
8. The Audit Division will answer questions or provide additional information regarding these procedures.

**REVIEW DATE**

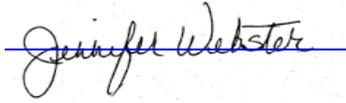
This policy shall be reviewed in 2017.



Executive Director

10/07/2010

Date

A handwritten signature in blue ink that reads "Jennifer Webster". The signature is written in a cursive style and is underlined with a solid blue horizontal line.