

# TRANSPORTATION COMMISSION of COLORADO AUDIT REVIEW COMMITTEE

Commissioners Gary Reiff, Les Gruen, Ed Peterson, Bill Thiebaut, Sidny Zink

Meeting Location: CDOT Headquarters Building, Denver, Colorado

All commissioners are welcome to attend.

## MEETING AGENDA: April 17, 2014

1. **Call to Order**
2. **Approval of the Minutes of the Last ARC Meeting** Page 1
3. **Status of Audit Plan 2014** Page 3
4. **Audit Plan 2015\***
  - a. Proposed Plan Page 4
  - b. Audit Objectives and Comments Page 6
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  - d. Audit Division Metrics Page 10
  - e. Auditee Feedback Form Page 11
5. **Audit Work-In-Progress**
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  - d. Fuel Card Audit Page 13
  - e. Disputes and Claims Page 13
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6. **Completed Audit Work**
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  - b. Property Controls: Acquisitions and Relocations Page 14
  - c. Property Controls: Leases and Disposals Page 14
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7. **Outstanding Audit Recommendations** Page 15
8. **Fraud Hotline Statistics** Page 17
9. **Action Items** - Risk Assessment Methodology Page 18
10. **ARC Questions, Requests, Discussion Items** Verbal

**This Agenda May Be Altered at the Chair's Discretion**

\* Those items marked with an asterisk will be presented to the committee.

**Colorado Transportation Commission**  
**Audit Review Committee**  
**MEETING MINUTES**  
**February 20, 2014**  
**9:30 A.M. – 10:00 A.M.**  
**CDOT Headquarters Auditorium**

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**COMMISSIONERS PRESENT:** Gary Reiff, ARC Chairman, Les Gruen, Ed Peterson, William Thiebaut, Sidney Zink, Kathleen Gilliland, and Heather Barry.

**ALSO PRESENT:** Heidi Bimmerle, DoHRA Director; Barbara Gold, Audit Director; Scott Richrath, Chief Financial Officer; Trent Josten, Audit Supervisor; Daniel Pia, IT Auditor

**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 February 20, 2014, at 9:30 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 Reiff asked for approval of the meeting minutes for October 17, 2013. Approval of the minutes was moved by Commissioner Gruen, and seconded by Commissioner Thiebaut. The minutes were adopted as published in the agenda.

**3. Action Item from October 17, 2013 Meeting**

**1. Audit Report Presentations**

**A. Proposed Audit Plan for 2015**

The Audit Division will focus more on a risk based approach to auditing. Commissioner Reiff stated that there is a change in focus of how the audit function is used and that the division is moving from a reactive function to a risk based approach.

The Audit Director provided two handouts for the audit work plan for the Performance Year 2015. The handouts included a list of the various types of audit services to be performed along with the services risk level, estimated hours, objectives and comments. Ms. Gold explained the differences between the internal and external audit services. The main difference is the customer/auditee determines the nature of the service. A reason for the significant hours for the external services is related to the consultant audit function that was recently taken on by the Audit Division and the amount of compliance requirements associated with that work.

Commissioner Gruen pointed out the deficit of hours for the plan and asked what the Audit Division would be able to do with the resources available. Ms. Gold said she would have to address some of the external services and determine if some procedures could be revised to work within the resources available.

Commissioner Reiff wanted to know how the external services could be prioritized and if possible be postponed to accommodate the hours available. Ms. Gold responded that the external services are compliance tasks that are required; however, the procedures performed for the pre-qualifications could potentially be adjusted to accomplish the tasks in less time although this would result in accepting more risk for those tasks.

Commissioner Reiff asked how the risks were rated (i.e. high, medium). Ms. Gold responded that they were initially based off of interviews that were held with the Senior Management Team and how often the same topics were discussed. Commissioner Reiff asked for more details on the risk ratings. Audit will provide more details in April.

Commissioner Thiebaut asked if there is room in the plan for concerns raised by the ARC members. Ms. Gold responded that reference number 8 was for “special requests” which should address those concerns.

Commissioner Gilliland asked if any new FTE would be short term or temporary as a result of some of the audit process revisions being a one-time task. Ms. Gold responded that any additional FTE’s would stay on permanently due to the list of “additional audit areas identified and not scheduled for 2015” that was included on the proposed plan.

Commissioner Reiff asked how the Audit Division would report work performed to the ARC. Ms. Gold pointed out several metric reports in the ARC packet that will be presented quarterly and that the division plans to develop a dashboard report for the ARC as well. The dashboard report will be presented in several formats next quarter.

Commissioner Peterson wanted to know the process used to determine the hours budgeted for each service. Ms. Gold responded that it is a best estimate at this time and that she went through several revisions with the audit team. Ms. Gold said that she would provide additional information to Commissioner Peterson off-line.

Commissioner Zinc pointed out that there is a challenge to assessing risk within an organization. She further stated that reducing budgeted hours is not an easy task due to the time consuming aspect of an auditor documenting their work for each procedure performed.

### **Adjournment**

Chairman Reiff announced that the meeting was adjourned at approximately 10:00 a.m.

### **Action Items**

Examples of how the Audit Division will report work performed.

**CDOT Audit Division**  
**2014 Audit Plan Final Status**  
**April 1, 2014**

<b>Audit</b>	<b>Status</b>
Outstanding Recommendations	Moved to 2015
CDOT Indirect Costs	Moved to 2015
FASTER Dollars	Complete
RAMP	Moved to 2015
Fuel Cost Audit Follow up	Moved to 2015
IT Systems and Access Controls	Moved to 2015
SAP	Moved to 2015
Scrap Metal	Moved to 2015
Contract vs Employee Status	Moved to 2015
Disputes and Claims	Complete
Sole Source Reviews	Complete
Procurement	Moved to 2015
On-boarding employees	Moved to 2015
Lean Follow-up and Coordination	Moved to 2015
Contract Compliance	Moved to 2015
Peer Reviews	Complete
Fraud Hotline	Complete
Office of the State Auditor Audits	Complete
Fringe Benefit Reviews	Complete
Water Quality	Moved to 2015
Federal Mandates	Complete
Consultant Audits	Complete
Final Cost Audits	Moved to 2015
Liaison with External Auditors	Complete

<b>Professional Team Development</b>	<b>Status</b>
GAGAS CPE minimum	Complete
Professional Certification	Complete
Management and Leadership	Complete
Technical	Complete
Position Descriptions (PDQs)	Complete
Quarterly Goals for each individual	Complete
Risk assessments	Complete
Matrix Management	Complete
TeamMate	Complete
Sampling and Data Analyses	Complete
Developing Metrics	Complete

<b>Audit Work Completed In Addition to Audit Plan</b>	<b>Status</b>
Property Controls – Acquisitions & Relocations	Complete
Property Controls – Leases and Disposals	Complete
Consultant Indirect Cost Rates	Complete
Fraud Policy and Program	Complete
Consultant Audit Program Revision	Complete
Dispute Program Revision	Complete
Flood Recovery	Complete

**CDOT - Audit Division**  
**Proposed Audit Plan for 2015**

<b>Ref #</b>	<b>CDOT Operations Audit Work</b>	<b>Risk</b>	<b>Audit Service</b>	<b>Qty</b>
1	RAMP	High	Advisory	1
2	WIMS - Division of Aeronautics	High	Review	1
3	Flood	High	Audit	2
4	Fuel Cards	High	Audit	3
5	Requirements of CDOT Boards	High	Review	1
6	Contracts and Procurement	High	Audit	1
7	FASTER	High	Review	1
8	Fraud Investigations	High	Audit	1
9	Fraud Hotline Calls/Preliminary Reviews	High	Audit	104
10	Special Requests	High	Audit	5
11	Outstanding Recommendations	Various	Assurance	10

<b>Ref #</b>	<b>Indirect Rate and Consultant Contract Audit Work</b>	<b>Risk</b>	<b>Audit Service</b>	<b>Qty</b>
1	Disputes and Claims	High	compliance	3
2	Cognizant Audits	High	compliance	1
3	A-133 Single Audit Reviews	High	compliance	230
4	Consultant Pre-Qualifications	High	compliance	150
5	Indirect Cost Rate Reviews	Medium	compliance	10
6	Sole Source Reviews	Medium	compliance	5
7	Final Cost Audits	Medium	compliance	10

<b>Ref #</b>	<b>Data Analytics</b>	<b>Risk</b>	<b>Audit Service</b>	<b>Qty</b>
1	Purchase Cards	tbd	Analytics	2
2	Duplicate Payments	tbd	Analytics	1
3	Fleet	tbd	Analytics	1
4	Use of Consultants	tbd	Analytics	1
5	Employee Turnover	tbd	Analytics	1
6	Indirect cost per dollar of construction	tbd	Analytics	1
7	Employee Leave	tbd	Analytics	1

<b>Ref #</b>	<b>Internal Projects and Revisions</b>	<b>Risk</b>	<b>Audit Service</b>	<b>Qty</b>
1	Sole Source Process Audit	High	Process	1
2	Lean Follow-up and Coordination	High	Process	1
3	A-133 program revision	High	Process	1
4	Final Cost Audit program	High	Process	1
5	Indirect cost rate-local gov'ts/nonprofits	High	Process	1
6	Dispute program	High	Process	1
7	Outstanding Recommendations	High	Process	1
8	Fraud Hotline	High	Process	1
9	Peer Reviews	High	Process	1

**CDOT - Audit Division**  
**Proposed Audit Plan for 2015**

Ref #	Additional Audit Areas Identified and not scheduled for 2015	Risk	Audit Service
1	IT Access Controls	High	tbd
2	Construction Change Orders	High	tbd
3	Local Agency Oversight by CDOT	High	tbd
4	Local Agency Contract Compliance	High	tbd
5	Grant Accounting/Management	High	tbd
6	CDOT Bus Service	High	tbd
7	SAP Input Controls	Medium	tbd
8	CDOT Indirect Cost Rate Program	Medium	tbd
9	HQ Business Office Consolidations	Medium	tbd
10	Site Manager	Medium	tbd
11	GRC (Governance Risk and Compliance)	Medium	tbd
12	Physical Security	Medium	tbd
13	Document Retention	Medium	tbd
14	PCI Compliance	Medium	tbd
15	On and Off-boarding employees	Medium	tbd
16	Contract vs Employee	Medium	tbd
17	Imprest Fund Audits	Medium	tbd
18	Scrap Metal	Medium	tbd
19	Request for Information from OIT	Medium	tbd

**CDOT Audit Division  
Proposed Audit Plan for 2015  
As of April 1, 2014**

Ref #	CDOT Operations Audit Work	Objective and Comments	Audit Service
1	RAMP	Participate on Governance board: selection oversight, reporting criteria; completion by due dates and within budgets; develop acceptable time/budget variances; review reporting system	Advisory
2	WIMS	Post implementation review of Aeronautics use of Salesforce.	Review
3	Flood	Provide assurance to management that "unknowns" have been minimized in order to maximize eligible reimbursements.	Audit
4	Fuel Cards	Calls or requests that have been substantiated for an audit; review automated procedures.	Audit
5	Requirements of CDOT Boards	Review CDOT Board Compliance with procedure requirements.	Review
6	Contracts-Procurement	Risk increases, customer satisfaction decreases when purchases involve contract and procurement sections.	Audit
7	FASTER	Follow up audit of new processes Management established. Reference recommendations from 2013 audit.	Review
8	Fraud Investigations	Calls, allegations or requests that have been substantiated and warrant an investigation.	Audit
9	Fraud Hotline Calls	Calls and preliminary investigations received from Hotline.	Audit
10	Special Requests	Requests from the Audit Review Committee, Executive Director or Senior Management Team	Audit
11	Outstanding Recommendations	Follow up on outstanding audit recommendations from Audit Division and third party auditors.	Audit

Ref #	Indirect Rates and Consultant Contracts	Comments	Audit Service
1	Disputes - Claims	Review disputes and claims between CDOT and contracted vendors including contract terms, work performed, allowable/unallowable costs.	compliance
2	Cognizant Audits	Determine that indirect cost rate of an engineering firm is fair and reasonable and complies with federal regulations.	compliance
3	A-133 Single Audits	Review reports from entities that receive federal grant monies from CDOT as required by federal regulations.	compliance
4	Consultant Pre-Qualifications	Determine that the direct labor rates, overhead rates, billing rates are fair and reasonable for as required by federal regulations for firms with Master Price Agreements.	compliance
5	Indirect Cost Rates	Determine that direct labor rates, overhead rates, billing rates are fair and reasonable for local and non profits	compliance
6	Sole Source Reviews	Review sole source requests for fair and reasonable pricing and compliance with fiscal rules.	compliance
7	Final Cost Audits	Review costs charged to projects to confirm compliance with the terms of the contract.	compliance

**CDOT Audit Division  
Proposed Audit Plan for 2015  
As of April 1, 2014**

<b>Ref #</b>	<b>Data Analytics</b>	<b>Analyzing data to identify anomalies and exceptions to established controls</b>	<b>Audit Service</b>
1	Purchase Cards	Determine whether CDOT's use of procurement cards adequate and appropriate.	Analytics
2	Duplicate Payments	Ensure that SAP's automated controls are not being bypassed.	Analytics
3	Fleet	Determine whether CDOT's use of Fleet vehicles is adequate and appropriate.	Analytics
4	Use of Consultants	Determine whether CDOT's use of consultants is adequate and appropriate.	Analytics
5	Employee Turnover	Evaluate turnover trends.	Analytics
6	Indirect Cost per Dollar of Construction	Provide data on the costs to deliver one dollar of construction.	Analytics

<b>Ref #</b>	<b>Internal Projects</b>	<b>Comments</b>	<b>Audit Service</b>
1	Sole Source Audits	Review the current audit process and controls in place for requesting, reviewing, and approving a sole source.	Process
2	Lean Follow-up and Coordination	Audit Lean recommendations and implementation. Work with Process Improvement to maximize benefits.	Process
3	A-133 program revision	Revise current audit program: database, notifications, reviews, reporting.	Process
4	Final Cost Audits	Revise current audit program: database, notifications, reviews, reporting.	Process
5	Indirect cost rate - local gov'ts / non-profits	Revise/develop a program for auditing the indirect cost rates of local agencies, non-profits.	Process
6	Dispute program	Revise current audit program and procedures for disputes and claims.	Process
7	Outstanding Recommendations	Improve the process to report consistently and more frequently.	Process
8	Fraud Hotline	Revise/develop a program for fraud hotline.	Process
9	Peer Reviews	Participate on a national team to conduct audits of DOT Audit Divisions.	Process

**CDOT Audit Division**  
**Proposed Audit Plan for 2015**  
**As of April 1, 2014**

Ref #	Potential Additional Audit Areas	Comments	Audit Service
1	IT Systems and Access	The objective is to determine whether access granted to CDOT employees complies with the requests. Identify reports management can use to monitor changes.	tbd
2	Construction Change Orders	TBD	tbd
3	Local Agency Oversight	Audit process CDOT has in place for local agency oversight.	tbd
4	Local Agency Contract Compliance	Review local agency compliance to contract.	tbd
5	Grant Accounting and Management	Determine population of CDOT grants and management services. Identify areas of improvement and accountability as to the classification of sub-recipients. Provide recommendations to increase management's assurance that CDOT's grant programs comply with Program and Federal requirements: Transit/Rail, DTD.	tbd
6	CDOT Bus Service	Establishing a new program.	tbd
7	SAP input controls	Data is in SAP but system controls are not in place or adhered to (example is inputting "duplicate" invoice numbers).	tbd
8	CDOT Indirect Cost Rate Program	Provide assurance as to whether consistent criteria exists for employees to charge time as indirect rather than to a specific project. Recommend criteria and examples to management.	tbd
9	HQ Business Office Consolidations	Audit the control structure.	tbd
10	Site Manager	Review processes related to construction projects - invoice, contracts, rates.	tbd
11	GRC (Governance, Risk and Compliance)	Audit user access to SAP.	tbd
12	Physical Security	Non-employee access to buildings and employees.	tbd
13	Document Retention	Lean Process and procedures currently in process.	tbd
14	PCI Compliance	Administration of credit card information and compliance with PCI.	tbd
15	On and off-boarding employees	Audit processes for granting and terminating access to CDOT systems; hiring and terminating processes.	tbd
16	Contract vs Employee	The objective is to determine compliance with federal and state criteria of contract versus employee status.	tbd
17	Imprest Fund Audits	Quarterly unannounced counts of CDOT's petty cash fund.	tbd
18	Scrap Metal	Small dollar exposure -- risk is CDOT goodwill. What is procedure for "selling" and "defining" scrap? How are vendors selected? How is price/value determined? How frequently is it sold? Where and how is it stored? How is this recorded in SAP? Are the procedures and definitions consistent among the regions?	tbd
19	Request for Information	Assess tools CDOT has to quarantine, view employee files and track employee activity on his/her computer.	tbd

**CDOT Audit Division  
2015 Audit Division Plan  
April 1, 2014**

Type	Q1 Apr - Jun	Q2 Jul - Sep	Q3 Oct - Dec	Q4 Jan - Mar
<b>Internal Audit Services</b>	<ul style="list-style-type: none"> <li>▲ Flood</li> <li>▲ Fuel Card Audit - Phase 1</li> <li>▲ Requirements of CDOT Boards</li> <li>▲ Fraud</li> <li>▲ Special Requests</li> <li>▲ Outstanding Recommendations</li> </ul>	<ul style="list-style-type: none"> <li>● Flood</li> <li>● Fuel Card Audit - Phase 2</li> <li>● Fraud</li> <li>● Special Requests</li> <li>● Outstanding Recommendations</li> <li>● WIMS - Division of Aeronautics</li> </ul>	<ul style="list-style-type: none"> <li>● Flood</li> <li>● Fuel Card Audit - Phase 3</li> <li>● Fraud</li> <li>● Special Requests</li> <li>● Outstanding Recommendations</li> </ul>	<ul style="list-style-type: none"> <li>● FASTER</li> <li>● Contracts/Procurement</li> <li>● Fuel Card Audit - Phase 4</li> <li>● Fraud</li> <li>● Special Requests</li> <li>● Outstanding Recommendations</li> </ul>
<b>External Audit Services</b>	<ul style="list-style-type: none"> <li>▲ A-133 Reviews</li> <li>▲ Disputes and Claims</li> <li>▲ Consultant Prequalifications</li> <li>▲ Indirect Cost Rate Reviews</li> <li>▲ Sole Source Reviews</li> </ul>	<ul style="list-style-type: none"> <li>● A-133 Reviews</li> <li>● Disputes and Claims</li> <li>● Cognizant Audits</li> <li>● Consultant Prequalifications</li> <li>● Indirect Cost Rate Reviews</li> <li>● Sole Source Reviews</li> </ul>	<ul style="list-style-type: none"> <li>● A-133 Reviews</li> <li>● Disputes and Claims</li> <li>● Consultant Prequalifications</li> <li>● Indirect Cost Rate Reviews</li> <li>● Sole Source Reviews</li> <li>● Final Cost Audits</li> </ul>	<ul style="list-style-type: none"> <li>● A-133 Reviews</li> <li>● Disputes and Claims</li> <li>● Consultant Prequalifications</li> <li>● Indirect Cost Rate Reviews</li> <li>● Sole Source Reviews</li> <li>● Final Cost Audits</li> </ul>
<b>Data Analytics</b>	<ul style="list-style-type: none"> <li>▲ Fuel</li> </ul>	<ul style="list-style-type: none"> <li>● Purchase Cards</li> <li>● Indirect Cost/Dollar of</li> </ul>	<ul style="list-style-type: none"> <li>● Duplicate Payments</li> <li>● Employee Turnover</li> <li>● Employee Leave</li> </ul>	<ul style="list-style-type: none"> <li>● Fleet</li> <li>● Use of Consultants</li> </ul>
<b>Advisory/Internal Processes</b>	<ul style="list-style-type: none"> <li>▲ RAMP</li> <li>▲ GRC Implementation</li> <li>▲ Lean Collaboration</li> <li>▲ A-133 Program Revision</li> <li>▲ Sole Source Program</li> </ul>	<ul style="list-style-type: none"> <li>● RAMP</li> <li>● Lean Collaboration</li> <li>● Final Cost Audit Program</li> <li>● Indirect Cost Rate Program</li> <li>● Outstanding</li> <li>● Fraud Hotline</li> <li>● Peer Reviews</li> </ul>	<ul style="list-style-type: none"> <li>● RAMP</li> <li>● Dispute Program</li> <li>● Lean Collaboration</li> </ul>	<ul style="list-style-type: none"> <li>● RAMP</li> <li>● Peer Reviews</li> <li>● Lean Collaboration</li> </ul>

Legend:

-  Complete
-  In Progress
-  Scheduled

**CDOT Audit Division  
Audit Metrics  
Plan Year 2015**

<b>Audit Division Metrics</b>						
	<b>Goal</b>	<b>Apr - Jun</b>	<b>Jul - Sep</b>	<b>Oct - Dec</b>	<b>Jan - Mar</b>	<b>YTD</b>
Audits Completed	9					
Requests for Audit Services	6					
A-133	230					
Prequalifications	150					
Other External	29					
Internal Audit Processes	9					
Data Analytics	8					
Regional visits	6					
Department-Wide Communications	1					
Report Delivered When Committed	Within 2 weeks					
Add Value Rating	3 or above					
Budget/Actual Audit Hours	75% or more					

**CDOT Audit Division  
Auditee Feedback Form  
April 1, 2014**

**CDOT Audit Division  
Evaluation Form for \_\_\_\_\_ Audit**

Ref #	FACTORS to Evaluate	1	2	3	4	5	Comments
1	Audit Objectives and Scope were clearly communicated						
2	Auditors appeared to work as a team						
3	Auditors demonstrated an understanding of the area under audit						
4	Sufficient notification was given for review of report draft						
5	There were no surprises in the report draft						
6	Audit recommendations added value						

**Rating Scale**

Unsatisfactory	1
Improvement Needed	2
Met Expectation	3
Exceeded Expectations	4
Exceptional	5

**CDOT Audit Division  
Audit Plan Year 2014 Update  
As of March 31, 2014**

**Audit Assignments**

The table below notes the work currently in progress, completed for the period January through March, and completed year-to-date. The table consists of two sections. The categories listed for each are defined in the Audit Definitions document on page 15.

CDOT Audit Audit Assignments April 1, 2013 through March 31, 2014	
<b>CDOT Operations</b>	Completed Year-to-Date
Special Requests	2
Consultations	1
Audits	2
Hotline Incidents	12
Total	17
<b>Indirect Rates and Contracts</b>	
Disputes and Claims	2
Cognizant Audits	2
A-133 Single Audit Reviews	314
Consultant Selection Reviews	101
Master Pricing Agreement Reviews	30
Indirect Cost Rate Reviews	20
Sole Source Reviews	4
Total	473

**Audit Work in Progress Summaries**

**Special Requests**

**Review of CDOT Indirect Cost Rate**

The Executive Director of CDOT requested the Audit Division to review the indirect costs charged to federally funded projects to determine which employees are charging to the indirect cost pool. This included a review of policies and procedures for charging labor costs to the indirect cost code and to perform an analysis on the labor ratios of employees charging to indirect, project direct, construction engineering, and Administrative (State Fund) codes. This review includes the data from headquarters and the regions. We submitted our results to the Executive Director in January 2014.

**Review of Construction Cost Analysis**

# TRANSPORTATION COMMISSION of COLORADO

## AUDIT REVIEW COMMITTEE

### Audit Plan Year 2014 Update

Region 2 requested a review of a contractor's request for additional compensation related to a large change order. The additional compensation used a measured mile analysis to calculate costs. The Audit Division reviewed the contractor's package and identified potential concerns that CDOT project staff should address before paying the contractor. A final memo was issued in March 2014.

#### Consultations

##### Flood Recovery

We are drafting an audit report with the results on the first flood review around the following areas: general understanding, limited invoice review, data management plan, fraud procedures and detail damage inspection report. In addition, we scheduled a second flood review based on a new risk assessment and lessons learned from other states. Our preliminary objective for the second review includes determining the adequacy of procedures in place needed for management to maximize its federal reimbursement for flood related expenditures.

#### Audits

##### Fuel Card Follow Up Audit

This is a follow up to the audit reports issued in April 2012. The follow up will review controls that have been implemented and how well they are operating. This audit will be broken into four phases. The first phase is to review monitoring process over exception reporting for fuel purchases. The first phase is in fieldwork. An audit report is planned to be finalized in April 2014.

##### Disputes and Claims

The Audit Division received a construction dispute from Region 2 and a dispute and a claim from Region 4. We issued a final audit report for the Region 2 construction dispute in February 2014. We issued draft reports for the Region 4 dispute and claim to the contractor and CDOT for comment in December 2013. The Region 4 reports will be finalized in April 2014.

##### Prequalification Audit Program

CDOT developed new Pre-Qualification procedures for A/E Consultants which will be effective July 1, 2014. The goal of this change is to make the process more efficient for both CDOT and the Consultants. The end result will be Contracts will have a pre-qualified list of applicants for when a contract is to be awarded making the awarding of a contract more timely.

The Audit Division is creating two extensive processes in order to comply with CDOT's new requirement. The first is to create a Consultant Pre-Qualification Process brochure. This brochure will be provided to the Consultant's in order to be as transparent as possible as to what is required and exactly what the process is for the consultant to become Pre-qualified. The second is to create a Consultant Audit Manual for the auditors in order to complete their reviews in accordance with applicable standards and in an efficient and effective manner.

**TRANSPORTATION COMMISSION of COLORADO  
AUDIT REVIEW COMMITTEE**

**Audit Plan Year 2014 Update**

**Completed Audit Work**

Special Requests

Consultant indirect cost rates

The Executive Director requested a list of the indirect cost rates for the previous five years. The Audit Division provided a worksheet with the top 25 consultants CDOT contracts based on dollars CDOT has spent.

Audits

Property Controls: Acquisitions and Relocations

We reviewed the controls in place in the acquisitions and relocations program in Project Development to determine whether CDOT has adequate controls in place to mitigate the occurrence of the fraud that occurred in Iowa. The audit report was issued in January 2014 with no areas of concern. See Attachment A.

Property Controls: Leases and Disposals

We reviewed the controls in place in Maintenance and Operations' leases and disposals program to determine whether CDOT has adequate controls in place to mitigate the occurrence of the fraud that occurred in Iowa. The audit report was finalized in March 2014. See Attachment B.

Disputes

We examined a construction dispute in Region 2. The dispute was related to project delays. The Audit Division calculated a daily project overhead rate that was accepted and used by CDOT and the contractor to determine costs to be paid to resolve the dispute. The project still has an outstanding issue that was outside the scope of our audit that we do not consider impacting the results of our audit. The final audit report was issued on February 19, 2014.

Cognizant Audit

We performed a cognizant review of the examination, and supporting work papers, of the indirect cost rate for a local architectural and engineering (A/E) firm in Colorado for the period January 1, 2012 through December 31, 2012. The cognizant review consisted of reviewing the A/E's independent CPA's work papers to support the audited Statement of Indirect Costs. We issued the cognizant letter on February 11, 2014. See Attachment C.

**CDOT AUDIT DIVISION  
OUTSTANDING RECOMMENDATION SUMMARY  
AS OF 3/31/2014**

	Recommendations 7/1/12-6/30/13	Recommendations 7/1/13-3/31/14	Outstanding Recommendations 3/31/2014
Office of the State Auditor (OSA)	4	-	5
Federal Auditors (FHWA/FTA)	10	-	1
CDOT Internal Audit (CDOT)	9	5	18
<b>Total Recommendations Issued</b>	<b>23</b>	<b>5</b>	<b>24</b>

#	Auditor	Recommendation	Area	Planned Implementation
1	OSA	<b>Outdoor Advertising</b> - 1a. Establish written policies and procedures and train staff. 1b. Ensure that regional inspectors are informed of their roles and responsibilities. 1c. Establish a standard process for enforcing laws and regulations. 1d. Ensure that permit holders are in compliance. 1e. Train regional field staff on laws and regulations.	Chief Engineer	July 2014*
2	OSA	2a. Implement a segregation of duties over payments. 2b. Seek clarification as to when late fees should be charged and implement rules and policies to apply fees consistently.	Chief Engineer	July 2014*
3	OSA	3a. Create and use a dedicated roadside advertising fund, or seek statutory change to remove the requirement. 3b. Review the fee schedule for outdoor advertising permit applications and renewals.	Chief Engineer	In Legislation
4	OSA	4. Establish effective monitoring for the TODS and LOGO Sign Programs contract.	Chief Engineer	June 2014*
5	OSA	<b>SAP</b> - Ensure that the disaster recovery plan includes all components required by State Cyber Security Policies.	OIT	June 2014*
6	FHWA	<b>Environmental Programs</b> - Provide training on CDOT's Section 106 procedures at the next Transportation Environmental Workshop.	Chief Engineer	In Progress
7	CDOT	<b>Document Retention</b> - Update Procedural Directives for proper record retention.	DTD	In LEAN Process
8	CDOT	<b>Payment Card Security</b> - Scan the web application for SQL injection and XSS threats.	OIT	September 2014
9	CDOT	<b>SAP Basis Security</b> - Work with OIT and the Business Process Architect to create policy and procedures for reviewing SAP log data.	OIT	January 14
10	CDOT	Work with OIT and review administrator accounts assignment for appropriateness and set up domain subgroup and reassign domain administrators accordingly.	OIT	June 2014
11	CDOT	<b>Intelligent Transportation System</b> - Develop network redesign and conversion implementation plan. Reconfigure the network to allow only authorized traffic. Implement restrictions on both the CTMC ONS device and the CDOT business network.	OIT	December 2012**
12	CDOT	Conduct a risk assessment, identify critical applications and develop a backup plan.	OIT	November 2012**

**CDOT AUDIT DIVISION  
OUTSTANDING RECOMMENDATION SUMMARY  
AS OF 3/31/2014**

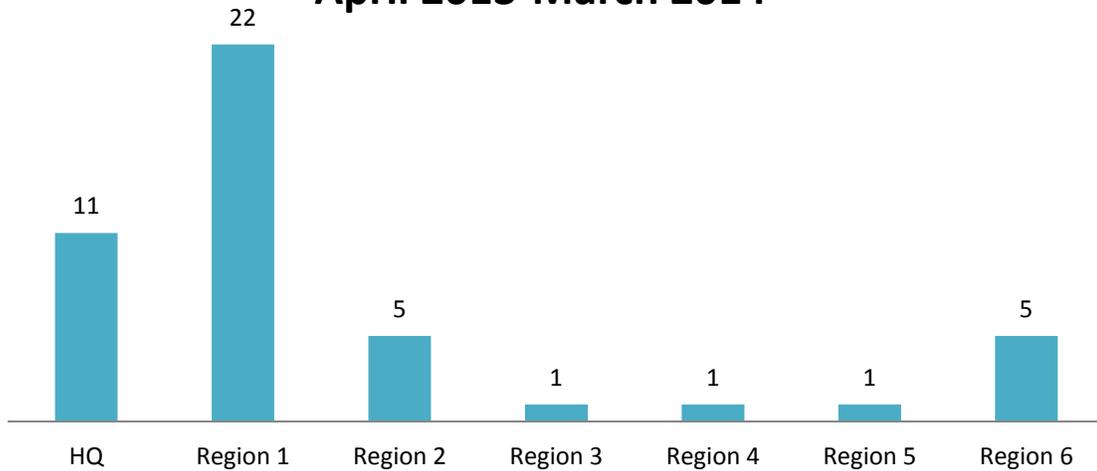
#	Auditor	Recommendation	Area	Planned Implementation
13	CDOT	Implement a network traffic monitoring mechanism.	OIT	June 2013**
14	CDOT	Implement access controls to track both user identity and establish accountability, develop and enforce policies and procedures to assign and revoke access.	OIT	June 2013**
15	CDOT	<b>Overpayment of Contract Funds</b> - Review procedures on accounting for project funding between Federal, local agency match and local agency over-match.	Chief Financial Officer	July 2012**
16	CDOT	Assess and review procedures for local agency billings to develop stronger controls to prevent overpayments.	Chief Engineer	November 2012**
17	CDOT	CDOT Project Development should develop a control to monitor change order work on local agency projects and ensure change orders are approved in a timely manner.	Chief Engineer	March 2013**
18	CDOT	Develop a control to monitor overruns of force account work on local agency projects. Have procedures to assist local agencies in assuring that force account work is being adequately documented.	Chief Engineer	June 2013**
19	CDOT	CDOT Region 3 Project Staff must ensure that all required material certifications are obtained timely during the construction work.	Chief Engineer	July 2013**
20	CDOT	<b>Right of Way Leases and Disposals</b> - Develop policies and procedures for retention of files for each disposal transaction. Enforce the requirements that the Regions submit completed forms.	Director of Administrative	April 2014
21	CDOT	Include supporting documentation of the lease rate market analysis in the lease file. Enforce the use of the Property Management Real Estate Services Request form or revise the manual. Ensure all files are accounted for and maintained.	Director of Administrative	April 2014
22	CDOT	Revise the ROW Manual. Establish and implement segregation of duties between individuals who create leases and individuals who enter the lease conditions.	Director of Administrative	April 2014
23	CDOT	Improve controls over inventory of excess property. Reconcile all disposals to the SAP transaction code FBL3N for G/L Code 7530400060 at least annually.	Director of Administrative	July 2014
24	CDOT	Review and update Policy and Procedural Directives 1300-0, 1300-1, 1300-2 and 1307-0 Document updates should be completed as appropriate. The authority section of Chapter 7 of the ROW manual should be updated.	Director of Administrative	June 2014

*\*Implementation dates revised from the original planned implementation dates as stated in the OSA Audit Report.*

*\*\*Recommendations added since the previous outstanding recommendation reports.*

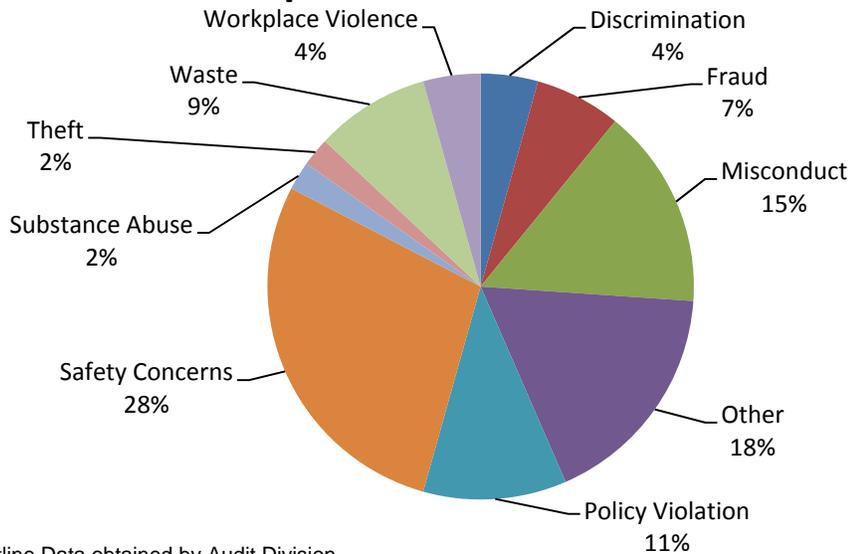
TRANSPORTATION COMMISSION of COLORADO  
AUDIT REVIEW COMMITTEE

**CDOT Audit Division  
46 Hotline Incidents as Reported by Location  
April 2013-March 2014**



Source: Hotline Data obtained by Audit Division

**CDOT Audit Division  
46 Hotline Incidents by Type  
April 2013-March 2014**



Source: Hotline Data obtained by Audit Division

**CDOT Audit Division**  
**Risk Assessment Methodology**  
**April 1, 2014**

	SMT		Federal, State or		CHANGES IN UNIT		FINANCIAL IMPACT		INTERNAL		SCORE
	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	
CDOT Operations Audit Work											
RAMP											0
Flood											0
Fuel Cards											0
Contracts and Procurement											0
FASTER											0
WIMS - Division of Aeronautics											0
Outstanding Recommendations											0
Fraud Investigations											0
Fraud Hotline Calls/Reviews											0
Special Requests											0
Indirect Cost and Other Reviews											
Disputes and Claims											0
Consultant Pre-Qualifications											0
Cognizant Audits											0
Sole Source Reviews											0
Final Cost Audits											0
A-133 Single Audit Reviews											0
Indirect Cost Rate Reviews											0
Potential Additional Audit Areas											
Local Agency Contract Oversight											0
HPTE Process											0
Grant Accounting/Management											0
On and Off-boarding employees											0
Construction Change Orders											0
Request for Information from OIT											0
IT Access Controls											0
CDOT Indirect Cost Rate Program											0
SAP input/edit controls											0
CDOT Bus Service											0
Contract vs Employee											0
Document Retention											0
Physical Security											0
HQ Business Office Consolidations											0
PCI Compliance											0
Scrap Metal											0
GRC											0
Imprest Fund Audits											0

**CDOT Audit Division  
2015 Audit Plan  
Risk Assessment Categories**

**Likelihood - Impact**

How likely is it that the event or circumstance will occur? If it does occur, what impact will it have on CDOT? On the division? On the program? Etc.

**SMT Questionnaire**

Members of the Senior Management Team, including RTDs were interviewed to obtain their perspective of risk on their individual division and CDOT as a whole. Questions asked included

- \* what keeps you up at night?
- \* where do you spend most of your time -- is this where you want/should be spending this much time?
- \* what is the worst thing that could appear in the media re CDOT?
- \* what does CDOT do well?

**Federal-State-Audit Requirements**

What are the requirements specific to the program? What is the likelihood of noncompliance? What would the impact be for noncompliance?

**Changes in Unit**

Have there been significant or multiple (or both) changes? What is the likelihood for future changes? What is or will be impacted by these changes?

**Financial Impact**

What is the likelihood of financial impact? What is the significance -- is it material?

**Internal Controls - Prior Audits**

Have there been previous audit recommendations in the past? Were recommendations fully implemented? Are internal controls considered strong? Weak? Is it a new area? Highly regulated?

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# REPORT OF REVIEW

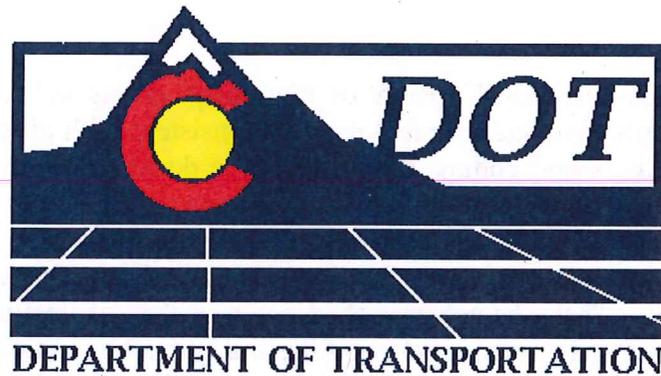
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**Colorado Department of Transportation**

## **AUDIT DIVISION**

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**Barbara J. Gold, Audit Director**



### AUDITORS

**George W. Currie, CIA, CFE, CRMA, CICA**  
**Robin Elrod**  
**Rose Lawson**  
**Naomi Smith**

### AREA OF REVIEW:

## **ACQUISITIONS AND RELOCATION**

**Report Date: January 30, 2014**

**Audit No: 14-013**

**EXECUTIVE SUMMARY  
ACQUISITIONS AND RELOCATION****DATE OF REPORT: January 30, 2014**

The Executive Director, Don Hunt, made a request to the Audit Division after learning about a fraud case identified by the Iowa Department of Transportation. Mr. Hunt requested that the Audit Division review the internal controls for CDOT's Right Of Way (ROW) Acquisition and Relocation programs. This review was to ensure the Colorado Department of Transportation's (CDOT) Acquisition and Relocation programs have sufficient internal controls in place to prevent fraud, waste, or abuse.

**Conclusion:**

We determined that overall CDOT's Right of Way Acquisitions and Relocation process was managed in an effective and efficient manner consistent with all established policy and procedures for the period ending July 2013. The department's written procedures contain strong internal controls that provide its management with assurances that CDOT assets are protected. The major issue noted in the Iowa Fraud case was that an Iowa Department of Transportation employee is alleged to have sold State land and pocketed some of the proceeds. That was accomplished due to a lack of internal controls which would have prohibited one person from handling the entire transaction. It was alleged that when the employee sold the land he had the buyer make two checks out one for him and one for the DOT. As stated above we found CDOT's ROW processes to be highly efficient to protect State assets.

Our review also found that the ROW files consistently followed procedural checklists developed by the ROW to make certain they are following established procedures and that all required approvals are obtained. We found the files easy to locate and very well organized. No exceptions were noted.

We would like to comment on our observations regarding the ROW staff. We found the staff to be extremely dedicated and diligent in making certain that all Federal and State rules are being adhered to in the ROW process. They are continually reviewing their processes and updating as necessary.

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## ACQUISITIONS AND RELOCATION

### **I. Purpose of Review**

This review was to ensure that the Colorado Department of Transportation's (CDOT) Acquisition and Relocation programs have sufficient internal controls in place to prevent fraud, waste, or abuse.

### **II. Background**

The Executive Director, Don Hunt, made a request to the Audit Division after learning about a fraud identified by the Iowa Department of Transportation. Mr. Hunt requested that the Audit Division review the internal controls for CDOT's Right Of Way (ROW) Acquisition and Relocation programs.

CDOT's Right of Way Program acquires real property (Acquisition) and displaced relocation and Business reestablishment (Relocation) for CDOT's State and federally funded highway projects. It also provides oversight on behalf of FHWA on local public agency projects affecting a State Highway or Interstate. The ROW program is located under the Project Development Branch within CDOT.

Title VI, Civil Rights Act of 1964, requires fair and equitable treatment of the public who have property acquired or must relocate during the location of transportation facility or highway alignment. CDOT's ROW staff accomplishes this by complying with the mandates of the Federal, State laws and the Uniform Act (US Title 49CFE24.) The ROW Manual was created January 27, 2011 and updated on a regular basis to outline policies and procedures for acquiring real property, facilitate the construction of public improvements, avoid litigation, and relocate tenants, to ensure compliance with the Uniform Act.

### **III. Objectives and Scope**

The objective of this review was to determine if CDOT has adequate internal controls in place for all phases of the Right of Way Acquisition and Relocation process.

The scope of the investigation was to review case files for the period January 1, 2013 until June 30, 2013.

### **IV. Methodology**

The methodology included the following:

- Obtain a copy of the Right of Way Manual (ROW) to determine what process controls are in place for each phase of Acquisitions and Relocation.
- Obtain a copy of the Uniform Act (49CFR24) to determine if the compliance requirements are incorporated within the ROW manual.
- Interview key CDOT management and support personnel within the administration part of the process.
- Interview field personnel who implement the program and have them provide a walk-through of their process.
- Obtain computer files to determine what cases have been processed by CDOT for Acquisitions and Relocation during the period 1/1/13 through 6/30/13.
- Test a sample of completed ROW Acquisition and Relocation files to make certain that the established processes are being followed.

We completed the work for this audit on September 13, 2013.

#### **V. Auditing Standards**

We conducted this review in accordance with *Generally Accepted Government Auditing Standards* (GAGAS). Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### **VI. AUDIT RESULTS**

We determined that overall CDOT's Right of Way Acquisitions and Relocation process was managed in an effective and efficient manner consistent with all established policy and procedures for the period ending July 2013. We found the departments written procedures contain strong internal controls that provide its management with assurances that CDOT assets are protected.

We applied certain tests and procedures which identified the ROW criteria and Federal compliance rules to a selected group of files. The objective of our review of each selected test file was to determine if the procedures of the ROW manual were, in fact, consistent with the established guidelines. Our review found that the ROW files consistently followed procedural checklists developed by the ROW to make certain they are following established procedures and that all required approvals are obtained. We found the files easy to locate and very well organized. No exceptions were noted.

#### **VII. Discussion with Responsible Officials**

We reviewed this report with Richard Zamora, Project Development Branch Manager; Christine Rees, Right of Way Program Unit Manager; Wesley Loetz, Unit Supervisor; and Bobbie DeHerrera, ROW Specialist. The only comment received by Mr. Zamora was that "our auditors were thorough."

**VIII. Conclusion**

We found no evidence of material weaknesses in CDOT's Acquisition and Relocation process that would put CDOT at risk for losses similar to those found in the Iowa DOT. In fact, we found that CDOT's internal controls in the ROW process are strong.

We would like to comment on our observations of the ROW staff. We found the staff to be extremely dedicated and diligent in making certain that all Federal and State rules are being adhered to in the ROW process. They are continually reviewing their processes and updating as necessary.

We would like to thank Richard Zamora, Project Development Manager; Christine Rees, Manager of HQ ROW; Wesley Loetz, Acquisition and Relocation Unit Supervisor; Bobbie DeHerrera, Right of Way Specialist and all the other ROW personnel who were highly cooperative during this review which resulted in an efficient review.

Approved:



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Barbara J. Gold, CPA, CISA

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# REPORT OF REVIEW

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**Colorado Department of Transportation**

## **AUDIT DIVISION**

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**Barbara J. Gold, CPA, CISA, Director**



**Audit Team  
Naomi Smith  
Trent Josten, CPA  
Kristi Gray  
Sam Nnuro**

**AREA OF REVIEW:**

**Right of Way Leases and Disposals**

**Report Date: March 26, 2014**

**Audit No: 14-012**

## **EXECUTIVE SUMMARY LEASES AND DISPOSALS**

### **Purpose of Review**

The purpose of our review is to determine whether the Colorado Department of Transportation's (CDOT) Property Management's Right of Way (ROW) Lease and Disposal program has sufficient internal controls in place to prevent fraud, waste, or abuse. Based on audit procedures performed we found no instances of fraud, waste, or abuse. Senior management agreed to implement each of the five recommendations included in this report.

### **Background and Audit Objectives**

CDOT's Executive Director, Don Hunt, requested a review of the Right of Way leases and disposals after learning about a fraud case identified in the Iowa Department of Transportation. Iowa's State Auditor investigated Iowa's DOT and identified over \$500,000 of diverted funds, uncollected rent payments and improper disbursements. More than \$270,000 was directly related to sales of excess DOT right of way property. CDOT's Property Management Program, similar to Iowa's program, manages project-related land, improvements, and general ledger properties owned by CDOT. Our audit objectives include:

- Determine if there is adequate segregation of duties surrounding the management of ROW property.
- Determine if the fair market value (FMV) appraisals of property are supported and the actual amount received is not less than FMV.
- Evaluate internal controls to determine whether adequate policies and procedures are in place and operating effectively in the Property Management section within the ROW to prevent fraud, waste and abuse.

### **Conclusions and Recommendations**

We found no instances of fraud within CDOT's Property Management. The internal control weaknesses we identified were related to recordkeeping and segregation of duties. Our recommendations identify areas for Management to improve and ensure Property Management has adequate control procedures in place to further reduce the potential for fraud and abuse. Specifically, we recommend:

- Develop policies and procedures for retention of files for lease and disposal transactions.
- Enforce requirements that Regions submit to Property Management required information on disposals, annual inventory requirements, and market analyses.
- Ensure all files are accounted for and maintained; develop a system to ensure all required documents and information remain in the files.
- Establish and implement a segregation of duties between individuals who create the lease and individuals who enter the lease conditions into SAP.
- Review and update Policy and Procedural Directives and the ROW manual.

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## **ROW Leases and Disposals**

### **I. Purpose of Review**

The purpose of our review is to determine whether the Colorado Department of Transportation's (CDOT) Property Management's Right of Way (ROW) Lease and Disposal program has sufficient internal controls in place to prevent fraud, waste, or abuse. Based on audit procedures performed we found no instances of fraud, waste, or abuse. We have provided senior management with recommendations on how to strengthen the internal control structure for the Lease and Disposal program.

### **II. Background**

CDOT's Executive Director, Don Hunt, requested a review of the Right of Way disposals and leases after learning about a fraud case identified in the Iowa Department of Transportation. Iowa's State Auditor investigated the Iowa DOT and identified over \$500,000 of diverted collections, uncollected rent payments and improper disbursements. More than \$270,000 was directly related to sales of excess DOT right of way property. In these instances the property manager requested the purchaser to make payment through two checks, one to the property manager and one to the DOT. Some of these lease payments were diverted directly to an employee's personal bank account. The fraud occurred as a result of inadequate segregation of duties, DOT oversight and policies over maintaining supporting documentation.

The Iowa investigation uncovered fraud that occurred over a period spanning more than 17 years. Factors needed for fraud, commonly referred to as the "fraud triangle" include:

1. Pressure or motivation to commit fraud (usually financial in nature),
2. Opportunity, usually caused from an internal control weakness,
3. Rationalization by the individual that committing fraud is okay.

CDOT's Property Management Program, similar to Iowa's program, manages project-related land, improvements, and general ledger properties owned by CDOT. This includes the necessary services and expertise to develop, maintain, lease, and dispose of property no longer needed by CDOT. There are many Federal regulations for ROW disposals and leases. We reference these regulations throughout our report.

The Federal Highway Administration (FHWA) requires state DOTs to maintain a manual describing its ROW organization, policies, and procedures. Every five years the state DOT must certify to the FHWA that the current ROW operations manual conforms to existing practices and contains necessary procedures to ensure compliance with Federal and State real estate laws and regulations. CDOT's ROW Manual, specifically Chapter 7, clarifies existing State statutes, rules, policies, and procedures related to the Property Management Program. This manual also establishes uniform procedures for each of the Property Management activities and the implementation needed for an effective program that complies with State statutes and Federal regulations.

### **III. Scope and Objectives**

The scope of our review is to determine if CDOT has adequate controls in place for ROW lease and disposal transactions managed by CDOT Property Management for Fiscal Year 2013. The objective of this review is to determine if the Colorado Department of Transportation's (CDOT) Property Management Program over ROW leases and disposals has sufficient internal controls in place to prevent fraud, waste, or abuse. Specifically our objectives include:

- Determine if there is adequate segregation of duties surrounding the management of ROW property.
- Determine if the fair market value (FMV) appraisals of property are supported and the actual amount received is not less than its FMV.
- Evaluate internal controls to determine whether adequate policies and procedures are in place and operating effectively in the Property Management section within the ROW to prevent fraud, waste and abuse.

### **IV. Methodology**

During our review we obtained evidence to support our findings and recommendations. This evidence came from interviewing key management and support personnel within the Property Management program that oversees leases and disposals; reviewing manuals; reviewing the Iowa State Auditor's investigation report; and testing lease and disposal transactions and documents to ascertain that established processes are being followed.

We completed the work for this audit on September 20, 2013.

### **V. Auditing Standards**

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS). Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **VI. Audit Results**

#### **Adequate Recordkeeping for Disposal Activities**

During Fiscal Year 2013 Property Management had six disposals totaling \$504,542. We requested a list of all the disposals completed during Fiscal Year 2013. Initially, management gave us a list containing five disposal transactions. After we tested this population for completeness, we identified a sixth transaction. We discussed this with Property Management and they responded that the sixth property was paid for with a direct deposit and that the disposals pulled for the audit were determined based on cash transmittal documents. Property Management concurred with us that there were six disposals during Fiscal Year 2013.

We also requested supporting documentation for these disposals. Although we eventually received this documentation, Property Management had to compile documents requested to create these files for us. We observed that Property Management does not maintain centrally located files; rather, the supporting documents were in multiple locations in electronic file folders. Most of the appraisal files were on an employee's computer who un-expectedly passed away. This employee's position was vacant at the time of audit field work.

Property Management agrees that developing control documents or checklists to verify all required documents will improve the process. In addition to providing assurance of completeness, a control document can also contain the location of the documents. This ability can greatly increase efficiency especially when used with a decentralized file maintenance system in Property Management. We determined the completeness of these files based on our review of the requirements in the ROW Manual.

Although the ROW Manual contains policies and procedures for required documentation for disposals, we found no formal policies or defined processes on which documents should be maintained or how to maintain them. A system that identifies what documents are required allows for easy retrieval of these documents and decreases the risk of unknown disposals of excess and remainder properties. The Iowa State Auditor investigation also included a recommendation requiring the implementation of policies to ensure required documents are completed and specified the length of time files are to be maintained and the specific information required to be maintained.

### **Documentation for Disposals**

We tested each of the six disposal transactions against guidelines in the ROW manual, State statutes and Federal regulations. The Regions are required to complete the Property Management Real Estate Services Request Form and supporting documentation and send them to Property Management when requesting to sell property. The ROW Manual Section 7.2.8 titled "Disposal of Land and Improvements" states:

*If the Region finds that the property is no longer needed for highway purposes,... or will not be needed in the foreseeable future, this information, with a completed Property Management Real Estate Services Request Form (Exhibit A) shall be sent to the Property Management Section by memo with the Regional Transportation Director's concurrence, stating their recommendation for sale or disposal. This memo should include the project number, project code, parcel number, date, amount of purchase, legal description, sketch of property, use of the property, improvements on the property and a completed Categorical Exclusion Determination Form (CDOT Form #128).*

The form referenced above initiates the sale (disposal) of a property and documents the property site information including the required submittal information checklist. Although a required form, we did not find this checklist in any of the files we tested. We

discussed this with the Property Disposal Manager who said the regions are encouraged but not required to use the form and that different processes are used to initiate disposals.

We did find that the Property Disposal Manager developed an informal initiation process in the Regions that includes a “Referral Memorandum” form. This form documents the coordination among relevant CDOT organizations to initiate a disposal. With a few revisions and an update to the ROW Manual, we found that the “Referral Memorandum” form, if used, meets all of the requirements for initiation as identified in ROW Manual Section 7.2.8. It could replace the RTD memo and the Property Management Real Estate Services Request Form.

Federal regulation 23 CFR 710.403(b) requires State DOTs to have procedures to provide for coordination among relevant organizational units, including maintenance, safety, design, planning, right-of-way, environment, access management, and traffic operations. In testing we found coordination among relevant CDOT organizations was documented in three of the six files reviewed. Federal regulation 23 CFR 710.405(b) requires the State to obtain prior FHWA approval for permanent occupancy or use of Interstate ROW. In testing we found that the FHWA approval was not documented in one of the four files tested that required the FHWA approval. In addition, this file also did not have documentation that the property appraisal was reviewed. The ROW Manual Section 3.10.1 and Federal regulation 49 CFR 24.104 requires appraisals to be reviewed. Federal regulation 23 CFR 710.201(f) addresses recordkeeping and states “The acquiring agency shall maintain adequate records of its acquisition and property management activities”. The lack of clearly defined policies on how to maintain disposal documentation and not having a system to easily locate these documents increases CDOT’s risk for losses similar to those found at the Iowa DOT.

**Recommendation 1:**

- a) Develop policies and procedures for retention of files for each disposal transaction that contains documentation to support Federal and CDOT requirements are met and that the information can be easily retrieved.
- b) Enforce the requirements that the Regions submit to Property Management a memo with the required information, which includes notification of property disposals with the Regional Transportation Director’s recommendation for sale or disposal, a completed Property Management Real Estate Services Request Form, and a completed Categorical Exclusion Determination Form (CDOT Form #128).

**Management Response:**

Property Management previously considered the Transportation Commission resolution authorizing property disposals, and a copy of the executed quitclaim deed that includes the sale price and the Chief’s Engineers signature sufficient to document compliance with 23 CFR 710.201(f). CDOT Property Management will create an internal checklist of documents to be collected and maintained in a permanent file for control purposes.

During the period of the Audit, Property Management had an FTE position that was filled with an appraiser. The appraiser unexpectedly passed away. Property Management took

several months to re-evaluate the open position and re-classify it to a position that would have more time to manage lease and disposal documents and processes. The new employee was hired after the time of this audit. The new employee was hired specifically based on her impressive process improvement and document management track record.

The newly created FTE position and the creation of the new checklist are intended to fully address the recordkeeping recommendations mentioned throughout this report.

**Person Responsible for Implementation:**

David Fox, CDOT Property Management Program Real Estate Specialist

**Implementation Date:** April 30, 2014

**Property Management Leases**

During Fiscal Year 2013 Property Management had 186 leases with revenues of almost \$4 million. The majority of this revenue or 75 percent comes from oil and gas rights. The remaining 25 percent comes from vacant land leases, telecommunications and employee housing. We sampled a total of 13 files; three files were oil and gas leases and are discussed later in the report.

For the remaining ten files we reviewed and tested supporting documentation to see if it met the guidelines in the ROW manual, State statutes and Federal regulations. We identified the following areas for improving internal controls.

**Include a Market Analysis**

Federal regulation 23 CFR 710.403(d) states: “acquiring agencies shall charge current fair market value or rent for the use or disposal of real property interests”. Best practice is to maintain this documentation to support compliance as part of the lease files. Of the ten files reviewed eight were land leases and required a market analysis. Based on our testing we found six of the eight vacant land lease files we reviewed did not include a market analysis for the fair market value of lease payments in the file. The market analysis supports that CDOT receives fair market value for lease rates. Without documentation that these analyses have been performed, Property Management cannot ensure that CDOT payment amounts are a fair value. The lack of substantiation for a market analysis increases the risk that the lessee does not pay an appropriate lease rate to CDOT. We observed that these missing documents could have been identified and corrected if Property Management had an effective internal review process and better file maintenance procedures.

**Include Real Estate Services Request Form**

We found the method of initiating the lease as required in the ROW Manual Section 7.2.1 varies and is inconsistent. The Real Estate Services Request Form initiates the lease by identifying the requestor, type of lease, the site information and a submittal checklist. None of the ten lease files we reviewed had the Real Estate Services Request Form, and five of the ten leases had an alternate method of initiating the lease. In place of this

required form we found that the Regions initiated leases using written memos or emails. Inconsistent methods to initiate a lease increases the risk that required documents and information are not obtained and included in the file.

### **Improve File Maintenance**

During the course of our audit one lease file requested for review was missing. Based on SAP data, the missing lease file has a monthly lease rate of \$450. Federal regulation 23 CFR 710.201(f) requires adequate records of property management. A lease cannot be adequately substantiated when the file is missing. In addition, we were unable to determine if it is in compliance or if the lease rate is at fair market value. Property Management was unable to locate this file by the conclusion of our audit.

### **Recommendation 2:**

- a) Include supporting documentation of the lease rate market analysis in the lease file and the updates for each lease renewal.
- b) Enforce the use of the Property Management Real Estate Services Request form referred to in the ROW Manual or revise the manual to reflect current practices and ensure all requirements are met.
- c) Ensure all files are accounted for and maintained. Property Management should determine the cause of the missing information and develop a report review system to ensure all required documents and information remain in the files.
- d) Develop policies and procedures that clearly define how to maintain lease documentation and the required documentation.

### **Management Response:**

Recommendation a, c and d): Property Management currently submits evidence of fair market value to the individual delegated to sign leases (currently the Maintenance and Operations Manager). The market analysis was not always included in the hard copy of the final lease file. CDOT Property Management will create a checklist for documentation to be included in every lease file.

Recommendation b): Property Management prides itself on its level of customer service. The Region's spoke out loudly against another required form. Property Management will continue to allow Regions to submit the required documents using various methods. CDOT Property Management will include a checklist of required submittal documents in the Right of Way Manual. Property Management will create and implement a checklist internally to verify complete submittals and include the checklist when it routes the documents for signature.

### **Person Responsible for Implementation:**

David Fox, CDOT Property Management Program Real Estate Specialist

**Implementation Date:** April 30, 2014

### **Reviews of Leases and Disposals**

The ROW manual contains review requirements of the lease or disposal package. The package is described as the “supporting documentation” including the Real Estate Services Request Form. The Real Estate Services Request Form captures the other documents required in the ROW Manual. Outside of the package review the ROW Manual does not provide specific review criteria for leases or disposals. 23 CFR 710.201(b) states:

*Program oversight. The STD [State Transportation Department] shall have overall responsibility for the acquisition, management, and disposal of real property of Federal-aid projects. This responsibility shall include assuring that acquisitions and disposals by a State agency are made in compliance with legal requirements of State and Federal Laws and regulations.*

In the previous findings the initiation of the lease or disposal was missing or inconsistent, concurrence from all regional functions to dispose and the market analysis of lease payments was not in the file. The ROW manual mentions a review of the package, but does not provide specific review criteria for leases or disposals. When all of the required supporting documents are not available at the time of review the branch manager stated he returned the documents to staff so missing documents can be obtained prior to final approval

Not having clearly defined criteria on how to review documentation can increase the risk that documents are not adequately reviewed and that required documents and/or steps maybe missing.

### **Segregation of Duties**

Property Management uses the following process beginning with the creation of the lease to the collection of lease payments.

1. Property Management Lease Manager or assistant or an individual from the Region ROW office creates the lease.
2. The Maintenance and Operations manager reviews the lease.
3. The Property Management Lease Manager or an assistant enters lease conditions data into SAP.
4. CDOT Accounting at headquarters receives lease payments via mail then records the payment in SAP against the lease conditions entered by Property Management and deposits the check.

Based on this process there is no control to prevent the same employee who creates the lease to enter the lease conditions into SAP. CDOT Accounting relies on lease conditions entered into SAP by Property Management to verify lease payments are accurate. Accounting does not have copies of the leases.

The Iowa investigation identified segregation of duties issues surrounding leases. In Iowa, the Property Manager was responsible to ensure amounts of leases were

appropriate, properly billed, collected and deposited. The report stated that more than \$170,000 of rent was not collected for leases. The Iowa State Auditor recommended that decisions made and actions taken by Property Managers should be reviewed by other DOT staff members in a reasonable time during the course of normal operations to allow timely detection of irregularities.

Although CDOT's segregation of duties within CDOT's Property Management are stronger than in Iowa, the ability for the same individual to create the lease and enter the lease conditions into SAP is not an adequate segregation of duties. Adequate segregation of duties is an essential check to prevent errors and/or fraud.

**Recommendation 3:**

- a) Revise Chapter 7 of the ROW Manual to include review criteria for leases and disposals. This could include the use of a checklist for all required documentation prepared by the individual compiling the lease or disposal package and signed off by the reviewer certifying that all supporting documentation is included and sufficient. The review criteria should also include who is responsible for each step of the review.
- b) Establish and implement a segregation of duties between the individuals who create the lease and the individuals who enter the lease conditions into SAP.

**Management Response:**

Recommendation a): Property Management submits all supporting documents including Region request letters and fair market value analysis to management for review and execution. Not all documentation has been maintained in the hard copy lease and disposal files. Property Management will create and implement a checklist to verify complete submittals and include the checklist when the documents are routed for signature. The checklist and supporting documents will be included in the permanent lease or disposal file. Recommendation b): CDOT Property Management will segregate duties between the individuals who create the lease and the individuals who enter the lease conditions into SAP. The segregation of duties will be documented on the existing SAP data entry form.

**Person Responsible for Implementation:**

David Fox, CDOT Property Management Program Real Estate Specialist

**Implementation Date:** April 30, 2014

**Real Property Inventory**

We reviewed the process to maintain the inventory list of property considered excess to project needs. As part of our review we obtained Property Management's current inventory list. We reviewed the process and documentation to see if the inventory list met the guidelines in the ROW manual and Federal regulations. We found that Property Management has not been receiving an updated listing annually from the Region ROW offices of those excess and remainder parcels which are no longer needed as required in ROW Manual Section 7.1.4.3.

According to the Property Management Disposal manager two of the Regions inventories are not up to date. 23 CFR 710.201(f)(2) states: *Property management records shall include inventories of real property considered excess to project needs.* This agrees with ROW Manual 7.1.4 3A and 3C. A limited or inaccurate inventory list increases the likelihood for unidentified uses or unapproved encroachments. It might also create lost opportunities for deriving income from leases or sales, among other unwanted or avoidable breakdowns.

#### **Reconciliation of Disposals**

We requested documentation for all ROW disposals made in Fiscal Year 2013 for testing. As part of our testing we compared the list of disposals for Fiscal Year 2013 provided by the Property Disposal Manager to the sales listed as being sold in SAP. We found a \$420,500 difference between the list we received from Property Management and the list we generated from SAP. The difference was a property sold on August 1, 2012 that was in SAP, but not provided in the list we received from Property Management. This property was not included in the original sample because it was paid through a direct deposit and the Property Management Disposal Manager only pulled cash transmittals for the time frame requested.

#### **Recommendation 4:**

The Region ROW offices and Property Management should improve controls over inventory of excess property by

- a) Require Regions to submit annual inventory lists to Property Management as required, and ensure these assets are recorded SAP.
- b) Reconciling all disposals to the SAP transaction code FBL3N for G/L Code 7530400060 at least annually to ensure all disposal records are maintained.

#### **Management Response:**

Recommendation a): SAP does not currently have the capacity to record excess property assets. CDOT Property Management has developed an inventory system outside of SAP. CDOT Property Management met with the Region Right of Way Managers in January, 2014 and developed a plan to obtain newly acquired excess parcel inventories on a quarterly basis. Recommendation b): Property Management will use FBL3N to reconcile property disposal at the end of FY14, and every year going forward.

#### **Person Responsible for Implementation:**

David Fox, CDOT Property Management Program Real Estate Specialist

**Implementation Date:** March 31, 2014/July 31, 2014

#### **Policy and Procedural Directives for ROW Leases and Disposals Need Updating**

We reviewed Policy and Procedural directives 1300-0, 1300-1, 1300-2 and 1307-0 related to property disposals, leases and inventory. We found that these Policy and Procedural Directives are referenced in Chapter 7 of the ROW Manual. Federal regulation 23 CFR 710.201(c)(2) and (3) requires the ROW Manual to be updated to

reflect changes in operations and these updates need FHWA approval. Specifically this regulation states:

*“Every five years the STD shall certify to the FHWA that the current ROW operations manual conforms to existing practices and contains necessary procedures to ensure compliance with Federal and State real estate law and regulation. The STD shall update the manual periodically to reflect changes in operations and submit the updated materials for approval by the FHWA.”*

The ROW Manual was approved by FHWA less than five years ago; however, based on our review the ROW Manual references policy and procedural directives that are more than 15 years past their respective review or sunset dates. An incorrect statute number was also identified in the Authority section of Chapter 7 of the manual. Statute number C.R.S. 24-30-1300 does not exist. Updating the policy and procedural directives periodically will move CDOT into compliance with the Federal regulation, assist CDOT in ensuring that lease and disposal procedures reflect changes in operations, and align Property Management practices to the business environment that exists when updates are implemented.

**Recommendation 5:**

Review and update Policy and Procedural Directives 1300-0, 1300-1, 1300-2 and 1307-0 to ensure that the authority references which governs the ROW manual conforms to existing practices and updated procedures that comply with regulatory requirements. At a minimum, each directive should be reviewed every five years in compliance with Federal regulations. Document updates should be completed as appropriate.

The authority section of Chapter 7 of the ROW manual should be updated to change the statute currently listed as 24-30-1300 to 24-30-1301.

**Management Response:**

Property Management completed a thorough revision to all Property Management related PD's approximately two years ago. The edits were submitted to Management, but the revised PD's were never adopted. Property Management will make any necessary changes to the edited PD's and submit them for adoption. The statute reference will be corrected in the ROW Manual.

**Person Responsible for Implementation:**

David Fox, CDOT Property Management Program Real Estate Specialist

**Implementation Date:** June 30, 2014

**Lease payments from Oil and Gas companies**

Within Property Management, oil and gas companies lease property from CDOT for mineral rights. Payment for these leases includes royalties from oil production, and the lease terms require payment of \$400 an acre plus 1/6 of the oil royalties. In Fiscal Year

2013, oil and gas lease revenue was approximately \$3 million. This revenue accounts for more than 75 percent of all lease revenue Property Management receives.

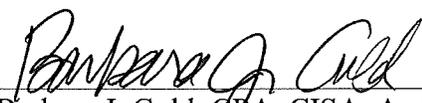
We requested documentation for a sample of three oil and gas leases of the thirty-three that had payments in Fiscal Year 2013. The audit sample represented \$2,746,473 of oil and gas revenues in Fiscal Year 2013. When we pulled the oil and gas leases from Property Management's files we found that Property Management converted individual oil and gas leases for a company into one master lease for the company within SAP. A master lease consolidates all payments in SAP from one company even though that company may have multiple oil and gas leases with CDOT. We discussed the nature of the master leases and Property Management's review process of oil and gas payments with the Property Management Lease Manager. Property Management relies on regulation performed by the Colorado Oil and Gas Conservation Commission to monitor the oil and gas companies.

We contacted the Colorado Oil and Gas Conservation Commission to gain an understanding of how it monitors the oil and gas companies. This commission referred us to the Colorado State Land Board (SLB), a division of the Colorado Department of Natural Resources. The SLB has a Royalty Accounting Unit to process mineral royalty revenue and executes related audit and compliance programs. The audits performed by SLB are designed to verify unit prices and production rates. We found that many of the companies that SLB audits also have leases with CDOT. We consider the audit work performed by SLB to provide adequate assurance that oil and gas companies are being monitored for accurate royalty payments for CDOT. Property Management's reliance on the Colorado Oil and Gas Conservation Commission and the State Land Board for payment monitoring is sufficient.

## **VII. Conclusion**

We found no instances of fraud within CDOT's Property Management. We identified areas that Property Management should improve its internal controls in order to reduce the risk of fraud. The internal control weaknesses we identified related to recordkeeping and the review process, increase CDOT's risk for losses similar to those found in the Iowa DOT. Our recommendations identify areas for Management to improve and ensure Property Management has adequate control procedures in place to safeguard assets and prevent fraud and abuse. Property Management agrees with these recommendations. In addition, Property Management recently had an employee vacancy and took the opportunity to revise the PDQ from an appraiser to a real estate specialist, specifically to address documentation and recordkeeping of lease and disposal files.

Approved: \_\_\_\_\_

  
Barbara J. Gold, CPA, CISA, Audit Division Director

# STATE OF COLORADO

## DEPARTMENT OF TRANSPORTATION

Division of Audit  
4201 East Arkansas Avenue  
Shumate Building  
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February 11, 2014

Mr. Ed Hefner  
Audit Manager  
CH2M Hill, Inc.  
9494 S. Jamaica Street  
Englewood, CO 80112

Dear Mr. Hefner

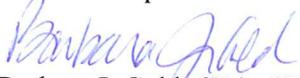
We have performed a cognizant review of the audit, and supporting workpapers, of the indirect cost rates of CH2M Hill, Inc. as presented in the Schedules of Federal Acquisition Regulation Compliant Indirect Cost Rates (Field Office and Home Office) for the year ended December 31, 2012 in accordance with our role as Cognizant Agency as defined in 23 U.S.C. 112(b)(2)(c) and 23 CFR 172.3 and 172.7. The audit was performed by the independent CPA firm KPMG LLP. The CPA represented that the audit was conducted in accordance with the *Government Auditing Standards*, as promulgated by the Comptroller General of the United States of America, and the audit was designed to determine that the indirect cost rates were established in accordance with Cost Principles contained in the Federal Acquisition Regulation, 48 CFR Part 31. Our cognizant review was performed in accordance with the *AASHTO Review Program for CPA Audits of Consulting Engineers' Indirect Cost Rates*.

In connection with our cognizant review, nothing came to our attention that caused us to believe that the audit, and supporting workpapers for the indirect cost rates, and the related Accountant's Reports, we reviewed did not conform in all material respects to the aforementioned regulations and auditing standards.

Our cognizant review revealed that the executive compensation analysis performed by CH2M Hill, Inc. can be improved to meet the guidance set forth in the *AASHTO Uniform Audit & Accounting Guide*. CH2M Hill, Inc. management has agreed to implement these improvements for future cognizant reviews. Based on our review we accept the December 31, 2012 rates as audited with the expectation that these improvements will be made the following year.

Accordingly, we recommend acceptance of the following rates:

Home Office: 111.4%  
Field Office: 100.4%  
Facilities Capital Cost of Money (FCCM): 0.307%

  
Barbara J. Gold, CPA, CISA  
CDOT Audit Division Director

C: Neil Yuan, KPMG LLP