

**Transportation Commission of Colorado  
Audit Review Committee  
Meeting Agenda  
Wednesday, June 16, 2014  
4201 East Arkansas Avenue**

**Gary Reiff, Chair  
District 3, Englewood**

**Les Gruen  
District 9, Colorado Springs**

**Ed Peterson  
District 2, Lakewood**

**Bill Theibaut  
District 10, Pueblo**

**Sidny Zink  
District 8, Durango**

**All commissioners are invited to attend this Committee meeting.**

- 1. Call to Order**
- 2. Approval of April, 2014 Minutes ..... p1**
- 3. Election of Audit Chair.....verbal**
- 4. Status of Audit Plan 2015**
  - **Quarterly Schedule – Status and Revisions\* .....p4**
  - **Audit Division Metrics\*.....p5**
- 5. Completed Audit Work**
  - **Review of CDOT Indirect Cost Rate..... p6**
  - **Fuel Card Audit – Phase I .....p16**
  - **Flood Recovery.....p18**
- 6. Audit Work In Progress - Summaries**
  - **FASTER - DTR ..... p31**
  - **Requirements of CDOT Boards..... p31**
  - **Prequalification Audit Program\*..... p31**
  - **A-133 Audit Program ..... p31**
  - **Consultant Reviews.....p32**
  - **Indirect Cost Rate Reviews\*.....p32**
  - **RAMP.....p33**
  - **GRC Implementation.....p33**
- 7. Outstanding Audit Recommendations.....p34**
- 8. Fraud Hotline Statistics.....p36**

**9. Action Items**

- **Update on the older Outstanding Recommendations.....verbal**
  - **Fraud Hotline.....verbal**
  - **Independence Statement.....p37**
  - **Audit Charter.....p38**
- 10. ARC Questions, Requests, Discussion Items.....verbal**

**THE 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**  
**April 17, 2014**  
**4:30 P.M. – 5:00 P.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:** Barbara Gold, Audit Director; Scott Richrath, Chief Financial Officer; Herman Stockinger, Director of Office of Policy and Government Relations; Naomi Smith, Audit Manager; 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 Reiff called the meeting to order on April 17, 2014, at 4:41 P.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 February 20, 2014. Commissioner Zink requested that the spelling of her last name be corrected. Ms. Gold apologized and assured her it would be corrected. Approval of the minutes was moved by Commissioner Gruen, and seconded by Commissioner Thiebaut. The minutes were adopted as published in the agenda.

**3. Audit Report Presentations**

***A. Presentation of the Acquisition and Relocation Audit Findings***

Trent Josten discussed how there were no significant findings of fraud, waste or abuse. They are moving forward with implementing the recommendations in the report. Chairman Reiff questioned the difference of opinion related to Recommendation 2b “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.” Mr. Josten assured Chairman Reiff that it was a merely a difference of opinion and they chose to revise the manual versus adding another form. Commissioner Peterson made a motion to release; it was seconded by Commissioner Gruen. All voted to release with no opposition.

**B. Audit Division Plan**

**1. Project Dashboard**

Ms. Gold discussed the dashboard for the plan used to report progress of the current projects and make any changes requested by the Commission. Chairman Reiff explained the Division was transitioning to a brief narrative only asking relevant questions without a great deal of discussion surrounding each report. Chairman Reiff stated that the dashboard look was extremely helpful to him.

**2. Audit Matrix**

The matrix form was evaluated by the Commission as well.

**3. Audit Feedback Form**

The feedback form was reviewed. Chairman Reiff asked regarding item number 2 on the form, "Auditors Appear to Work as a Team", whether that referred to Auditors working with managers and the management group and not the Auditors working together as a team. Ms. Gold explained that in the past there had been comments that the audit group appeared not to work as a team, but yes there needs to be collaboration with the auditee. However, clarification would be added to the form to alleviate any confusion.

Commissioner Gruen asked if some of the factors were more important than others. Ms. Gold said that yes, she felt "Adds Value" was most important and "Scheduling" would be the least important. Commissioner Gruen then explained that this skewed the rating scale if certain areas held more weight than others. Ms. Gold said that she would get input from the Senior Management team regarding this matter since their feedback is being sought.

Chairman Reiff made a motion to adopt the Audit Plan. Commissioner Peterson motioned for adoption; Commissioner Thiebaut seconded the motion. The Audit Plan passed unanimously.

**C. Outstanding Recommendations**

Ms. Gold went over some of Outstanding Recommendations to clarify some of the items requested by the Executive Director. There were several older items on the Outstanding Recommendations list that were questioned by Chairman Reiff. Ms. Gold explained that these recommendations were recently discovered and she will be better prepared to present progress on those at the next meeting.

**D. Fraud Hotline Report**

The pie chart showing the different aspects of the Fraud Hotline was reviewed. Ms. Gold discussed how she intends to consolidate the areas into fewer, cleaning things up a bit. She committed to having that done by the next reporting cycle.

***E. Risk Assessment Methodology Form***

Ms. Gold explained how the risk assessment was determined that helped to decide which projects received higher priority versus others.

**4. Other Items**

Commissioner Peterson extended his thanks to Ms. Gold for spending time with him explaining the Audit Plan, etc. He complemented the entire Audit Division.

Scott McDaniel pointed out that there were zero findings on the Property Controls: Acquisitions and Relocations Audit and wanted to recognize their hard work and the great controls they have in place.

**5. Adjournment**

Chairman Reiff announced that the meeting was adjourned at 5:03 p.m.

**Action Items**

Update on the progress related to the older Outstanding Recommendations.  
Consolidation of the various areas of the Fraud Hotline.

Type	Q1 Apr - Jun	Q2 Jul - Sep	Q3 Oct - Dec	Q4 Jan - Mar
<b>Internal Audit Services</b>	Flood	WIMS - Division of Aeronautics	<i>Flood - from Q2 and Q3</i>	FASTER
	Fuel Card Audit - Phase 1	Fuel Card Audit - Phase 2	Fuel Card Audit - Phase 3	Fuel Card Audit - Phase 4
	Requirements of CDOT Boards	<i>Requirements of CDOT Boards</i>		Contracts/Procurement
	CDOT Indirect Rate			
	Fraud	Fraud	Fraud	Fraud
	Special Requests - <i>FASTER DTR</i>	Special Requests - <i>FASTER DTR</i>	Special Requests	Special Requests
	Outstanding Recommendations	Outstanding Recommendations	Outstanding Recommendations	Outstanding Recommendations
<b>External Audit Services</b>	A-133 Reviews	A-133 Reviews	A-133 Reviews	A-133 Reviews
	Disputes and Claims	Disputes and Claims	Disputes and Claims	Disputes and Claims
	Consultant <i>Audits Prequalifications</i>	Consultant Prequalifications	Consultant Prequalifications	Consultant Prequalifications
	Indirect Cost Rate Reviews	Indirect Cost Rate Reviews	Indirect Cost Rate Reviews	Indirect Cost Rate Reviews
	Sole Source Reviews	Sole Source Reviews	Sole Source Reviews	Sole Source Reviews
	Cognizant Audits	Final Cost Audits	Final Cost Audits	
<b>Data Analytics</b>	Fuel	<i>Fuel Purchase Analytics Purchase Cards Indirect Cost/Dollar of Construction</i>	<i>Fuel Purchase Analytics Duplicate Payments Employee Turnover Employee Leave</i>	<i>Fuel Purchase Analytics</i> Fleet Use of Consultants
<b>Advisory Internal Processes</b>	RAMP	RAMP	RAMP	RAMP
	GRC Implementation	Lean Collaboration	Dispute Program	Peer Reviews
	Lean Collaboration	Final Cost Audit Program	Lean Collaboration	Lean Collaboration
	A-133 Program Revision	Indirect Cost Rate Program		
	Sole Source Program	Outstanding Recommendations		
	Data Analytic Program	Fraud Hotline Peer Reviews		
<b>Legend:</b>	<b>Complete</b> <b>In Progress</b> <i>Proposed Changes</i>			

<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	3				
Requests for Audit Services	6	1				
A-133	230	1				
Financial Packages / Prequalifications	150	38/162				
Other External	29	7				
Internal Audit Processes	9	3				
Data Analytics	8	1				
Regional visits	6	1				
Department-Wide Communications	1	0				
Report Delivered When Committed	Within 2 weeks	1				
Add Value Rating	3 or above	n/a				
Budget/Actual Audit Hours	75% or more	68%				

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# REPORT OF REVIEW

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## Colorado Department of Transportation

### AUDIT DIVISION

Barbara J. Gold, CPA, CISA



Audit Team:

Trent Josten, CPA

Daniel Pia

Naomi Smith

Area of Review:

## **CDOT Indirect Costs**

Report Date: May 30, 2014

Audit Number 14-004

Distribution List:

Don Hunt, Executive Director  
Scott McDaniel, Acting Chief Engineer  
Scott Richrath, Chief Financial Officer  
Maria Sobota, Budget Director

## EXECUTIVE SUMMARY

### Scope and Objectives

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. The CDOT indirect cost rate is re-calculated each year and approved by the Federal Highway Administration (FHWA).

The scope of our review is the indirect labor hours CDOT charges for Fiscal Year 2012.

Our audit objectives for this review include:

- Determine what guidelines are currently in place for charging direct to project and indirect.
- Determine what positions are included and charged to direct to project and indirect for each major business function.

### What We Found

We found that CDOT has not developed specific criteria for charging labor hours to the indirect cost centers. Rather CDOT uses the Federal Regulation 2 C.F.R. 225 as their criteria. This regulation provides general guidelines for indirect costs. In addition, indirect costs for Fiscal Year 2012 were approximately \$60 million. The number of employees who charged all or a portion of their time to indirect cost centers for Fiscal Year 2012 was 1,086, about one third of all CDOT employees.

### Recommendations to Management

Without specific criteria it is difficult to document and provide information to management on the following:

- Labor hours charged to indirect are consistent across Regions.
- Labor hours charged to indirect are allowable and appropriate.
- Only those costs eligible to be included in the indirect cost rate are included.

In order to provide the information needed for the above items, we recommend the Chief Financial Officer and the Chief Engineer work together to develop, implement and enforce specific criteria for charging time to the indirect cost centers.

## **Details of the Report**

### **Background**

The Executive Director of CDOT requested the Audit Division to review the makeup of the labor force being charged to the indirect cost pool. Indirect costs are those costs attributable to multiple projects. CDOT's indirect costs were approximately \$60 million for Fiscal Year 2012. The number of employees who charged all or a portion of their time as indirect costs for Fiscal Year 2012 was 1,086 about one third of all CDOT employees.

### **Scope and Objectives**

The scope of our review is the indirect labor hours CDOT charges for Fiscal Year 2012.

We calculated the labor ratios of employees that charged to indirect and direct to project. The analysis is for headquarters and each region. Headquarters is broken down by division/department. Each region is broken down into: business office, engineering, Right of Way (ROW), Environmental and Other as applicable. Our review focused on CDOT indirect labor hour charges and not on indirect costs such as office supplies and consultants. Our review also did not include Maintenance or the Tunnel Unit since these business units do not charge to the indirect cost centers. Our audit objectives for this review include:

- Determine what guidelines are currently in place for charging direct to project and indirect.
- Determine what positions are included and charged to direct to project and indirect for each major business function.

### **Audit Procedures**

During our review we obtained evidence to support our findings and recommendations. This evidence came from interviewing CDOT employees; reviewing Federal regulations; and analyzing SAP data.

### **Audit Findings – Lack of Criteria Used for Charging Indirects**

We found that CDOT has not developed specific criteria for charging time to the indirect cost centers. Rather, CDOT uses the Federal Regulation 2 C.F.R. 225 as their criteria. This regulation provides general guidelines for indirect costs. Federal regulations state that:

“...there is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost”.

The general guideline provided by 2 C.F.R. 225 is that indirect costs are those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Without specific guidelines it is difficult to document and provide information to management on the following:

- Labor hours charged to indirect are consistent across Regions.
- Labor hours charged to indirect are allowable and appropriate.

- Only those costs eligible to be included in the indirect cost rate are included.
- Labor hours are charged to projects rather than indirect to the maximum practical extent.

Charges to indirect would be more consistent with specific criteria. When employees follow specific guidelines, management can have more reliance on charges to both direct and indirect labor charges. Without specific criteria management cannot ascertain if the rate is too high or too low. Examples of specific criteria could include:

- Requirements on the number of projects an employee charges time to before charging time as indirect.
- A maximum percentage of time an employee spends on a specific project in a day before charging time as indirect.

**Management Response:**

The Chief Financial Officer agrees that increased transparency and guidance related to indirect charges will improve reporting throughout the Department. While the Division of Accounting and Finance (Division) does have guidance in place regarding charging labor hours to indirect cost centers, the Division concurs with the recommendation that the guidance in place could be made clearer and communicated more widely. The existing guidance will be updated as part of next annual indirect cost allocation update (August-September 2014) to clarify the criteria for charging labor hours as indirect costs and communicated to the regions.

The Indirect Rate Allocation Plan is recalculated annually and submitted to the Federal Highway Administration (FHWA) for approval. Once FHWA approves the indirect rate and allocation plan, CDOT uses an automated process to define and accumulate costs for activities chargeable to highway projects but not attributable to a single project. This allows the Department to recover its costs and allocate them back to benefiting projects.

Throughout the year and as part of the annual Indirect Rate Allocation Plan, the Division systematically analyzes the total actual costs incurred for indirect activities as compared to the indirect costs allocated to projects. The formula used in the analysis is:

$$\text{Total Indirect Cost Center Costs} / \text{Total Direct Project Indirect Eligible Expenses} \times 100\% = \text{Indirect Allocation Percentage Rate}$$

This analysis is used to determine whether the rate in place is adequate to fully allocate CDOT's indirect costs for reimbursement by FHWA, and make adjustments as necessary.

In clarifying, implementing and enforcing specific criteria for charging time to the indirect costs centers, the Chief Financial Officer and the Chief Engineer (under the direction of the Chief Operating Officer) will be cognizant not to create an excessive administrative burden for CDOT staff related to time tracking. Specifically, determining whether to charge labor hours to indirect costs should not become overly complicated to the extent that it may reduce the benefit of using a cost pool.

The Chief Financial Officer and Chief Engineer believe this should address any concerns regarding consistency among regions.

Implementation Date: October 2014

Persons Responsible for Implementation: Scott Richrath, Chief Financial Officer and Scott McDaniel, Acting Chief Engineer

### How CDOT Labor Hours Have Been Charged

We have included information about CDOT's indirect and direct costs, which is shown in the chart below. The Office of Human Resources groups each employee into three personnel subareas. We analyzed the indirect labor hour data from SAP using the following three personnel subareas: Engineering, Program Support, and Project Support. The following chart reflects the percentages of labor charges for Fiscal Year 2012 for Engineering, Program Support, and Project Support by region and for headquarters. These percentages are based on actual hours recorded in SAP. The percentages for time coded to the State Fund are not included in the charts for this report and the costs for the construction engineering pool are included in the direct costs; therefore, total time charged will not equal 100 percent.

CDOT Audit - Indirect Charges Allocation of Hours by Area Fiscal Year 2012							
	R1	R2	R3	R4	R5	R6	HQ
Time Coded to:							
<b>Engineering</b>							
Number of Employees	124	112	112	121	63	215	
Direct	55.82%	54.59%	41.87%	57.70%	40.26%	61.40%	
Indirect	30.68%	38.47%	42.08%	24.60%	43.99%	26.42%	
<b>Program Support</b>							
Number of Employees	18	19	17	20	14	37	237
Direct	15.57%		5.41%	4.57%		4.38%	
Indirect	83.50%	88.46%	81.08%	83.15%	82.73%	89.00%	18.59%
<b>Project Support</b>							
Number of Employees							405
Direct							30.93%
Indirect							46.73%

Source: Audit analysis of SAP data

Based on this chart, charges to the indirect cost centers do not appear to be consistent as noted by the percentages for Engineering in the regions ranging from 24.60 percent to 43.99 percent. Program Support appears to be more consistent in the charges to the indirect cost center; however, there are inconsistencies in the charges to the direct cost center. The data reflects that Regions 2 and 5 did not charge direct to projects and the other regions charged between 4.38 percent and 15.57 percent.

### Region Analysis

The previous chart reflects a high level analysis of the charges to direct and indirect. To further analyze the percentages and make-up of the work unit employees within a region, we selected one region as an example to drill down to identify how each position charges to direct and indirect cost centers. We selected Region 3 for further analysis because it was comparable to Regions 1, 2, and 4; whereas, Regions 5 and 6 were considered outliers based on the number of employees. Further, Region 3 had the largest labor hour charges to indirect of the other comparable regions.

Our general observations of the information in the charts reflected that there are some consistencies in how positions charge their time in a sub-group, but there are inconsistencies when comparing the percentages charged between sub-groups. In order for CDOT to determine if labor hours charged are appropriate, they need to view the nature of the work being performed by each work unit.

**Region 3 Engineering:**

Region 3 has 33 organizational units within the Personnel Subarea “Engineering”. Based on our review of these units we broke down “Engineering” into the following groups; Project Engineering, Other Construction, Program Engineer, Traffic and Safety, and Right of Way. These five sub-groupings of the organizational units are judgmental determinations based on the titles of the organizational units and our understanding of the CDOT organization. These sub-groups were defined as:

- **Project Engineering:** The organizational unit included the title “Project Engineering”, also based on the titles and review of positions these units are primarily the Engineering residencies for construction, design and the Resident Engineers (Program Engineers are analyzed separately).
- **Other Construction:** Includes bridge enterprise, materials engineering and utilities engineering.
- **Program Engineer:** Just captures the program engineer and related administrative staff.
- **Traffic and Safety:** All organizational units include “Traffic” in the title and all but one includes “Safety”.
- **Right of Way:** All organizational units include “Right of Way” in the title.

We summarized these five sub-groupings of the Personnel Subarea “Engineering” to show the number of employees and how they coded their time in the following table:

<b>CDOT Audit - Indirect Charges</b>					
<b>Percentage of Hours Charged for Engineering</b>					
<b>Region 3 - Fiscal Year 2012</b>					
	Project Engineering	Other Construction	Program Engineer	Traffic and Safety	Right of Way
Number of Employees	57	18	4	18	17
Time Coded to:					
Direct	60.55%	43.68%	0.00%	2.46%	30.45%
Indirect	38.41%	56.11%	100.00%	7.41%	69.23%

Source: Audit analysis of SAP data

In the previous chart, direct and indirect costs were charged evenly at approximately 42 percent; however, when we drill down by subarea in Region 3, it is not as evenly distributed. The data reflects that, between subareas, the range of charges to the indirect cost center is 7.41 percent to 100 percent. In order for CDOT to determine if labor hours charged are appropriate, they need to view the nature of the work being performed by each work unit. For instance, it makes sense that the Program Engineer charges 100 percent to indirect since they oversee the construction program for the region.

**Region 3 Project Engineering:**

We drilled down further in these sub-groups to document the percentage of time charged by position. Position descriptions are included in appendix A to this report. This sub-grouping primarily consists of the design and construction management and engineering services performed by CDOT staff. It also includes the Resident Engineers. A table of how each position in the Project Engineering sub-group charged their time for fiscal year 2012 is provided below. This chart also shows the breakdown of the indirect and direct rates for Region 3’s Project Engineering sub-group by position titles.

<b>CDOT Audit - Indirect Charges</b>		
<b>Percentage of Hours Charged by Position for Project Engineering</b>		
<b>Region 3 - Fiscal Year 2012</b>		
<b>Position</b>	<b>Direct</b>	<b>Indirect</b>
Admin Asst III	11.53%	74.00%
CEPM I, Construction	87.84%	12.16%
CEPM II, Construction	65.18%	34.82%
EIT I	78.14%	21.86%
EIT II	74.63%	25.37%
EIT III	73.10%	26.90%
EPSA II, Design	100.00%	
EPSA III	31.00%	69.00%
EPST I	70.99%	29.01%
EPST II	80.60%	19.41%
EPST III	71.13%	28.87%
Temp EPSA II	100.00%	
Temp EIT II	78.63%	21.37%
Temp EPST II	97.93%	2.07%
PE I	66.61%	32.50%
PE II, RE	2.18%	97.82%
Source: Audit analysis of SAP data		

The second objective of our review was to determine which positions charge to direct and indirect. The majority of these positions are charging directly to projects. These positions include project managers, engineers in training, and engineering physical assistants and technicians. The only positions not charging most of their time directly to projects are the Administrative assistant, the Engineering/Physical Science Assistant III, and the Resident Engineers.

**Region 3 Other Construction:**

This sub-group includes Bridge Enterprise/Special Projects, Materials and Utilities engineering. A table of how each position in the Other Construction sub-group charged their time for fiscal year 2012 is provided below. This table shows the breakdown of the indirect and direct rates for Region 3's Other Construction sub-group by position titles.

<b>CDOT Audit - Indirect Charges</b>		
<b>Percentage of Hours Charged by Position for Other Construction</b>		
<b>Region 3 - Fiscal Year 2012</b>		
<b>Position</b>	<b>Direct</b>	<b>Indirect</b>
Admin Asst III	2.81%	97.19%
CEPM I, Utilities	60.35%	39.65%
EPSA III	38.79%	61.21%
EPST I, Materials	62.04%	37.96%
EPST II	59.52%	40.48%
EPST III	28.85%	70.14%
Temp EIT I	32.56%	67.44%
PE I	66.22%	33.78%
PE II	0.03%	99.97%

Source: Audit analysis of SAP data

The charges in the last chart for Project Engineering reflected a majority of positions charging directly to projects; however, in the Other Construction sub-group, the charges are inconsistent within the group as well as between the two sub-groups.

Within this group, the higher-level positions consistently charge to the indirect cost center. However, when comparing these positions to the other sub-group of Project Engineering, the percentage of indirect charges are not similar, in fact, they are opposite. For example, in the Other Construction sub-group, the EPST III and Temp EIT I charge primarily to indirect, but these same positions in Project Engineering charge primarily to direct.

In order for management to determine if labor hours charged are appropriate, they need to view the nature of the work being performed by each work unit.

**Region 3 Program Engineer:**

Region 3 had two Program Engineers and two Program Assistants for fiscal year 2012. All four of these employees charged 100 percent of their time to the indirect cost pool.

**Region 3 Traffic and Safety:**

This sub-group includes seven organizational units. Only one of those units, "Grd Jct Traffic/Safety Project Engineer 1" charged time to the indirect cost pool. A table of how each position in the Traffic and Safety sub-group charged their time for fiscal year 2012 is provided below:

<b>CDOT Audit - Indirect Charges</b>		
<b>Percentage of Hours Charged by Position for Traffic and Safety</b>		
<b>Region 3 - Fiscal Year 2012</b>		
Position	Direct	Indirect
EIT III, Traffic		27.66%
PE I, Traffic	10.82%	21.99%
PE II, Traffic		11.76%

Source: Audit analysis of SAP data

**Region 3 Right of Way:**

The Right of Way sub-group includes acquisitions and relocations as well as surveying of right of way. A table of how each position in this sub-group charged their time for fiscal year 2012 is provided below:

<b>CDOT Audit - Indirect Charges</b>		
<b>Percentage of Hours Charged by Position for Right of Way</b>		
<b>Region 3 - Fiscal Year 2012</b>		
Position	Direct	Indirect
Admin Asst III	5.96%	94.04%
G Prof II, ROW	27.96%	72.04%
G Prof IV, Appraiser	17.38%	82.62%
G Prof V, ROW		100.00%
G Prof VII, ROW Mgr		100.00%
Land Survey Intern II	48.13%	51.87%
Prof Land Surveyor I	61.22%	38.10%
Prof Land Surveyor II	20.25%	79.00%

Source: Audit analysis of SAP data

The Professional Land Surveyor I is the only position in this group that charges primarily to the direct cost center.

**Region 3 Program Support:**

Region 3 has seven organizational units within the Personnel Subarea “Program Support”. Each of these units only has one to two employees with the exception of Planning and Environmental with six employees. As the name implies, this is primarily a support function and the majority of hours are charged to indirect, which appears reasonable.

**Headquarters Analysis**

The two areas reviewed for this report are Program Support and Project Support. Headquarters also includes the Personnel Subarea “Maintenance Support”, which is not included in the scope of this review.

**Headquarters Program Support:**

There are 65 organizational units in the Headquarters Program Support Personnel Subarea. The Audit Division determined ten sub-groupings of these organizational units. These are judgmental determinations based on the titles of the organizational units and the Audit Divisions understanding of the CDOT organization. The ten sub-groups and their related percentages of charges are as follows:

<b>CDOT Audit - Indirect Charges</b> <b>Allocation of Hours Charged for Program Support</b> <b>Headquarters - Fiscal Year 2012</b>			
Description	# of emp.	% Direct	% Indirect
Division of Audit	12		26.92%
Division of Accounting and Finance	58		31.59%
Division of Human Resources and Administration	126	3.49%	15.43%
Office of Traffic and Safety	7		7.83%
Office of Public Relations	14	15.41%	20.44%

Source: Audit analysis of SAP data

The divisions within Program Support charge more to indirect than to direct, with only a couple divisions charging directly to projects.

**Headquarters Project Support:**

There are 115 organizational units in the Headquarters Project Support Personnel Subarea. The Audit Division determined ten sub-groupings of these organizational units. These are judgmental determinations based on the titles of the organizational units and the Audit Division’s understanding of the CDOT organization. The ten sub-groups and their related percentages of charges to are as follows:

<b>CDOT Audit - Indirect Charges</b> <b>Allocation of Hours Charged for Program Support</b> <b>Headquarters - Fiscal Year 2012</b>			
Description	# of emp.	% Direct	% Indirect
Chief Engineer	2		12.59%
Division of Transportation Development	106	63.47%	36.51%
Division of Transit and Rail	20	52.97%	14.03%
Office of Traffic and Safety	16	57.94%	9.69%
Staff Engineer - Bridge	55	60.93%	38.59%
Staff Engineer - Business Office	9		97.60%
Staff Engineer - Contracts and Market Analysis	30	0.09%	99.57%
Staff Engineer - Materials	58	28.81%	70.90%
Staff Engineer - Project Development	27	0.04%	94.86%
Staff Engineer - Traffic and Safety	28	5.93%	94.01%

Source: Audit analysis of SAP data

This chart reflects that just under half the divisions in this group charge more directly to projects than to the indirect cost center.

**DATE:** June 18, 2014  
**TO:** Kyle Lester, CDOT Director of Highway Maintenance  
**FROM:** Trent Josten, Audit Supervisor  
**SUBJECT:** Fuel Card Audit (Audit No. 14-020)

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**Purpose of Review**

The purpose of our audit is to determine whether the Colorado Department of Transportation's (CDOT) Maintenance and Operations Branch (M&O) has sufficient processes in place to detect suspicious fuel card activity and prevent fraudulent transactions.

After discussions with management and due to the various functions and complexity of the fuel card program, we will perform this audit in four separate phases. This phased approach will provide the most benefit to CDOT because we will provide more timely recommendations and management will be able to implement recommendations as we continue to audit additional areas. At the completion of each phase, we will issue a memo to M&O identifying areas to improve and recommendations for the branch. The four separate phases will audit internal controls in the following areas:

1. Exception reports;
2. Fuel PINs;
3. Fuel cards; and
4. Reconciliation processes over fuel purchases.

After all phases are complete, a final audit report will be issued containing the results, M&O's responses and the implementation status of the recommendations from the previous phases. This final report will be presented to the Transportation Commission's Audit Review Committee. We will complete each phase over the next four quarters with a final report issued April 2015.

This audit began during CDOT's recent reorganization of management. As part of this reorganization, the fuel program moved from under the Chief Engineer to the Director of Highway Maintenance. As a result, the responsibility of any recommendations will transition from Scott McDaniel to Kyle Lester.

## **Background**

A large fraud involving CDOT fuel purchases occurred in 2010. The fraud included a CDOT employee and two others who stole in excess of \$450,000 of fuel. The CDOT Audit Division conducted audits over the use of fuel cards in the Regions and six CDOT Divisions at headquarters. Reports for these audits were released in April 2012. Our current audit will follow up on recommendations made from those reports and determine if CDOT has adequate internal controls over the use of its fuel cards.

As a result of the fraud and the audit reports issued, CDOT agreed to implement new controls to improve the monitoring of fuel card purchases, approved a new policy directive and procedural directive in February 2013, and revised the CDOT Fuel Card Usage and Reporting Standard Operating Guide (Fuel Guide).

Fuel monitoring is the responsibility of M&O. The M&O currently has a full time Fuel Coordinator to oversee all of CDOT's fuel purchases (referred to as the "CDOT Fuel Coordinator" in subsequent reports). Each Region and Division of CDOT also has multiple Fuel Coordinators to oversee fuel purchases in their respective areas. Management stated that the intent of revising the Fuel Guide was to define:

- Responsibilities for the M&O Fuel Coordinator as well as the Fuel Coordinators.
- Define processes for fuel reconciliations, issuance of fuel cards and PINs.
- Define the use of the Wright Express (WEX) system including exception reporting.

Since implementation of the new procedures, M&O reported that they have detected several improper fuel transactions. In all of these instances, the employee involved received a corrective or disciplinary action.

C: Scot Cuthbertson, Deputy Director, Chief Operating Officer  
Scott McDaniel, Acting Chief Engineer  
David Wieder, CDOT Maintenance and Operations Branch Manager  
Roy Smith, Maintenance and Operations Fleet Manager  
Aeron Beck, CDOT Fuel Coordinator

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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  
Daniel Pia  
Dawn Olson

AREA OF REVIEW:

## Flood – Incident Command Center (ICC)

**Report Date: June 4, 2014**

**Audit No: 14-016**

Distribution List:

Don Hunt, Executive Director  
Johnny Olson, Incident Commander  
Scott Richrath, Chief Financial Officer  
Scott Young, ICC Admin and Finance Chief

## **EXECUTIVE SUMMARY**

### **Flood – Incident Command Center (ICC)**

#### **Purpose of Review**

Our primary objectives were to assist CDOT in maximizing its federal reimbursement and provide assurance to CDOT Management that the procedures established by CDOT and /or the Incident Command Center were being followed.

#### **Background and Audit Objectives**

The 2013 Colorado floods began on September 9, 2013, and Governor John Hickenlooper declared a disaster emergency. President Barack Obama declared a state of emergency authorizing federal search and rescue teams, as well as supplies such as food, water, cots, generators, and emergency flood control measures. The CDOT Executive Director established the infrastructure recovery force (IR Force) as a single point of focus and coordination for flood recover operations. Our audit objectives include:

1. General Understanding of the Reimbursement Process –Conduct a gap analysis of what the reimbursement cycle should be and the current processes in place.
2. Limited Invoice Review – Select and test a sample of invoices for compliance with policies and procedures.
3. Data Management Plan – Review for consistency and completeness.
4. Fraud Procedures –Follow current procedures in place to investigate and report fraud
5. Detailed Damage Inspection Report – Review the process in place to create DDIRs.

#### **Conclusions and Recommendations**

We determined that the controls around the payment of invoices at the ICC during our review period are working effectively. We have also submitted a management letter to CDOT governance. In addition to the items submitted on the management letter, we will consider the following areas while conducting our work in the planning phase of our next flood audit.

- Ensuring invoices are properly supported, confirming that all flood invoices are reviewed by the force account group, and flood related expenditures are properly recorded as such.
- Addressing the fraud risk throughout the audit process.
- Testing the accuracy and completeness of the DMP.
- Testing of the DDIRs.

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## **I. Purpose of Review**

Our primary objectives were to assist CDOT in maximizing its federal reimbursement and provide assurance to CDOT Management that the procedures established by CDOT and /or the Incident Command Center were being followed.

## **II. Background**

The 2013 Colorado floods began on September 9, 2013. Governor John Hickenlooper declared a disaster emergency for the following counties: Adams, Arapahoe, Broomfield, Boulder, Chaffee, Clear Creek, Crowley, Denver, El Paso, Fremont, Gilpin, Jefferson, Lake, Larimer, Lincoln, Logan, Morgan, Otero, Park, Pueblo, Prowers, Sedgwick, Washington and Weld.

On September 12, 2013, President Barack Obama declared a state of emergency authorizing federal search and rescue teams, as well as supplies such as food, water, cots, generators, and emergency flood control measures. President Obama also declared a major disaster specifically for Boulder County. This additional declaration authorized federal recovery assistance such as temporary housing, home repairs, and low-cost loans.

On September 19, 2013, Governor Hickenlooper and CDOT Executive Director Hunt established an infrastructure recovery force (IR Force) as a single point of focus and coordination in rebuilding Colorado's flood-damaged roads and bridges. On September 24, the Incident Command Center (ICC) set up its operations in Loveland, Colorado to manage the flood efforts. The ICC performed the following activities, related to the flood disaster: review force account requirements for all the emergency repair invoices, review and approve invoices and supporting documents, and process payments for all emergency repair invoices. Additionally, the ICC coordinates responses, ensures stakeholders have accurate data, and ensures projects are coordinated with the Federal Highway Administration (FHWA) and the Federal Emergency Management Agency (FEMA) to ensure full reimbursements. The ICC organizational structure is included as appendix C.

The ICC provided CDOT management with a weekly report called the "Weekly Situation Report" that relays information such as critical issues by area, expenditures versus encumbrances, details on construction projects, FEMA, FHWA and local agency updates for each division of the ICC.

## **III. Scope and Objectives**

The scope of our review was on the Incident Command Center and the work completed on the emergency flood work for the period September 16, 2013 through January 17, 2013. Based on the level of risk of noncompliance and the potential for errors that could decrease federal reimbursement, we identified the following areas to review and established objectives for those areas.

1. General Understanding of the Reimbursement Process –Conduct a gap analysis of what the reimbursement cycle should be (from the flood event to actual reimbursement) and the current processes in place.
2. Limited Invoice Review – Select and test a sample of invoices for compliance with policies and procedures.
3. Data Management Plan – Review the progress of this plan for consistency and completeness.
4. Fraud Procedures –Follow current procedures in place to investigate and report incidents of fraud if and when they are reported.
5. Detailed Damage Inspection Report – Review the process currently in place to create these documents.

#### **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 Incident Command Center (ICC), Regions and Headquarters (HQ); reviewing manuals; and contacting other states regarding disaster recovery procedures. We also met with the Vermont Department of Transportation to get their insight as to audit’s role and the risks they experienced with Hurricane Irene.

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

We did not conduct 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. However, the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### **VI. Audit Results**

##### **1. General Understanding of the Reimbursement Process**

In order to gain an understanding of the reimbursement process we began by attending meetings and interviewing personnel from the ICC areas/division of CDOT (Headquarters and Regions), as well as consultants assisting on the flood efforts. We also met with the representatives for Federal Highway Administration (FHWA) and Federal Emergency Management Agency (FEMA) to ascertain information regarding federal regulations on emergency relief. As a result of the above procedures, we identified and documented processes involved in the reimbursement process from its inception of awarding a contract until the federal reimbursement is received (See appendix A).

##### **Method of Construction**

Highway projects are awarded to construction contractors in an open, competitive bidding process. At times, however, work on a transportation construction project is

performed by a method other than this competitive bid process. The CDOT Construction Manual, Section 120.8, discusses the processes to be used for Emergency Construction Projects. For many emergency responses, the rapid response required and the unknown details of the work will dictate that the work be done on a force account basis. Force account is a contractual method for paying for work on a "time and materials" basis. The use of the force account is permitted for emergency work, as in the case of the Colorado's flood emergency.

The following chart shows a comparison of the competitive low bid process versus the force account process (non-competitive bid):

<b>Competitive Low Bid Method</b>	<b>Force Account Method</b>
Competitive Bidding Requirements.	Competitive Bidding Requirements are <b>waived</b> by FHWA.
<b>No additional approval</b> from FHWA is required.	These projects <b>require FHWA approval</b> .
Labor, Equipment, Material and supplies are under control of <b>private contractor</b> .	Labor, Equipment, Material and supplies are under control of <b>CDOT</b> .
This is the prefer method.	This method should be used when: <ul style="list-style-type: none"> <li>• Lack of Competition</li> <li>• Unacceptable bidding</li> <li>• Cost effective during emergency situations</li> </ul>

After comparing the two methods, we understand that the usage of the force account method requires more scrutiny from FHWA and CDOT, knowing the bidding requirements are waived; and that CDOT is controlling the labor, equipment, materials and supplies.

## 2. Limited Invoice Review

Our second objective included testing a sample of invoices. As part of this process, we tested a sample of invoices for compliance with invoice payment procedures, and whether invoices were properly supported.

After interviewing key personnel at the ICC from the Administration and Finance division, we were able to identify and document the different processes involved in the payment of invoices related to the flood event (See appendix B). One of the main processes is the force account review. The review is performed by the force account review group and is located at the ICC. The group is composed mainly of sub-consultants with the oversight of the ICC Administration and Finance personnel. This group reviews all the supporting documents such as materials, rental equipment and payroll that are attached to the invoice prior to issuing the payment.

We tested a sample of invoices for compliance with invoice payment procedures, and invoices properly supported. In addition, we reviewed the ICC force account review process. According to SAP as of November 7, 2013, the ICC had paid 292 invoices

related to the flood. These payments total approximately \$5 Million. The sample of invoices was determined based on judgmental selection. We tested 11 out of 292 invoices from September 16, 2013 through November 7, 2013 totaling \$4,061,893 (80 percent of the \$5,023,020 paid to contractors). After reviewing 11 invoices, we confirmed that the payment procedures were properly followed and the invoices were properly supported.

Our procedures also included discussions with management about the importance of ensuring invoices are properly supported, confirming that all flood invoices are reviewed by the force account group, and flood related expenditures are properly recorded as such. We will follow up with management regarding these areas on the next phase of our flood audits.

### **3. Data Management Plan (DMP)**

During our audit, the ICC was in the process of creating a Data Management Plan (DMP). The purpose of the DMP is to capture how documents and data will be managed throughout the emergency response cycle and transition into the recovery and permanent construction phases. The ICC plans to achieve the following objectives, which mitigate associated risks through the implementation of the DMP:

- Provide safe storage of all documents in a project library;
- Provide clarity regarding which version of a document and/or deliverable is the latest version;
- Provide a record of approved deliverables over the life of the project;
- Provide measures to maintain restricted access to confidential documents;
- Provide an accurate and complete archive of project documents to the organization at the end of the project; and
- Provide assurance that complete data is maintained throughout project closeout.

The DMP also establishes the applicability of the plan as follows:

- The collection of data;
- The quality assurance and quality control of data;
- The storage and safeguarding of data; and
- The analysis and dissemination of data.

We attended the ICC organized weekly meetings around the status and progress of the different areas of the DMP. In addition to these meeting, we interviewed personnel in the ICC Planning division and in the Division of Transportation Development to obtain a better understanding of the DMP. Based on these procedures, we were able to confirm that the DMP objectives cover essential areas regarding document retention. Some of those areas include: secure repository, version tracking, quality assurance / control of data as well as accurate and complete projects documents.

We agreed with management that maintaining an organized and detailed system is instrumental to maximize the federal reimbursement. At the time of our review

management was in the process of developing the DMP. We will follow up with management regarding this area on the next phase of our flood audits.

#### **4. Fraud**

The Government Auditing Standards require us to look for fraud risk throughout the entire audit process. 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.

The flood disaster poses a higher risk for fraud because of several factors. Some of these factors include the use of emergency procurement procedures, the complexity of the force account process, the need to move quickly on rebuilding roads and bridges to safe conditions, the amount of work involved, the number of projects being completed at one time, and the volume and the dollar amount of transactions. During the next phase of our flood audit, we will continue to communicate with management the reasons as to why fraud awareness is important, and we will address the fraud risk throughout the audit process.

#### **5. Detail Damage Inspection Report (DDIR)**

The ICC uses Detail Damage Inspection Reports (DDIR). This is also referred to as Form 1547 that documents the eligible damage and emergency relief cost estimates. The DDIR is a brief, but inclusive, description of the scope of work needed and estimated costs to complete the work. In most cases, one DDIR is written per disaster site. It is a preliminary cost estimate used as a determination of eligibility for reimbursement.

Based on the Federal Highway Administration (FHWA), the DDIR must include:

- The Federal-Aid Highway, specific location;
- The nature and extent of the damage;
- The affected county;
- Estimates for both the emergency repair and the permanent repair;
- An environmental determination by the National Environmental Policy Act;
- The identified method(s) of work;
- The cost and quantity estimates;
- FHWA and State recommendations;
- State and Local Agency concurrence;
- Photos and sketches of the site;
- Cost summaries; and
- Maps, investigative reports and FHWA approvals.

The DDIRs are instrumental in the reimbursement process. We will include the testing of the DDIRs on the next phase of our flood audit. As of January 15, 2014, the ICC prepared 49 DDIRs for emergency repair projects.

## **VII. Conclusion**

We determined that the controls around the payment of invoices at the ICC during our review period are working effectively. We have also submitted a management representation letter to CDOT governance. In addition to the items submitted on the management representation letter, we will consider the following areas while conducting our work in the planning phase of our next flood audit.

- Ensuring invoices are properly supported, confirming that all flood invoices are reviewed by the force account group, and flood related expenditures are properly recorded as such.
- Addressing the fraud risk throughout the audit process.
- Testing the accuracy and completeness of the DMP
- Testing of the DDIRs

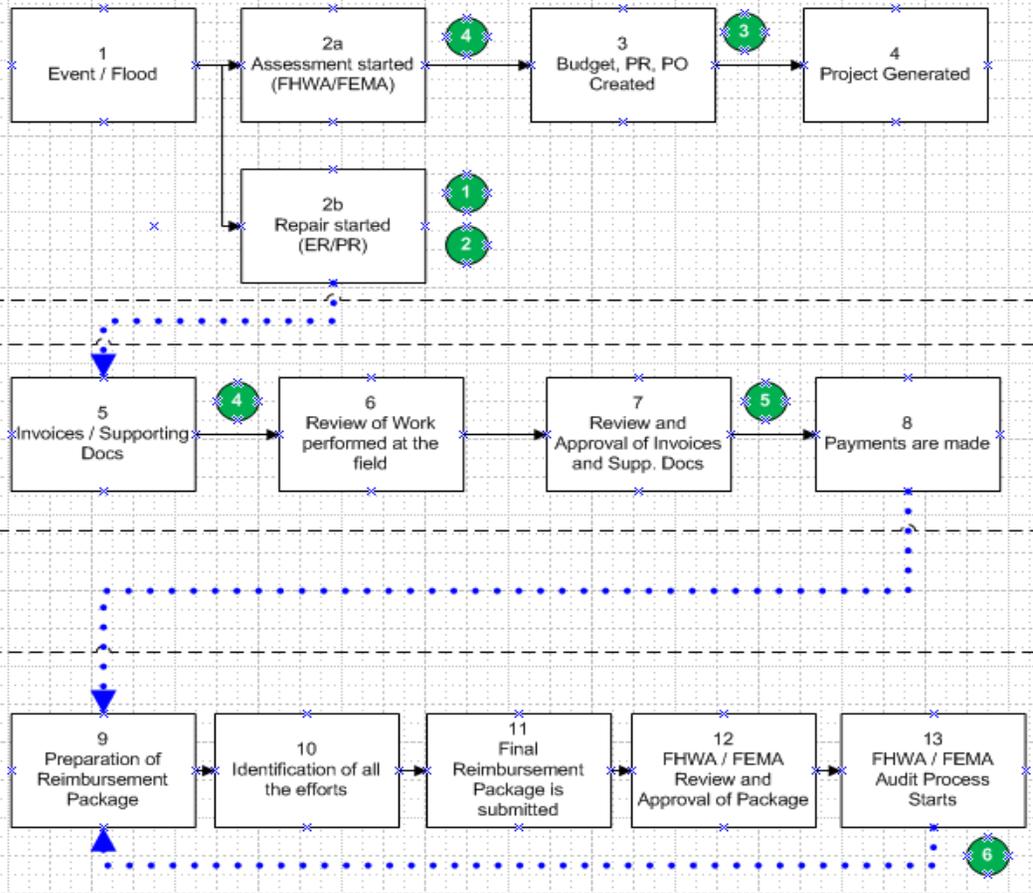
We would like to thank ICC Commander, ICC Director of Accounting & Finance Chief, and CDOT personnel involved on the flood recovery efforts (ICC, HQ, Regions) as well as any consultants for their cooperation and for providing us with an understanding on the different flood aspects.

Approved: \_\_\_\_\_  
Barbara J. Gold, CPA, CISA, Audit Division Director

# APPENDIX

## Flood Reimbursement Process

## Procedures / Controls



### Procedures

- 1) The event was declared on 9/11/2013
- 2a) Assessment started, 1547 (FHWA) and work sheets (FEMA) are developed. FHWA and FEMA approval.
- 2b) Emergency Repair started with Force Account and Permanent Repair will follow with a normal construction bidding process.
- 3) Once the initial 1547 / Work Sheet were created this will trigger the creation of the budget within SAP.
- 4) The creation of the budget will be followed by the creation within SAP of the projects by sub account numbers and cost centers.
- 5) Construction Companies submit invoices with complete and accurate supporting documents.
- 6) Project Engineers (PE) and Resident Engineers (RE) review and approve the supporting documents.
- 7) The Force Account Group within the ICC performs a review of the supporting documents. This group was created for the flood emergency.
- 8) The A/P area of the ICC/HQ/Regions review / approve for payment.
- 9) All the supporting documents should be uploaded to the Data Management System.
- 10) CDOT (Finance, FHWA, FEMA, etc.) will review, identify the different type of expenditures (ER/PR) and prepare a reimbursement package.
- 11) The Reimbursement package is submitted to FHWA/FEMA.
- 12) FHWA/FEMA review and approve the package. CDOT receives reimbursement.
- 13) FHWA/FEMA starts an Audit Process on the supporting documents of the expenditures submitted for reimbursement.

### Controls

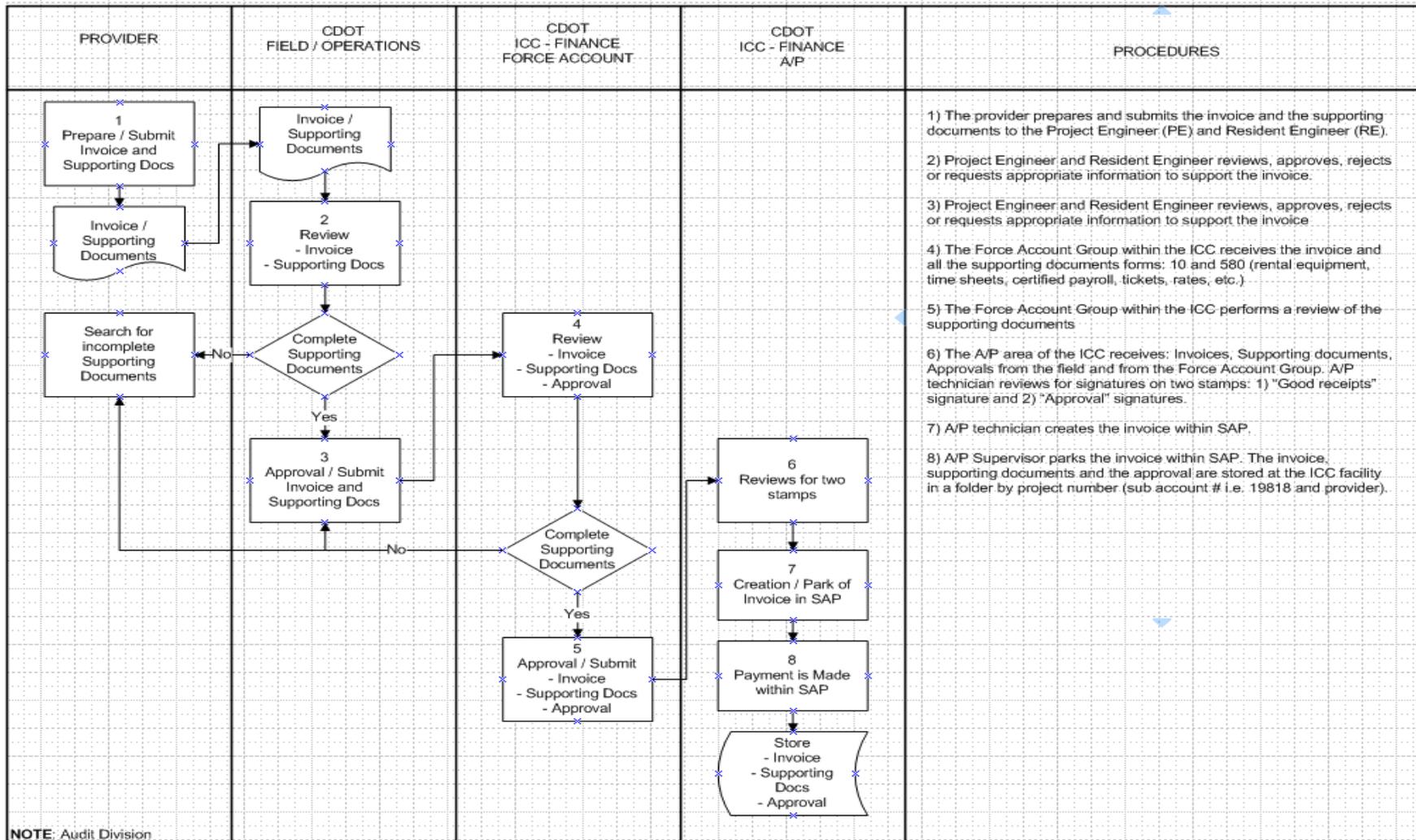
- 1) Emergency Repair, Procurement procedures (Waiver, Force Account, PE etc.)
- 2) Permanent Repair, Procurement procedures, PE, RE review, normal bidding process, site manager, etc.)
- 3) CDOT OFMB
- 4) Review and Approval of 1547 / work sheets
- 5) Review and Approval of Invoices and supporting documents prior payments.
- 6) Audit Process from FHWA / FEMA

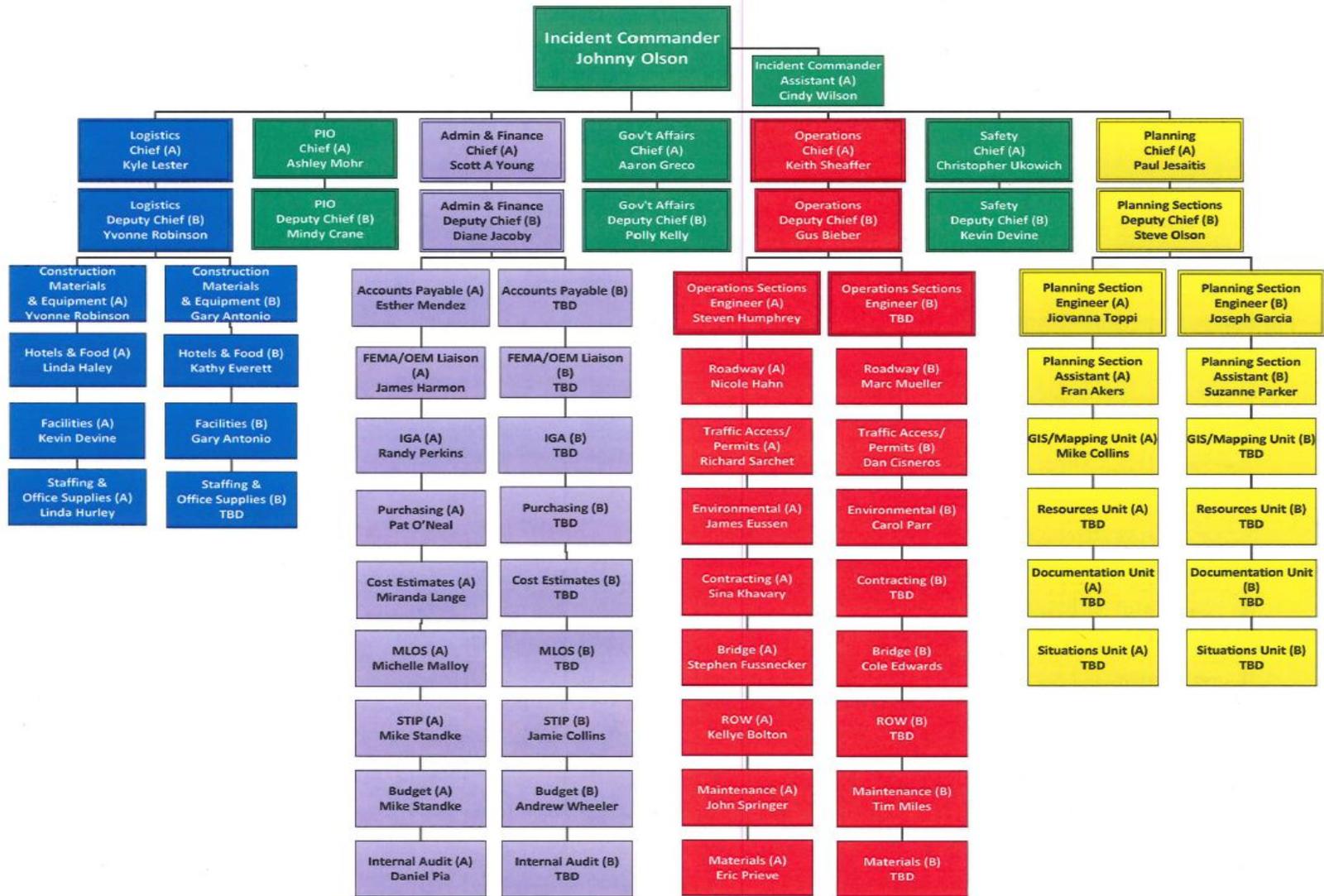
### CDOT Audit Division- Control Reviews:

- General Understanding of the Project
- Construction Projects – Limited Invoice Review
- Data Management Plan
- Potential Fraud / 1547 Process

NOTE: Audit Division

**Colorado Department of Transportation  
ICC – Payment Process  
Audit Division**





## **Audit Work in Progress Summaries**

### Division of Transit and Rail's Processes and Reporting Over FASTER Funds – Review

The Audit Division is reviewing the Division of Transit and Rail's (DTR) internal processes and reporting capabilities to assist DTR in being more accountable over their FASTER Transit grant program. This will include a review of current policies and procedures over the program, as well as the current reports the Division utilizes. We will also research additional SAP reports that may be available to meet DTR's needs. The expected completion date for this review is July 2014.

### Requirements of CDOT Boards - Audit

The boards within the scope of this audit are the Transportation Commission, High Performance Transportation Enterprise (HPTE), Colorado Bridge Enterprise (CBE), and the Aeronautics Board. We will be auditing the Board's compliance with the Open Meetings Law for meetings, held between January 1, 2013 and April 30, 2014. We are in the fieldwork phase and expect to have the audit completed by the end of July 2014.

### Prequalification Audit Program

CDOT developed new Pre-Qualification procedures for Architect and Engineering (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 the Contracts section will have a pre-qualified list of applicants prior to awarding contracts. Having a prequalified list increases the efficiency of the award process.

### A-133 Single Audit Reviews

Entities that receive more than \$500,000 in federal grant monies from CDOT are required to submit, annually, an Audit Compliance Certification Form and a copy of their single audit. The Audit Division reviews the report and form for exceptions on programs impacting CDOT. We send letters in July to sub-recipients requesting copies of the single audit, if applicable, and a completed Audit Compliance Certification Form. Upon receipt of the reports and form, we perform our review and upload the results for CDOT management. The bulk of our audit work is performed October – March. The table below reflects the number of sub-recipient reviews we completed for 2012 and the expected number of reviews we anticipate completing for 2013.

	<b>A-133 2012</b>	<b>A-133 2013</b>	<b>Comments</b>
<b># of Sub-recipients</b>	286	329 (*)	During 2014 we are combining 3 reports to more accurately capture the entire sub-recipient population.
<b># of Reviews completed</b>	286	1	N/A

## Consultant Reviews

Audit provides an essential service to management in contract processing and protects the public interest by providing assurance that costs submitted by the A/E are properly supported and reasonable. Audit conducts financial and compliance audits of the professional service firms who participate in CDOT programs. These audits provide assurance that the professional service firms use State and Federal funds in compliance with applicable laws, rules and regulations and in accordance with the specific contract terms. Audits are conducted in accordance with Generally Accepted Government Auditing Standards issued by the United States General Accounting Office (GAO) to determine if reasonable assurance exists that consultants are compensated for services at fair and reasonable amounts pursuant to compliance requirements. The work includes, at the minimum, the analysis of various financial records, Internal Control questionnaires, accounting systems, tax returns, payroll summaries, etc.

We conduct audits by furnishing analysis, appraisals and recommendations to the Contracts section. We examine and evaluate the adequacy and effectiveness of the organization's system of internal control to make certain the firm is able to capture all of its expenses and if they have a system in place to determine which expenses are not allowable. The reviews can be and often are quite lengthy. As previously reported in our Audit Metrics we conducted 38 audits of "Prime Consultants" which also included an additional review of 162 "subconsultants."

Audit performs various types of reviews under the Consultant program, currently we are focusing on the pre-qualification program. The Pre-qualification program reviews are performed to determine if consulting engineers proposing to provide services to the Department maintain accounting systems, which are adequate to support billings under cost reimbursement type agreements and to establish a fair and equitable indirect cost rate for billing purposes. With the development of the Prequalification program, we are starting to collect data to identify and address the risks present in this program so we can make improvements to our procedures to help mitigate the risk to CDOT. In our next ARC report, we will include statistics of this program.

## Indirect Cost Rate Reviews

It is CDOT's responsibility to monitor the activities of local governments and non-profit entities as necessary to ensure that awards are used for authorized purposes and in compliance with Federal regulations. As part of this responsibility the Audit Division reviews the reasonableness of indirect cost rate proposals submitted by these entities. The table below summarizes these reviews for April-June.

<b>Entity</b>	<b>Status</b>
Transportation Solutions	Completed
Northwest Colorado Council of Governments	Completed
36 Commuting Solutions	Review
Senior Resource Development Agency	Completed
Downtown Denver Partnership	Review
Upper Arkansas Area Council of Governments	Completed
Denver Regional Council of Governments	Fieldwork

## RAMP

Beginning in July 2012, Audit has participated in RAMP discussions. These discussions began with CDOT's cash balance and the related outstanding State Auditor's recommendation. In the beginning, our participation focused included preparing graphs and charts for CDOT management, and researching trends and analysis of cash components, cash spending and reviews of how other states managed to effectively decrease their excess cash balances. During 2013 Audit officially transferred one FTE to the Staff Branches Division to focus full time on cash management and RAMP. Audit's current participation is at the Governance level with the focus on RAMP.

## Governance, Risk and Compliance (GRC) Implementation

The primary purpose of adding the GRC module to SAP is to improve and automate segregation of duties in developing our access roles with in SAP. The Audit Division participated in Phase I of the GRC implementation to understand the impact this module will have in SAP and how the system will improve user access management. We did not participate in Phase II of the GRC implementation because CDOT hired a consultant for the implementation. We will continue to cooperate with CDOT in Phase III of the GRC implementation.

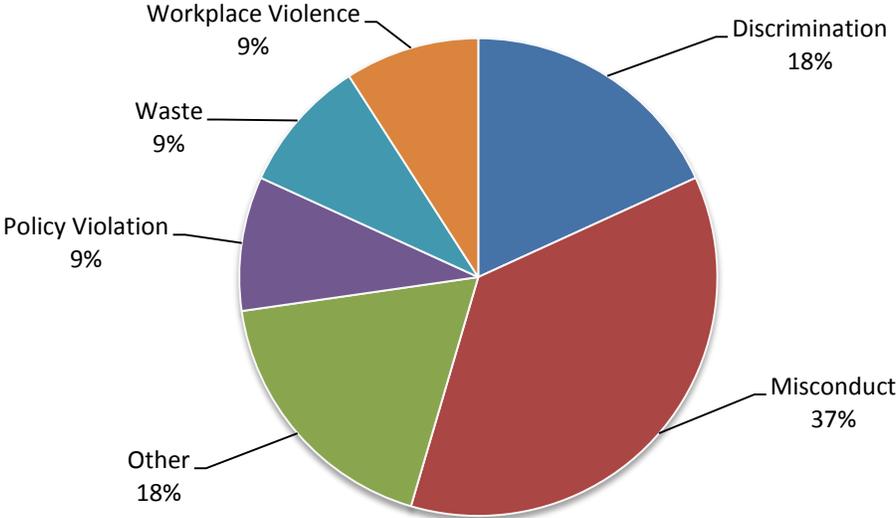
	Recommendations 7/1/12-6/30/13	Recommendations 7/1/13-6/30/14	Outstanding Recommendations 6/30/2014
Office of the State Auditor (OSA)	4	-	3
Federal Auditors (FHWA/FTA)	10	-	4
CDOT Internal Audit (CDOT)	9	5	12
<b>Total Recommendations Issued</b>	<b>23</b>	<b>5</b>	<b>19</b>

#	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.	Chief Engineer	July/November 2014*
2	OSA	3b. Review the fee schedule for outdoor advertising permit applications and renewals.	Chief Engineer	November 2014*
3	OSA	<b>SAP Information Technology</b> – (3b) Ensure that the disaster recovery plan includes all components required by State Cyber Security Policies.	OIT	August 2014*
4	CDOT	<b>Document Retention</b> - Update Procedural Directives for proper record retention.	DTD	August 2014
5	CDOT	<b>Payment Card Security</b> – 3b-Scan the web application for SQL injection and XSS threats.	OIT	September 2014
6	CDOT	<b>SAP Basis Security</b> – (3) Work with OIT and the Business Process Architect to create policy and procedures for reviewing SAP log data.	OIT	December 2014
7	CDOT	Work with OIT and (5a) review administrator accounts assignment for appropriateness ; Work with OIT and (5b) set up domain subgroup and reassign domain administrators accordingly. (5c) Set up different authentication groups.	OIT	December 2014
8	CDOT	<b>Intelligent Transportation System</b> – (1b) Reconfigure the network to allow only authorized traffic.	OIT	September 2014
9	CDOT	<b>Overpayment of Contract Funds</b> – (2) CDOT Project Development should develop controls related to local agency billing reimbursements	Chief Engineer	July 2012
10	CDOT	(3) 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	July 2014

#	Auditor	Recommendation	Area	Planned Implementation
11	CDOT	(4) 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	July 2014
12	CDOT	<b>Right of Way Leases and Disposals</b> – 2c. Ensure all files are accounted for and maintained.	Director of Administrative Services	July 2014
13	CDOT	3a – Revise Chapter 7 of the ROW Manual to include review criteria for leases and disposals. 3b-Implement a segregation of duties between the lease creator and those that enter the lease conditions into SAP	Director of Administrative Services	July 2014
14	CDOT	4b- Reconcile all disposals to SAP	Director of Administrative Services	July 2014
15	CDOT	(5) 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. (DRAFT PD Completed May 2014)	Director of Administrative Services	July 2014
16	FTA	<b>Title VI Compliance Review</b> – (2) Language Access to LEP Persons: Insufficient Oversight	Director of Administrative Services	August 2014
17	FTA	(3) Title VI Complaint Procedures: Insufficient Oversight	Director of Administrative Services	December 2014
18	FTA	(9) Statewide Planning Activities: No existing basis for Title VI Certification	Director of Administrative Services	June 2014
19	FTA	(10) Program Administration: No record of funding requests maintained	Director of Administrative Services	August 2013

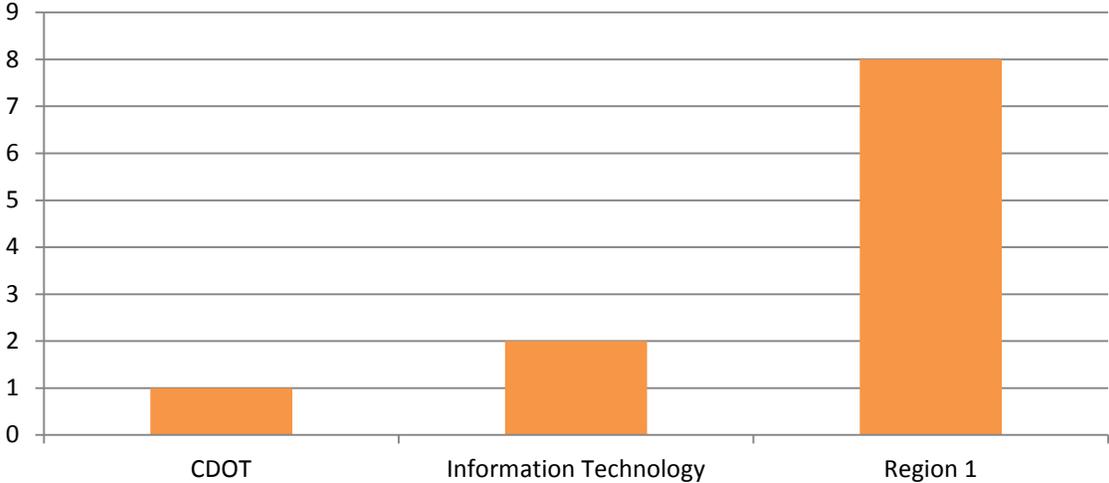
*\*Implementation dates revised from the original planned implementation dates as stated in the OSA Audit Report.*

**CDOT Audit Division  
11 Hotline Incidents by Type  
April 1, 2014-June 30, 2014**



Source: Hotline Data obtained by Audit Division

**CDOT Audit Division  
11 Hotline Incidents as Reported by Location  
April 1, 2014-June 30, 2014**



Source: Hotline Data obtained by Audit Division

**Colorado Department of Transportation  
Audit Division  
Annual Independence Statement**

**INDEPENDENCE GENERAL STANDARD:** *In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent. Independence comprises independence of mind and independence in appearance (GAGAS 3.02 and 3.03).*

The internal audit activity is free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

I confirm that the Auditor(s) and Audit Management are free of personal and external impairments to independence as prescribed by GAGAS 3.02 through 3.59, IIA Standards 1100 and AICPA standards AU 220.

  
\_\_\_\_\_  
Audit Director

4-17-14  
\_\_\_\_\_  
Date

## **I. Audit Division Charter**

### **INTRODUCTION:**

Internal auditing is an independent and objective assurance and consulting activity guided by a philosophy of adding value to improve the operations of the Colorado Department of Transportation (CDOT). It assists CDOT in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal controls.

### **ROLE:**

The Audit Division is an independent appraisal function within CDOT that examines and evaluates agency activities as a service to management, the Audit Review Committee, and the Transportation Commission.

### **PROFESSIONALISM:**

The Audit Division governs itself by adherence to the Government Accountability Office's guidance of Generally Accepted Government Auditing Standards (GAGAS). This guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

In addition, the Audit Division's activity adheres to CDOT relevant policies and procedures and the Audit Division's audit manual.

### **AUTHORITY:**

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of CDOT records, physical properties, and personnel pertinent to carrying out any engagement. The internal audit activity will also have free and unrestricted access to the ARC.

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

### **ORGANIZATION:**

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.

The Director of the Audit Division will report functionally to the ARC and administratively (i.e. day to day operations) to the Executive Director.

The ARC will:

- Approve the Audit Division Charter.
- Approve the risk based audit plan.
- Receive communications from the Director of the Audit Division on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Director of the Audit Division.
- Approve the remuneration of the Director of the Audit Division.
- Make appropriate inquiries of management and the Director of the Audit Division to determine whether there is inappropriate scope or resource limitations.

The Director of the Audit Division will communicate and interact directly with the ARC, including in executive sessions when warranted and between ARC meetings as appropriate.

#### **INDEPENDENCE AND OBJECTIVITY:**

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Director of the Audit Division will confirm to the ARC, at least annually, the organizational independence of the internal audit activity.

#### **RESPONSIBILITY:**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

1. Review organizations and functions within the Department at appropriate intervals to determine whether they are efficiently and effectively carrying out their functions of planning, organizing, directing, and controlling in accordance with management instructions, policies, and procedures, and in a manner that is in agreement with both department objectives and high standards of administrative practice.
2. Determine the adequacy and effectiveness of the Department's systems of internal accounting and operating controls.
3. Evaluating risk exposure relating to achievement of the organization's strategic objectives.
4. Monitoring and evaluating governance processes.
5. Monitoring and evaluating the effectiveness of the organization's risk management processes.
6. Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
7. Review the reliability and integrity of financial information and the means used to identify, measure, classify, and report such information.
8. Review the established systems to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and determine whether the organization is in compliance. Suggest policy where required.
9. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
10. Evaluate the effectiveness and efficiency with which resources are employed, identify opportunities to improve operating performance, and recommend solutions to problems where appropriate.
11. Review operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
12. Coordinate audit efforts with those of auditors outside of the Department as required.
13. Participate in an advisory or consultant role in the planning, design, development, implementation, and operation of major computer-based systems to determine whether:

- a. Adequate controls are incorporated in the systems;
  - b. Thorough system testing is performed at appropriate stages;
  - c. System documentation is complete and accurate; and
  - d. The needs of user organizations are met.
14. Review compliance with the State's and the Department's guidelines for ethical conduct and see that the highest standards of personal and government performance are met.
  15. Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
  16. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the ARC or management.
  17. Provide investigative services for the Transportation Commission or CDOT management related to allegations of fraud, waste, abuse, or employee misconduct.
  18. Perform External audits on persons/firms entering into contracts with CDOT.
  19. Perform post audits of contracts for completed work as deemed appropriate.
  20. Provide audit services in support of requirements external to the CDOT as approved by CDOT management or the Transportation Commission.

**AUDIT PLAN:**

At least annually, the Director of the Audit Division will submit to senior management and the ARC an audit plan for review and approval. The audit plan will consist of a work schedule as well as budget and resource requirements for the next performance year. The Director of the Audit Division will communicate the impact of resource limitations and significant interim changes to senior management and the ARC.

The audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management, the Federal Highway Administration, and the ARC. The Director of the Audit Division will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved audit plan will be communicated to senior management and the ARC through periodic activity reports.

**REPORTING AND MONITORING:**

A written report will be prepared and issued by the Director of the Audit Division or designee following the conclusion of each internal audit engagement and will be

distributed as appropriate. Internal audit results will also be communicated to the ARC.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Auditors will evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the corrective action is considered unsatisfactory, they will hold further discussions to achieve acceptable disposition.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All findings will remain open until implemented.

The Director of the Audit Division will periodically report to senior management and the ARC on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the ARC.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:**

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with GAGAS. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of the Audit Division will communicate to senior management and the ARC on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years.

Approved \_\_\_\_\_ Date \_\_\_\_\_

Gary Reiff  
Audit Review Committee Chairman

\_\_\_\_\_ Date \_\_\_\_\_

Barbara J. Gold  
Audit Division Director