



DATE: March 4, 2016
TO: Transportation Commission
FROM: Debra Perkins-Smith, Director, Division of Transportation Development
David Singer, Environmental Policy and Biological Resources Section Manager,
Environmental Programs Branch
SUBJECT: CDOT Alternate Fuels Initiatives Update

Purpose

This memo provides an overview of CDOT's ongoing efforts and accomplishments in various Alternate Fuels initiatives.

Action

Informational item.

Background

CDOT's Alternate Fuels initiatives increase our organization's efficiency and environmental stewardship. They also are consistent with the goals identified by the Greening of State Government Executive Order (EO), Colorado's Climate Plan, CDOT's Sustainability Program and the newly enacted FAST Act. The Alternate Fuels initiatives are broken into four thematic areas (fleet, stations, signs, promotion and education) to demonstrate current accomplishments and identify future actions.

Details

Fleet (CDOT)

- Currently, CDOT leases 54 Compresses Natural Gas (CNG) vehicles, 283 Ethanol 85 (E85) vehicles, and 38 Electric Vehicles (EVs) from State Fleet.

Stations (CDOT and Statewide)

- In 2015, CDOT installed 4 EV charging stations. Three are 3 located at HQ, and 1 is at Camp George West.
- As of 2016, Colorado has **31 publically accessible CNG stations**. 19 of these stations are currently open and another 12 are planned or under development.
- CDOT continues to support the Alt Fuels Colorado Program (AFC) in partnership with the Colorado Energy Office (CEO) and Regional Air Quality Council (RAQC), using \$30 million in CMAQ funding over the course of 4 years.*
 - To date, the CEO-administered station portion of AFC has awarded \$7.5 million in funding to 15 new CNG stations statewide, 3 of which have opened to the public.
 - To date, the RAQC-administered vehicle portion of the AFC has awarded \$4.5 million in funding to 253 vehicles for 26 fleets within the 11-county ozone and carbon monoxide non-attainment zone.
- National Electric Vehicle Charging and Alternative Fuel Station Corridors: Section 1413 of the FAST Act charges the U.S. Department of Transportation (DOT) with designating national plug-in electric vehicle (PEV) charging and hydrogen, propane, and natural gas fueling corridors in strategic locations along major highways by December 2016. DOT will update and re-designate the corridors every five years. The language in the bill is vague on what state DOT's role will be in the national destination. CDOT will remain engaged in the rule making process which is expected to begin this spring. It will also work internally to determine the readiness of our corridors (I25,I70) to meet this designation.



Signs (Interstate)

- Region 2: There's one station in Pueblo that is close enough to the highway to qualify for signing, and ones planned in Colorado Springs and Trinidad that will qualify for signing (the existing one in Colorado Springs is too far from the highway to sign).
- Region 3 has CNG signs for the stations in Parachute and Grand Junction.
- Region 4 has CNG signs installed on I-25 approaching Longmont.

Promotion & Education

- CDOT has produced two maps highlighting CNG fueling stations. One shows stations throughout the state while the other depicts all CNG opportunities in surrounding states.
- CDOT has partnered with the American Lung Association (ALA) to host the Ride and Drive Event in the past at HQ. In 2015, with over 80 test drives, employees became familiar with various types of alternative fuel vehicles. This year CDOT is hoping to potentially host an additional event in Colorado Springs.
- CDOT created the CNG Fueling Training Video to educate users on how to safely fuel compressed natural gas (CNG) vehicles found in the CDOT fleet. This is driven not only by CDOT's Strategic Goals, but also from the effort to meet the vehicle petroleum and greenhouse gas reduction goals established by the Greening of State Government Executive Order. Follow the link to view the video: <https://www.youtube.com/watch?v=hflFRGeHeBM&feature=youtu.be>
- Refuel Colorado Fleets - Ongoing education for statewide fleets on alternative fuels and vehicle efficiencies. Since April of 2013, Denver Metro Clean Cities (DMCC) has hosted 22 events that have attracted 1550 people from throughout the 8 county area. In addition to education and networking events, the DMCC performed 9 fleet audits that looked at an organizations entire on-road vehicle fleet to suggest alternative fuel replacements and exhibit the lifecycle operating costs of the alternative replacement versus a traditional replacement. Fleet audits were conducted for Douglas County School District, Rocky Mountain Metropolitan Airport, Adams County, Jefferson County, Jefferson County Schools, Boulder County, City of Aurora, City of Lakewood, and City and County of Denver. Because of the success of the program, the jurisdiction was expanded from three counties to 10 counties through September 2015.

*The ALT Fuels Colorado grant program is designed to remove barriers to the adoption of alternative fuel vehicles (AFVs) by addressing the lack of fueling infrastructure. The program also addresses the initial costs of AFVs by providing incentives to offset incremental costs. ALT Fuels Colorado will provide \$30 million over a 4 year period (2014 to 2017) through the Federal Highway Administration's Congestion Mitigation and Air Quality Improvement (CMAQ) program and the Colorado Department of Transportation (CDOT) to advance Colorado's adoption of alternative fuel vehicles (AFVs).

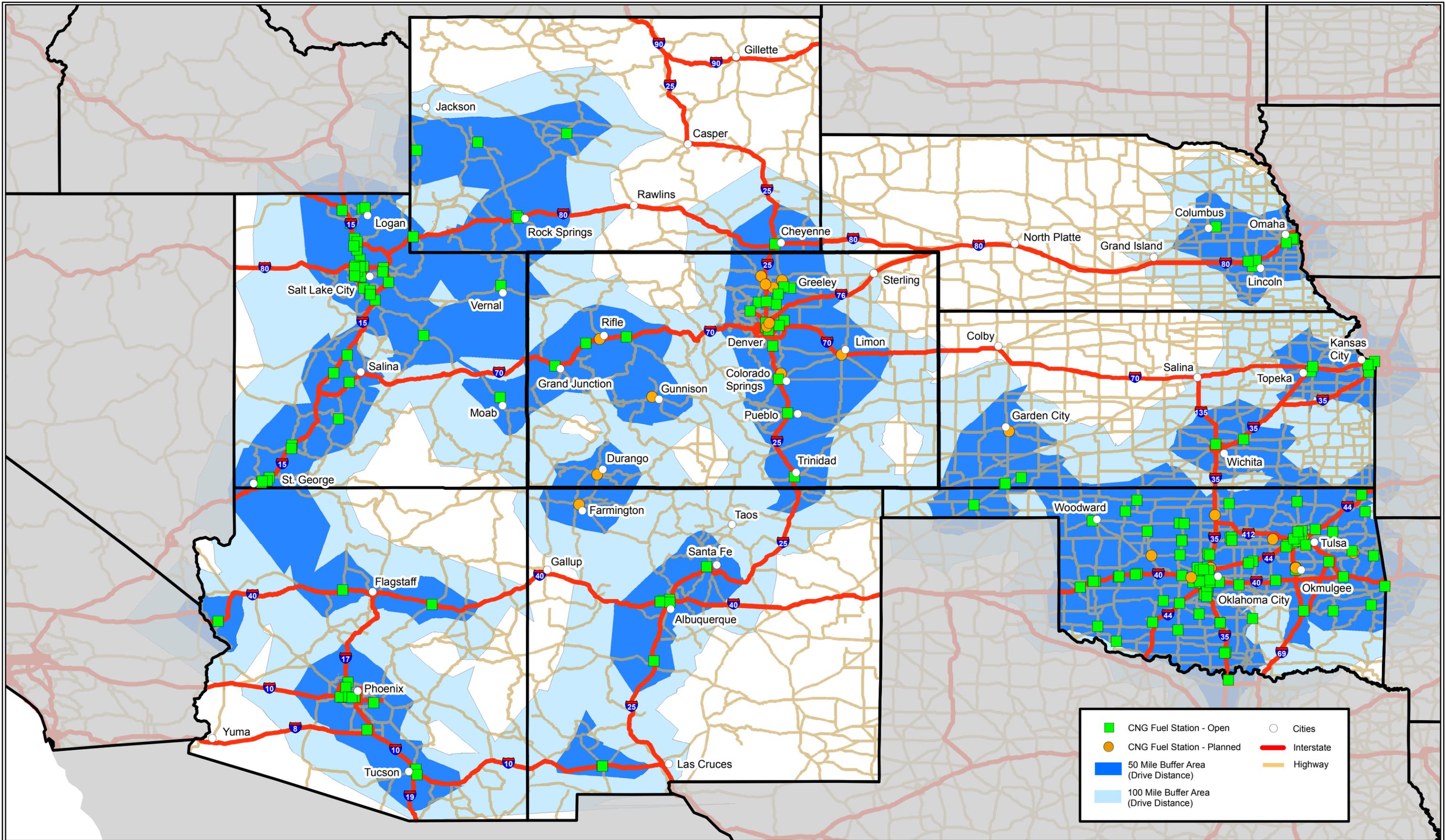
Next Steps

- As of March 3, 2016 statewide Traffic Engineers expressed a commitment to develop a "CNG FUEL ONLY" sign for the existing or planned stations within close proximity to the interstate. The main criteria required is that the CNG stations must have service available for a minimum of 12 hours per day, 7 days a week. This is a one time variance from the CDOT Guide Signing Policies and Procedures, and FHA's Manual on Uniform Traffic Control Devices (MUTCD). This adaptive solution will lead to greater awareness and promotion of CNG stations across the statewide.
- In 2016, CDOT will partner with the ALA to host the Ride and Drive Event in both Denver and Colorado Springs.

Attachments

Attachment A: Compressed Natural Gas (CNG) Fuel Stations in Colorado and Adjacent States





■ CNG Fuel Station - Open	○ Cities
● CNG Fuel Station - Planned	— Interstate
■ 50 Mile Buffer Area (Drive Distance)	— Highway
■ 100 Mile Buffer Area (Drive Distance)	

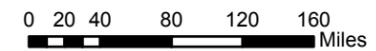
Data Sources: CDOT 2015; <http://energy.gov/maps/alternative-fueling-station-locator> (12/2015); Colorado Energy Office, Transportation Program Manager 12/2015); HERE 2015; FHWA NHPN v14.05 2015

Created: February 2016



Compressed Natural Gas (CNG) Fuel Stations In Colorado and Adjacent States

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**Colorado Transportation Commission
Audit Review Committee Agenda
Thursday, February 18, 2016
CDOT Headquarters, Auditorium
10:00 – 11:00 a.m.**

**Sidny Zink, Chair
District 8, Durango**

**Bill Thiebaut
District 10, Pueblo**

**Gary Reiff
District 3, Englewood**

**Ed Peterson
District 2, Lakewood**

All commissioners are invited to attend this Committee meeting.

1.	*	Call to Order	Verbal
2.	*	Approval of August 2015 Minutes	p 1
3.	*	Modified Audit Plan	Verbal
4.	*	Release - Hard to Fill (HTF) and Extremely Hard to Fill (HTFX) Benefits Audit	Attachment 1
5.	*	Audit Division Updates	Verbal
6.		Audit Work In Process	
		a. Patrol Inventory Audit	p 4
		b. Mobile Device Policy Advisory Services	p 4
		c. Construction Claim/Dispute Audits	p 4
		d. A-133 2014 Single Audit Reviews	p 4
		e. Indirect Cost Rate Reviews	p 5
		f. Master Pricing Agreement Reviews	p 5
		g. Sole Source Reviews	p 6
7.		Fraud Hotline Statistics	p 7
8.	*	Outstanding Audit Recommendations	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**

**August 19, 2015
4:30 p.m. to 5:00 p.m.
CDOT Headquarters Room 225**

AUDIT COMMITTEE MEMBERS PRESENT: Sidny Zink, Bill Thiebaut, Gary Reiff

ALSO PRESENT: Barbara Gold, Audit Director; James Ballard, Audit Manager; Trent Josten, Audit Supervisor; Daniel Pia, IT Auditor; Melissa Canaday, Audit Supervisor; Lisa Gibson, Program Administrator; Kyle Lester, Division of Highway Maintenance Director

AND: Other Executive Management Team members and the public.

Call to Order

ARC Chair Zink called the meeting to order on August 19, 2015 at 4:37 p.m. Chair Zink also called role and all Audit Committee members were present. The meeting was held in Room 225 at the Colorado Department of Transportation Headquarters' building.

Approval of Minutes of the June 17, 2015 ARC Meeting

Commissioner Thiebaut moved to approve the meeting minutes for June 17, 2015. Commissioner Reiff seconded the motion. The minutes were approved with no opposition. The minutes were adopted as published in the agenda.

Approval of Minutes of the July 24, 2015 ARC Meeting

Commissioner Reiff moved to approve the meeting minutes for July 24, 2015. Commissioner Thiebaut seconded the motion. The minutes were approved with no opposition and were adopted as published in the agenda.

Approval of the FY 2016 Audit Plan

Ms. Gold presented the FY 2016 audit plan and risk assessment to the Committee. Commissioner Thiebaut asked Ms. Gold if she feels the plan is overly ambitious. Ms. Gold said she felt the plan was reasonable, but maybe a bit ambitious. However, she would like to try to accomplish the plan as proposed. Commissioner Reiff asked what audits would be removed from the plan, if necessary. Kyle Lester, CDOT Division of Highway Maintenance Director, suggested the proposed Bulk Fuel audit should be removed, since improvements to the Bulk Fuel program will be made soon. Therefore, it would be more effective to review the Bulk Fuel program after the new changes are fully implemented. Chair Zink inquired about which audits on the audit plan were requested by management. Ms. Gold replied that all were at management's request and agreed that the Bulk Fuel audit could potentially be removed from the FY 2016 plan. Commissioner Thiebaut stressed that audit quality is more important than quantity. Chair Zink asked if the Audit Division works on multiple audits at one time. Ms. Gold confirmed that yes, multiple audits and services are conducted simultaneously. Commissioner Reiff moved to accept the FY 2016 Audit Plan and Commissioner Thiebaut seconded the motion. Upon vote of the Committee, the plan was passed with no opposition.

Action Item: At the next meeting, the Committee would like an update on audit progress and the audit plan.

**Colorado Transportation Commission
Audit Review Committee
MEETING MINUTES**

Other Audits and Reviews

Ms. Gold gave a brief verbal overview of the status of each external audit and review that have been recently performed by the Office of the State Auditor, Federal Transit Administration and consultants hired by CDOT. Commissioner Thiebaut said it would be helpful to have a one or two sentence summary of these audits and reviews for future ARC meetings.

Action Item: Ms. Gold, in future meetings, will provide to the Committee a brief summary of other audits and reviews.

Release of Fuel Cost Audit Phase 2 & 3 Report

Chair Zink reviewed options related to release of a report. Commissioner Thiebaut motioned to release the report and Commissioner Reiff seconded the motion. All committee members voted to approve and release report. The report was released with no opposition.

Discussion of Fuel Cost Audit Phase 2 & 3 Report

Ms. Gold reviewed the report and presented the audit results and the five recommendations contained in the report. Mr. Lester stated that most of the recommendations have already been implemented. Mr. Lester also stated that overall, fuel cards have been reduced by 12%. Chair Zink asked how a card could be eliminated if it's associated with equipment; asking if we had that much idle equipment. Mr. Lester said that yes, there is that much idle equipment. Mr. Lester also explained that some of the fuel cards with minimal use are needed for emergencies for equipment that is primarily fueled by bulk fuel tanks. Mr. Lester also said that a new policy directive for the fuel program will be presented to the Transportation Commission that will update processes surrounding pin and card procedures. The updated policy directive will address recommendations related to fuel PINs. Securing the facilities is a slower process, but it is currently underway. Mr. Lester stated he is working with the Regional Transportation Directors to enhance the security of facilities. Mr. Lester also reported on the new fuel exception reporting process related to the Fuel Phase I audit. He said the fuel exception reporting process has improved and that the majority of reported exceptions are being adequately resolved. Refining the exception reporting process is an on-going process with a goal to ensure that only true exceptions are being identified. Chair Zink asked if any of those exceptions involved fraudulent activity. Mr. Lester said none have been linked to fraud in the past 18 months.

Audit Division Updates

Ms. Gold introduced David Gallagher, a recently hired auditor. She informed the Committee that two interns have been hired and the Auditor III position has been posted.

Outstanding Audit Recommendations

Ms. Gold presented an overview of outstanding recommendations. Commissioner Reiff stated that a huge improvement in resolving recommendations have been made over the past two years. Ms. Gold said they are working with management sooner in an effort to resolve outstanding recommendations more quickly. Commissioner Reiff said management in the Finance Office, as well as the Chief Engineer's Office has improved over the past two years resulting in recommendations being resolved sooner.

**Colorado Transportation Commission
Audit Review Committee
MEETING MINUTES**

Response to CDOT Mobile Smart Phone Application (urHub)

Chair Zink stated that a response has been received but was confidential. Ms. Gold stated that Kathy Young with the Attorney General's Office is currently assisting with preparing a response. Ms. Gold will provide an update as information is available.

Fraud Hotline Statistics

Ms. Gold said fraud hotline calls have decreased. The Audit Division is developing a fraud presentation to increase awareness of fraud and the existence of the Hotline. This will be presented to the various regions.

Meeting was adjourned at 5:16 p.m.

**CDOT Audit Division
Audit Work in Process
As of January 31, 2016**

Patrol Inventory Audit

The Audit Division began an audit of the Region 1 store room in mid-2015 but changed their objective, after conducting risk assessments, to focus on the patrol level inventory procedures. This change in objective also was considered after receiving fraud allegations on the CDOT Fraud Hotline related to patrol inventory. Thus, the Audit Division is conducting a performance audit related to evaluating Region 1's current procedures and internal controls over inventory on a patrol level. We have completed a draft report and we are in the process of submitting it to management for review.

Mobile Device Policy Advisory Services

Executive Management requested the Audit Division's participation on a cell phone task force committee. In response to this request, the Audit Division reviewed the current policy, identified high risk areas and informed Executive Management of these risks. A procedural directive was prepared by management and implemented in November 2015.

Construction Claim/Dispute Audits

The Audit Division receives and processes these claims through CDOT's dispute resolution process established in CDOT specification book (Section 105.22, 105.23 and 105.24). A dispute has two elements: entitlement (whether the contractor has a right to a monetary adjustment) and quantum (amount of the monetary adjustment). The Audit Division does not express an opinion on the contractors' entitlement to the dispute amount, but evaluates the quantum aspect of the claims and provides information regarding the acceptability of the requested amount and the reliability of contractor data furnished in support of the dispute.

The Audit Division has issued final audit reports on two construction claims since the previous ARC meeting in September. The first report, issued October 2, 2015, recommended a reduction in the claim amount from roughly \$440k to \$340k, and it was resolved at the Audit Division calculated amount. The second report, issued January 15, 2016, recommended a reduction in the claim amount from roughly \$1.1m to \$843k.

A-133 2014 Single Audit Reviews

The Audit Division has finalized completion of reviews of single audits. These reviews are required to be completed each year in accordance with the Office of Management and Budget (OMB) requirements. This year we reviewed a total of 157 sub-recipients, of which 89 were non-exempt and required additional follow up. Exempt sub-recipients are those entities that expend less than \$500,000 per year in federal awards. Non-exempt are those entities that expend greater than \$500,000 per year in federal awards.

The Audit Division submitted a report to the Division of Accounting and Finance with a summary of the information obtained with the closing of the process for the year. There were no findings identified.

**CDOT Audit Division
Audit Work in Process
As of January 31, 2016**

CDOT Audit Division Status of A-133 2014 Process As of 10/31/2015		
Type of Sub-Recipients	# of Sub-recipients	Sub-Recipients with Findings Related to CDOT
Exempt	68	N/A
Non-Exempt	89	0
Total	157	0

Source: Audit Division

The audit division is preparing for the A-133 2015 Single Audit process that will begin in March 2016.

Indirect Cost Rate Reviews

CDOT has the responsibility to monitor the activities of local governments and non-profit entities as necessary to ensure that these entities use federal awards 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. We completed the following indirect cost rate reviews:

Indirect Cost Rate Reviews Completed August – December 2015		
Agency	Pass-Through Dollars CY 2014	Date Completed
North Front Range Metropolitan Planning Organization (NFR)	\$992,480	9/10/15
Denver Regional Council of Governments (DRCOG)	\$7,916,182	9/21/2015
Seniors Resource Center (SRC)	\$214,872	9/24/15
Upper Arkansas Area Council of Governments (UAACOG)	\$115,056	10/15/2015
Northwest Colorado Council of Governments (NWCCOG)	\$145,482	12/09/2015

Source: Audit Division

We did not identify any issues in the reviews performed.

Master Pricing Agreement Reviews

Master Pricing Agreement Reviews provide assurance to CDOT that architectural and engineering (A/E) consultants are in compliance with the Federal Acquisition Regulations (FAR). All A/E firms wishing to provide professional services to CDOT must go through this review process.

We completed 109 Financial Qualification Reviews in calendar year 2015, including 22 in the most recent quarter, October-December 2015.

**CDOT Audit Division
Audit Work in Process
As of January 31, 2016**

Our reviews have resulted in findings including hourly rates that are unreasonably high and/or in excess of actual payroll rates, incorrect accounting of labor costs, inclusion of unallowable costs, and incorrect application of FAR guidelines. Together, these findings have resulted in potential hourly savings of \$1,998.48 (Oct-Dec) and \$6,142.83 (Jan-Dec) over the rates that would have been charged to CDOT had these reviews not taken place.

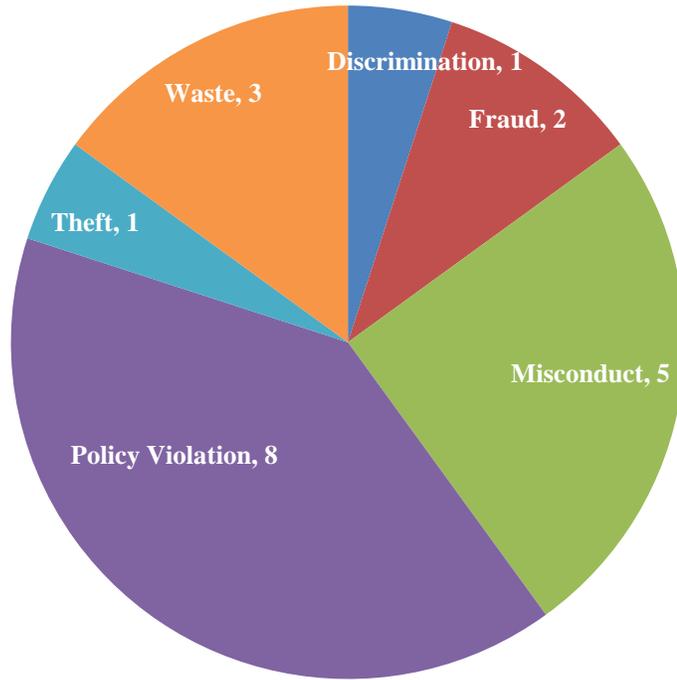
Sole Source Reviews

Colorado Revised Statute 24-103-205 allows a contract to be awarded without competition when the head of a purchasing agency determines, in writing, that there is only one source for the required item. Sole source procurement is justified when there is a limited number of vendors that can provide a particular good or service. CDOT's Procurement Manual requires a price cost analysis when no competition is received. Additionally, the Audit Division is required to review sole source procurements exceeding \$100,000 to ensure fair and reasonable pricing. The Audit Division completed two reviews this quarter.

Sole Source Reviews Completed August - December, 2015		
Vendor	Amount	Date Completed
Applied Engineering Management (AEM) – PARRE for Flood	\$2,000,000	11/05/2015
Jacobs Engineering – Connected Vehicle, Road X	\$3,608,814	12/10/2015

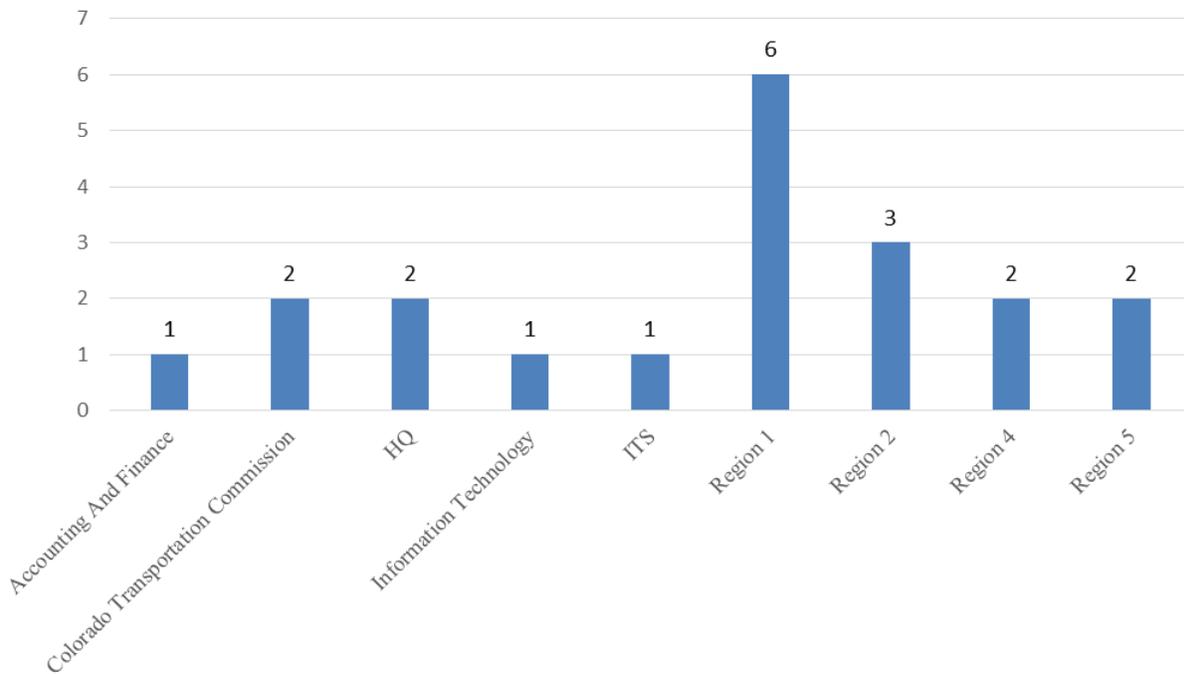
Source: Audit Division

**CDOT Audit Division
Hotline Summary
20 Incidents by Type
CY 2015 (1/1/2015 - 12/31/2015)**



Source: Hotline Data obtained by Audit Division

**CDOT Audit Division
Hotline Summary
20 Incidents by Location
CY 2015 (1/1/2015 - 12/31/2015)**



Source: Hotline Data obtained by Audit Division



COLORADO
Department of Transportation

Division of Audit

4201 E. Arkansas Ave, Shumate Bldg.
Denver, CO 80222-3400

DATE: February 25, 2016

MEMORANDUM FOR: CDOT Transportation Commission

SUBJECT: **Released Audit Report – Hard to Fill and Extremely Hard to Fill Benefits**

The attached audit report presents the results of our performance audit of Hard to Fill and Extremely Hard to Fill Benefits (Project number 15-022) reviewed and released by the CDOT Audit Review Committee on February 18, 2016. This report adds value by assisting management with reducing the risk of ineffective or non-existent internal controls which promote efficiency, reliable reporting, and ensure compliance with laws, regulations, and policies. This report also assists CDOT management with achieving its goals associated with the People Summit.

We conducted this audit pursuant to Section 43-1-106, C.R.S., which authorizes us to conduct internal audits on CDOT. This report presents our findings, conclusions, recommendations and the responses of CDOT management. This audit was completed at the request of the Human Resources Division.

If you have any questions or need additional information, please contact me at (303) 512-5219.


Scott Young
Acting Audit Division Director

Attachment

cc: Shailen Bhatt, CDOT Executive Director
Michael Lewis, CDOT Deputy Executive Director
Amy Ford, Director of Communications, Acting Human Resources Director
Kathy Young, Senior Assistant Attorney General

PERFORMANCE AUDIT REPORT



COLORADO

Department of Transportation

Division of Audit

This report contains management's comments and our evaluation of management's comments.

Released Report

Hard to Fill and Extremely Hard to Fill Benefits

Report Date: September 28, 2015

Audit No: 15-022

EXECUTIVE SUMMARY

Purpose of Review and Objectives

The audit objective was to assess the effectiveness of the policies, procedures and internal controls over hard to fill (HTF) and extremely hard to fill (HTFX) benefits. We conducted the audit at both the request of the Director of Strategic Workforce Solutions and the Director of Administration. This report adds value by assisting management with reducing the risk of ineffective or non-existent internal controls which intend to promote efficiency, reliable reporting, and ensure compliance with laws, regulations, and policies. This report also assists CDOT management with achieving its goals associated with the People Summit.

Background

In 1999, management instituted a pay differential program to address retention and recruitment problems for selected maintenance and tunnel support service positions at the Eisenhower Tunnel. This pay differential allowed for a base building pay premium up to 15 percent above the employee's starting salary. In 2006, management revised the program to include a housing allowance which was in addition to the HTF benefit and was for extremely hard to fill positions (HTFX). In 2014, CDOT again revised the HTF program and new hires, as of February 1, 2014 received a non-base building pay differential. Employees hired prior to February 2014 retained the HTF rate unless they signed a Voluntary Reduction in Pay Agreement. Since February 2014, CDOT has paid about \$2.2 million in HTF/HTFX benefits to at least 488 employees.

Conclusion

The effectiveness of the policies, procedures, and internal controls of the HTF and HTFX programs should be improved. Generally, the programs lacked clear eligibility criteria, sufficient policies and procedures, adequate monitoring and oversight. These conditions occurred primarily because management wanted to pay employees at the same base salaries for the same positions. These conditions led to a lack of transparency, accountability, and did not appear to eliminate recruitment and retention problems.

As a result, we recommend CDOT management 1) develop a procedural directive that emphasizes using the existing flexibility within the pay bands; 2) follow the procedural directive process to develop appropriate and centralized policies and procedures that include clear eligibility requirements and an effective monitoring and oversight system, and 3) implement a process to ensure that accurate information regarding the recipients is used for an annual analysis and assessment of program effectiveness and consider adjusting base salaries based on locality differences or other supported hard to fill conditions.

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Purpose of Review and Objectives

The audit objective was to assess the effectiveness of the policies, procedures and internal controls over the hard to fill (HTF) and extremely hard to fill (HTFX) benefits. Both the Director of Strategic Workforce Solutions and the Director of Administration requested the audit as a result of their concerns about the effectiveness of the program. This report adds value by assisting management with reducing the risk of ineffective or non-existent internal controls which intend to promote efficiency, reliable reporting, and ensure compliance with laws, regulations, and policies. This report also assists Colorado Department of Transportation (CDOT) management with achieving its goals associated with the People Summit.

Background

In 1999, CDOT determined that certain maintenance and tunnel support positions are hard to fill/retain due to evidence of recruitment difficulty, high turnover and cost of living for the patrol area. As a result, positions designated by CDOT management as hard to fill were eligible for a monthly pay differential. Beginning in 1999, management instituted a pay differential program to address retention and recruitment problems at the Eisenhower Tunnel. This pay differential allowed for a base building pay premium up to 15 percent above the employee's starting salary. These HTF positions were classified as essential and included only selected maintenance and tunnel support service positions.

In 2006, management revised the program to include a monthly housing allowance of \$500. This program, called HTFX, was an addition to the HTF benefit. Unlike the HTF pay differential, this monthly benefit was not included in employees' base pay and was intended to assist essential maintenance employees with housing expenses.

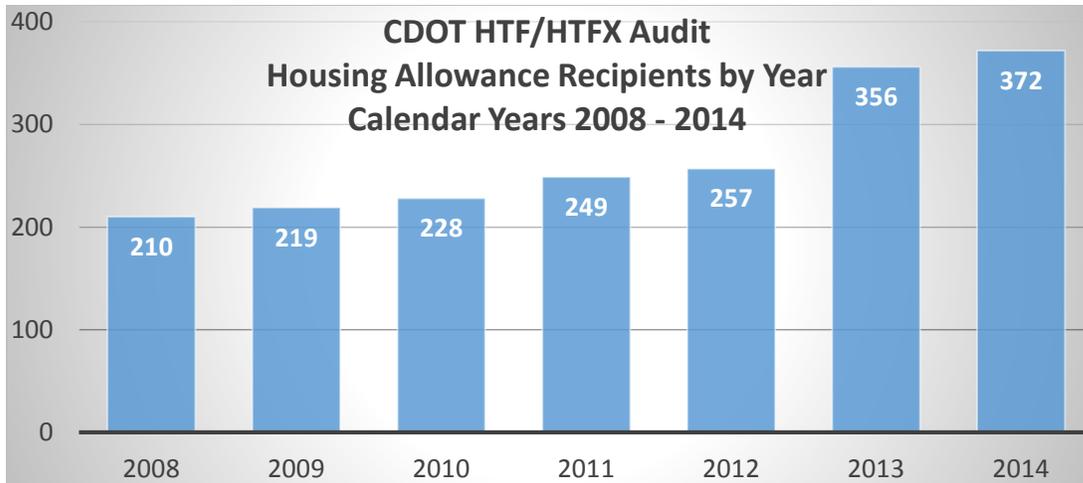
In 2014, CDOT again revised the HTF program and new hires, as of February 1, 2014, received a non-base building pay differential rather than the differential within the base pay. Employees hired prior to February 2014 retained the HTF rate as part of base pay unless they chose to sign a Voluntary Reduction in Pay Agreement¹. According to CDOT payroll data, the Department paid about \$2.2 million to at least 488 employees in HTF/HTFX benefits since February 2014. As of February 2015, there are approximately one hundred locations (cities, counties, areas, tunnels, and passes) and about fifty classifications designated as either HTF or HTFX.

[Table 1](#) displays the trend of employees receiving housing allowance. The number of employees receiving the benefit increased by nearly 77 percent between 2008

¹ We could not verify how many employees chose the voluntary reduction, however, it does not appear that any employees chose to sign that could have accepted promotions or transfers.

and 2014 while the total population of maintenance employees decreased by 51 employees or 3 percent.

Table 1



Source: Audit Division's analysis of payroll data

Conclusion

The effectiveness of the policies, procedures, and internal controls of the HTF and HTFX programs should be improved. Generally, the programs lacked:

- Clear eligibility criteria
- Sufficient policies and procedures
- Adequate monitoring and oversight

These conditions occurred primarily because management wanted to pay employees at the same base salaries for the same positions and therefore developed these programs to address recruitment and retention problems. In addition, we identified three other contributing causes:

- Decentralized authority applying outdated memorandums
- Lack of a process to assess program effectiveness and benchmark data
- Lack of an official policy or directive that provides for centralized authority and guidance in applying the programs and utilizing flexibility in appropriately adjusting salaries

Consequently, these conditions led to a lack of transparency, accountability, and did not appear to eliminate recruitment and retention problems.

We recommend CDOT management:

- 1) Develop a procedural directive that emphasizes using flexibility within the pay bands.
- 2) Follow the procedural directive process to develop appropriate statewide procedures that include clear eligibility requirements and an effective monitoring and oversight system.
- 3) Implement a process to ensure that accurate information regarding the recipients is used for an annual analysis and assessment of program effectiveness and consider adjusting base salaries based on locality differences or other supported hard to fill conditions.

Audit Results

Unclear Eligibility Criteria

Since the program's inception, the eligibility criteria has been communicated through memorandums from the Chief Engineer. Specifically, management relied on three memorandums: 1) an outdated 2008 memorandum for the list of locations eligible for the benefits, 2) the superseding 2013 memorandum for the list of eligible job classification and 3) February 2014 memorandum stating that the pay differential was no longer included in base pay. The memorandum issued in 2013 was intended to supersede all prior instructions. This memo also states that in order to qualify for the HTF benefit, two of six criteria must be met, and in order to qualify for the HTFX benefit, two of three criteria must be met². Even though all of these memorandums have been signed by appropriate appointing authorities, the lack of an official policy and centralized program administration increases the difficulty of eligibility being applied uniformly and fairly.

Based on our review of the program criteria, we identified an overall lack of clarity and consistency. Specifically,

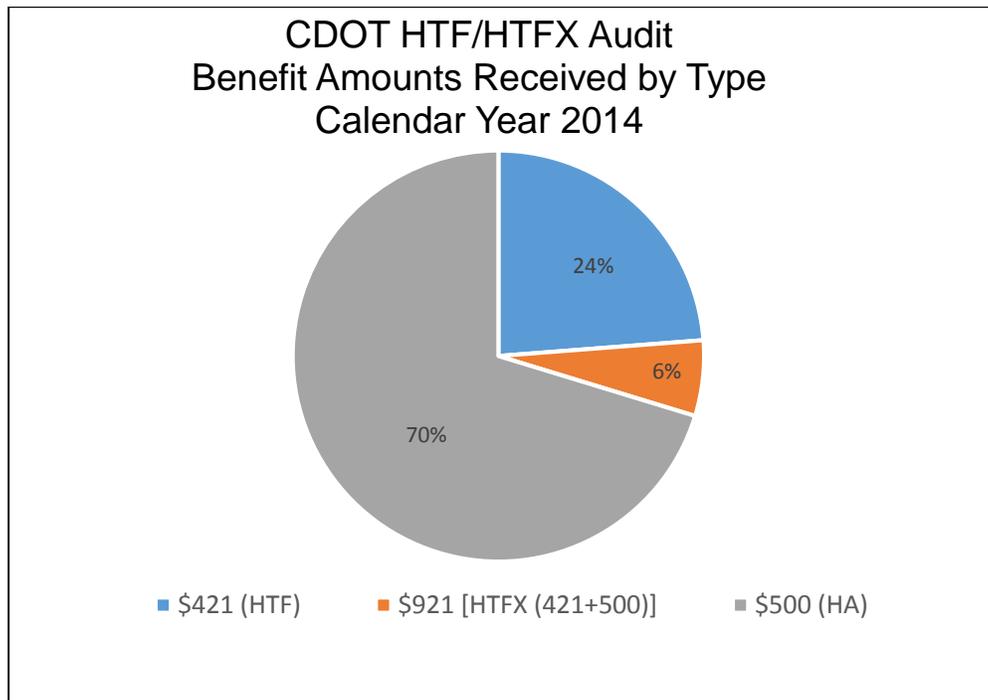
- The program was intended for maintenance but non-maintenance classifications received the benefit.
- The supporting eligibility criteria is unclear to the types and the amounts of the pay premiums.
- The location eligibility determination lacked consistency.

According to the 2013 memorandum, these benefits were intended for essential maintenance employees, however, our analysis found that there were five non-maintenance job classifications listed which included 10 employees.

² See eligibility criteria chart in the Appendix.

We also found instances of unclear supporting criteria related to the types and amounts of the pay premiums. For example, the criteria states that an employee can receive either the hard to fill pay differential (HTF) or both the differential and the \$500 housing allowance (HTFX). However, the following analysis of CDOT 2014 payroll detail in Table 2 below shows that 70 percent of benefit recipients were paid *only* the \$500 housing allowance (HA), even though the criteria listed in the 2013 memorandum does not explicitly authorize this individual amount.

Table 2



Source: Audit Division's analysis of payroll data

The criteria also lacked consistency with regard to location types. According to the locations listed in the criteria within the memorandums, locations are inconsistently documented as cities, counties, and "areas," making it difficult to readily identify hard to fill locations which become subject to interpretation. For example, Metro Denver is listed as a "hard to fill" area but no specific cities are mentioned. Additionally, the memorandums lack explanations for why certain locations are eligible for HTF or HTFX benefits and some are not.

Insufficient Policies and Procedures

Overall, the policies and procedures over the program need to be improved. Specifically, there were no documented procedures for:

- Performing reconciliations between payroll and human resources data to ensure that information is correct
- Performing secondary level reviews of SAP data to ensure correct data input
- Developing SAP input controls that only allow entry of approved eligibility criteria
- Developing time and approval requirements for “Start Form” submissions
- Updating eligibility criteria
- Designating a program “owner” to monitor program effectiveness

Response to each of the above would assist in mitigating the risk of fraud and also ensures that the program meets its objectives. In addition, periodically updating the eligibility criteria ensures that the program is adequately addressing retention and recruitment needs. Delegating a program owner will assist with oversight and monitoring to ensure the program is effective and being administered properly and consistently.

In addition, the preparation of sufficient and consistent written policies and procedures will minimize the risk of confusion and perceived unfairness among maintenance workers. An official policy, preferably a Procedural Directive, would go through the proper administrative and management channels to provide centralized authority and ensure fairness, clarity, and consistency for all regions. This best practice would assist in ensuring that the program meets its objectives.

Inadequate Monitoring and Oversight

The program lacks effective monitoring and oversight. We identified the following four areas for improvement:

1) Documented authorization forms

Review of personnel files located at Headquarters identified that 21 percent of sampled files were missing authorization forms for employees receiving the benefits. Authorization forms help ensure that employees receive the benefit only when eligible and should be required.

2) Secondary review of data

HR program staff did not effectively monitor what was being paid out to employees. In addition, management stated they did not perform a review of the payroll division's reconciliation between employees living in CDOT owned housing and those receiving the housing allowance to ensure that employees did not receive both benefits. A secondary level of review for changes regarding employee status to/from an HTF/HTFX eligible position and/or locations would provide a preventative control to minimize the risk of fraud.

3) Timely analysis of the HTF/HTFX program's effectiveness

Management did not conduct a timely analysis of the program's effectiveness and did not evaluate amounts paid out to employees. Consequently, management could risk paying employees benefits that they were not entitled to. In addition, this analysis might allow management to identify root causes of retention and recruitment problems. For example, conducting a compensation study could determine if pay structures are competitive and supported by job descriptions.

4) Oversight of application of the criteria

The 2013 memorandum criteria states the HTF benefit to be up to 15 percent of the base salary yet some employees received more. Authorization forms should specify the benefit amount and determine that the rate is not exceeded.

Effect

Due to unclear criteria, ineffective procedures, and a lack of monitoring and oversight over the program, there is an increased risk of employee perceptions of inequity, improper payments and fraud.

Recommendations

As a result of our audit testing and discussions with management, we identified the following key recommendations that can assist in the program's achievement of its core objectives. We recommend that CDOT management:

- 1) Develop a procedural directive that emphasizes using the existing flexibility within the pay bands.
- 2) Follow the procedural directive process to develop appropriate and centralized procedures that include clear eligibility requirements and an effective monitoring and oversight system.
- 3) Implement a process to ensure that accurate information regarding the benefit recipients is used to conduct an annual analysis and assessment of program

effectiveness and consider adjusting base salaries based on locality differences or other supported hard to fill conditions.

Management Comments

Management generally agreed with the findings and recommendations. Specifically, management agreed to develop a procedural directive that includes clear eligibility requirements, develop an effective monitoring and oversight system and implement an effective annual analysis and assessment of the program. Management advised that many of the memos, procedures, controls and ownership in place were not always documented. Management has begun to make changes that will improve the program.

Management provided the following chart detailing actions and implementation dates in order to meet their overall implementation date of July 1, 2016.

When:	Description:
March – October 2015	Updated the Transportation Maintenance Worker I and Transportation Maintenance Worker II Position Descriptions
April 2015	CDOT's Human Resources Director requested that DHR conduct a system maintenance study for the Transportation Maintenance Worker series
August 2015	Discussions of process and procedures and data with Audit Division staff
August 2015	Contacted Division of Natural Resources and DHR to discuss how they established the housing allowance payment for the park rangers.
August 28, 2015	Transportation Commission confirmed CDOT's Divisions for purposes of clearly defining Appointing Authorities. This gave CDOT's HR Director the authority to "own" the revised Hard to Fill and Housing Programs.
Sept 2015	Maintenance Superintendent, Traffic Engineers, and HR working group held a lean like event to discuss the purpose, goals, objectives, outcomes of the pay structure programs (recruitment, retention, cost of living) within maintenance activities;
Sept 2015	Revised the employment screening process and the language within the job offer templates to reference the HTF and Housing MOU.
October 2015	Require receipt of signed MOU agreements in HR prior to completing data entry.
By July 1, 2016	Define recruitment, retention, and high cost areas goals and objectives in terms of turnover of positions,
By July 1, 2016	Write Compensation and Hours Worked Procedural Directives
By July 1, 2016	Write Scope of Work for third party firm to provide geographic assessments of cost of living across Colorado and confirmation of the availability of labor in the designated markets
By July 1, 2016	Review data and write recommendations – get approval
By July 1, 2016	Write procedural directive
July 1, 2016	Target date to implement revised programs

Evaluation of Management Comments

Management's comments and actions are responsive to the findings and recommendations contained in this audit report.

Appendix

Objective, Scope, Methodology and Criteria

The audit objective was to assess the effectiveness of the policies, procedures and internal controls over the hard to fill (HTF) and extremely hard to fill (HTFX) programs. We conducted the audit at the request of the Director of Strategic Workforce Solutions and the Director of Administration.

Our audit included calendar year 2014 and did not include testing the population of employees that receive the HTF benefit as part of their base salaries. We were unable to determine the total amount of HTF and HTFX benefits paid out to employees since the program's inception. As a result, we cannot conclude on the effectiveness of the procedures, and internal controls over HTF pay differentials included within employee base salary.

We conducted this audit in accordance with generally accepted auditing standards, except for a peer review not conducted within the three year requirement. This peer review is expected to be conducted by the spring of 2016. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions. We did not identify any instances of fraud or abuse. We discussed our observations and conclusions with management on December 16, 2015 and included their comments when appropriate.

In order to meet our objective, we conducted interviews with program staff and related management. Through these interviews, we gained an overall understanding of the program and management's interpretation of the eligibility criteria. We also conducted analysis and judgmentally selected records for review. We obtained a list of employees from the SAP system that received HTF/HTFX benefits during 2014.

We performed various analyses and testing of this population, including, but not limited to:

- Investigating how much has been paid out since 2008 to determine the cost of the program,
- Calculating pay differentials as a percentage of employees' salaries to evaluate the amount of the premium,
- Measuring the distance between employees' home address and work address, per Management request,
- Testing to see how many new hires have been hired at base salary to measure management's use of their flexibility in regard to salary ranges,
- Verifying that the pay differential is considered for in PERA, while the housing allowance is not included,

- Choosing a sample of employees from the 2014 population and reviewing employee files for evidence of HTF/HTFX eligibility, and
- Evaluating the logic of HTF/HTFX designated locations to see if we came to the same conclusion as management.

We used the following standards, policies and procedures:

- 2011 GAO – Government Auditing Standards
- FY10-11 State Personnel System Employee Handbook
- State of Colorado Fiscal Rules: Effective July 2009
- C.R.S. 24-50-104 (2014)
- 2008 and 2013 Chief Engineer memorandums
- 2014 HR Director memorandum
- 2015 Personnel Board Rules and Personnel Director’s Admin Procedures
- Colorado State Archives, State Agency Records Management
- 4 CCR 801-1

Suggestions

We also identified several suggestions for management’s consideration that complement our key recommendations and do not require management’s response. We suggest that management:

- 1) Ensure personnel files are in compliance with the 1/14/2015 4 CCR 801 Personnel Board Rule 1-23 and Colorado State Archives, Schedule No. 11
- 2) Reevaluate patrol locations to ensure they are logistically practical based on operational need and historical staffing challenges
- 3) Develop procedures to ensure information and communication flows effectively between HR, Payroll, and Regional teams to ensure the program is equitably applied
- 4) Implement SAP input controls that clearly document benefit criteria (i.e. classification, location, amount)

Prior Audit Coverage

We have not previously conducted any audits or reviews regarding these benefits.

Eligibility Criteria Chart

Hard to Fill (HTF) Position

2 of the following 6 must be met:

1. Employees leave for higher salary, or employees leave for better working conditions based on the exit interview.
2. Less than average number of candidates on eligibility list.
3. At least one candidate rejected the minimum salary.
4. Situations limit applicant pool or applicants reject the starting salary.
5. Location has a very high cost of living based on Legislative Council criteria.
6. Works in Eisenhower/Johnson Tunnel

Extremely Hard to Fill (HTFX)

2 of the following 3 must be met:

1. Location designated as hard to fill/retain
2. Location is in very high or highest cost of living based on Legislative Council criteria.
3. Comparison of local city/county and resort salaries shows compensation above base salary

Source: CDOT 2013 Memorandum



4201 E. Arkansas Ave., Rm. 227
Denver, CO 80222

DATE: March 16, 2016
TO: Transportation Commission
FROM: Mark Imhoff, Director, Division of Transit & Rail
SUBJECT: Colorado State Management Plan

Purpose

This memo outlines the results of the public comments received on the 2016 Colorado State Management Plan

Action

This memo is for informational purposes only.

Background

As a condition of receiving Federal Transit Administration funds, CDOT is required to develop and maintain a State Management Plan that outlines the policies and protocols for administering FTA funding. In 2015, CDOT received its triennial State Management Review from the FTA which identified several deficiencies with the existing State Management Plan. In addition, in 2014 the Transportation Commission eliminated three Rules that governed the administration of FTA funds with the understanding that the tone of those rules would be incorporated into the State Management Plan. As a function of this process, the State Management Plan became subject to a public input process for the first time.

Details

The 2016 revision of the Colorado State Management Plan was issued in February with a 30 day public comment period which closed on February 26, 2016. CDOT received a three sets of comments, one from a citizen, one from Mesa County/Grand Valley Transit, and one from the North Front Range MPO. Here are the highlights of the comments:

- Citizen comment requested light rail from Colorado Springs to Denver
- Clarify the process for soliciting private sector participation
- Clarify whether process times (i.e. 7 days, 30 days, etc.) are calendar or business days.
- CDOT's dates for requiring audited agency information in spring does not work for all agency fiscal calendars
- For agencies which receive CDOT grants and also directly receive FTA money, consider coordinating triennial reviews, rather than staggering them. Otherwise local agencies in MPO areas end up having a "site review" every 1.5 years.
- The general State Management Plan policies are helpful, and two additional items are needed: (1) finalize the Grant Partner Manual referenced in the document, and (2) improve the efficiency of contract writing/execution.

The comments have been reviewed and are being addressed prior to submittal to the FTA for approval.

