



**Colorado Transportation Commission
Audit Review Committee (ARC) Agenda
October 19, 2016 at 3:30pm
CDOT Headquarters – Room 225**

Sidny Zink, Chairwoman
District 8 - Durango

Ed Peterson
District 2 – Lakewood

Gary Reiff
District 3 – Englewood

Bill Thiebaut
District 10 - Pueblo

All Commissioners are invited to attend the Audit Review Committee

- 1. Call to Order and Roll Call**
- 2. Approval of June 2016 Minutes
(Attachment 1)**
- 3. Release of Final Patrol Inventory Audit from June 2016 ARC Committee
(Attachment 2)**
- 4. Audit Division Update
(Verbal Presentation)**





**Colorado Transportation Commission
Audit Review Committee (ARC) Meeting
June 16, 2016
9:20 a.m. to 9:50 a.m.
CDOT Headquarters Room 225**

AUDIT COMMITTEE MEMBERS PRESENT: Sidny Zink, Gary Reiff, Ed Peterson

ALSO PRESENT: Chris Wedor, Audit Director; Mike Lewis, CDOT Deputy Director; Maria Sobota, CDOT CFO; Daniel Pia, IT Auditor; Lisa Gibson, Program Administrator; Andrew Weissman, Auditor.

AND: Other Executive Management Team members and the public.

Call to Order

ARC Chair Zink called the meeting to order on June 16, 2016 at 9:20 a.m. Chair Zink also called role and noted the Audit Committee members present are Commissioner Reiff, Commissioner Peterson and herself. The meeting was held in Room 225 at the Colorado Department of Transportation Headquarters' building.

Approval of Minutes of the February 18, 2016 ARC Meeting

Commissioner Reiff moved to approve the meeting minutes for February 18, 2016. Commissioner Peterson seconded the motion. The minutes were approved with no opposition. The minutes were adopted as published in the agenda.

Release of the Patrol Inventory Audit

Chair Zink reviewed options related to release of a report. Chair Zink motioned to release the report and Commissioner Peterson seconded the motion. All committee members voted to approve and release report. The report was released with no opposition. Mr. Wedor noted that moving forward the Audit Division will be changing its report format for ease of reading and comprehension.

Commissioner Reiff asked what lessons for CDOT were learned from this audit. Mr. Wedor said that other regions are being provided a management plan moving forward.

Chair Zink asked about responsiveness in a timely manner. Mr. Wedor pointed out the fraud issue was handled in a very timely manner reaching conclusion in just a few weeks. Mr. Lewis complimented the Audit Division as to quick turnaround and professional manner in which the fraud investigation was addressed. Commissioner Reiff said what is important is maintaining your independence while being able to work in partnership with management. Ms. Sobota also referred to the finding her section received related



to sub-recipients where Mr. Wedor assisted with research and writing of processes, which was highly beneficial.

Review of the 2017 Strategic Plan

Mr. Wedor went over the Vision, Mission and Guiding Principles which will be used moving forward in the Audit Division. It brings the division into alignment with the overall vision of CDOT.

Review of the 2017 Audit Plan

Mr. Wedor reviewed the priorities for the Audit Division which are: Maintenance Shops, Workmen's Compensation, Purchase Card Usage (Region 1), IT Change Management (SAP). Chair Zink said she was surprised to see Workmen's Compensation on the list. Chair Zink asked why it is there. She also asked that the name be changed to Worker's Compensation. Mr. Wedor noted the change and explained that it was asked to determine why the Worker's Compensation claims are going down. Commissioner Peterson said it will be good to see what's driving those numbers down, but to ensure that resources are allocated properly. Mr. Lewis said he feels this will give a better look at the details surrounding the Worker's Compensation program.

The Purchase Card Usage audits will begin with Region 1. Mr. Wedor explained that this will be on-going for some time as the division works through all of the regions. These audits will also be done in conjunction with the division's Fraud Awareness program.

The IT Change Management audit will be a fairly large audit. It is the first IT audit the division will have performed.

Internal Audit Universe

Mr. Wedor reviewed what the Internal Audit Universe encompasses. Commissioner Reiff and Mr. Lewis feel there needs to be more defined objectives moving forward. Mr. Wedor agreed that the scope will be much tighter in the future.

External Audit Universe

Mr. Wedor reviewed what the External Audit Universe encompasses. Commissioner Reiff noted that there was information regarding adjustments on claims was previously heard about and he is curious as to where we are on that now. Mr. Wedor said he would provide an update to the ARC at the next meeting. Chair Zink said there were complaints about the prequalification process from consultants in the past. Mr. Wedor said a solution is currently being implemented for that process.

Mr. Wedor said we are assisting with the EPA compliance review. Commissioner Reiff said it would be beneficial to know what issues came before to ensure that the same issues are not repeating.

Peer Review Results



Mr. Wedor went over the results of the peer review. The Audit Division passed with two minor findings. Chair Zink stated that the results on the review are very good.

Fraud Hotline Update

There has been a reboot on the Fraud Awareness program. There will be more focus on getting this information out to the regions. There were some allegations as to misuse of P-Card and those allegations were substantiated; therefore, it has become a focus for the division.

Personal Identifiable Information was taken from CDOT and the Colorado Bureau of Investigation is looking into this matter further. Commissioner Reiff asked who takes ownership of the cyber security for CDOT. Mr. Lewis explained that ownership of that is with OIT.

Follow Up Process

Mr. Wedor said the division will try to provide guidance to management on closing the recommendations and providing regular updates to the ARC. The division will focus on high profile or repeat findings and re-audit those areas that are not closed with a recommendation. Recommendations will be closed out after a certain amount of time. Chair Zink requested that the ARC receive an update as to the outstanding recommendations.

Audit Division Updates

Commissioner Peterson expressed thanks to Mr. Wedor for both he and the division accomplishing so much in a short period of time.

Mr. Wedor discussed that the division is in the final interview stage for the last two positions and the division will be fully staffed for the first time in a long time.

Meeting was adjourned at 9:53 a.m.





COLORADO

Department of Transportation

Division of Audit

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

DATE: June 17, 2016

MEMORANDUM FOR: CDOT Transportation Commission

SUBJECT: **Released Audit Report**
Review of the Patrol Inventory

The attached audit report presents the results of our review of Patrol Inventory (Project number 16-001) reviewed and released by CDOT Audit Review Committee on June 16, 2016. This audit adds value by assisting management with reducing risk related to physical security, safeguarding of assets, maintenance operations, and CDOT's overall reputation

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 Management.

If you have any questions or need additional information, please contact me at (303) 757-9687.

Chris Wedor
CDOT Audit Division Director

Attachment

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

PERFORMANCE AUDIT REPORT



COLORADO

Department of Transportation

Division of Audit

Patrol Inventory

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

RELEASED REPORT

Report Date: February 2, 2016

Audit No: 16-001

EXECUTIVE SUMMARY

Purpose of Review and Objectives

The purpose of this audit is to assess the internal controls at the patrol level. This audit was made at the request of the Deputy Director of Maintenance. Our objective was to assess the adequacy and effectiveness of the internal controls over storeroom material and supplies at the maintenance patrols in Region 1.

This report adds value by addressing risks related to physical security, safeguarding of assets, maintenance operations, and CDOT's overall reputation. This report presents the results of the CDOT Performance Audit of the internal controls over patrol inventory.

Background

CDOT storerooms receive, store, and issue a wide variety of supplies and materials for maintenance, engineering residencies, and highway patrols operating throughout the state. Maintenance patrols consume the majority of storeroom inventory. The most common items obtained from storerooms include hand tools, tires, uniforms, signs, building materials, and safety barriers. This inventory provides maintenance patrols the tools and materials they need to provide the traveling public with safe roads on a daily basis.

Based on our analysis of SAP patrol activity, Region 1 patrols accounted for approximately 30% or \$5.6 million of total storeroom consumption in fiscal year 2015.

Region 1 maintenance management identified fraud and abuse risks associated with a lack of internal controls over storeroom inventory at the patrol level. In addition, there were hotline complaints regarding possible fraud and/or abuse of inventory at the patrol level.

Based on the specific audit request by Region 1 maintenance management, the identified fraud/abuse risks, and the higher level of activity in Region 1 patrols, the audit scope was limited to Region 1 patrols.

Conclusion

The internal controls over storeroom inventory obtained by maintenance patrols should be improved to ensure Region 1 patrol inventory is properly safeguarded and managed. Specifically, we found:

- Inconsistent and undocumented procedures
- No SAP approval process
- No formalized process of monitoring patrol inventory

These conditions mainly occurred because maintenance personnel did not receive any training on developing internal controls over patrol inventory. Management also overlooked the importance and benefits of documenting procedures.

The lack of documented internal guidance and consistent monitoring can result in stolen, wasted, or abused inventory. Also, documenting expected operational procedures and periodically training employees on system usage ensures data is consistent, relevant, and timely.

We recommend that maintenance management perform an annual review of the internal control system at the patrol level. We also recommend management:

- Enhance and document internal controls at the patrol level
- Annually train staff on these internal controls

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Introduction

CDOT storerooms receive, store, and issue a wide variety of supplies and materials for maintenance, engineering residencies, and highway patrols operating throughout the state. Maintenance patrols consume the majority of storeroom inventory. The most common items obtained by maintenance patrols include hand tools, tires, uniforms, signs, building materials, and safety barriers. The Region 1 storerooms obtain, store, and distribute the most inventory of all the CDOT storerooms. This inventory provides maintenance patrols the tools and materials they need to provide the traveling public with safe roads.

Patrols can obtain storeroom inventory by submitting a work order or storeroom reservation in SAP. Once the inventory is distributed from the storeroom the responsibility for safeguarding, appropriate use, and tracking is transferred to the patrol. Based on our analysis of SAP patrol activity, Region 1 patrols accounted for approximately 30% or \$5.6million of total storeroom consumption in fiscal year 2015. Region 1 patrols had the highest level of consumption of all CDOT Regions.

Region 1 maintenance management identified fraud and abuse risks associated with a lack of internal controls over storeroom inventory at the patrol level. In addition, there were hotline complaints regarding possible fraud and/or abuse of inventory at the patrol level.

Conclusion

The internal controls over storeroom inventory obtained by maintenance patrols should be improved to ensure Region 1 patrol inventory is properly safeguarded and managed. Specifically, we found:

- Inconsistent and undocumented procedures
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These conditions mainly occurred because maintenance personnel did not receive any training on developing internal controls over patrol inventory. Management also overlooked the importance and benefits of documenting procedures.

The lack of documented internal guidance and consistent monitoring can result in stolen, wasted, or abused inventory. Also, documenting expected operational procedures and periodically training employees on system usage ensures data is consistent, relevant, and timely.

Audit Results

Generally, internal controls for inventory at maintenance patrols could be improved. We found that physical security as well as ensuring the safe storage of hazardous and inflammable materials were adequate. Based on our observation of the maintenance patrols, entity assets are safeguarded with appropriate physical controls. Access gates into

the patrols have electronic keypad or padlocks in place and the perimeters are surrounded by metal fences. During our visits we also observed properly labeled and secured storage for flammable and hazardous materials.

However, inventory controls over monitoring and accountability could be improved. Specifically, we found:

- Inconsistent and undocumented procedures
- No SAP approval process
- No formalized process of monitoring patrol inventory

Procedures are not consistent or documented for all Region 1 patrols. According to the storeroom activity data in SAP and discussions with storeroom personnel, Region 1 maintenance patrols obtain storeroom inventory by submitting a reservation request. However, the system has the ability to automatically generate a reservation when a work order is submitted. Patrols in other Regions are utilizing the work order process to reserve materials. In fact, 67% of cost centers from other Regions that obtained inventory from the Region 1 storeroom utilized a work order instead of a storeroom reservation. Several maintenance employees communicated that the process of using both work orders and reservations was cumbersome and inefficient.

Unauthorized reservations and possible theft are mitigated by appropriate segregation of duties, however, approval is not documented in SAP. Generally on a bi-monthly basis, the TM II at each patrol creates a list for their TM III of material and tools they need for assigned projects. The TM III then submits the reservation request into the SAP module for storeroom personnel to process. Storeroom personnel provide each maintenance patrol with a receipt when they pick up their inventory.

The supervisory monitoring process has not been formalized for managers and supervisors to ensure consistent information is being recorded and analyzed. Generally, the TM III and LTC Ops perform at least a monthly review of their patrols' consumption but almost every patrol we visited performed it differently. There is no formal guidance on what information is required for patrols to record in SAP for every reservation and work order. We also observed a lack of formal performance measures or indicators that management could use to monitor storeroom consumption.

Three of the six maintenance patrols we observed did not perform an inventory of storeroom inventory. The remaining three did not perform an inventory consistently. Additionally, there is no way to pull a current inventory report by patrol from SAP as this capability has not yet been developed.

The lack of documented internal guidance and consistent monitoring can result in stolen, wasted, or abused inventory. Also, documenting expected operational procedures and periodically training employees on system usage ensures data is consistent, relevant, and timely. A formalized procedure document reinforces management's expectations from the patrols and provides guidance to achieve organizational objectives.

Management Actions

During the course of the audit, management began to take corrective action. Specifically, management began creating a formalized document to provide guidance on roles and responsibilities related to inventory and monitoring of patrol inventory.

Recommendations

We recommend that maintenance management perform an annual review of the internal control system at the patrol level. We also recommend management:

- Enhance and document internal controls at the patrol level
- Annually train staff on these internal controls

Management Comments

Management agreed with the findings and recommendations made in this report.

“We are reasonably certain the findings of this audit could be replicated in any storeroom within CDOT. From our perspective, CDOT has a pretty good handle on procurement and its associated managerial controls, but we definitely need a state-wide solution for our storerooms, and for property issued from storerooms. In other words, we need more effective accountability of property from purchase through consumption. The good news is, the Division of Highway Maintenance, Procurement, and Policy will begin writing a PD for Storeroom Operations that is planned to be implemented by 12/31/16. This new PD will address training, inventory/managerial controls, documentation, and employee accountability.”

Evaluation of Management Comments

The Division of Audit considers management’s comments responsive to the recommendations and the planned corrective actions should resolve the issues identified in the report.

Objective, Scope, Methodology and Criteria

Our objective was to assess the adequacy and effectiveness of the internal controls over storeroom material and supplies at the maintenance patrols in Region 1.

We conducted this review from June 2015 through January 2016 accordance with Generally Accepted Government Auditing Standards (GAGAS) 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.

In order to meet our objective, we conducted interviews with Region 1 maintenance management, storeroom personnel, and maintenance patrol employees. We also conducted analysis of storeroom reservation activity by patrol and judgmentally selected the six maintenance patrols with the highest total storeroom inventory consumption in fiscal year 2015. This sample represents approximately 15% of all Region 1, Section 5 maintenance patrols. We visited these patrols to observe processes and procedures over material and supplies obtained from the storerooms.

We used the following audit criteria, when applicable:

- Standards for Internal Control in the Federal Government
- CDOT Accounting Manual
- Fiscal Procedures Manual
- State Fiscal Rules
- Documented policies and procedures over material and supplies

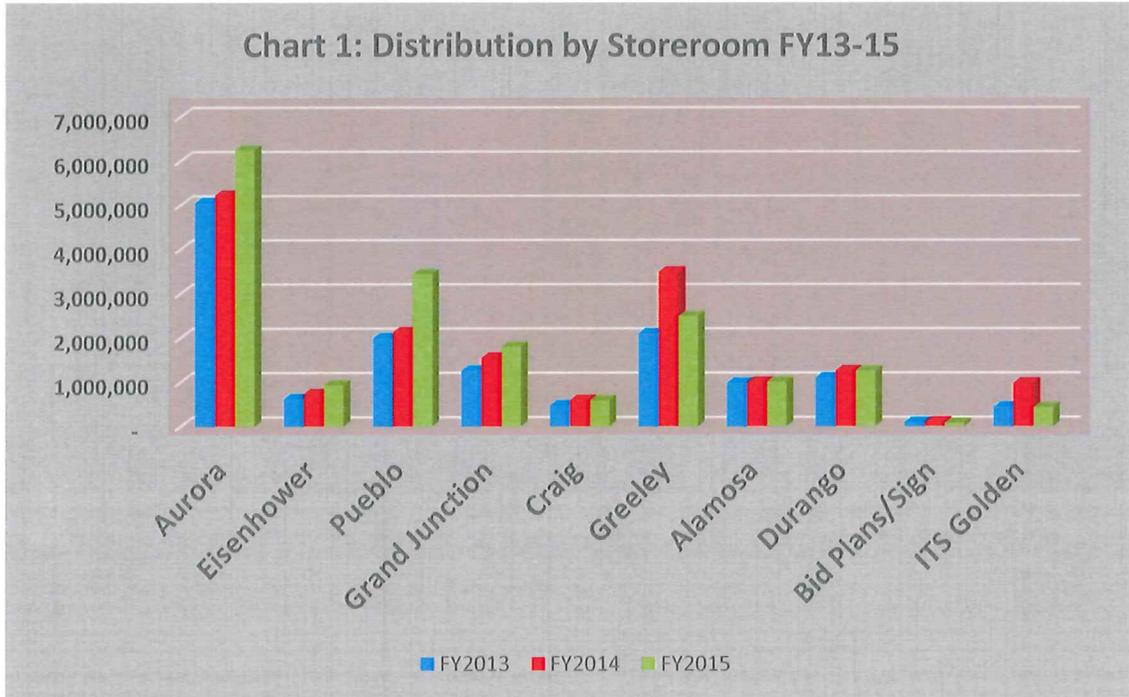
Prior Audit Coverage

We audited the internal controls at the Aurora storeroom in 2004 (Audit No. 0409). We noted that the controls were adequate but were not documented. Upon follow up procedures conducted in 2004, the CDOT Audit Division determined that the recommendations were implemented.

Additional Information

The following graph shows distribution by storeroom for the past three full fiscal years. Region 1 consists of two storerooms located in Aurora and the Eisenhower tunnel. Patrols primarily obtain supplies and materials from the storerooms located in their Region but occasionally request items from a closer storeroom due to the convenience or availability.

The purpose of this graph is to show the Region 1 consumption relative to the rest of the CDOT Regions and the assets at risk by area. Distribution from all CDOT storerooms totaled approximately \$18.2 million in fiscal year 2015. This has grown from approximately \$14.1 million and \$16.9 million in fiscal years 2013 and 2014, respectively.



Source: Audit Division's analysis of SAP data

Suggestions

We suggest management consider the following when establishing internal controls over patrol inventory:

- Standards of conduct that communicate expected behavior
- Consistent, documented process for utilizing SAP, reservations, and work orders
- Specific usage benchmarks or indicators for measuring and monitoring usage
- Identify, describe, and document roles and responsibilities of all parties involved
- Document threshold for inventory that is more closely monitored
- Periodically survey all interested parties to identify strengths, weakness, and challenges