

**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.

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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: Sidney 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 roll 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.

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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.

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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.

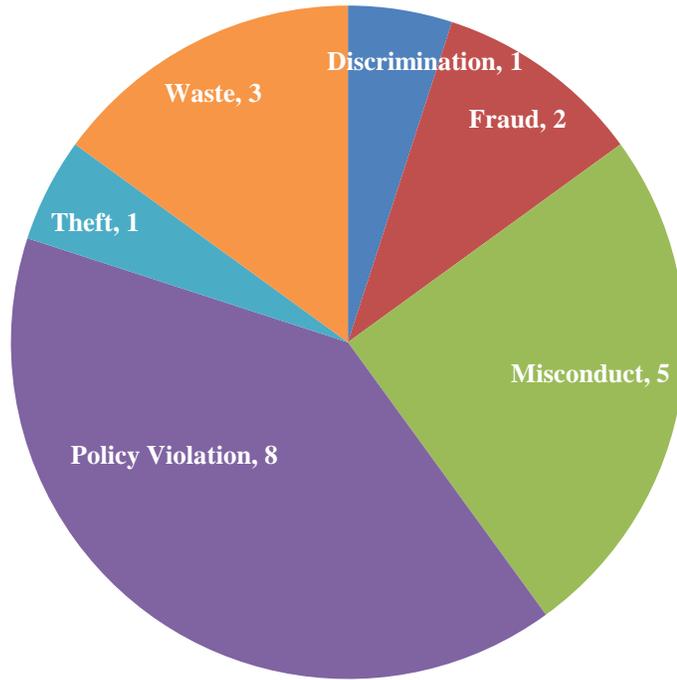
Sole Source Reviews

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

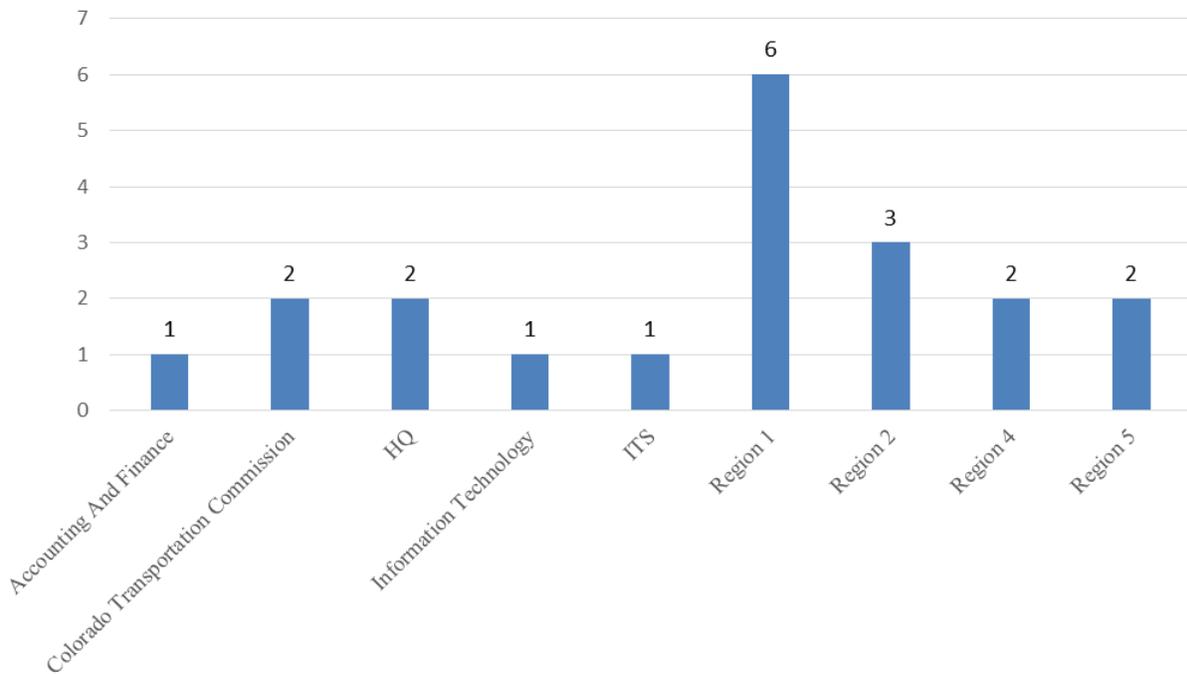
Source: Audit Division

**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