

Office of the State Auditor  
Financial and Compliance Audit of the Colorado Department of Transportation  
Fiscal Year 2023

Responses to Prospective Bidder Inquiries

1. What is the reason for the RFP? Is the current audit firm allowed to bid and how long have they been conducting the audit of the Department?

As noted in the RFP in Section I, Part P.4. states “The firm selected will be awarded a one-year contract which may be renewed on an annual basis for up to four additional years subject to acceptable performance and costs.” Therefore, the audit is subject to an RFP every 5 years. The current audit firm was awarded the RFP twice and has performed the audit for Fiscal Years 2012 through 2022. This makes them ineligible to bid as OSA policy requires a 10-year rotation for audit firms. See Section I, Part N. for information on the eligibility of firms to propose.

2. Who prepares the financial statements, footnotes, management’s discussion and analysis, etc.? Are these fully prepared by the Department or does the auditor assist in preparing any of these?

According to Department of Transportation (Department) staff, the financial statements, footnotes, and management’s discussion and analysis are fully prepared by the Enterprise Controller with guidance from the Office of the State Controller and the contracted firm. The Enterprise Controller also includes (if needed) the comments from both the contracted firm and OSA. Word processing, finalization, printing, and binding are completed by the contracted firm. A final working copy is expected to be returned to the Enterprise Controller.

3. What about the audit process would CDOT like to maintain and what could be changed/improved in the overall audit process, timing, communication, other areas?

According to Department staff, they would like to maintain pulling samples from SAP data, providing timelines/due dates at beginning of audit, single secured site for data to be uploaded, scheduling fieldwork for both interim and final testing. Department staff would like to improve consistency and organized audit requests from the contract auditors and communication on what is being requested from the contract auditors, and single points of contact within the audit team to match single points of contact with the Department’s Accounting team. The Department staff would also like a meeting at the beginning of the audit to establish expectations on communication and audit requests.

4. What were the fees charged for the 2022 and 2021 services listed in the RFP? Were there any additional audit fees billed last year pertaining to services provided outside the scope of the services listed in the RFP? If so, can you provide a list of services and additional fees pertaining to those services?

The contract fees for the Fiscal Year 2021 and 2022 audits were \$196,100 and \$231,500, respectively. In 2021, additional fees were billed in the amount of \$15,796, for a total of \$211,896. The contracted firm performed additional audit procedures, due to the auditor’s risk assessment of the Department. In 2022, a major program that was initially selected

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for testing, no longer met the federal requirements under Uniform Guidance for major program testing. A contract amendment was processed, reducing the contract amount by \$14,700, for a total contract fee of \$216,800.

5. Are there any known significant transactions or activities planned for the future periods that should be considered in our proposed fee structure?

According to Department staff, tolling commencing on Central 70. In addition, the High Performance Transportation Enterprise (HPTE) currently contracts with E-470 for tolling collections and billing. HPTE is looking to hire another firm as a sub-contractor before the end of fiscal year 2023. Department staff also identified that a new Transportation Infrastructure Finance and Innovation Act (TIFIA) loan scheduled for Fiscal Year 2023 is possible.

6. Have there been any changes or departures in key staff, at all levels, in the past 3 years that would affect the upcoming audit? Are you aware of any upcoming departures of key financial reporting personnel due to retirements, etc. in the next year or two?

According to Department staff, several new staff have been added due to departures from years prior. Specifically, the Department has hired a new Payroll Manager, General Accounting Manager and Director of Accounting. The Department is not aware of any upcoming departures, as of today. For additional information, see question 23.

7. Does the Department use CORE, and any other systems?

According to Department staff, they use SAP which interfaces to CORE at a summarized trial balance level.

8. What were the total hours required to complete the audit and related requested procedures for fiscal year 2022?

In a typical year, the scope of the audit involves, a) An audit of those balances of CDOT that exceed the materiality level determined at the statewide level, including a review of the related internal control structure. b) Audit of the basic financial statements of the Statewide Bridge and Tunnel Enterprise, including a review of the related internal control structure as required by generally accepted auditing standards and Government Auditing Standards. c) Audit of the basic financial statements of the Colorado High-Performance Enterprise, including a review of the related internal control structure as required by generally accepted auditing standards and Government Auditing Standards. d) Audit of CDOT's federal grant programs under the federal Single Audit Act. e) Review of CDOT's compliance with state and federal laws and regulations, State Fiscal Rules, and bond covenants that could have a material effect on CDOT's financial statements. f) Performance of audit work to evaluate the CDOT's progress in implementing prior audit recommendations, if applicable. g) Review of CDOT's exhibits required by the State Controller to be submitted to the State Controller in support of the statewide financial statements. Also, review of all of CDOT's adjusting entries, posted or not, after the

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Colorado Operations Resource Engine's (CORE's) final year-end closing. h) Submission of attestation memos to the OSA on the results of audit work performed. These memos will be used to support the audit of the statewide financial statements and statewide Single Audit. i) Preparation of report comments and/or a management letter, as appropriate based on assessed severity level, containing audit findings and recommendations for improvements in the operations, internal controls, and accounting procedures of CDOT, along with any opportunities for cost savings determined through the audit. j) Issuance of an independent auditors' report on the financial statements of the Statewide Bridge and Tunnel Enterprise. k) Issuance of an independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements of the Statewide Bridge and Tunnel Enterprise performed in accordance with Government Auditing Standards. l) Issuance of an independent auditors' report on the financial statements of the Colorado High-Performance Enterprise. m) Issuance of an independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements of the Colorado High-Performance Enterprise performed in accordance with Government Auditing Standards.

The actual number of hours and the specific procedures for this audit were not provided to us.

9. In a typical year, how many auditors are on-site during audit fieldwork, and how many weeks are the auditors in the field for the audit?

According to Department staff, there have been approximately two auditors during interim testing and up to six auditors during the final testing period. Department staff indicated this degree of staffing was not for the entire audit, but for certain weeks during final testing and was usually just for the financial audit and the two Enterprises.

10. Is the CDOT planning any major transactions (e.g., debt issuances, mergers, significant new types of operational activities, etc.) over the next few years that would significantly impact the financial statements?

According to Department staff, it does not anticipate any debt issuances in the next several years, although, debt issuances are anticipated through the Bridge and Tunnel Enterprise (BTE) and Colorado Transportation Investment Office. BTE will likely have a series of issuances over the course of 2024 - 2026. These would not be TIFIA loans but revenue bonds backed by BTE fee revenue. The issuances would be tied to 10-Year Plan projects that are all hitting around the same time, creating a "pinch point" in terms of cash flow, most notably I-70 Floyd Hill. HPTE is in the process of executing a TIFIA loan with USDOT this Spring for I-25 North, and will have another TIFIA loan in 2024 for I-70 Floyd Hill. No other major transactions affecting the financial statements are currently anticipated. Central 70 will reach substantial completion in Fiscal Year 2023.

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11. Does CDOT anticipate any other major changes in its federal or state funding over the next several years that would have a significant impact its operations?

According to Department staff, they reported generally, no. The funding composition of current revenue sources will change as COVID-19 Stimulus funds and Senate Bill 17-267 debt proceeds are spent down, and as new state fee revenue sources phase in from Senate Bill 21-260. This bill creates new sources of dedicated funding and new state enterprises to enable the planning, funding, development, construction, maintenance, and supervision of a sustainable transportation system. New state fee revenue sources will include ride share, road usage and retail delivery fees. In addition, Department staff noted that federal infrastructure funds received in fiscal year 2022 from the Infrastructure Investment and Jobs Act (IIJA) hasn't been spent as of now. According to Department staff, the passage of the IIJA provides CDOT with approximately \$100 million additional funds above previous fiscal year apportionments which will flow through the usual Federal Highway Administration Funding (FHWA). In addition to across the board increases for most existing programs, it established the following:

Bridge Formula Program  
Electric Vehicle Program  
Carbon Reduction Program  
PROTECT Program

12. Please describe CDOT's understanding of the impacts and implementation status or plan regarding the following:

Conduit Debt Obligations- GASB 91

According to Department staff, CDOT follows the guidance provided from the Office of the State Controller. In addition, the Department plans to have all reviews and impact analysis done by June 30, 2023. According to Department staff, CDOT will be meeting with its consultants to help the Department determine the impact of each GASB.

Public-Private and Public-Public Partnerships and Availability Payment Arrangements- GASB 94

According to Department staff, CDOT follows the guidance provided from the Office of the State Controller. In addition, the Department plans to have all reviews and impact analysis done by June 30, 2023. According to Department staff, CDOT will be meeting with its consultants to help the Department determine the impact of each GASB.

Subscription-Based Information Technology Arrangements-GASB 96

According to Department staff, CDOT follows the guidance provided from the Office of the State Controller. CDOT is in the processing of hiring consultants to assist with the implementation. The Department plans to have all reviews and impact analysis

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done by June 30, 2023. According to Department staff, CDOT will be meeting with its consultants to help the Department determine the impact of each GASB.

13. Are there any expected changes in key accounting or information systems in the near future?

According to Department staff, they noted no expected changes in the accounting system; however, there could be additional external information systems that would need to communicate with the accounting system.

The Office of the State Auditor will perform risk assessment procedures to determine and communicate to the awarded bidder the significant financial statement and/or major program compliance IT systems required for IT related testing, as it relates to internal controls over financial reporting.

14. What are the communication/update meeting expectations during the course of the audit?

Overall, responsiveness and proactive, clear communication between the contract auditor and the OSA is essential. The auditor must complete the audit in accordance with all due dates established in the timeline, which is especially important so that the OSA has appropriate time to review. Therefore, it is critical for the contract auditor to have regular communications with the OSA on the status of the audit and timing of submitting the attestation memos.

According to Department staff, they would like open daily communication and weekly update meetings.

15. Does CDOT have any single audit or financial statement internal control findings as a result of the most recent audit period to be issued in the FY22 statewide single audit report?

The Department's portion of the Statewide Single Audit report is scheduled for release by the Legislative Audit Committee on Tuesday, February 28, 2022. Once the LAC releases the report, it will be available for review on the OSA's website at <https://leg.colorado.gov/content/audits>.

16. To clarify the Audit Scope, for the Department the selected auditor would be performing audit testing, but will not be issuing an audit report, correct?

The selected auditor will perform all audit testing of the Department. The OSA will compile and issue through the Legislative Audit Committee the Statewide Single Audit Report. In addition, the contract auditors will work with the Department to prepare the standalone reports for the High Performance Transportation Enterprise and Bridge and Tunnel Enterprise. These two audit reports will be assembled by the contract auditor, approved by the OSA, then released by the Legislative Audit Committee.

17. Similarly, for the Department's federal grants and the State Fiscal Rules, the selected auditor would be performing the controls and compliance testing, but will not issue an audit report, correct?

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The selected auditor will perform the controls and compliance testing and will report to the OSA through attestation memos the results of their testing. The OSA will compile and issue through the Legislative Audit Committee the Statewide Single Audit Report.

18. The Background Information section mentions four additional funds (State Highway Users Tax fund, High-Performance Transportation Enterprise fund, Clean Transit Enterprise fund, Nonattainment Area Air Pollution Mitigation Enterprise fund). Please confirm that there are not separately issued reports for these, or that they are not part of the scope of this RFP.

The scope of the RFP does include a separately issued report for the High-Performance Transportation Enterprise and the Statewide Bridge and Tunnel Enterprise. The Office of the State Auditor and Department staff are unaware of a requirement for separately issued reports for the State Highway Users Tax fund, Clean Transit Enterprise fund and the nonattainment Area Air Pollution Mitigation Enterprise fund. However, as part of the testing at the Department, these funds are part of the scope of work for this RFP that would be included as part of the State's financial statement testing that the contract auditor will need to report to the OSA through attestation memos.

19. Item (g) in the Audit Scope says, "Review of the Department's exhibits required by the State Controller to be submitted to the Office of the State Controller in support of the statewide financial statements. Also, review of all of the Department's adjusting entries, posted or not, after the Colorado Operations Resource Engine's (CORE's) final year-end closing." What is the expectation of the selected auditor? Would we be providing any written confirmation or assurance?

Written confirmation will be provided by the awarded bidder through the Office of the State Auditor's Attestation Memos and are attached to the RFP at Section 1, Part c "Deliverables and Timelines" within the RFP. Most testwork related to exhibits is for the completion of the OSA's Attest E. Exhibit instructions and templates can be found on the Office of the State Controller's website at <https://osc.colorado.gov/financial-operations/fiscal-rules-procedures>.

20. When has the bulk of the testing been performed historically? Page 6 of the RFP indicates all controls testing must be completed by June 30, 2023, but when is the substantive and compliance testing typically performed? August? September?

The Office of the State Auditor's Attestation Schedule outlines specific due dates for substantive and compliance testing, see Section 1, Part C "Deliverables and Timelines" within the RFP. According to Department staff, they also use the Attestation Schedule to plan compliance and substantive testing. Typically controls testing is performed in June and substantive testing is performed in August and September.

21. Are the timelines on pages 6 and 7 for just the Department audit testing or does that timing include the two enterprise funds with separately issued audit reports? Those two appeared to be issued later (December 15) for FY22.

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The timeline noted on pages 6 and 7 of the RFP for financial reporting is the same for the Department and the two Enterprises.

22. Page 13, 8. b., asks to “state the total inclusive maximum fee for which the work requested will be done, and provide separated fees for audit work of federal major programs. The fees for this audit work will be added to the base price.” On page 6, it states that there are 3 major programs expected. Should we provide our proposed fees for each individual major program? Or provide our proposed fees for the three cumulatively?

The proposal should include the individual fee for each major program and should show a total amount including the major programs.

23. Have there been any significant changes in transactions, personnel or internal controls since June 30, 2022 that might impact the FY23 audit?

According to Department staff, the following was noted:

Personnel: Director of Accounting was hired in September 2022. There is an ongoing effort to backfill/hire operational staff. A payroll manager retired & new payroll manager was hired in July 2022 and the Department is in the process of hiring a Controller I position.

In regards to significant changes in transactions or internal controls, the only thing of note is that the purchasing thresholds were increased by State Fiscal Rules update. In addition, Department staff noted that overall there haven't been significant changes to internal controls; however the department will be evaluating internal controls.

24. What are the key information systems that historically have been in scope and what is the purpose/use of each?

As determined through the Office of the State Auditor's risk assessment procedures and communicated to the awarded bidder, historically, SAP, the Department's Enterprise Resource Planning financial system of record, has been identified as a significant system. SAP contains the financial transactions and federal program activity for the Department.

25. How much of your audit was conducted virtually the past year? The RFP mentions virtual work may be able to be facilitated but some on site work may be required. What are your expectations for the amount of time spent on site and what procedures are best performed in person versus virtual?

According to Department staff, 80 to 90% of the audit was virtual in the past year. The Department expressed an interest for the upcoming audit to be a hybrid audit, with more than 50% being performed on-site at the Department. Specifically, the Department would prefer to schedule two weeks in June on-site and also the last week of August and the entire month of September. We have found that Fixed Assets, working with SAP, and Contracts and Grants reviews are best performed on site; however, there may be other areas identified as the audit progresses.