

WEST VIRGINIA DEPARTMENT OF TRANSPORTATION
ADMINISTRATIVE PROCEDURES
VOLUME I, CHAPTER 8

SUBJECT: GENERAL
CHAPTER TITLE: AUDIT REPLIES

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I. INTERNAL AUDITS

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A. **GENERAL INFORMATION**

As designated by the Secretary of Transportation, Transportation Auditing is responsible for conducting audits of all operations and activities of the Department of Transportation. As part of this assignment, Transportation Auditing, Internal Audit Section, performs internal operational reviews, audits of financial transactions, accounts, and reports and evaluates compliance with applicable laws and regulations.

The internal audit function is an organized activity that provides an objective and independent evaluation of the audited operations. In conducting these internal audits, the Internal Audit Section measures the Department's performance against applicable laws, regulations, policies and procedures within government as well as the recognized standards of sound management. The Internal Audit Section also conducts reviews to determine the efficient and economic use of the resources of the Department of Transportation.

The Internal Audit Section advises management of their efforts by issuing written audit reports. These reports express opinions and conclusions regarding the results of the reviews and offer recommendations concerning needed improvements and corrective actions for areas where weaknesses and deficiencies exist.

Following the issuance of the audit report, the managers cited in the recommendations prepare and submit their responses to Transportation Information Services. Information Services performs a verification of the auditees' responses and resolutions, categorizes the status of each recommendation (see Appendix for definitions) and issues a Verification Report. Each calendar quarter, Information Services issues a Quarterly Audit Status Report to advise of the resolution status of each recommendation. This report provides DOT level managers with the means to monitor the progress of corrective actions to processes and systems cited with deficiencies from previous internal audits.

Overseeing the internal audit function is the Audit Committee. The Audit Committee is comprised of Department of Transportation managers appointed by the Secretary of Transportation. The committee is responsible for guiding the audit program as well as ensuring that the processes of response, follow-up, corrective action and disagreement resolution are in place and being followed.

B. DOT OPERATIONAL AUDIT REPLY POLICIES

1. TRANSPORTATION AUDITING will:

- a. develop an annual Internal Audit Plan that reflects the concerns of the DOT Audit Committee as well as the DOT agency managers;
- b. perform each audit in accordance with the standards of governmental auditing, these procedures and any instructions from DOT management or the DOT Audit Committee;
- c. solicit management comments on the Preliminary Audit Report, offer and conduct, if requested, an Exit Conference and incorporate any comments into the Final Audit Report;
- d. issue each Final Audit Report to the auditee(s), appropriate DOT managers and to the Audit Committee.

2. AUDITEES (the manager(s) of the audited organization with responsibility for submitting responses and effecting resolution) will:

- a. cooperate with Transportation Auditing's auditors in their investigation and analysis efforts;
- b. review the Preliminary Audit Report and provide written management comments and/or request an Exit Conference, if desired;
- c. submit written replies to the Final Audit Report recommendations within the specified time limits and on the

- prescribed response form along with copies of documentation to support any resolution action taken;
- d. provide written responses for unresolved recommendations for the Quarterly Audit Status Report;
- e. ensure that timely resolution of agreed upon recommendations is accomplished.

3. The **AUDIT COMMITTEE** will:

- a. participate in audit planning by receiving, reviewing and recommending requests for audit services;
- b. ensure the systems of audit follow-up, resolution and corrective action are documented and in place;
- c. review all Preliminary and Final Audit Reports and request clarifications of the report or issues from the appropriate organizations;
- d. review all Verification Reports and
 - i. ensure that auditees that are delinquent in submitting written responses (Category 0) provide them,
 - ii. issue decisions, in writing, for the resolution of recommendations to which the auditee(s) disagree (Category 4) or a policy decision is required (Category 5);
 - iii. ensure that corrective actions are implemented;
- e. review the Quarterly Audit Reply Status Report and issue sanctions or administrative action to individuals or to organizations that do not comply or do not resolve, in a timely manner (Category 3), the agreed upon recommendations;
- f. conduct meetings of the committee to include representatives of Transportation Auditing, Information Services and others, when required to aid in the administration of the Operational Audit Reply program.

4. **INFORMATION SERVICES** will:

- a. establish a file for each audit and retain auditee responses, resolution documentation, verification, etc.;
- b. issue a delinquency memorandum to the auditee, with a copy provided to the Audit Committee and to Transportation Auditing, if no response is received within 30 calendar days of the date of issue of the Final Audit Report;
- c. facilitate disagreement resolution meetings, upon request, between Transportation Auditing and the auditee;
- d. prepare an Audit Verification Report within 60 calendar days of the date of issue of the Final Audit Report and submit a copy to the auditee(s), the appropriate managers, Transportation Auditing and the Audit Committee;

- e. amend the Verification Report to include delinquent responses from auditees or if the Audit Committee issues decisions regarding disagreements;
- f. maintain an Operational Audit Reply Status Register and issue a Quarterly Audit Reply Status Report to the Secretary of Transportation, the Audit committee and Transportation Auditing.
 - i. The Operational Audit Reply Status Register is an internal control log to record the receipt of Final Audit Reports, reply dates, implementation dates and other applicable information.
 - ii. The Quarterly Audit Status Report will list the recommendations and their status (see Appendix for definitions) as of the end of each calendar quarter.

5. The **SECRETARY OF TRANSPORTATION** will:

- a. make appointments to the Audit Committee;
- b. provide copies of the audit report to the appropriate federal agencies and the Office of the Inspector General (OIG) when federal funds are involved in the audit work area.

C. DOT OPERATIONAL AUDIT REPLY PROCESSES

1. PRELIMINARY AND FINAL AUDIT REPORT

- a. Upon completing each audit, the Internal Audit Section of Transportation Auditing prepares and sends the Preliminary Audit Report to the auditee(s), Information Services, and the DOT Audit Committee.
- b. The recipients, within 30 calendar days from the date of the report, will submit to Transportation Auditing any written comments or requests for an Exit Conference.
- c. Transportation Auditing will schedule and conduct an Exit Conference, if requested, within 14 calendar days after the end of the comment period and invite all interested parties.
- d. Transportation Auditing will consider all written comments and Exit Conference comments for inclusion in the Final Audit Report as required.
- e. Transportation Auditing will prepare and issue a Final Audit Report and send a copy to the auditee(s), Information Services and the DOT Audit Committee within 60 calendar days from the date of the preliminary report. All recommendations will be on Form BI-25A.

2. AUDITEE RESPONSE

- a. The auditee(s) will prepare their responses and submit them

by memo to Information Services, with a copy to Transportation Auditing, within 30 calendar days from the date of the Final Audit Report.

- b. All responses will be on Forms BI-25A as provided in the report and completed as follows:
 - i. identify the "Date of Reply" and "Reply Submitted By";
 - ii. choose agree or disagree for each recommendation and/or suggestion by inserting an "A" for agree or "D" for disagree in the appropriate column (Do not answer "A/D");
 - iii. identify a reasonable implementation date for when corrective action was taken or when the recommendation will be resolved;
 - iv. in the "Organizational Response Section," state the specific action(s) that were or will be taken to resolve the recommendation if there is agreement, or explain the reasons for disagreement.
- c. A copy of appropriate (written) documentation will also be submitted to support resolution actions referenced in the responses.
- d. Information Services may return responses to the auditee that are incomplete or inadequately supported.

3. AUDIT VERIFICATION REPORT

- a. Upon receipt of the Final Audit Report, Information Services will establish a file to retain all documentation and enter the required information to establish the Operational Audit Reply Status Register records.
- b. Upon receipt of auditee responses to recommendations, Information Services will perform verification by:
 - i. examining all responses and documentation for adequacy ensuring that the proper form (BI-25A) was used and that all issues and form items were addressed;
 - ii. contacting the auditee(s) and/or Transportation Auditing to request clarifications or additional information/documentation;
 - iii. categorizing each recommendation as to its resolution status based upon analysis of the resolution evidence provided by the auditee, any follow-up investigation conducted by Information Services and any consultations with DOT management and Transportation Auditing.
- c. When responses are not received within 30 calendar days of

the date of the Final Audit Report, Information Services will:

- i. issue a delinquent response memo to the auditee (s), with a copy to Transportation Auditing and the Audit Committee, to advise that 10 additional calendar days will be permitted for response;
 - ii. if the response(s) is not sent after 10 days, the recommendation(s) will be categorized as “No Response”. Category Zero and the Audit Verification Report will be issued.
 - iii. An Amended Verification Report may be issued if the auditee submits responses after the original Category Zero report was issued.
- d. If any disagreement responses were submitted, Information Services will, upon request, schedule and conduct a meeting between Transportation Auditing and the auditee to discuss potential resolution.
- e. Information Services prepares the Audit Verification Report by:
 - i. completing Form BI-25B for each recommendation with an explanation of any resolution investigation conducted and the categorization assigned (see Appendix);
 - ii. attaching a copy of completed Forms BI-25A and documentation submitted by the auditee(s), and;
 - iii. attaching a memo for transmitting the Verification Report to all auditees, the Audit Committee, appropriate managers and Transportation Auditing.
- f. Upon completing and distributing the Audit Verification Report, Information Services will update the records of the Operational Audit Reply Status Register.

4. QUARTERLY AUDIT STATUS REPORT

- a. Information Services will request, at least 21 calendar days prior to the end of each calendar quarter, an update in resolution status of all recommendations and/or suggestions which are listed as Category 2, Awaiting Implementation and Category 3, Implementation Overdue.
- b. Information Services will request the status update from each auditee by memo, with response forms attached, giving at least two weeks for response and documentation submission.
- c. Information Services will prepare the Quarterly Audit Reply Status Report by:

- i. examining all responses and documentation for adequacy;
 - ii. conducting any investigation/analysis to verify actions taken;
 - iii. assigning the appropriate categorization, and;
 - iv. updating the Operational Audit Reply Status Register.
- d. The Quarterly Audit Status Report will list all unresolved recommendations (Categories Zero, Three, Four and Five), all recommendations awaiting resolution (Category Two) and all resolved recommendations (Category One) for the reported quarter.
- e. Information Services will issue the Quarterly Audit Status Report by each January 15, April 15, July 15 and October 15 to the Secretary of Transportation, all members of the Audit Committee and Transportation Auditing.

5. DOT AUDIT COMMITTEE MEETINGS

- a. At the request of the Secretary of Transportation, the DOT Audit Committee will meet to discuss the unresolved recommendations (Categories Zero, Three, Four and Five).
- b. Representatives from Transportation Auditing and from Information Services will be invited as well as any other manager deemed necessary to the meeting.
- c. Minutes of each meeting will be maintained and a written resolution plan for the unresolved recommendations will be prepared.
- d. The Audit Committee's resolution plan will be submitted to the Secretary of Transportation for approval.
- e. Following approval, the plan will be issued to all members of the Audit Committee, Transportation Auditing, Information Services and the managers whose unresolved recommendations were addressed.

6. ANNUAL INTERNAL AUDIT PLAN

- a. Transportation Auditing will prepare a draft Internal Audit Plan and distribute to the appropriate DOT managers for review and comment by December 1 of each year.
- b. Transportation Auditing will consider all comments on the draft and prepare a final Internal Audit Plan and submit for approval by the Secretary of Transportation by January 15 of each year.

D. APPENDIX

Information Services will verify that all recommendations and/or suggestions are properly classified and reported on each Verification Report, the Operational Audit Reply Status Register, and the Quarterly Audit Status Report

as follows:

CATEGORY 0 -- The audited organization has not responded to the Final Audit Report or Information Services' request for response to the recommendations and/or suggestions. (Items in this Category are to be considered by the Audit Committee.)

CATEGORY 1 -- The audited organization agrees with Transportation Auditing's recommendation and/or suggestion and has complied with same.

CATEGORY 2 -- The audited organization agrees with Transportation Auditing's recommendation and has established a reasonable implementation date for compliance.

CATEGORY 3 -- The audited organization has exceeded the established implementation date for compliance. (Items in this Category are to be considered by the Audit Committee.)

CATEGORY 4 -- The audited organization does not concur with Transportation Auditing's recommendation and/or suggestion, and Information Services cannot resolve the matter. (Items in this Category are to be considered by the Audit Committee.)

CATEGORY 5 -- The audited organization concurs with Transportation Auditing's recommendation and/or suggestion, but a policy decision is required to resolve the matter. (Items in this Category are to be considered by the Audit Committee.)

II. PROCEDURES COMPLIANCE EVALUATION SECTION

Effective: 7/1/2006

A. GENERAL INFORMATION

The following procedures apply to Corrective Action Replies (Form CZ-61, Form CZ-62 and Form CZ-63) to Procedures Compliance Evaluation Section Reports (PCES Reports). These reports concern reviews performed by Transportation Auditing in the Construction, Maintenance and District areas, and occasionally other areas of the DOT. Replies by responsible persons should be made to Transportation Auditing as noted herein.

The Corrective Action Reply (Form CZ-61) is a multipurpose form to be used by Contract Administration, Highway Operations, District Organizations or other DOT Divisions, in replying to Procedures Compliance Evaluation Section (PCES) Reports. Form CZ-62 is to be used only by support organizations (primarily Divisions) in replying to PCES Reports with findings addressed to organizations other than the auditee. Form CZ-63 is to be used to reply to a District Shop Review. Forms CZ-61, CZ-62 and CZ-63 are to be completed and received by Transportation Auditing within forty-five (45) days after the reviewed organization receives the PCES Report.

Generally, processing and approvals of the Corrective Action Reply should progress from the auditee to the next level of management shown on the first page of the reply form. The

normal approval channels will occasionally be different from normal when it is felt that additional approvals are needed. The reply process is all taken place electronically through the e-mail system. Each management level requiring a signature should review the reply and if approval is given, date and type their name on the first page of the CZ-61 and then save it before forwarding the e-mail to the next management level on the form. If an approving manager wants to add a comment, they should type their name with the comment so that the author is known. If an approving manager wants to send the reply back for additional information, the e-mail should be forwarded back to a previous authority (i.e. do not reply to an e-mail or the attachment CZ form will be lost).

Please keep all e-mail data intact by always forwarding the e-mail with the CZ form attached; since the Department doesn't actually have electronic signatures yet, do not delete names on the e-mail so that an audit trail of the reply is available.

Note: The distribution of our reports may be limited if the reports contain privileged or confidential information. Distribution within your organization, or outside your organization, is discretionary. Legal Division or Auditing Division may need to be consulted prior to distributing reports to those not on the normal distribution shown on the last page of the audit report.

B. RESPONSIBILITIES

The manager of the audited organization, or the project supervisor/engineer of the construction project, is responsible for answering the audit report on the CZ form within the timeline given. After answering the reply, the manager should type and date the first page and then forward the CZ form (via e-mail) to the next management level indicated on the CZ form. Each subsequent level of management noted on the front page of the CZ form requiring approval is responsible for ensuring that the auditee's reply is appropriate. If the reply is acceptable, the manager should date and sign (type name) the CZ form and forward to the next management level. However, if something is not acceptable or is unclear and requires additional information, the CZ form should be forwarded via e-mail back to a previous level for revision or additional information.

The District Engineer/Manager is responsible for all replies in their district to ensure they are answered in an appropriate and timely manner. The Deputy State Highway Engineer/Operations is ultimately responsible for the replies to maintenance and equipment shop audits and forwarding the completed reply to Transportation Auditing. The Deputy State Highway Engineer/Construction is ultimately responsible for the replies to the construction audits and forwarding the completed reply to Transportation Auditing.

Occasionally, an audit finding will recommend that upper level management reply to the finding. Form CZ-62 (Correction Action Reply – Support Organizations) is utilized for these types of replies. Auditing Division will send the CZ-62 to the appropriate management level and the auditee will generally not be required to respond to that particular finding. Once the appropriate authority answers the CZ-62, it should be either forward to a higher manager listed on the CZ-62 or returned to Transportation Auditing as applicable.