

# NC Office Of State Auditor Review

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## Internal Audit Report NC DOT OIG Internal Audit *“Audit of Highway, Planning & Construction Highway Division Contract Pre- Award Process”*

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# OSA Review

## Acronyms/Terms Defined

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**DOT OIG** – North Carolina Department of Transportation Office of Inspector General – Internal Audit Division

**Audit** – Internal Audit titled “*Audit of Highway, Planning & Construction - Highway Division Contract Pre-Award Process*”

**GAO Standards** – Government Auditing Standards Issued by the Comptroller General of the United States

# **OSA Review**

## **DOT OIG Internal Audit**

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**DOT OIG Audit did not comply with Government Auditing Standards Specifically the:**

- 1) Audit conclusion was not support by the findings,**
- 2) Auditors did not relate the findings to the population and quantify dollar values,**
- 3) Auditors did not use their risk assessment to establish the sampling methodology,**
- 4) Sampling methodology was not designed to obtain sufficient evidence,**

# **OSA Review**

## **DOT OIG Internal Audit**

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**DOT OIG Audit did not comply with Government Auditing Standards Specifically the:**

- 5) Auditors did not document their consideration of information system controls,**
- 6) Auditors did not document an overall assessment of audit evidence,**
- 7) Auditors did not extend audit procedures to determine if fraud occurred.**

# OSA Review

## DOT OIG Internal Audit

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### AUDIT OBJECTIVES:

- 1) Evaluate Highway Division pre-award processes for Division Let Contracts and On-Call Purchase Order Contracts...for effectiveness of ensuring compliance with federal and state regulations and internal policies and procedures;
- 2) Evaluate Highway Division pre-award processes for Limited Services Purchase Order Contracts...for effectiveness of ensuring compliance with internal policies and procedures;
- 3) Determine DBE and non-DBE minority business utilization on Division Let, On-call Purchase Order and Limited Services Purchase Order Contracts.

# DOT OIG Internal Audit



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## 1. Audit conclusion was not support by the findings

**Key Findings**, Page 2 “Highway Divisions are generally effective in managing processes related to advertising, bidding & contractor selection for Division Let, On-Call PO, Limited Services Contracts”

Lack of controls reported in the findings **do not** support that Division processes were **effectively** managed.

# DOT OIG Internal Audit



## 1. Audit conclusion was not support by the findings

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### Auditors Reported Regarding DOT Highway Divisions:

- **11 of 14 (79%)** – **no controls** to verify project funding was authorized & released before advertising bids (**Finding 1**)
- **11 of 14 (79%)** – **no controls** ensuring project estimates were reviewed for accuracy & completeness (**Finding 3**)
- **10 of 14 (71%)** – **no controls** ensuring projects w/ est. costs > \$5M were not advertised at the Division level. (**Finding 3**)
- **10 of 14 (71%)** - **no controls** results of bidding published w/in 3 business days (**Finding 9**)
- **9 of 14 (64%)** – **no controls** to ensure projects advertised required amount of time (**Finding 4**)
- **8 of 14 (57%)** – **no controls** to ensure all bidders were pre-qualified. (**Finding 5**)
- **8 of 14 (57%)** – **no controls** to ensure compliance w/ bid opening procedures. (**Finding 6**)

# DOT OIG Internal Audit GAO Standards

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**GAO Audit Standards require that:**

**9.19 Auditors should report *conclusions* based on the audit *objectives* and the audit *findings***



# DOT OIG Internal Audit



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## **2) The Audit Report Did Not Relate Findings to the Population & Quantify the Results.**

### **Report Did Not Provide the Total:**

- **Dollar value for the population & samples of Division Let, On-Call PO, & Limited Services contracts,**
- **Number of contracts in the population of Division Let, On-Call & Limited Services Contracts**
- **Dollar value for the contracts associated with the errors that were described in the findings**

# DOT OIG Internal Audit



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## GAO Audit Standards Require that:

### 9.21 Auditors should place their findings in perspective...

- Describe the **nature** of the work performed,
- The **extent** of the work performed,
- Relate the instances/errors to the population or number of cases examined & quantify the results in terms of dollar value or other measures...

If the results cannot be projected, auditors should limit their conclusions appropriately.

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## 3) Risk Assessment Not Used to Establish Sampling Methodology.

### Risks:

- Without any procedures in place how much at risk...?
- What procedures are in place (if any) to reduce risk?
  - Risks Drive Sample Size...how many of the total do we test?
  - Nature of Tests to be Performed
- Without Documentation Auditors Selected Samples:
  - 20% of Division Let Contract Values (80 contracts),
  - 10% of On-Call PO Contract Values (38 on-call PO contracts)
  - 15% Limited Services Contracts (initially 20%)

# DOT OIG Internal Audit



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- 3) Risk Assessment Not Used to Establish Sampling Methodology (cont'd).**
- Controls Different at All Divisions – BUT- Treated All Divisions as if One Big Unit When Deciding How Many Contracts to Test**

# DOT OIG Internal Audit



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**GAO Audit Standards require that:**

**8.05 In planning the audit, auditors should assess the **significance** of **audit risk**. Auditors should **apply** these assessments to establish the scope & methodology for addressing the audit objectives...**

# DOT OIG Internal Audit



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## 4) Sampling Methodology Not Designed to Obtain Sufficient Evidence

For example:

- Only 3 to 12 Sample items selected from each Division for **Division Let Contracts**
- Only 1 to 6 Sample items selected from each Division for **On-Call Purchase Orders**
- Only 1 to 7 Sample items selected from each Division for **Limited Services Contracts**

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## GAO Audit Standards Require That:

8.06 Auditors should design the methodology to obtain **sufficient**, appropriate evidence that provides a **reasonable basis** for **findings** and **conclusions** based on the audit objectives and to reduce audit risk to an acceptably low level.

# DOT OIG Internal Audit



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## 5) Consideration of Information System Controls Not Documented

- IT controls “may” not be significant to Audit Objectives,
- Should be documented

**NOTE: Auditors “DID” Use Information Systems to:**

- Identify Contract Population/Universe
- Extract Items to Test
- Obtain and Review Documents



# DOT OIG Internal Audit



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## GAO Auditing Standards Require that:

**8.59** The effectiveness of significant internal controls frequently depends on the **effectiveness** of **information system** controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors **should** also **determine** whether it is **necessary** to evaluate information system controls.

**8.60** When information system controls are determined to be significant to the audit objectives...Auditors should obtain a **sufficient understanding** of **information controls** necessary to assess audit risk and plan the audit within the context of audit objectives.

# DOT OIG Internal Audit



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## 6) Did Not Document an Overall Assessment of Collective Evidence

### Did Not Document:

- Evaluation of Sampling Methodology
- Sampling Results
- Other Audit Procedures

To Determine if the **evidence** gathered was **sufficient** and **appropriate** to provide a reasonable basis for their findings and conclusions.

# DOT OIG Internal Audit



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**GAO Audit Standards require that:**

**8.108** Auditors should **perform** and **document** an overall assessment of the **collective** evidence use to **support** the findings and conclusions,...

**8.109** When assessing the overall **sufficiency** and **appropriateness** of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions;...

# DOT OIG Internal Audit



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## 7) Did Not Extend Audit Procedures to Determine if Fraud Occurred

**Auditors Identified Instances That Indicated Potential for Collusion or Fraud.**

**Policy Requires Divisions and Contractors to Prepare Separate Estimates of Project Costs,**

**Compare the Two Estimates to Determine Reasonableness of Proposed Cost. Auditors Noted:**

- 3 Instances in One Division **Preparer** Listed on DOT Estimate **Same Preparer** on **Selected Firm's** Estimate
- 1 Instance in One Division Preparer **"Was"** Division Employee

# DOT OIG Internal Audit



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## GAO Audit Standards Require That:

**8.72 Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.**

# State Auditor Review – DOT Internal Audit

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## Questions?

