

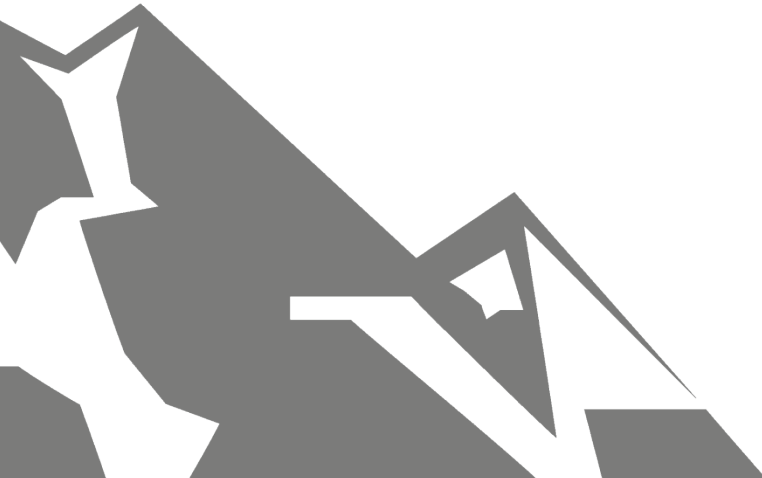


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We Set the Standard for Good Government

FISCAL YEAR  
2015

ANNUAL REPORT



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# MESSAGE FROM THE STATE AUDITOR

Fiscal Year 2015 was a successful year filled with many accomplishments for the Colorado Office of the State Auditor (OSA). First, the OSA issued 53 financial, performance, and IT audit reports and other work products. These audits and other work products provided agencies, the General Assembly, and the public with thorough, credible, and impartial assessments of the operation of state programs and information for use by decision makers. Every day of the year, the OSA and its staff work to improve government for the people of Colorado.



In May 2015, the OSA successfully underwent an external peer review of its audit operations. In accordance with *Government Auditing Standards*, the OSA undergoes an independent, external peer review once every 3 years. The OSA received a rating of PASS on the review, which is the highest level of assurance that an external peer review team can provide. The review was coordinated by the National State Auditors Association and conducted by a team of experienced auditors from other state audit organizations and the U.S. Department of Health and Human Services' Office of the Inspector General. The purpose of the peer review was to determine if the OSA's system of quality control has been suitably designed and complied with to provide reasonable assurance of conformance with applicable professional standards.

The OSA continues to be recognized for its work, public leadership, and investment in its employees. In June 2015, the OSA's *History*

*Colorado Performance Audit* (June 2014) received a Certificate of Impact Award from the National Legislative Program Evaluation Society. Certificate of Impact Awards are given to offices that release reports documenting public policy impact within their respective states.

In May 2015, I was named the recipient of the 2015 Leo Riethmayer Award for the Top Public Administrator in Colorado. This award is given by the University of Colorado-Denver's School of Public Affairs and recognizes individuals who demonstrate outstanding public administration leadership.

In February 2015, the OSA was named one of the top five Healthiest Employers by the *Denver Business Journal* in the small-sized company category. The OSA received a wellness grant from the Department of Personnel & Administration and used the grant funds for wellness training and challenges for its employees.

This annual report details other accomplishments and provides more information about the audits and other work products the OSA issued during Fiscal Year 2015.

A handwritten signature in black ink, appearing to read "Dianne E. Ray". The signature is stylized and cursive.

Dianne E. Ray, CPA  
State Auditor

# OSA MISSION

Through a comprehensive strategic planning process, the OSA has defined a mission statement, vision statements, and underlying goal for carrying out its statutory and professional responsibilities. The OSA regularly assesses these mission, vision, and goal statements to ensure their completeness, applicability, and responsiveness to the OSA's current and future needs and operating environment.

## OSA MISSION STATEMENT

- To improve government for the people of Colorado.

## OSA VISION STATEMENTS

- Our audits will identify efficiencies and cost savings, and improve effectiveness and transparency in government.
- We will provide objective information, quality services, and solution-based recommendations.

## OSA GOAL

- Produce quality and timely products that respond to changing demands by maximizing internal efficiencies and available resources, including products that identify cost savings and other financial benefits for the State. The OSA will promote the best and highest use of these products through targeted distribution and presentations.

# ROLE OF THE OSA

The OSA is the nonpartisan government watchdog for the citizens of Colorado. We provide the General Assembly, agencies, and the public with thorough, credible, and impartial assessments of the operation of state programs. The OSA's audits provide solution-based recommendations that focus on reducing costs, increasing efficiency, promoting the achievement of legislative intent, improving effectiveness and the quality of services, ensuring transparency in government, and ensuring the accuracy and integrity of financial and other information that decision makers need to hold government agencies accountable for the use of public resources.

Section 2-3-103, C.R.S., grants the State Auditor broad authority to conduct performance, financial, and information technology (IT) audits of all state departments and agencies, public colleges and universities, most special purpose authorities, any state entity designated as an enterprise, and other political subdivisions as required by law.

Colorado's Local Government Audit Law [Section 29-1-601, et seq., C.R.S.] requires every local government in the state to undergo an annual financial audit conducted by an independent certified public accountant (CPA). The State Auditor is required to examine these audit reports to determine compliance with accounting standards and other requirements. Local governments with revenues or expenditures less than \$500,000 may apply to the State Auditor for an exemption from audit. Senate Bill 15-024 increased this threshold to \$750,000 for fiscal years beginning on or after January 1, 2015.

# FINANCIAL BENEFITS

The OSA’s audits often identify potential financial benefits to the State and opportunities to help ensure responsible stewardship of taxpayer money. Financial benefits may include potential cost savings, collection of fees or debts owed, General Fund cost recoveries, policies that could be changed to increase revenue, improving the management of funds, leveraging State resources with matching funds, or increases in the value of assets in the State’s accounting system.

One of the OSA’s goals is to achieve at least a 3:1 ratio of benefits to costs.

5-YEAR AVERAGE FISCAL YEARS 2011–2015	
Potential Annual Financial Benefits Identified in Reports	\$35.0 million
Net Annual OSA Operating Costs*	\$6.7 million
Ratio of Benefits to Costs	5.2 : 1
*Net annual operating costs calculated from General Fund appropriations less General Fund reversions.	

The following table shows the total potential financial benefits identified in OSA audit reports for the past 5 fiscal years.

POTENTIAL FINANCIAL BENEFITS IDENTIFIED IN AUDIT REPORTS (IN MILLIONS) FISCAL YEARS 2011–2015					
2011	2012	2013	2014	2015	ANNUAL AVERAGE
\$16.9	\$67.8	\$28.5	\$19.1	\$42.9	\$35.0

SOURCE: Office of the State Auditor’s analysis of financial benefits reported in audit reports released during Fiscal Years 2011 through 2015.

Our Fiscal Year 2015 audits identified a total of \$42.9 million in potential financial benefits to the State. The majority of these potential financial benefits—\$39 million—were identified in the

*Consumer-Directed Attendant Support Services Performance Audit* (May 2015):

- It cost the State between \$39 and \$49 million more to provide services to clients through the Consumer-Directed Attendant Support Services Program during Fiscal Year 2014 than it would have cost to provide services through traditional delivery methods. Department management and policy makers need additional information to fully evaluate the cost-effectiveness of the Program, determine whether any additional benefits it provides justify the higher costs, and determine whether opportunities exist to make changes to the Program to reduce costs.

The OSA's *Child Welfare Performance Audit* (October 2014), *Medicaid Prescription Drugs Performance Audit* (May 2015), and *Waste Tire Processor and End User Program Performance Audit* (June 2014) collectively identified an additional \$3.9 million in potential financial benefits.



# AUDIT RECOMMENDATIONS

During Fiscal Year 2015, the OSA issued 489 audit recommendations to state agencies and higher education institutions. Audit recommendations, as well as agencies' responses to the recommendations and planned implementation dates, if applicable, are included as part of the individual published reports.

Our audit recommendations promote positive change in government and are an important part of holding agencies and institutions accountable for addressing the problems and issues identified by our financial, performance, and IT audits and studies.

## IMPLEMENTATION OF AUDIT RECOMMENDATIONS

Each fall, the OSA issues its *Annual Report of Audit Recommendations Not Fully Implemented*, which compiles and summarizes all performance, financial, and IT audit recommendations made during a rolling 5-year period. Through our reporting to the Legislative Audit Committee, the Joint Budget Committee, and all of the committees of reference, the OSA provides important information to policy makers and the public about agencies' progress toward implementing audit recommendations. The increased visibility created by this report and the related committee hearings has been a strong motivation for state agencies to implement their outstanding audit recommendations. This annual report is also an important part of fulfilling the OSA's statutory reporting responsibilities under the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act.

The most recent report, issued in November 2014, covers the 3,321 financial, performance, and IT audit recommendations that the OSA made to state agencies during the period July 1, 2008, through June 30, 2013, and had not been fully implemented by those agencies as

of June 30, 2014. State agencies agreed or partially agreed to implement 99 percent of the audit recommendations made during this 5-year period.

Overall, agencies have made significant progress making the changes they agreed or partially agreed to make. As of June 30, 2014, state agencies had implemented approximately 95 percent of the audit recommendations with which they agreed. However, there are still some audit recommendations that have not been fully implemented.

- 73 of the 1,449 financial audit recommendations (5 percent) that agencies agreed or partially agreed to implement were still outstanding as of June 30, 2014. The number of unimplemented financial audit recommendations decreased since the prior year.
- 67 of the 1,828 performance and IT audit recommendations (4 percent) that agencies agreed or partially agreed to implement were still outstanding as of June 30, 2014. The number of unimplemented performance and IT audit recommendations decreased since the prior year.

# ALLOCATION OF RESOURCES

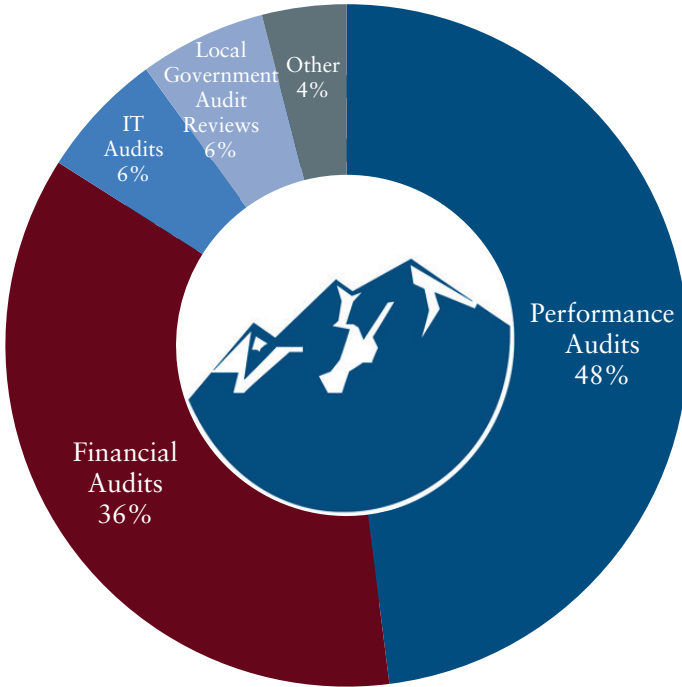
During Fiscal Year 2015, the OSA issued a total of 53 financial, performance, and IT audit reports and other work products. The OSA completed these audits and other work products for the following reasons:

- 38 audit reports and other work products (72 percent) were completed in response to statutory or other legal requirements, including the *Statewide Single Audit for the Fiscal Year Ended June 30, 2014*, which was conducted to comply with the requirements of the federal Single Audit Act.
- 8 audit reports and other work products (15 percent) were completed in response to requests from state legislators. The OSA works with the Legislative Audit Committee to review legislative requests and, if approved by the Legislative Audit Committee, incorporate them as part of the OSA's ongoing audit plan.
- 7 audit reports and other work products (13 percent) were completed at the State Auditor's discretion based on risk, audit coverage, and other considerations.

A complete listing of the audit reports and other work products the OSA issued during Fiscal Year 2015 is located on pages 34 through 37 of this report. In addition, the OSA reviewed financial audit reports and Exemption from Audit applications submitted by Colorado's 4,000 local governments.

The OSA has 72 professional and administrative support staff who are dedicated to furthering the OSA's mission and goals. The following chart shows how the OSA's audit staff hours were allocated during Fiscal Year 2015.

## FISCAL YEAR 2015 ALLOCATION OF AUDIT STAFF RESOURCES



# PERFORMANCE AUDITS

Performance audits address whether programs are operated in an effective and efficient manner to accomplish their intended goals and in compliance with laws and regulations. During Fiscal Year 2015, the OSA issued 15 performance audits and evaluations. These audits and evaluations identified concerns across a range of state agencies and institutions.

- **CHILD WELFARE, PERFORMANCE AUDIT, OCTOBER 2014, DEPARTMENT OF HUMAN SERVICES**  
KEY FINDING: Deficiencies exist in the oversight of, and guidance for, county departments of human/social services, particularly with respect to screening and assessing child abuse and neglect allegations. In our review of 20 screened out referrals and 10 referrals of incidents reviewed by the Child Fatality Review Team, it was unclear that counties had followed statutes and rules to make appropriate screen-out decisions for six referrals.
- **WASTE TIRE PROCESSOR AND END USER PROGRAM, PERFORMANCE AUDIT, JUNE 2014, DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT**  
KEY FINDINGS: The current recycling rate is not sufficient to eliminate the 61 million waste tires in storage facilities by 2024, when statute requires these facilities in the state to close. The Program lacks goals and strategies related to the Program's purpose, lack of alignment between the reimbursement rate and the Program's goals, and a need for stronger controls over reimbursement payments.
- **CHILD PROTECTION OMBUDSMAN PROGRAM, PERFORMANCE AUDIT, JUNE 2014, DEPARTMENT OF HUMAN SERVICES**  
KEY FINDINGS: The Program's current organizational structure may not be ideal to achieve the optimal level of independence. The Program also has insufficient rules, contract provisions, and

contract management practices to ensure the completion of effective reviews, the production of timely and complete reports and recommendations, and the performance of other statutorily required duties that generate positive change for the state's child welfare system.

- **CONNECT FOR HEALTH COLORADO, LIMITED PERFORMANCE AUDIT, OCTOBER 2014, COLORADO HEALTH INSURANCE BENEFITS EXCHANGE**

KEY FINDING: The audit identified problems with 35 out of 92 sampled vendor and grantee payments and contracts (38 percent), resulting, in part, in \$412,137 in questioned costs due to noncompliance with federal or contract requirements. Connect for Health Colorado is unable to ensure that public funds have been spent in accordance with federal requirements, that staff follow internal financial and accounting policies and procedures consistently, and that financial controls adequately safeguard resources as the federal grant enters its final stage and the organization moves to become self-sustaining.

- **COLORADO CORRECTIONAL INDUSTRIES, PERFORMANCE AUDIT, JANUARY 2015, DEPARTMENT OF CORRECTIONS**

KEY FINDINGS: Colorado Correctional Industries has earned little or no profits from its industries operations in recent years and has insufficient controls to ensure financial independence from the Department of Corrections. Colorado Correctional Industries also lacks information needed to monitor operations and measure performance.

- **HISTORY COLORADO, PERFORMANCE AUDIT, JUNE 2014, DEPARTMENT OF HIGHER EDUCATION**

KEY FINDINGS: History Colorado lacks sufficient oversight and accountability for a broad range of its functions and operations, including inadequate controls over procurement cards. As of March 12, 2014, more than half of History Colorado's 131.4 staff (79 staff) each had a procurement card. Approval of cards for staff is not tied to the employee's job responsibilities.

Additionally, the composition of History Colorado's Board of Directors lacks state representation and is not defined in statute, which creates challenges for History Colorado in meeting state fiscal responsibilities while operating as a nonprofit charitable organization.

- [MEDICAID PRESCRIPTION DRUGS, PERFORMANCE AUDIT, MAY 2015, DEPARTMENT OF HEALTH CARE POLICY AND FINANCING](#)  
KEY FINDING: Between February 2012 and January 2014, the Department violated state regulations when it paid over \$1.1 million for 5,154 Medicaid prescription drug claims that did not have approval to be dispensed. The Department lacks sufficient oversight, internal controls, and information systems to ensure the State (1) only pays for allowable and covered outpatient prescription drug benefits provided to Medicaid recipients and (2) identifies and prevents fraud, waste, and abuse related to recipients' prescription drug use and providers' prescribing activities.
  
- [CONSUMER-DIRECTED ATTENDANT SUPPORT SERVICES, PERFORMANCE AUDIT, MAY 2015, DEPARTMENT OF HEALTH CARE POLICY AND FINANCING](#)  
KEY FINDINGS: The average total cost of services provided to Program clients is significantly higher than the cost of similar services provided to clients through alternative service delivery options. The Program also lacks controls to ensure that enrollment requirements are consistently met, client funding allocations align with client needs, and case managers adequately monitor clients.
  
- [MEDICATION MANAGEMENT FOR COMMITTED YOUTH AT DIVISION OF YOUTH CORRECTION FACILITIES, PERFORMANCE EVALUATION, AUGUST 2014, DEPARTMENT OF HUMAN SERVICES](#)  
KEY FINDINGS: In 24 of 60 sampled cases, the facilities did not adhere to Division policies and/or national standards when prescribing medications, meaning either that the Division lacks controls to ensure that prescribers follow accepted practices or

the controls are not working. For example, in 22 of the cases, the medical record did not indicate what diagnosis or symptoms prescribed medications were intended to treat. The audit also identified problems related to the administration, monitoring, and disposal of prescription medications.

- **U.S.-36 PUBLIC-PRIVATE PARTNERSHIP (P3) PROJECT, PERFORMANCE AUDIT, MARCH 2015, DEPARTMENT OF TRANSPORTATION**

**KEY FINDINGS:** Delays in procuring the project increased the total payment for the project by \$5 million due to interest rate increases. The audit identified a lack of consistency with industry standard practices in some areas of the project, including (1) inadequate information, education, and involvement of two key stakeholder groups—legislators and the public—in the project development and procurement stages and (2) a lack of systematic processes for monitoring operations and maintenance activities to ensure the concessionaire meets performance standards once the project is open for operations.



# FINANCIAL AUDITS

The OSA conducts an annual audit of the State's basic financial statements and an audit of federal grants on a statewide level, as well as other required financial audits. During Fiscal Year 2015, the OSA issued 33 financial audits, including the *Statewide Single Audit for the Fiscal Year Ended June 30, 2014*.

The OSA's financial auditors completed two standalone audit reports related to the Taxpayer's Bill of Rights (TABOR): *Schedule of TABOR Revenue* (September 2014) and *Schedule of Computations Required Under Article X, Section 20, of the State Constitution* (February 2015).

The OSA's financial auditors also helped to identify high-risk areas, such as History Colorado, which was subsequently assigned as a standalone performance audit and fully staffed with financial auditors.

## STATEWIDE SINGLE AUDIT

The purpose of the *Statewide Single Audit for the Fiscal Year Ended June 30, 2014*, was to express an opinion on the State's financial statements and Schedule of Expenditures of Federal Awards; review internal accounting and administrative control procedures; evaluate compliance with applicable state and federal laws, rules, and regulations; and evaluate progress in implementing prior years' audit recommendations.

## FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$33.9 billion in total assets and \$26.8 billion in total expenditures.
- We issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2014. That means the State's financial statements presented fairly, in all material respects, the State's financial position, results of all financial operations, and cash flows, in conformance with generally

accepted accounting principles.

- We identified 27 internal control weaknesses related to compliance with internal control over financial reporting and other matters.

#### FEDERAL PROGRAM FINDINGS

- The State expended approximately \$10.9 billion in federal funds in Fiscal Year 2014. The four largest federal programs were:
  - ▶ Medicaid: \$3.5 billion
  - ▶ Student Financial Assistance: \$1.4 billion
  - ▶ Supplemental Nutrition Assistance Program: \$840 million
  - ▶ Unemployment Insurance: \$799 million
- We identified 50 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- We identified nearly \$440,000 in questioned costs related to federal awards granted to the State.

#### STANDALONE FINANCIAL AUDITS

The OSA also contracted with CPA firms for standalone financial audits of Colorado higher education institutions and other entities, including the State Board of the Great Outdoors Colorado Trust Fund, the Colorado Lottery, Pinnacle Assurance, and the Colorado Public Employees' Retirement Association (PERA). The Fiscal Year 2013 PERA financial audit covered about \$47.4 billion in retirement funds.

# IT AUDITS

The OSA's IT audit team reviews policies, procedures, and technology to ensure the confidentiality, integrity, and availability of the State's critical computer systems and taxpayer data.

During Fiscal Year 2015, the OSA issued two standalone IT work products.

- SYSTEMS BACKUP AND RECOVERY, IT PERFORMANCE AUDIT, OCTOBER 2014, GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY  
KEY FINDINGS: Deficiencies exist in the Governor's Office of Information Technology's (OIT) governance over system backup and recovery processes within the Executive Branch. All five of the systems tested had control failures across multiple backup and recovery controls. Two of the five systems tested had failures in every control category. The audit also identified inconsistencies between management's expectations of backup and recovery requirements identified in Colorado Information Security Policies and OIT personnel's understanding and application of these policies.
- INFORMATION SECURITY ASSESSMENT, PERFORMANCE EVALUATION, NOVEMBER 2014, GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY AND JUDICIAL BRANCH  
KEY FINDINGS: The Governor's Office of Information Technology (OIT) and the Judicial Branch collectively have 252 technical security vulnerabilities that should be remediated. Using a nationally recognized classification system, the assessment identified 27 "critical" vulnerabilities, 74 "high" vulnerabilities, and 142 "medium" vulnerabilities at OIT and 3 "high" vulnerabilities and 6 "medium" vulnerabilities at the Judicial Branch. Additionally, disaster recovery plans do not

exist for the two critical enterprise applications reviewed at OIT and the one critical enterprise application reviewed at the Judicial Branch.

In addition to its standalone work products, the OSA's IT audit team contributed to the OSA's performance and financial audits by evaluating controls over critical information systems and applying computer-assisted audit techniques that automated or simplified audit processes, thereby making audits more efficient and extending audit coverage (e.g., testing the entire population instead of a sample).

# LOCAL GOVERNMENT AUDIT DIVISION

The OSA's Local Government Audit Division tracks about 4,000 Colorado local governments for compliance with the Local Government Audit Law, which requires local governments, such as cities, counties, special districts, school districts, authorities, and political subdivisions, to submit an annual independent financial audit or an Exemption from Audit application to the OSA.

The Local Government Audit Division examines annual financial audits to determine compliance with accounting standards and other requirements. Under certain circumstances, the State Auditor has the authority to cause an audit to be conducted of a local government. When requested, the Local Government Audit Division also provides technical assistance to local governments and their independent auditors.

During Fiscal Year 2015, the Local Government Audit Division also produced the following standalone reports:

- *Fiscal Health Analysis of Colorado School Districts* (July 2014 and May 2015)
- *School Capital Construction Report* (January 2015)
- *Cash Funds Uncommitted Reserves for the Fiscal Year Ended June 30, 2014* (February 2015)

The award-winning *Fiscal Health Analysis of Colorado School Districts* report is prepared annually and provides a set of financial indicators for each school district that may be used by the Colorado Department of Education, school districts, local government officials, and citizens to evaluate the financial health of Colorado's school districts. These financial indicators can warn of financial stress that may require further examination and remedial action by the appropriate parties.

In October 2013, the OSA issued a similar fiscal health analysis tool for Colorado counties and municipalities. The OSA's Local Government Audit Division continues to use this fiscal analysis tool, which is available on the OSA's website, when reviewing the independent financial audit reports that Colorado counties and municipalities are required to submit to the OSA.

# OTHER WORK PRODUCTS

In addition to its audits, the OSA produces other work products that provide important information and analysis for the General Assembly, state and local government agencies, and the public.

In August 2014, the OSA issued the *Colorado Child Welfare County Workload Study*. This study was prompted by a legislative request and established a comprehensive picture of existing child welfare workload and staffing levels as well as estimated staffing needs across Colorado's counties. The study included 54 counties and about 1,300 participating child welfare caseworkers. Overall, the study concluded that the estimated amount of time required to complete mandated child welfare activities and meet program objectives exceeded the amount of time available from the existing number of Colorado child welfare caseworkers. This study provided important information to decision makers to help evaluate resources and potentially make staffing changes to ensure the child welfare system best serves Colorado's children and families. This study directly led to the introduction and passage of Senate Bill 15-242, which provides additional resources to counties for the purpose of hiring new child welfare staff.

As mentioned previously, in November 2014, the OSA also continued its annual reporting to the Legislative Audit Committee, Joint Budget Committee, and all the committees of reference through the *Annual Report of Recommendations Not Fully Implemented*.

# ABOUT THE STATE AUDITOR

The State Auditor is a constitutionally established position with broad authority to audit state agencies and departments, institutions of higher education, and the Legislative and Judicial Branches. The General Assembly appoints the State Auditor without regard to political affiliation. The State Auditor serves a 5-year term and must be a CPA licensed to practice in Colorado.

The current State Auditor, Dianne E. Ray, has specialized in governmental and nonprofit accounting and auditing for more than 25 years. Dianne possesses in-depth knowledge of Colorado's state and local governments and has established effective relationships with elected officials, executive directors, and business and community leaders.

Dianne has extensive experience in senior-level management positions and has been recognized for her innovative leadership style. In 2012, the Colorado Society of Certified Public Accountants and the American Institute of Certified Public Accountants named Dianne as one of three "Women to Watch" in the Experienced Leader category. In May 2015, the University of Colorado-Denver's School of Public Affairs awarded Dianne the 2015 Leo Riethmayer Award for the Top Public Administrator in Colorado.

Dianne participates in various professional organizations, including the American Institute of Certified Public Accountants, the Colorado Society of Certified Public Accountants, the Government Finance Officers Association, and the National State Auditors Association. In June 2015, Dianne became President of the National State Auditors Association for the 2015-2016 term. Dianne is also a member of the Board for the Colorado Housing and Finance Authority and former Board Chair.



Prior to her appointment as State Auditor in 2011, Dianne served as the OSA's Deputy State Auditor primarily responsible for the annual financial audit of the State of Colorado. Dianne began her career at the OSA in 2002 as the Director of the Local Government Audit Division. Before joining the OSA, Dianne worked in local governments for 15 years, including as the Director of Finance and Administration for the City of Louisville, Colorado.

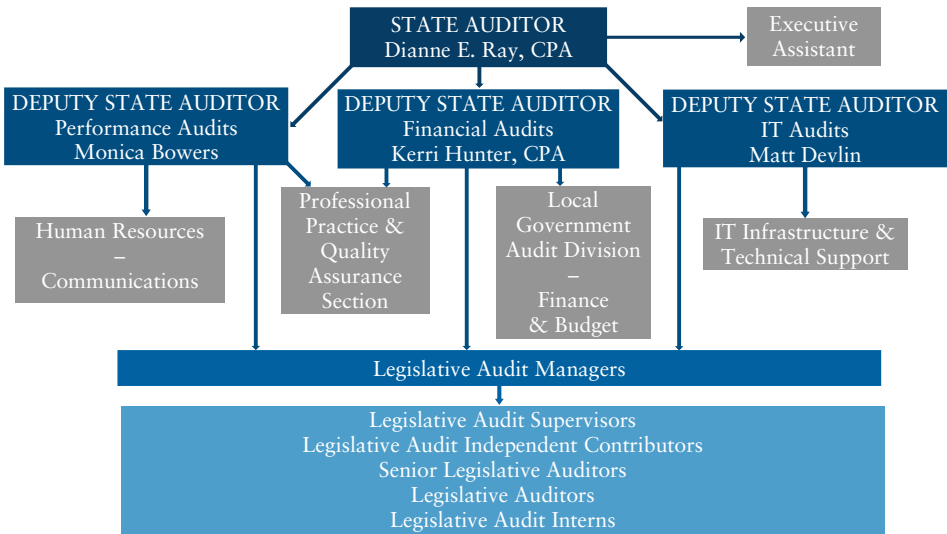
Dianne holds a Bachelor of Science degree in Accounting from Arizona State University and a Master of Public Administration degree from the University of Colorado. She is a licensed CPA in Colorado and Arizona.

# OSA AUDIT STAFF

Collectively, the OSA’s auditors possess more than 330 years of auditing experience. The OSA’s auditors are highly educated; many auditors hold advanced degrees, such as master’s degrees, law degrees, and Ph.Ds. Additionally, 40 percent of the OSA’s auditors hold professional licenses and certifications, including:

- Certified Public Accountant
- Certified Fraud Examiner
- Certified Government Auditing Professional
- Certified Government Finance Officer
- Certified Information Systems Auditor
- Certified Information Security Manager
- Certified Internal Auditor
- Certification in Risk and Information Systems Control
- Certification in Risk Management Assurance

## ORGANIZATIONAL STRUCTURE



# AUDIT INDUSTRY LEADERSHIP



The OSA has established itself as a leader among its peers in other states and is an active contributor to the government auditing profession and accountability community.

## PEER ORGANIZATIONS

The OSA's management and staff remain active in two national organizations whose memberships comprise state audit organizations:

- NATIONAL STATE AUDITORS ASSOCIATION (NSAA). Members of the OSA's senior management team and audit managers serve on several NSAA standing committees: Audit Standards and Reporting, Auditor Training, E-Government, Executive Committee, Nominations, Peer Review, Performance Audit, and Single Audit. Additionally, three of the OSA's performance audit managers have participated on or led NSAA peer review teams assigned to conduct quality control evaluations of audit organizations in other states. In June 2015, State Auditor Dianne Ray was named as NSAA President for the 2015-2016 term.
- NATIONAL LEGISLATIVE PROGRAM EVALUATION SOCIETY (NLPES). NLPES is a staff section of the National Conference of State Legislatures and its purpose is to advance the profession of legislative performance auditing and program evaluation. The OSA's active participation in NLPES's fall professional development seminars affords management and staff the opportunity to better understand and address the changing environment and unique demands facing legislative audit and evaluation organizations. One of the OSA's performance audit managers has served as a member of the NLPES Executive Committee since 2009. The OSA will host the NLPES fall professional development seminar in Denver in October 2015.

## EXTERNAL PRESENTATIONS

The OSA regularly presents information about its work to various audiences, including government officials, members of audit industry organizations, and students attending Colorado higher education institutions.

During Fiscal Year 2015, OSA management and staff gave formal presentations or were guest lecturers/speakers associated with the following organizations and events:

- University of Denver, School of Accountancy, Industry Panel Discussion (Denver, CO), May 2015
- University of Colorado-Denver, School of Public Affairs, Spring Banquet & Awards Ceremony (Denver, CO), May 2015
- Colorado State University, School of Social Work, Policy Analysis Class (Fort Collins, CO), April 2015
- Metropolitan State University of Denver, Political Science Class (Denver, CO), April 2015
- Colorado Government Finance Officers Association Webinar (Denver, CO), April 2015
- University of Colorado-Denver, School of Public Affairs, Masters in Public Administration Class (Denver, CO), March 2015
- National State Auditors Association, Peer Review Program Webinar (Denver, CO), January 2015
- Colorado Department of Human Services, Federal Grant Reform Training (Denver, CO), January 2015
- Colorado Government Finance Officers Association, Annual Conference (Vail, CO), November 2014
- Colorado State University, School of Social Work, Policy Analysis Class (Fort Collins, CO), November 2014
- National Association of State Auditors, Treasurers, and Controllers, High-Impact Audits and Reports Webinar (Denver, CO), November 2014
- University of Colorado-Denver, School of Public Affairs, Masters in Public Administration Class (Denver, CO), October 2014
- Colorado Society of Certified Public Accountants, Governmental

Conference (Denver, CO) October 2014

- National Legislative Program Evaluation Society, Fall Professional Development Seminar (Raleigh, NC), October 2014
- National State Auditors Association, IT Workshop and Conference (Grand Rapids, MI), September 2014
- Regis University, Accounting Class (Denver, CO), September 2014
- Mountain & Plains Intergovernmental Audit Forum, 20th Biennial Forum (Denver, CO), August 2014
- National Conference of State Legislatures, Legislative Summit (Minneapolis, MN), August 2014
- Colorado Government Finance Officers Training Course (Durango, CO; Fort Morgan, CO; Pueblo, CO; Rifle, CO), July/August 2014

#### PROFESSIONAL ASSOCIATIONS

The OSA's auditors remain active members in several professional associations that provide opportunities for professional development and training, and to share best practices and exchange useful industry information:

- American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners
- Colorado Fiscal Managers Association
- Colorado Government Finance Officers Association
- Colorado Society of Certified Public Accountants
- Information Systems Audit and Control Association
- Institute of Internal Auditors

# LEGISLATIVE AUDIT COMMITTEE

The Legislative Audit Committee (LAC) includes four senators and four representatives with equal representation from the two major political parties. The LAC holds public hearings to review and release audit reports prepared by the State Auditor, proposes special audits, sponsors legislation recommended in audit reports, and holds state agencies accountable for addressing issues raised in audit reports. In addition, every 5 years the LAC recommends a candidate to the General Assembly for appointment as State Auditor.

## CALENDAR YEAR 2015 LAC MEMBERS



SENATOR  
Lucia Guzman  
CHAIR



REPRESENTATIVE  
Dan Nordberg  
VICE-CHAIR



SENATOR  
Chris Holbert



SENATOR  
Cheri Jahn



SENATOR  
Tim Neville



REPRESENTATIVE  
Dianne Primavera



REPRESENTATIVE  
Su Ryden



REPRESENTATIVE  
Lori Saine

# STATUTORY CHANGE

The OSA serves the people of Colorado by issuing high-quality, objective audits and reviews that address relevant public issues and promote accountability in government. In some cases, the General Assembly may seek statutory change to address the concerns and recommendations raised in our reports. Audit-related legislation originates through the Legislative Audit Committee or from agencies working directly with individual legislators. For legislation that is sponsored by the Legislative Audit Committee and relates to an audit recommendation, OSA staff work with the Legislative Audit Committee, agency representatives, and bill drafters to provide written and testimonial information.

## LEGISLATIVE AUDIT COMMITTEE BILLS

During the 2015 Legislative Session, five bills sponsored by the Legislative Audit Committee were enacted into law related to issues raised in the OSA's audits and other work products, as well as the OSA's audit authority and statutory responsibilities.

- HOUSE BILL 15-1188—CLARIFICATIONS TO THE STATE VOCATIONAL REHABILITATION PROGRAM

Made numerous changes to the Vocational Rehabilitation Program. The definition of “person with a disability” was updated to conform with state and federal standards, and provisions in conflict with current federal regulations were removed. Program staff must complete a comprehensive assessment and work with each participant to develop an individualized employment outcome or goal. Services may only be authorized if they are necessary to address the rehabilitation needs of the participant. The Program must establish reasonable time frames for employment plans and close the record of services within a timely manner and in accordance with federal guidelines. All vocational rehabilitation services provided

through the Program must be at the public cost only to the extent that the participant requires financial assistance in accordance with State rules and regulations.

RELATED AUDIT: *Vocational Rehabilitation Program, Performance Audit, November 2013, Department of Human Services*

- HOUSE BILL 15-1247—STATE ENGINEER DAM SAFETY REVIEW FEES  
Increased the fees charged by the State Engineer for dam project design review from \$3 to \$6 per \$1,000 of the estimated project cost. The cap on this fee was set at \$30,000 per project. Fee increases are effective September 1, 2016. The OSA’s evaluation found that the level of revenue brought in by design review fees was much lower than the cost to conduct the reviews. Taxpayers across the state benefit from the design review function, which helps to ensure that dams are constructed to operate safely. Dam owners also receive a substantial benefit from the design review services because dam owners must obtain approval of their plans before they can construct, modify, or repair their dams.

RELATED EVALUATION: *Dam Safety Program, Performance Evaluation, February 2014, Department of Natural Resources*

- SENATE BILL 15-225—STATE HISTORICAL SOCIETY GOVERNANCE  
Changed the way the board of directors for the State Historical Society is selected. Beginning July 1, 2015, the Governor appoints five members of the board of directors with the consent of the Senate. Four additional members are recommended by the board of directors and submitted to the Governor for approval and appointment with the consent of the Senate. Established the Director’s Council of the State Historical Society to advise the board of directors. Members of the Director’s Council are elected by members of the State Historical Society.

RELATED AUDIT: *History Colorado, Performance Audit, June 2014, Department of Higher Education*



- SENATE BILL 15-019—COLORADO HEALTH BENEFIT EXCHANGE  
AUDIT AUTHORITY

Expanded the authority of the State Auditor to conduct full performance audits of the Colorado Health Benefit Exchange. To ensure a complete and thorough audit of the operation of the Colorado Health Benefit Exchange, performance audits may cover the operation, contract management, project management, and performance of the shared eligibility system and any other related State systems. Performance audits may be conducted whenever the State Auditor or the Legislative Audit Committee deems such an audit to be appropriate.

RELATED AUDIT: *Connect for Health Colorado, Limited Performance Audit, October 2014, Colorado Health Insurance Benefits Exchange.*

- SENATE BILL 15-024—UPDATES TO THE LOCAL GOVERNMENT  
AUDIT LAW

Changed the dollar threshold for an exemption from the statutory requirement that local governments have their financial statements audited on an annual basis. Specifically, for fiscal years commencing on or after January 1, 2015, local governments with total fiscal year revenues or expenditures of at least \$100,00, but less than \$750,000 may apply to the State Auditor for an exemption from audit. Made additional updates to terminology in the Local Government Audit Law to be consistent with accounting standards adopted by the Governmental Accounting Standards Board.

#### OTHER AUDIT-RELATED BILLS

In addition to those bills sponsored by the Legislative Audit Committee, 10 bills were enacted during the 2015 Legislative Session that related to or were motivated in part by issues raised in OSA audits and other work products.

- HOUSE BILL 15-1261—CASH FUNDS MAXIMUM RESERVE

RELATED AUDIT: *Cash Funds Uncommitted Reserves, Fiscal Year Ended June 30, 2013, Performance Audit, February 2014*

- HOUSE BILL 15-1280—CREATION OF A CAPITAL RESERVE IN CASH FUNDS  
 RELATED AUDIT: *Cash Funds Uncommitted Reserves, Fiscal Year Ended June 30, 2013, Performance Audit, February 2014*
- SENATE BILL 15-014—MEDICAL MARIJUANA CAREGIVERS  
 RELATED AUDIT: *Medical Marijuana Regulatory System (Part II), Performance Audit, June 2013, Department of Public Health and Environment and Department of Revenue*
- SENATE BILL 15-100—IMPLEMENTATION OF RECOMMENDATIONS IN CONNECTION WITH LEGISLATIVE REVIEW OF RULES AND REGULATIONS OF STATE AGENCIES  
 RELATED AUDIT: *Child Welfare, Performance Audit, October 2014, Department of Human Services*
- SENATE BILL 15-195—SPENDING SAVINGS FROM THE AWARDING OF EARNED TIME TO INMATES  
 RELATED AUDIT: *Colorado Correctional Industries, Performance Audit, January 2015, Department of Corrections*
- SENATE BILL 15-236—REORGANIZATION OF FUNDS EXPENDED BY THE STATE HISTORICAL SOCIETY  
 RELATED AUDIT: *History Colorado, Performance Audit, June 2014, Department of Higher Education*
- SENATE BILL 15-241—COLLABORATIVE MANAGEMENT OF MULTI-AGENCY SERVICES PROVIDED TO CHILDREN AND FAMILIES  
 RELATED AUDIT: *Child Welfare, Performance Audit, October 2014, Department of Human Services*
- SENATE BILL 15-242—ALLOCATION TO COUNTIES FOR THE PURPOSE OF HIRING NEW CHILD WELFARE STAFF  
 RELATED AUDIT: *Colorado Child Welfare Workload Study, August 2014, Department of Human Services*
- SENATE BILL 15-204—INDEPENDENT FUNCTIONING OF THE OFFICE OF THE CHILD WELFARE PROTECTION OMBUDSMAN  
 RELATED AUDIT: *Child Protection Ombudsman Program,*

*Performance Audit, June 2014, Department of Human Services*

- SENATE BILL 15-243—PROHIBITION ON THE TRANSFER OF STATE-OPERATED BEDS UNDER THE WAIVER FOR HOME AND COMMUNITY-BASED SERVICES FOR INDIVIDUALS WITH INTELLECTUAL AND DEVELOPMENTAL DISABILITIES  
RELATED AUDIT: *Regional Centers for People with Developmental Disabilities, Performance Audit, November 2013, Department of Human Services*

# AUDIT REPORTS & OTHER WORK PRODUCTS

Reports and other work products can be requested by phone at 303.869.2800 or accessed via the OSA's website at: [www.state.co.us/auditor](http://www.state.co.us/auditor).

REPORT NAME	TYPE	No.
<b>COLLEGES AND UNIVERSITIES</b>		
Adams State University, Fiscal Years Ended June 30, 2014 and 2013	Financial	1406F
Auraria Higher Education Center, Fiscal Years Ended June 30, 2014 and 2013	Financial	1407F
Colorado Community College System, Fiscal Years Ended June 30, 2014 and 2013	Financial	1411F
Colorado Mesa University, Fiscal Years Ended June 30, 2014 and 2013	Financial	1412F
Colorado School of Mines, Fiscal Years Ended June 30, 2014 and 2013	Financial	1414F
Colorado State University–Global Campus, Fiscal Years Ended June 30, 2014 and 2013	Financial	1416F-A
Colorado State University System, Fiscal Years Ended June 30, 2014 and 2013	Financial	1416F-B
Colorado State University-Pueblo, Fiscal Year Ended June 30, 2014	Financial	1416F-C
Colorado State University, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2014	Financial	1416F-D
Fort Lewis College, Fiscal Years Ended June 30, 2014 and 2013	Financial	1421F
Metropolitan State University of Denver, Fiscal Years Ended June 30, 2014 and 2013	Financial	1423F
University of Colorado, Fiscal Years Ended June 30, 2014 and 2013	Financial	1436F
University of Colorado at Boulder, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2014	Financial	1436F-A
University of Northern Colorado, Fiscal Years Ended June 30, 2014 and 2013	Financial	1437F
University of Northern Colorado, NCAA Agreed-Upon Procedures. Fiscal Year Ended June 30, 2014	Financial	1437F-A
Western State Colorado University, Fiscal Years Ended June 30, 2014 and 2013	Financial	1438F

REPORT NAME	TYPE	No.
<b>DEPARTMENT OF AGRICULTURE</b>		
Colorado State Fair Authority, Fiscal Years Ended June 30, 2014 and 2013	Financial	1415F
<b>DEPARTMENT OF CORRECTIONS</b>		
Colorado Correctional Industries, January 2015	Performance	1350P
<b>DEPARTMENT OF EDUCATION</b>		
School Capital Construction Report, January 2015	Other	1447S
<b>DEPARTMENT OF HEALTH CARE POLICY AND FINANCING</b>		
Consumer-Directed Attendant Support Services, May 2015	Performance	1413P
Medicaid Prescription Drugs, May 2015	Performance	1407P
<b>DEPARTMENT OF HIGHER EDUCATION</b>		
CollegeInvest, College Savings Program Funds, Fiscal Years Ended June 30, 2014 and 2013	Financial	1409F-B
CollegeInvest, Prepaid Tuition Fund, Fiscal Years Ended June 30, 2014 and 2013	Financial	1409F-A
Colorado Student Loan Program, dba College Assist, Fiscal Years Ended June 30, 2014 and 2013	Financial	1408F
Higher Education TABOR Enterprise Status, Fiscal Year Ended June 30, 2014	Other	1446F
History Colorado, June 2014	Performance	1405P
<b>DEPARTMENT OF HUMAN SERVICES</b>		
Child Protection Ombudsman Program, June 2014	Performance	1345P
Child Welfare, October 2014	Performance	1303P
Child Welfare Workload Study, August 2014	Other	1354S
Colorado State Veterans Center at Rifle, Fiscal Year Ended June 30, 2014	Financial	1424F
Medication Management for Committed Youth at Division of Youth Correction Facilities, August 2014	Performance	1351P
<b>DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT</b>		
Waste Tire Processor and End User Program, June 2014	Performance	1341P
<b>DEPARTMENT OF REVENUE</b>		
Colorado Lottery, Fiscal Years Ended June 30, 2014 and 2013	Financial	1420F
Division of Gaming, Fiscal Years Ended June 30, 2014 and 2013	Financial	1419F
<b>DEPARTMENT OF TRANSPORTATION</b>		
Colorado Bridge Enterprise, Fiscal Years Ended June 30, 2014 and 2013	Financial	1433F

REPORT NAME	TYPE	NO.
Colorado High Performance Transportation Enterprise, Fiscal Years Ended June 30, 2014 and 2013	Financial	1432F
U.S. 36 Public-Private Partnership (P3) Project, March 2015	Performance	1415P
<b>DEPARTMENT OF TREASURY</b>		
Statement of Federal Land Payments, Fiscal Year Ended September 30, 2014	Financial	1401F-B
<b>GOVERNOR'S OFFICE</b>		
State Energy Program, November 2014	Performance	1346P
Information Security Assessment, November 2014	Performance	1404P
Systems Backup and Recovery, October 2014	Performance	1403P
<b>LOCAL GOVERNMENTS</b>		
Fiscal Health Analysis of Colorado School Districts, July 2014	Other	1439S
Fiscal Health Analysis for Colorado School Districts, May 2015	Other	1539S
<b>OTHER ENTITIES</b>		
Census Data Attestation for Colorado Public Employees Retirement Association (PERA) 2014 Annual Financial Audit, March 2015	Financial	1501F-AT
Colorado Health Insurance Benefits Exchange: Connect for Health Colorado, October 2014	Performance	1348P
Colorado Public Employees' Retirement Association, Fiscal Year Ended December 31, 2013 <sup>1</sup>	Financial	1318F
Pinnacol Assurance, Fiscal Years Ended December 31, 2014 and 2013	Financial	1445F
State Board of the Great Outdoors Colorado Trust Fund, Fiscal Years Ended June 30, 2014 and 2013	Financial	1422F
<b>STATE OF COLORADO (ALL AGENCIES)</b>		
Annual Report of Audit Recommendations Not Fully Implemented, October 2014	Other	1442S
Cash Funds Uncommitted Reserves Report, Fiscal Year Ended June 30, 2014	Performance	1411P
Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR), February 2015	Financial	1401F-A
Schedule of TABOR Revenue, September 2014	Performance	1406P
Statewide Single Audit, Fiscal Year Ended June 30, 2014 <sup>2</sup>	Financial	1401F

REPORT NAME

TYPE

NO.

NOTES:

<sup>1</sup>The Colorado Public Employees' Retirement Association's (PERA) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2013, was prepared by PERA and audited by an independent CPA firm under contract with the OSA. PERA's CAFR is available on the OSA's website.

<sup>2</sup>The State of Colorado's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2014, was prepared by the Office of the State Controller and audited by the OSA as part of its Statewide Audit. The State's CAFR is available on the OSA's website.



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