



SA

We Set the Standard for Good Government

FISCAL YEAR  
2017

ANNUAL REPORT



# CONTENTS



Message from the State Auditor	1
Legislative Audit Committee	3
OSA Mission	4
Role of the OSA	5
Financial Benefits	6
Audit Recommendations	9
Allocation of Resources	11
Performance Audits	13
Financial Audits	17
IT Audits	19
Local Government Audit Division	20
Other Work Products	21
About the State Auditor	22
OSA Audit Staff	23
Audit Industry Leadership	24
Statutory Change	28
Audit Reports and Other Work Products	32

# MESSAGE FROM THE STATE AUDITOR

This annual report provides information about the Office of the State Auditor's (OSA) activities and accomplishments during Fiscal Year 2017. First, the OSA issued 58 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 and credible information and impartial assessments of the operation of state programs and use of taxpayer resources.



The OSA remains focused on addressing high risk areas for the State, as well as programs and issues that are important for policy makers and the public. This past year, the OSA continued to spend a significant amount of its financial and IT audit resources evaluating internal controls and financial reporting under the State's new accounting system, the Colorado Operations Resource Engine (CORE). In addition to a number of discretionary audits, the OSA issued several performance audits in response to legislative requests, including audits focusing on behavioral health programs at the Department of Corrections, operations at the Division of Youth Corrections, the application and eligibility verification processes under Medicaid, and personal services contract selection processes at the Department of Human Services. As required by statute, the OSA also completed a performance audit of the Office of Film, Television, and Media, and contracted for a study of volunteer firefighter pension plans in Colorado.

This past year the OSA also began work related to some new statutory responsibilities. Senate Bill 16-203 requires the OSA to conduct evaluations of all state tax expenditures over a 5-year period, with the first evaluation reports completed by September 2018. House Bill 17-1223 codified the State Auditor’s responsibility for administering a fraud reporting hotline and, under certain circumstances, participating in or conducting investigations of Hotline calls.

Finally, the OSA continues to be recognized for its superior work. In June 2017, the National Legislative Program Evaluation Society selected the OSA’s *Collection and Usage of the FASTER Motor Vehicle Fees Performance Audit* (August 2015) for a Certificate of Impact Award.

I am proud of what the OSA and its staff have accomplished this past year and the positive impacts we continue to have to improve government for the people of Colorado.

A handwritten signature in black ink, appearing to read "Dianne E. Ray". The signature is fluid and cursive, with the first name "Dianne" being the most prominent part.

Dianne E. Ray, CPA  
State Auditor

# 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.

## LAC MEMBERS AS OF JUNE 30, 2017



REPRESENTATIVE  
Tracy Kraft-Tharp  
CHAIR



SENATOR  
Tim Neville  
VICE-CHAIR



SENATOR  
Kerry Donovan



SENATOR  
Cheri Jahn



REPRESENTATIVE  
Dan Nordberg



REPRESENTATIVE  
Lori Saine



SENATOR  
Jim Smallwood



REPRESENTATIVE  
Faith Winter

# 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 people of Colorado. We provide the General Assembly, agencies, and the public with thorough and credible information and impartial assessments of the operation of state programs and use of taxpayer resources. The OSA's audits provide solution-based recommendations that focus on reducing costs, increasing efficiency, promoting the achievement of legislative intent, improving the effectiveness of programs 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. Pursuant to Section 39-21-305(1)(d), C.R.S., the State Auditor is also responsible for conducting evaluations of all state tax expenditures on a 5-year cycle.

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. 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 \$750,000 may apply to the State Auditor for an exemption from audit.

# FINANCIAL BENEFITS

The OSA’s audits frequently identify financial benefits, which collectively represent the dollar value the OSA provides to the people of Colorado by ensuring the responsible stewardship of public funds.

For the 5-year period from Fiscal Year 2013 through Fiscal Year 2017, the OSA identified financial benefits totaling approximately \$181.4 million, or an average of about \$36.3 million per year. The OSA’s goal is to achieve at least a 3:1 ratio of benefits to costs over a 5-year period. The OSA has achieved a 5:1 ratio of benefits to costs, which means that the return on investment to the taxpayer is approximately \$5 in financial benefits for every \$1 spent on the OSA’s operations.

FINANCIAL BENEFITS IDENTIFIED IN AUDIT REPORTS (DOLLARS IN MILLIONS) FISCAL YEARS 2013–2017						
2013	2014	2015	2016	2017	TOTAL	ANNUAL AVERAGE
\$28.5	\$19.1	\$42.9	\$69.8	\$21.1	\$181.4	\$36.3

BENEFIT-TO-COST RATIO FISCAL YEARS 2013–2017	
Average Annual Financial Benefits Identified in Reports	\$36.3 million
Average Annual Net Operating Costs*	\$7.2 million
Ratio of Benefits to Costs	5 : 1

\* Annual net operating costs calculated from General Fund appropriations less General Fund reversions.

Financial benefits include the identification of potential cost savings, questionable payments, opportunities to improve the effective management of funds, collection of fees or debts owed, policies that could be changed to increase revenue, opportunities to leverage state resources with matching funds, or increases in the value of state assets.

Our Fiscal Year 2017 audits identified a total of \$21.2 million in financial benefits. The majority of these financial benefits were identified in the following four audits:

- **BEHAVIORAL HEALTH PROGRAMS, PERFORMANCE AUDIT, NOVEMBER 2016, DEPARTMENT OF CORRECTIONS — \$13.4 MILLION**

We found that there were about 1,200 sex offenders on the referral list for sex offender treatment who had passed their parole eligibility date, but had not yet received treatment. As a result, the offenders were continuing to be incarcerated at a cost to the State of about \$44 million annually. Lifetime supervision sex offenders must be treated prior to being released and determinately sentenced offenders may be more likely to be paroled prior to their mandatory release date if they receive treatment. To calculate the \$13.4 million financial benefit reported for this audit, we limited our estimate to one-half of the low-risk sex offenders included in the \$44 million cost reported in the audit report to account for the possibility that high-risk sex offenders may have a lower potential for release and that not all offenders will complete the 2-year sex offender treatment program. Overall, these amounts highlighted the need for the Department of Corrections to identify and implement a systematic approach to prioritize sex offenders for treatment based on risk.

- **CASH FUNDS UNCOMMITTED RESERVES FOR THE FISCAL YEAR ENDED JUNE 30, 2016, PERFORMANCE AUDIT— \$4.0 MILLION**

We determined that six departments had cash funds with about \$4.0 million in excess uncommitted reserves as of June 30, 2016. In 1998, the General Assembly limited the amount of reserves that state agencies may maintain in cash funds. If a particular fund's uncommitted reserve balance exceeds the applicable statutory limit, the agency responsible for managing the fund is required to reduce fees accordingly or increase expenditures in order to reduce the excess. Some funds are subject to alternative reserve limits.

- **OFFICE OF FILM, TELEVISION, AND MEDIA, PERFORMANCE AUDIT, MAY 2017, GOVERNOR’S OFFICE — \$1.9 MILLION**

The Office of Film, Television, and Media (Film Office) paid about \$1.9 million in incentives for all nine of the projects we reviewed even though none of the projects met all applicable qualification and documentation requirements. Specifically, we identified \$129,000 in payments for projects that, based on Film Office documentation, did not qualify and another \$1.8 million in payments for projects for which the Film Office lacked workforce, expenditure, or performance documentation to substantiate that the projects qualified. The Film Office also paid incentives totaling \$102,900 using a lower in-state spending threshold for two projects that did not appear to qualify under the in-state requirements. Paying incentives for projects without ensuring they qualify reduces the funds available for qualifying projects and diminishes the long-term economic benefit to the State.

- **COMMUTING USE OF STATE-OWNED VEHICLES, PERFORMANCE AUDIT, NOVEMBER 2016, DEPARTMENT OF PERSONNEL & ADMINISTRATION — \$1.4 MILLION**

Using a statistically valid sample of commuters, we estimated with 95 percent confidence that the State spent \$1.4 million on commuting in Calendar Year 2015 for commuting arrangements that did not meet all of the statutory requirements, including that commuting only occur when it promotes efficient operation of the state fleet and is cost-effective to the agency. The State also failed to collect about \$25,400 in required reimbursements from commuters in Calendar Year 2015.

The OSA’s *Department of Personnel & Administration Annual Compensation Study Performance Audit* (May 2017), *Colorado Energy Office Follow Up to 2012 Performance Audit* (December 2016), and *Statewide Single Audit for the Fiscal Year Ended June 30, 2016*, collectively identified an additional \$421,700 in financial benefits.

# AUDIT RECOMMENDATIONS

During Fiscal Year 2017, the OSA issued 316 audit recommendations to state agencies, higher education institutions, and other audited organizations (auditees). Audit recommendations, as well as auditees' 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 auditees 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 on the Status of Outstanding Audit Recommendations*, which compiles and summarizes all performance, financial, and IT audit recommendations made during the prior 5-year period. Through our reporting to the Legislative Audit Committee, Joint Budget Committee, and committees of reference, the OSA provides important information to policy makers and the public about auditees' progress toward implementing audit recommendations. The increased visibility created by this report and the related committee hearings has been a strong motivation for auditees 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, released in November 2016, covers the 2,668 financial, performance, and IT audit recommendations that the OSA made to auditees during the period July 1, 2010, through June 30,

2015. Auditees agreed or partially agreed to implement 99 percent of the audit recommendations made during this 5-year period.

Overall, auditees continue to make the changes they agree or partially agree to make. As of June 30, 2016, auditees had implemented approximately 96 percent of the audit recommendations they agreed to implement. However, there are still some audit recommendations that have not been fully implemented:

- 64 of the 1,007 financial audit recommendations (6 percent) that agencies agreed or partially agreed to implement were still outstanding. The number of unimplemented financial audit recommendations had decreased since the prior year.
- 52 of the 1,634 performance and IT audit recommendations (3 percent) that agencies agreed or partially agreed to implement were still outstanding. The number of unimplemented performance and IT audit recommendations had increased since the prior year.

# ALLOCATION OF RESOURCES

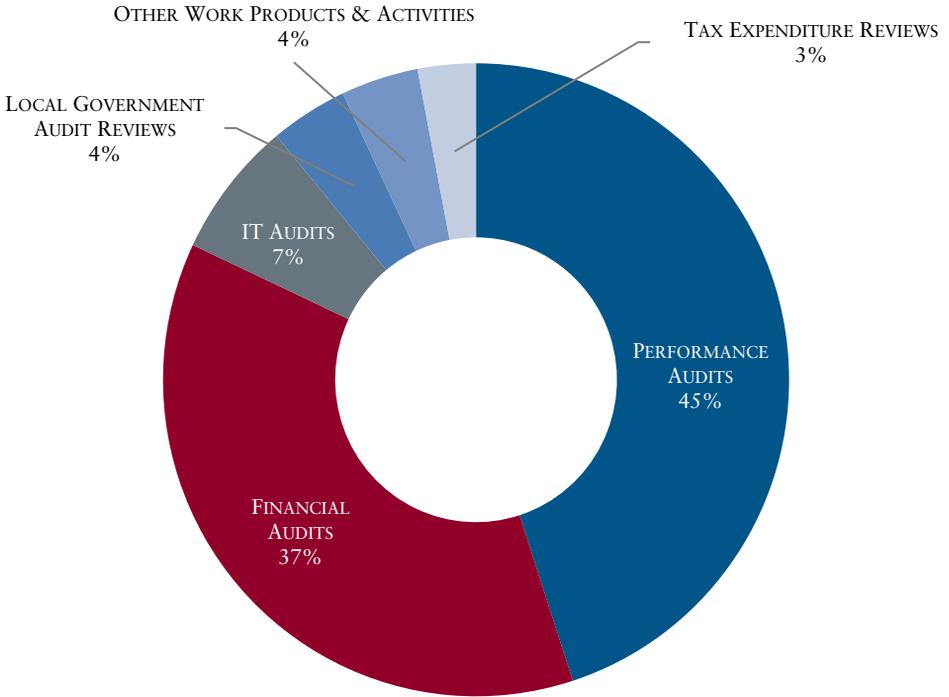
During Fiscal Year 2017, the OSA issued a total of 58 financial, performance, and IT audit reports and other work products. A complete list is located on pages 32 through 35 of this report. The OSA completed these audits and other work products based on the following authority:

- **STATUTORY OR OTHER LEGAL REQUIREMENTS**—48 audits and other work products (83 percent) were completed in response to statutory or other legal requirements, including the *Statewide Single Audit for the Fiscal Year Ended June 30, 2016*, which was conducted to comply with the requirements of the federal Single Audit Act.
- **LEGISLATIVE AUDIT REQUESTS APPROVED BY THE LEGISLATIVE AUDIT COMMITTEE**—4 audits (7 percent) were completed in response to requests from state legislators. Statute requires all legislative audit requests to be approved by the Legislative Audit Committee before the audit will be added to the OSA’s audit plan.
- **STATE AUDITOR’S DISCRETIONARY AUTHORITY**—6 audits and other work products (10 percent) were completed at the State Auditor’s discretion based on risk, audit coverage, and other considerations.

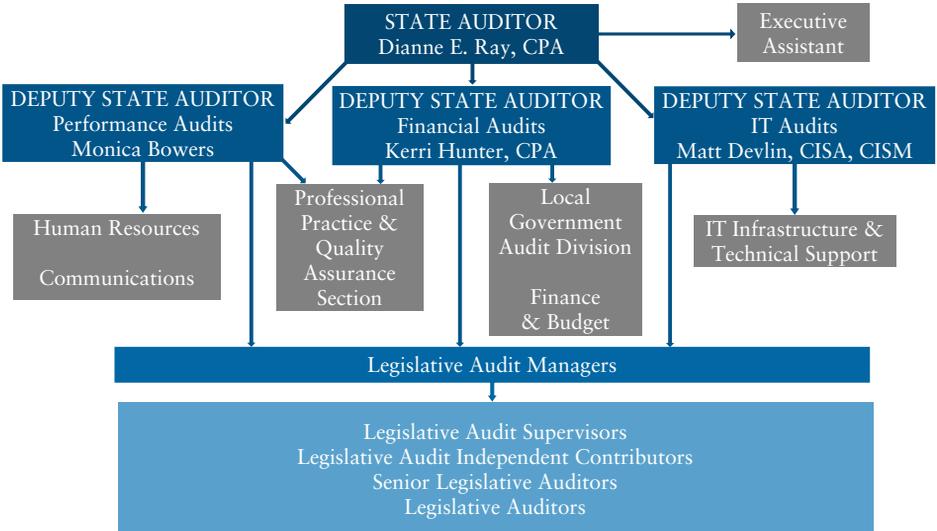
In addition, the OSA reviewed financial audit reports and Exemption from Audit applications submitted by Colorado’s 4,000 local governments.

The OSA has 75 professional and administrative support staff who are dedicated to furthering the OSA’s mission and goals. The following chart shows how the OSA’s project hours were allocated during Fiscal Year 2017.

## FISCAL YEAR 2017 ALLOCATION OF PROJECT HOURS



## OSA ORGANIZATIONAL STRUCTURE



# PERFORMANCE AUDITS

Performance audits address whether programs are operated in an effective and efficient manner to accomplish their intended goals and are in compliance with laws and regulations. During Fiscal Year 2017, the OSA issued 13 performance audits and evaluations. These audits and evaluations identified concerns across a range of state agencies and institutions, as discussed previously in the Financial Benefits Section and in this section.

- **ANNUAL COMPENSATION STUDY, MAY 2017, DEPARTMENT OF PERSONNEL & ADMINISTRATION**

**KEY FINDINGS:** The Department could not demonstrate the accuracy and reliability of its 2017 and 2018 Annual Compensation Reports. The Department could not produce supporting evidence for the labor market data used in either analysis, including the original survey data or underlying analyses used to derive results. For the 2017 Annual Compensation Report, the Department paid its contractor the full amount of the \$300,000 contract without receiving all the deliverables required by the contract, and its contractor provided compensation study results that may not have been accurate and reliable.

- **PERFORMANCE EVALUATION OF ADAMS STATE UNIVERSITY, FEBRUARY 2017**

**KEY FINDINGS:** Adams generated between \$0.9 and \$3.6 million per year in operating cash flows during Fiscal Years 2011 through 2015. However, Adams' debt service requirements totaled more than \$4 million per year, thereby offsetting the positive cash flows from operations. Adams needs to increase operating cash flows by about \$3 million above Fiscal Year 2015 levels to cover its current debt service burden and capital renewal needs. Adams' ongoing strategic challenge will be to identify more significant cost-cutting and revenue-enhancement strategies to improve its financial ratios and help ensure financial sustainability.

- **PERFORMANCE EVALUATION OF WESTERN STATE COLORADO UNIVERSITY, FEBRUARY 2017**

KEY FINDINGS: Western generated between \$3 and \$5 million per year in operating cash flows before depreciation and interest during Fiscal Years 2013 through 2015. However, Western's debt service requirements totaled about \$5 million per year, thereby offsetting the positive cash flows from operations. Western needs to increase operating cash flows by \$2 to \$3 million above Fiscal Year 2015 levels to cover its current debt service burden and capital renewal needs. Western's ongoing strategic challenge will be to achieve enrollment growth and increased student retention, thereby increasing revenue, without an equal increase in costs.

- **COLORADO ENERGY OFFICE FOLLOW UP TO 2012 AUDIT, DECEMBER 2016, GOVERNOR'S OFFICE**

KEY FINDINGS: The Colorado Energy Office (CEO) lacked required approvals and/or sufficient justifications and other supporting documentation for 42 of 111 sampled expenditures. Although CEO made improvements in several key areas since the OSA's 2012 performance audit, staff were not consistently complying with expenditure policies or contract monitoring best practices.

- **CONSERVATION EASEMENT TAX CREDIT PROGRAM, AFTER CHANGES IN 2014, NOVEMBER 2016, DEPARTMENT OF REGULATORY AGENCIES**

KEY FINDINGS: The Division improperly recorded 63 prepayments of application fees and spent the money before receiving applications for preliminary advisory opinions, resulting in unfunded liabilities through 2016. Additionally, the Division did not collect sufficient revenue from application fees to cover its expenses associated with reviewing applications, resulting in difficulties funding staff positions and an increasing backlog of tax credit applications awaiting review. No state agency reports on the types of lands being preserved through the Program, how the lands are used, or the specific values being preserved (e.g.,

wildlife habitat, open space), making it difficult to determine the benefits the State and its taxpayers receive from the Program.

- **SCHEDULE OF TABOR REVENUE FOR FISCAL YEAR 2016, OCTOBER 2016, DEPARTMENT OF PERSONNEL & ADMINISTRATION**

KEY FINDING: Subsequent to the Office of the State Controller's September 1, 2016 certification of TABOR revenue, errors were identified at one department that resulted in a \$23 million decrease in TABOR revenue for Fiscal Year 2016. The OSC recertified TABOR revenue on September 15, 2016 to account for this adjustment; however, the recertification did not include approximately \$9.7 million in additional adjustments to TABOR revenue posted to the State's accounting system subsequent to the September 1, 2016 certification.

- **DIVISION OF YOUTH CORRECTIONS, SEPTEMBER 2016, DEPARTMENT OF HUMAN SERVICES**

KEY FINDINGS: Facility staff do not always use and document seclusion incidents in accordance with statute and Division policy. Facility staff did not consistently comply with requirements related to fights, assaults, and critical incidents. Finally, the Division does not provide the same level of oversight of the two contractor-operated secure facilities as it does with the 10 state-operated secure facilities.

- **COLORADO MEDICAID: THE PEAK APPLICATION AND ELIGIBILITY VERIFICATION, JULY 2016, DEPARTMENT OF HEALTH CARE POLICY AND FINANCING**

KEY FINDINGS: The Department lacks adequate data and monitoring to ensure that all recipients who become ineligible for Medicaid due to changes in their circumstances are disenrolled in a timely manner after verifying that recipients are no longer eligible for benefits.

- **CONTRACTING FOR SERVICES-SELECTION PROCESS, AUGUST 2016, DEPARTMENT OF HUMAN SERVICES**

**KEY FINDINGS:** Based on a review of file documentation for 17 requests for proposals (RFPs), the Department did not adhere to the Procurement Code, procurement rules, or its own established processes for eight of the 17 RFPs. When potential conflicts of interest were disclosed by individuals reviewing the RFPs, the Department had no documentation of its evaluation of the potential conflicts or any steps taken to mitigate these potential conflicts.

# 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 2017, the OSA issued 38 financial audit reports, including the *Statewide Single Audit for the Fiscal Year Ended June 30, 2016*.

The OSA's financial auditors completed two standalone audit reports related to the Taxpayer's Bill of Rights (TABOR): *Schedule of TABOR Revenue, Fiscal Year 2016* and *Schedule of Computations Required Under Article X, Section 20, of the State Constitution, Fiscal Year Ended June 30, 2016*.

Through their financial audit work, the OSA's financial auditors also identify areas of state operations and programs that may need more in-depth audit coverage through a standalone performance or IT audit.

## STATEWIDE SINGLE AUDIT

The purpose of the *Statewide Single Audit for the Fiscal Year Ended June 30, 2016* 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 \$36.3 billion in total assets and \$31.4 billion in total expenditures.
- We issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2016. This 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 51 internal control weaknesses related to compliance with internal control over financial reporting.

#### FEDERAL PROGRAM FINDINGS

- The State expended approximately \$12.3 billion in federal funds in Fiscal Year 2016. The four largest federal programs were:
  - ▶ Medicaid: \$5.1 billion
  - ▶ Student Financial Assistance: \$1.4 billion
  - ▶ Highway Planning and Construction: \$827 million
  - ▶ Research and Development Cluster: \$818 million
- We identified 35 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- We identified over \$56,000 in questioned costs related to federal awards granted to the State.

#### STANDALONE FINANCIAL AUDITS

The OSA contracted with CPA firms for standalone financial audits of Colorado higher education institutions and other entities, including the Colorado Lottery and Pinnacle Assurance. The Colorado Public Employees' Retirement Association's financial audit for the Fiscal Year Ended December 31, 2015, also a standalone contracted audit, was released in August 2016 and covered about \$46.4 billion in retirement funds.

# IT AUDITS

The OSA's IT audit team evaluates IT processes related to information security, including user access, change management, systems development, computer operations, systems backup and recovery, and other IT-related controls over critical and essential state information systems and applications to ensure the confidentiality, integrity, and availability of the data they contain and the business processes they support. The IT team also assists the OSA's performance and financial audit teams in assessing information systems that are a primary source of data auditors rely upon when conducting audit work.

During Fiscal Year 2017, about 99 percent of the IT audit team's work was related to the State's annual financial and compliance audit and included testing IT controls for information systems that are significant to the State's financial activities and federal compliance requirements, including the Colorado Operations Resource Engine (or CORE, the State's accounting system), the Colorado Personnel Payroll System, and GenTax (the Department of Revenue's tax system). The IT audit team identified a total of 38 internal control weaknesses, which were reported in the *Statewide Single Audit for the Fiscal Year Ended June 30, 2016*. Eleven of these 38 control weaknesses were included in audit findings classified as material weaknesses.

The OSA's Deputy State Auditor for IT Audits participates in an advisory capacity on the Colorado Cybersecurity Council pursuant to House Bill 16-1453.

# LOCAL GOVERNMENT AUDIT DIVISION

The OSA's Local Government Audit Division (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, and authorities to submit an annual independent financial audit or an Exemption from Audit application to the OSA.

The Division examines annual financial audits to determine compliance with governmental accounting standards and other requirements. The Division also reviews and approves Exemption from Audit applications and provides technical assistance to local governments and their independent auditors when requested.

During Fiscal Year 2017, the Division also produced the following standalone reports and memos:

- *Fiscal Health Analysis of Colorado School Districts, Fiscal Years 2013-2015*
- *School Capital Construction Memo, Fiscal Year 2016*
- *Colorado Educational and Cultural Facilities Authority Memo, Calendar Year 2016*

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. 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 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. This year, the OSA issued two such reports:

- The *Study of Volunteer Firefighter Pension Plans in Colorado* (September 2016). This study was required by statute and found that there is a high risk that pension plans for volunteer fire departments (Plans) do not comply with the tax qualification requirements of the Internal Revenue Code (IRC). Some Plans also require further analysis of benefits and payments to ensure compliance with the Fair Labor Standards Act (FLSA). The study provided alternatives to the current Plan structure, which would allow the Plans to comply with the IRC and FLSA, and could also address funding and administrative concerns raised by the study.
- The *National Collegiate Athletic Association (NCAA) Financial Data Compilation Report* (May 2017). This report provided a summary and comparison of Fiscal Year 2016 financial data for Colorado public higher education institutions' NCAA activities. Among the key statistics in the report, Colorado's three Division I institutions generated about \$101 million in athletic program revenues not subsidized by the institutions, and provided about \$24 million in student aid to more than 850 student athletes. Conversely, the eight Division II institutions generated about \$22 million in athletic program revenues not subsidized by the institutions, and provided about \$16 million in student aid to more than 2,300 student athletes.

# ABOUT THE STATE AUDITOR

The State Auditor is a constitutionally established position, appointed by the General Assembly without regard to political affiliation. The State Auditor serves a 5-year term and must be a CPA licensed to practice in Colorado.

Dianne E. Ray was first appointed as State Auditor in May 2011 and reappointed in April 2016. She has specialized in governmental and nonprofit accounting and auditing for more than 25 years. Before joining the OSA, Dianne worked in local governments, including as the Director of Finance and Administration for the City of Louisville, Colorado.

Dianne has been recognized for providing strong leadership. 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 her the 2015 Leo Reithmeyer Award for the Top Public Administrator in Colorado. In 2016, Dianne received the President’s Award from the National Association of State Auditors, Controllers, and Treasurers.

Dianne’s participation in professional organizations includes serving as President of the National State Auditors Association for the 2015-2016 term, and as a board member and former chair of the Colorado Housing and Finance Authority. In 2016, Dianne was appointed by the U.S. Comptroller General to serve a 4-year term on the Advisory Council on *Government Auditing Standards*, which reviews and recommends changes to the standards that guide the government auditing profession.

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 Certified Public Accountant in Colorado and Arizona.

# OSA AUDIT STAFF

Collectively, the OSA's auditors possess more than 400 years of auditing experience. The OSA's auditors are highly educated, with many auditors holding graduate degrees. Additionally, 39 percent of the OSA's auditors hold a professional license or certification, including:

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

# 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 that afford the opportunity to share best practices, exchange ideas, and better understand the unique and changing demands facing 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 and workgroups: Audit Standards and Reporting, E-Government, Executive Committee, Human Resources, Peer Review, Pension Audit Issues, Performance Audit, and Single Audit. Some of the OSA's audit managers also participate on or lead teams assigned to conduct external quality control peer reviews of other state audit organizations through the NSAA's External Peer Review Program.
- NATIONAL CONFERENCE OF STATE LEGISLATURES (NCSL) AND NATIONAL LEGISLATIVE PROGRAM EVALUATION SOCIETY (NLPES). As an agency in Colorado's Legislative Branch, the OSA is an active participant in NCSL and one of its legislative staff sections, NLPES. One of the OSA's performance audit managers has served as a member of the NLPES Executive Committee since 2009 and was elected as Chair for the 2016-2017 term. This past year, the OSA's Deputy State Auditor for Financial Audits participated on an NCSL-led management review commissioned by another state legislature.

## EXTERNAL PRESENTATIONS

The OSA's staff routinely speak to external audiences about our work and role in state government. During Fiscal Year 2017, OSA management and staff gave presentations at the following professional conferences, industry training events, and undergraduate and graduate student classes at Colorado's higher education institutions:

- Association of Government Auditors, Annual Professional Development Training (Greenwood Village, CO), May 2017
- Colorado Government Finance Officers Association, Training Course (Castle Rock, CO; Durango, CO; Haxtun, CO; Lamar, CO; Salida, CO), July-August 2016
- Colorado Society of Certified Public Accountants, Governmental Conference (Englewood, CO), October 2016
- Colorado Society of Certified Public Accountants, Local Government Auditor Training (Englewood, CO), January 2017
- Colorado Society of Certified Public Accountants, Spring Conference (Englewood, CO), June 2017
- Governmental Accounting Standards Board, Note Disclosures Research Roundtable (Denver, CO), February 2017
- Higher Education Controller's Meeting (Colorado Springs, CO), May 2017
- Kenya National Parliament Delegation, Visit to the Colorado General Assembly (Denver, CO), July 2016
- Kiwanis Club Denver Tech Center, Monthly Meeting (Lone Tree, CO), March 2017
- Metropolitan State University of Denver, Contemporary Auditing Issues Class (Denver, CO), February 2017
- Metropolitan State University of Denver, Contemporary Auditing Issues Class (Denver, CO), July 2016
- Metropolitan State University of Denver, Internal Auditing Class (Denver, CO), February 2017
- Metropolitan State University of Denver, Political Science Class (Denver, CO), April 2017
- National Legislative Program Evaluation Society, Fall Professional Development Seminar (Jackson, MS), October 2016

- National Legislative Program Evaluation Society, Webinar (Denver, CO), May 2017
- National State Auditors Association, Annual Meeting (Atlantic City, NJ), June 2017
- Regis University, Accounting Class (Denver, CO), September 2016
- University of Colorado-Denver, School of Public Affairs, Masters in Public Administration Class (Denver, CO), March 2017
- University of Denver, Industry Panel Discussion (Denver, CO), April 2017

### PROFESSIONAL ASSOCIATIONS

The OSA’s auditors remain active members in several professional associations that provide opportunities for professional development and training:

- American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners
- Association of Government Accountants
- 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
- Mountain and Plains Intergovernmental Audit Forum

### COMMUNITY SERVICE

In addition to leadership in the audit industry, the OSA’s staff give back to the community. In Fiscal Year 2017, OSA staff participated in volunteer events through OSA’s Community Service Program and raised \$1,300 through the OSA’s Jeans-4-Charity fundraisers to benefit the following organizations:

- American Red Cross, Louisiana Floods
- Clothes to Kids of Denver
- Colorado Gives
- Denver Botanic Gardens
- Energy Outreach Colorado
- Kids in Need of Dentistry

- Nate Simpson Fund
- Project Angel Heart
- Project Worthmore
- Sense of Security
- Special Olympics of Colorado
- The Odyssey School of Denver
- Warren Village

Additionally, OSA staff donated more than \$3,500 through the annual Colorado Combined Campaign, which is a charitable donation program coordinated across all departments of state government.

# 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, issues raised in the OSA's audits may prompt members of the General Assembly to seek statutory change to improve the efficiency and effectiveness of state government operations. 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, 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 2017 Legislative Session, six bills sponsored by the Legislative Audit Committee were enacted into law related to (1) issues raised in the OSA's audits and other work products or (2) the OSA's audit authority and statutory responsibilities:

- SENATE BILL 17-016—COUNTY CHOICE CHILD PROTECTION TEAMS

Makes it optional for counties to create and use child protection teams. Directs the Department of Human Services to include a summary and description of the work of child protection teams in its 2017 SMART Government Act presentation.

RELATED AUDIT: *Child Welfare, Performance Audit, October 2014, Department of Human Services*

- HOUSE BILL 17-1125—SERVICES IN COLORADO CORRECTIONAL FACILITIES

Removes the requirement that the Division of Correctional Industries in the Department of Corrections must establish programs that are responsible for vehicle maintenance, physical

plant and facility maintenance, and food and laundry services for each of the State's correctional facilities.

RELATED AUDIT: *Colorado Correctional Industries, Performance Audit, January 2015, Department of Corrections*

- HOUSE BILL 17-1131—AUTHORITY TO CONTRACT  
ADMINISTRATION OF COLLEGE OPPORTUNITY FUND

Allows the Colorado Student Loan Program to enter into an agreement with the Department of Higher Education, or other state entity, to administer all or part of the College Opportunity Fund Program.

RELATED AUDIT: *Colorado Student Loan Program (dba College Assist), Financial and Compliance Audit, Fiscal Years Ended June 30, 2015 and 2014, Department of Higher Education*

- HOUSE BILL 17-1217—STATE HISTORICAL SOCIETY GOVERNANCE

Changes the way the board members of the Colorado Historical Society are selected by repealing certain provisions of current law that have become obsolete. Allows the Board to establish the Directors Council of the State Historical Society, except that if the Board has not established the Council by June 1, 2020, such authority is repealed.

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

- HOUSE BILL 17-1223—OSA FRAUD HOTLINE

Directs the State Auditor to establish and administer a fraud reporting hotline. Grants the State Auditor the authority to investigate hotline calls when the affected state agency, in responding to a referred hotline call, requests that the State Auditor participate in an investigation or conduct the entire investigation. Requires state agencies to report to the State Auditor on the status of referred hotline calls every 90 days until a final disposition is reached. Beginning in Fiscal Year 2019, requires the State Auditor to prepare an annual report to the Legislative Audit Committee summarizing fraud hotline activity for the preceding year.

- HOUSE BILL 17-1296—ASSIGNMENT OF STATE-OWNED VEHICLES

Specifies that a state agency can assign a vehicle to an officer or employee for business and commuting only if the assignment of the vehicle is necessary to conduct official and legitimate state business, the vehicle meets the IRS definition of a qualified non-personal use or is the most cost-efficient means of transportation to the state agency, and the assignment of the vehicle meets additional criteria established in rules. Requires officers or employees of an agency to pay income tax on the value of the fringe benefit of their assigned vehicles.

RELATED AUDIT: *Commuting Use of State-Owned Vehicles, Performance Audit, November 2016, Department of Personnel & Administration*

#### OTHER RELATED BILLS

In addition to those bills sponsored by the Legislative Audit Committee, six bills were enacted during the 2017 Legislative Session related to (1) issues raised in OSA audits and other work products or (2) the OSA’s statutory authority and responsibilities:

- SENATE BILL 17-294—REVISOR’S BILL

- HOUSE BILL 17-1005—MODERNIZE LAWS RELATING TO OFFICE OF THE STATE AUDITOR

- SENATE BILL 17-1143—AUDITS OF MEDICAID CLIENT CORRESPONDENCE

- HOUSE BILL 17-1298—ANNUAL COMPENSATION REPORT SUBMISSION DEADLINE

RELATED AUDIT: *Annual Compensation Study, Performance Audit, May 2017, Department of Personnel & Administration*

- HOUSE BILL 17-1329—REFORM DIVISION OF YOUTH CORRECTIONS

RELATED AUDIT: *Division of Youth Corrections, Performance Audit, September 2016, Department of Human Services*

- HOUSE BILL 17-1361—EVALUATE STATE INFORMATION TECHNOLOGY RESOURCES

# AUDIT REPORTS & OTHER WORK PRODUCTS

Reports and other work products can be accessed via the OSA's website at: [www.colorado.gov/auditor](http://www.colorado.gov/auditor).

REPORT NAME	TYPE	NO.
<b>COLLEGES AND UNIVERSITIES</b>		
Adams State University	Performance	1665P-B
Adams State University, Fiscal Years Ended June 30, 2016 and 2015	Financial	1602F-A
Adams State University, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1602F-B
Auraria Higher Education Center, Fiscal Years Ended June 30, 2016 and 2015	Financial	1607F
Colorado Community College System, Fiscal Years Ended June 30, 2016 and 2015	Financial	1611F
Colorado Mesa University, Fiscal Years Ended June 30, 2016 and 2015	Financial	1612F
Colorado Mesa University, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1612F-A
Colorado School of Mines, Fiscal Years Ended June 30, 2016 and 2015	Financial	1603F
Colorado School of Mines, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1603F-A
Colorado State University System, Fiscal Years Ended June 30, 2016 and 2015	Financial	1616F-A
Colorado State University–Global Campus, Fiscal Years Ended June 30, 2016 and 2015	Financial	1616F-B
Colorado State University–Ft. Collins, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1616F-C
Colorado State University–Pueblo, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1616F-D
Fort Lewis College, Fiscal Years Ended June 30, 2016 and 2015	Financial	1604F-A
Fort Lewis College, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1604F-B
Metropolitan State University of Denver, Fiscal Years Ended June 30, 2016 and 2015	Financial	1623F

REPORT NAME	TYPE	No.
Metropolitan State University of Denver, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1623F-A
National Collegiate Athletic Association Financial Data Compilation, Fiscal Year Ended June 30, 2016	Other	1749S
University of Colorado, Fiscal Years Ended June 30, 2016 and 2015	Financial	1605F
University of Colorado at Boulder, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1605F-A
University of Colorado-Colorado Springs, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1605F-B
University of Northern Colorado, Fiscal Years Ended June 30, 2016 and 2015	Financial	1637F-A
University of Northern Colorado, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1637F-B
Western State Colorado University	Performance	1665P-A
Western State Colorado University, Fiscal Years Ended June 30, 2016 and 2015	Financial	1638F
Western State Colorado University, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2016	Financial	1638F-A
<b>DEPARTMENT OF AGRICULTURE</b>		
Colorado State Fair Authority, Fiscal Years Ended June 30, 2016 and 2015	Financial	1615F
<b>DEPARTMENT OF CORRECTIONS</b>		
Behavioral Health Programs	Performance	1556P
<b>DEPARTMENT OF EDUCATION</b>		
Fiscal Health Analysis of Colorado School Districts, Fiscal Years 2013-2015	Other	1639S
School Capital Construction Memo, Fiscal Year 2016	Other	1647S
<b>DEPARTMENT OF HEALTH CARE POLICY AND FINANCING</b>		
Colorado Medicaid: The PEAK Application and Eligibility Verification	Performance	1555P
<b>DEPARTMENT OF HIGHER EDUCATION</b>		
CollegeInvest, College Savings Program Funds, Fiscal Years Ended June 30, 2016 and 2015	Financial	1609F
Colorado Student Loan Program (dba College Assist), Fiscal Years Ended June 30, 2016 and 2015	Financial	1608F
Higher Education TABOR Enterprise Status Memo, Fiscal Year 2016	Other	1646S
<b>DEPARTMENT OF HUMAN SERVICES</b>		
Colorado State Veterans Nursing Home at Fitzsimons, Fiscal Year Ended June 30, 2016	Financial	1606F

REPORT NAME	TYPE	No.
Contracting for Services-Selection Process	Performance	1551P
Division of Youth Corrections	Performance	1557P
<b>DEPARTMENT OF LOCAL AFFAIRS</b>		
Study of Volunteer Firefighter Pension Plans in Colorado	Other	1550P
U.S. Department of Housing and Urban Development Agreed-Upon Procedures Reporting, Fiscal Year 2016	Financial	1629F-AT
<b>DEPARTMENT OF PERSONNEL &amp; ADMINISTRATION</b>		
Annual Compensation Study	Performance	1674P
Commuting Use of State-Owned Vehicles	Performance	1560P
<b>DEPARTMENT OF REGULATORY AGENCIES</b>		
Conservation Easement Tax Credit Program, After Changes in 2014	Performance	1561P
<b>DEPARTMENT OF REVENUE</b>		
Colorado Lottery, Fiscal Years Ended June 30, 2016 and 2015	Financial	1620F
Division of Gaming, Fiscal Years Ended June 30, 2016 and 2015	Financial	1619F
<b>DEPARTMENT OF TRANSPORTATION</b>		
Colorado Bridge Enterprise, Fiscal Years Ended June 30, 2016 and 2015	Financial	1633F
Colorado High Performance Transportation Enterprise, Fiscal Years Ended June 30, 2016 and 2015	Financial	1632F
<b>DEPARTMENT OF TREASURY</b>		
Statement of Federal Land Payments, Fiscal Year Ended September 30, 2016	Financial	1601F-C
<b>GOVERNOR'S OFFICE</b>		
Colorado Energy Office Follow Up to 2012 Audit	Performance	1663P
Office of Film, Television, and Media	Performance	1670P
<b>OTHER ENTITIES</b>		
Census Data Attestation for Colorado Public Employees' Retirement Association (PERA) 2016 Annual Financial Audit	Financial	1714F-AT
Colorado Educational and Cultural Facilities Authority Memo, Calendar Year 2016	Other	1772S
Colorado Public Employees' Retirement Association, Fiscal Year Ended December 31, 2015 <sup>1</sup>	Financial	1513F
Pinnacol Assurance, Fiscal Years Ended December 31, 2016 and 2015	Financial	1610F
<b>STATE OF COLORADO (ALL AGENCIES)</b>		
Annual Report on the Status of Outstanding Audit Recommendations as of June 30, 2016	Other	1667S

REPORT NAME	TYPE	NO.
Cash Funds Uncommitted Reserves, Fiscal Year Ended June 30, 2016	Performance	1672P
Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR), Fiscal Year Ended June 30, 2016	Financial	1601F-A
Schedule of TABOR Revenue, Fiscal Year 2016	Performance	1673P
Statewide Single Audit, Fiscal Year Ended June 30, 2016 <sup>2</sup>	Financial	1601F

NOTES:

<sup>1</sup>The Colorado Public Employees' Retirement Association's (PERA) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2015, 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, 2016, 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.





We Set the Standard for Good Government

State Services Building  
1525 Sherman Street  
7th Floor  
Denver, CO 80203

Phone: 303.869.2800  
E-mail: [osa.ga@state.co.us](mailto:osa.ga@state.co.us)  
Website: [www.colorado.gov/auditor](http://www.colorado.gov/auditor)

