



SA

We Set the Standard for Good Government

FISCAL YEAR  
2018

# ANNUAL REPORT



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# A 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 2018. First, the OSA issued 50 financial, performance, and IT audit reports and other work products. These audits and other work products provided 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 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. In addition to a number of discretionary audits, the OSA issued several performance audits in response to legislative requests, including audits focusing on the financial sustainability of the Colorado health exchange, oversight of public administrators, land acquisition and leasing practices of the State Land Board, administration of the Regional Tourism Act, management of substance abuse treatment data by the Office of Behavioral Health, administrative expenses of the Division of Gaming, and administration of inmate canteen and banking programs at the Department of Corrections. As required by statute, the OSA also issued a performance audit of gaming cities' use of funding distributions from the State Historical Fund, a performance evaluation of the Automobile Inspection and Readjustment Program, and part one of a two-part study of the Fort Lyon Supportive Residential Community Program.

This past year, the OSA also continued its work to implement new statutory responsibilities: conducting evaluations of all state tax

expenditures over a 5-year period (Senate Bill 16-203) and administering a new fraud reporting hotline (House Bill 17-1223).

Finally, the OSA continues to be recognized for its superior work. In June 2018, the OSA received the National Legislative Program Evaluation Society's (NLPES) 2018 Excellence in Evaluation Award. This award, which is only given to one office each year, recognizes the OSA's significant body of work over the past 4 years and how it has affected state operations and policies, as well as the OSA's contributions to the field of legislative program evaluation and performance auditing. The OSA was also selected to receive a Certificate of Impact Award for its *Commuting Use of State-Owned Vehicles Performance Audit* (November 2016). NLPES gives this award to offices for reports that result in documented public policy changes, program improvements, and other public impacts.

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

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

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 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, 2018



SENATOR  
Tim Neville  
CHAIR



SENATOR  
Nancy Todd  
VICE-CHAIR



SENATOR  
Rhonda Fields



REPRESENTATIVE  
Tracy Kraft-Tharp



REPRESENTATIVE  
Timothy Leonard



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 an 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.

# ABOUT 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 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 under the Taxpayer's Bill of Rights (TABOR), 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 2014 through Fiscal Year 2018, the OSA identified financial benefits totaling approximately \$199 million, or an average of about \$39.8 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 5.2:1 ratio of benefits to costs, which means that the return on investment to the taxpayer is approximately \$5.20 in financial benefits for every \$1 spent on the OSA’s operations.

FINANCIAL BENEFITS IDENTIFIED IN AUDIT REPORTS (DOLLARS IN MILLIONS) FISCAL YEARS 2014–2018						
2014	2015	2016	2017	2018	TOTAL	ANNUAL AVERAGE
\$19.1	\$42.9	\$69.8	\$21.1	\$46.1	\$199.0	\$39.8

BENEFIT-TO-COST RATIO FISCAL YEARS 2014–2018	
Average Annual Financial Benefits Identified in Reports	\$39.8 million
Average Annual Net Operating Costs*	\$7.7 million
Ratio of Benefits to Costs	5.2 : 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.

# AUDIT RECOMMENDATIONS

Our audit recommendations promote positive change in government and are an important part of holding agencies accountable for addressing the problems and issues identified by our financial, performance, and IT audits and studies. The recommendations, as well as agencies' responses to the recommendations and planned implementation dates, if applicable, are included as part of the individual published reports.

## 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 agencies' progress toward implementing audit recommendations. The increased visibility created by this report and the related committee hearings has been a strong motivator for 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, released in October 2017, covers the 2,224 financial, performance, and IT audit recommendations that the OSA made during the period July 1, 2011, through June 30, 2016. Agencies agreed or partially agreed to implement 99 percent of the audit recommendations made during this 5-year period.

Overall, agencies continue to make the changes they agree or partially agree to make. As of June 30, 2017, agencies had implemented approximately 96 percent of the audit recommendations they agreed

to implement, and the number of outstanding recommendations has decreased from the prior year. However, some audit recommendations have not been fully implemented:

- 49 of the 921 financial audit recommendations (5 percent) that agencies agreed or partially agreed to implement were still outstanding.
- 48 of the 1,281 performance and IT audit recommendations (4 percent) that agencies agreed or partially agreed to implement were still outstanding.

# ALLOCATION OF RESOURCES

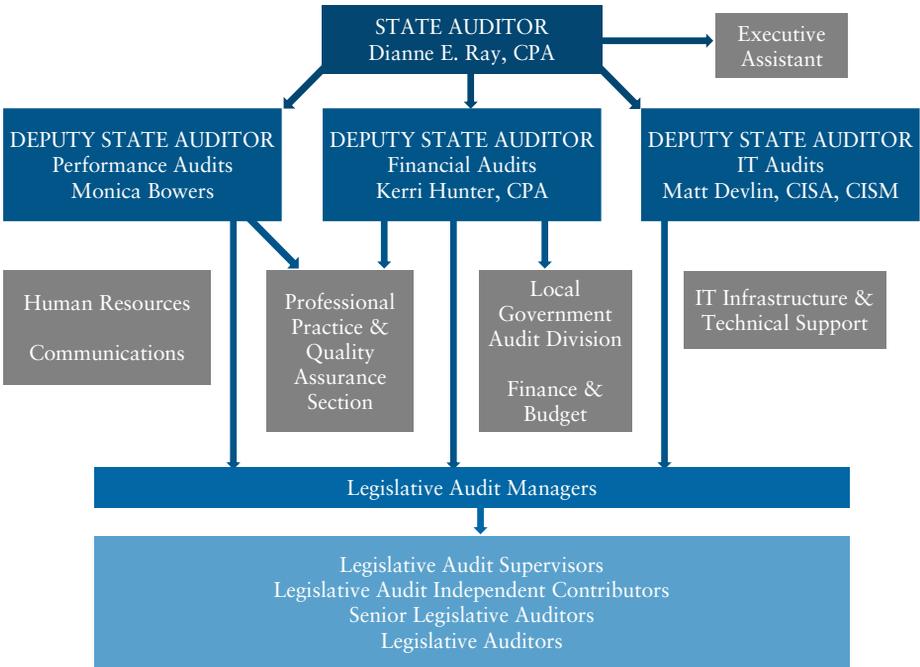
During Fiscal Year 2018, the OSA issued a total of 50 financial, performance, and IT audit reports and other work products. A complete list is located at the end of this report. The OSA completed these audits and other work products based on the following authority:

- **STATUTORY OR OTHER LEGAL REQUIREMENTS**—40 audits and other work products (80 percent) were completed in response to statutory or other legal requirements.
- **LEGISLATIVE AUDIT REQUESTS APPROVED BY THE LEGISLATIVE AUDIT COMMITTEE**—7 audits (14 percent) were completed in response to requests from state legislators. State statute requires all legislative audit requests to be approved by the Legislative Audit Committee before the audit will be added to the OSA’s work plan.
- **STATE AUDITOR’S DISCRETIONARY AUTHORITY**—3 audits and other work products (6 percent) were completed at the State Auditor’s discretion based on risk, audit coverage, and other considerations.

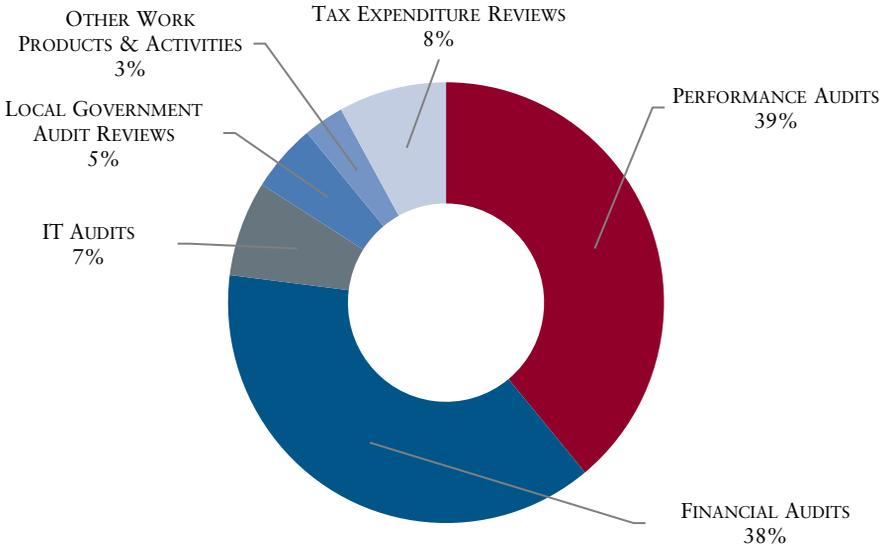
In addition, the OSA reviewed financial audit reports and Exemption from Audit applications submitted by Colorado’s 4,000 local governments.

The OSA has 75 professional and administrative support staff who are dedicated to furthering the OSA’s mission and goals. The following charts show the OSA’s organizational structure and information about how the OSA’s project hours were allocated during Fiscal Year 2018.

## OSA ORGANIZATIONAL STRUCTURE



## FISCAL YEAR 2018 PROJECT HOURS



# 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 2018, the OSA issued the following 12 performance audits and evaluations:

- **INVESTMENTS IN COLORADO’S GREAT OUTDOORS (JUNE 2017), DEPARTMENT OF NATURAL RESOURCES & GREAT OUTDOORS COLORADO**

**KEY FINDINGS:** Great Outdoors Colorado’s (GOCO) categorization of \$45 million in grant expenses to entities outside of those listed in the Colorado Constitution was unclear. GOCO also did not have policies that define what it means for expenditures to be “substantially equal” across the four purposes—wildlife, outdoor recreation, local government, and open space—specified in the Colorado Constitution. Colorado Parks and Wildlife (CPW) was not timely in completing GOCO-funded capital construction projects, taking an average of 4.4 years from planning to completion for a sample of projects. CPW could access about \$5.2 million in GOCO funding sooner if it could shorten the overall project timeframe by 12 to 18 months. Additionally, CPW had not optimized the opportunity to seek GOCO funds to help pay for operating costs. As a result of implementing an audit recommendation related to this issue, CPW reported receiving a \$400,000 increase in a GOCO grant to cover a portion of the operating costs at all state parks.

- **COLORADO HEALTH INSURANCE BENEFITS EXCHANGE (JUNE 2017), CONNECT FOR HEALTH COLORADO**

**KEY FINDINGS:** Connect for Health Colorado (Connect for Health) took steps to control costs, increase revenues, and monitor its financial position after our 2014 Limited Performance Audit. For example, Connect for Health reduced its use of contractor services by bringing key employee positions in-house, which reduced

administrative expenses by about \$400,000. Connect for Health also improved its financial controls and processes to help ensure that its expenditures are reasonable and appropriate. For example, Connect for Health reduced its assistance network expenses by \$5 million, marketing and outreach expenses by \$3.6 million, and technology expenses by \$1.3 million. Despite improvements, Connect for Health management and staff did not comply with financial policies, procedures, or contract provisions for sampled payments and contracts. Vendor and grantee payments lacked complete documentation to support the payments, one contract was paid more than the contracted amount, and grantees performed work before contracts were executed.

- **PUBLIC ADMINISTRATORS (AUGUST 2017), JUDICIAL BRANCH**  
**KEY FINDINGS:** The Judicial Branch, judicial districts, and courts had not instituted rigorous oversight processes to ensure that Public Administrators meet their fiduciary duty. In 23 of the 56 cases reviewed (41 percent), the Public Administrators did not provide the courts with a breakout of the fees and costs charged to the estates, a detailed accounting of the hours worked or the hourly rate, and/or detail on the types of services to justify the amount charged. Neither the Judicial Branch nor the courts have key data on Public Administrator performance, such as total caseload, total amount of assets overseen, total number of hours worked and fees charged, or length of time cases stay open. As of April 1, 2017, five Public Administrators had not provided us with evidence of an active bond and 23 had no record of an active bond on file with the Secretary of State’s Office, as required by statute.
  
- **INMATE CANTEEN AND BANKING PROGRAMS (JUNE 2018), DEPARTMENT OF CORRECTIONS**  
**KEY FINDINGS:** The Department of Corrections (Department) lacked controls over price setting and the procurement practices for the Canteen and policies to ensure Canteen profits are used in accordance with statute. Additionally, the Department spent Canteen profits for inmate benefit programs, as required by

statute, but had decreased the use of profits for this purpose and increased the balance in its Canteen Account. Specifically, in Fiscal Year 2017, the Department spent \$1.4 million of profits for inmate benefit programs, down from \$2.6 million in Fiscal Year 2015, increased General Fund spending for the programs from \$18.8 million to \$22.6 million over the same period, and grew the balance in the Canteen Account to about \$8.4 million as of June 30, 2017, more than twice the balance as of June 30, 2012. Had the Department maximized the use of Canteen Account funds for inmate benefits programs over these years, the Department could have reduced its need for General Funds by as much as \$8 million.

- **REGIONAL TOURISM ACT (OCTOBER 2017), GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE**

KEY FINDINGS: As of July 31, 2017, the State had distributed about \$11.3 million in state sales tax increment revenue to three of the five approved Regional Tourism Act (RTA) projects; however, no tourism revenue had been generated by any RTA projects and the first project anticipated for completion was not expected to open for business until the end of 2018. The Office of Economic Development and International Trade (OEDIT) and the Economic Development Commission (Commission) could not demonstrate that they ensured only projects meeting all statutory criteria and likely to promote achievement of the RTA's legislative intent were approved. Additionally, OEDIT and the Commission were not adequately monitoring and holding project entities accountable for fulfilling all statutory and project requirements.

- **STATE LAND BOARD (OCTOBER 2017), DEPARTMENT OF NATURAL RESOURCES**

KEY FINDINGS: The State Land Board did not follow its appraisal policy for 12 of 23 real estate transactions in Calendar Year 2016—it did not conduct required appraisals for 10 properties it bought or sold and did not conduct review appraisals for two properties valued at more than \$5 million. The State Land Board sold 10 properties for development without making a determination of fiscal impact, as

required by the Colorado Constitution. The State Land Board did not have management plans for any of the 104 properties in the Stewardship Trust or stewardship-specific lease terms for any of the 113 grazing leases within the Stewardship Trust, as required by policy. Finally, the State Land Board did not have adequate and consistent processes to detect, review, and mitigate staff conflicts or potential conflicts of interest.

- **GAMING CITIES' USE OF STATE HISTORICAL FUND**

- DISTRIBUTIONS (NOVEMBER 2017), CITIES OF BLACK HAWK, CENTRAL CITY, AND CRIPPLE CREEK**

- KEY FINDINGS:** It is unclear whether the Cities of Black Hawk, Central City, and Cripple Creek have used all of their State Historical Fund distributions as intended by the Colorado Constitution and statute. For example, the cities spent \$2.8 million between 2014 and early 2017 on such purposes as city infrastructure projects and operations at museums, visitor centers, and theaters, which appear to go beyond the common meaning of historic preservation and restoration but may fit within a broader definition. Additionally, in a sample of six grants totaling \$5.95 million, the City of Black Hawk did not always assess the historic character of house interiors prior to demolition, and replaced or demolished some historic features or hardware to modernize interior spaces. The City of Cripple Creek's grants for exterior improvements to historic structures did not consistently comply with federal historic preservation standards and state statutes.

- **MANAGEMENT OF SUBSTANCE ABUSE TREATMENT DATA (FEBRUARY 2018), DEPARTMENT OF HUMAN SERVICES**

- KEY FINDINGS:** There are gaps in the Office of Behavioral Health's (OBH) processes for ensuring the security of the Treatment Management System, which holds data on individuals who receive substance abuse treatment. Specifically, OBH did not terminate system access for three of its staff when their job responsibilities changed or for 10 of 20 sampled providers whose licenses had expired. OBH also did not maintain data use agreements for seven of its staff and 15 sampled providers, nor did OBH monitor to

ensure that system scans and data destruction occurred annually, as required by policy. Overall, OBH's collection of substance abuse treatment recipient data aligns with federal and state statutes and regulations and supports OBH's roles as the administrator of the federal block grant and the State's licensing authority for substance abuse providers.

- **GAMING ADMINISTRATIVE EXPENSES (JUNE 2018), DEPARTMENT OF REVENUE**

**KEY FINDINGS:** The Division of Gaming and the Colorado Limited Gaming Control Commission (Commission) lack controls over funding awarded to other state agencies to help administer gaming. For Fiscal Year 2017, three agencies requested approximately \$1.5 million more in gaming funds from the Commission than what they told the Joint Budget Committee they expected to receive. All four of the interagency agreements in place for Fiscal Year 2017 lacked either specific descriptions of the services the agency would provide or measures to report on and use to monitor their performance. For example, the Commission paid \$3.2 million to one agency without specifying what information the agency should report about its use of the funds, \$1.1 million to two other agencies without obtaining required activity reports, and \$161,000 to a fourth agency who submitted required activity reports late.

- **AUTOMOBILE INSPECTION AND READJUSTMENT PROGRAM (NOVEMBER 2017), DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT**

**KEY CONCLUSIONS:** The Automobile Inspection and Readjustment Program's (Program) emissions reduction benefits were primarily derived from the approximately 9 percent of vehicles that fail the emissions test and are subsequently repaired and pass a retest or are removed from the vehicle fleet. The Program decreased ozone precursor emissions by about 14 percent or 25 tons per day, thereby providing a significant portion of the controllable ozone precursor emission reductions needed to attain compliance with the National Ambient Air Quality Standards for ozone. The Program reduced the emission of ozone

precursors at a cost of about \$7,500 per ton, indicating that the Program is a cost-effective pollution control measure.

- **CASH FUNDS UNCOMMITTED RESERVES FOR THE FISCAL YEAR ENDED JUNE 30, 2017 (OCTOBER 2017), OFFICE OF THE STATE CONTROLLER**

KEY FINDINGS: Eleven state agencies had 18 cash funds with excess uncommitted reserves totaling about \$4 million as of June 30, 2017. Section 24-75-402, C.R.S., limits the amount of reserves that state agencies may maintain in cash funds at the end of a fiscal year. Two of the 18 funds have been out of compliance with uncommitted reserve limits for three consecutive years, and the Office of the State Controller was required to restrict their spending authority beginning in Fiscal Year 2018 in accordance with House Bill 15-1261.

- **SCHEDULE OF TABOR REVENUE, FISCAL YEAR 2017 (OCTOBER 2017), OFFICE OF THE STATE CONTROLLER**

KEY FINDINGS: Fiscal Year 2017 revenue was under the excess state revenues cap established by the Taxpayer's Bill of Rights (TABOR) by about \$435.9 million. Therefore, there was no TABOR refund for Fiscal Year 2017. The TABOR financial report certified on September 1, 2017, by the Office of the State Controller (OSC) and submitted to the Governor, the General Assembly, and the Department of Revenue contained one error, stating that Fiscal Year 2017 revenues were "greater than" the excess state revenue cap when, in fact, revenues were *less than* the cap. The OSC corrected this error and recertified the TABOR financial report on September 13, 2017.

# 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 2018, the OSA issued 31 financial audit reports, including the *Statewide Single Audit for the Fiscal Year Ended June 30, 2017*.

Through their 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, 2017*, 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 \$37.4 billion in total assets and \$34.2 billion in total expenditures.
- We issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2017. 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 49 internal control weaknesses related to compliance with internal control over financial reporting, including internal control weaknesses identified by the IT audit team.

## FEDERAL PROGRAM FINDINGS

- The State expended approximately \$11.9 billion in federal funds in Fiscal Year 2017. The four largest federal programs were:
  - ▶ Medicaid: \$4.7 billion
  - ▶ Student Financial Assistance: \$1.4 billion
  - ▶ Research and Development Cluster: \$844 million
  - ▶ Highway Planning and Construction: \$797 million
- We identified 25 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- We identified more than \$247,000 in questioned costs related to federal awards granted to the State.

## STANDALONE FINANCIAL AUDITS

The OSA contracted with certified public accounting 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, 2016, also a standalone contracted audit, was released in July 2017 and covered about \$47.4 billion in retirement funds.

# IT AUDITS

The OSA's IT audit team evaluates information technology (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. 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.

During Fiscal Year 2018, the IT audit team oversaw the following standalone IT performance audit:

- **AUDIT OF THREE INFORMATION TECHNOLOGY SYSTEMS AT THE COLORADO DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT (AUGUST 2017), DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT**  
KEY FINDINGS: Security controls implemented for the three systems reviewed did not comply with all State policy requirements and need to be remediated to ensure the protection of the confidentiality, integrity, and availability of these systems and the data they maintain.

In addition to overseeing the standalone IT performance audit, the majority of the IT audit team's work in Fiscal Year 2018 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 11 internal control weaknesses—three of which were included in audit findings classified as material weaknesses—and reported as part of the *Statewide Single Audit for the Fiscal Year Ended June 30, 2017*.

# 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 one such report:

- **FORT LYON SUPPORTIVE RESIDENTIAL COMMUNITY: PRELIMINARY REPORT (AUGUST 2017), DEPARTMENT OF LOCAL AFFAIRS**

**KEY INITIAL RESULTS:** Costs per participant decreased 27 percent for physical and behavioral health care and 66 percent for the judicial system (i.e., incarceration and probation) from pre-enrollment in the Fort Lyon Supportive Residential Community Program (Program) to post-enrollment in the Program for participants who had 1 year of post-enrollment data and who received Medicaid both pre- and post-enrollment. Of the 600 participants exiting the Program as of December 2016, about 40 percent completed the Program by meeting their goals and about 39 percent exited to permanent housing. Participants reported significant improvements in their levels of anxiety, depression, and overall quality of life after entering the Program.

# 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 2018, the Division also produced the following standalone reports and memos:

- *Fiscal Health Analysis of Colorado School Districts, Fiscal Years 2014-2016*
- *School Capital Construction Memo, Fiscal Year 2017*
- *Colorado Educational and Cultural Facilities Authority Memo, Calendar Year 2017*

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.

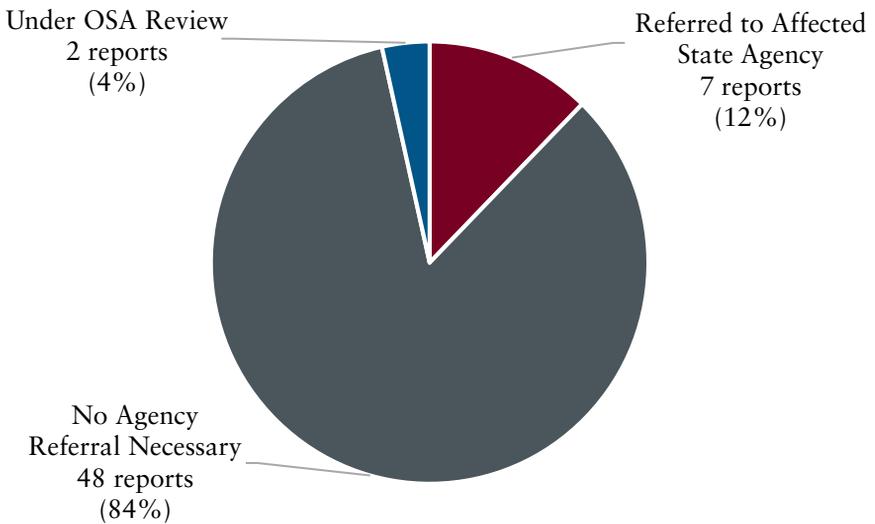
# FRAUD HOTLINE

The purpose of the OSA's Fraud Hotline is to receive reports about *occupational fraud*, a situation in which a state employee or contracted individual may be using their position or access as an employee or contractor to commit fraud against the State or others.

Section 2-3-110.5, C.R.S., specifies requirements for the OSA's screening and referral of Hotline calls to the affected state agency. Under certain circumstances, the State Auditor has statutory authority to investigate allegations reported to the Hotline.

## HOTLINE REPORTS

During Fiscal Year 2018, the Hotline received a total of 57 reports that were handled as follows:



The majority of reports were not referred to an affected state agency because they did not fall within the Hotline's jurisdiction (e.g., did not constitute an allegation of occupational fraud, involved a local government).

## AGENCY REFERRALS

Of the seven occupational fraud allegations that the OSA referred to affected state agencies during Fiscal Year 2018, six involved misappropriation of assets and one involved a conflict of interest.

As of June 30, 2018, three referred allegations were still under agency review and awaiting a final disposition. The four remaining referred allegations had been investigated by the agency with the following outcomes:

- Two allegations of misappropriation of assets were substantiated. The agencies took disciplinary action against those individuals who were involved.
- One allegation of misappropriation of assets and one allegation of a conflict of interest were not substantiated.

# 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 throughout the legislative process.

## LEGISLATIVE AUDIT COMMITTEE BILLS

During the 2018 Legislative Session, three bills sponsored by the Legislative Audit Committee were enacted into law related to issues raised in the OSA's audits and other work products:

- **SENATE BILL 18-103—ISSUANCE OF PERFORMANCE-BASED INCENTIVES FOR FILM**

Requires a production company that seeks tax incentives to have been engaged in other projects in Colorado for at least 12 months prior to applying for an incentive. The Office of Economic Development and International Trade (OEDIT) may not issue an incentive unless OEDIT and the production company have entered into a contract in accordance with the procurement code. Production companies must provide, through a certified public accountant, proof of qualified local expenditures and that the company hired the necessary workforce to qualify for the incentive.

RELATED AUDIT: *Office of Film, Television, and Media, Performance Audit, May 2017, Governor's Office*

▪ SENATE BILL 18-165—REQUIREMENTS FOR PUBLIC ADMINISTRATORS AND DEPUTIES

Raises the bond amount that public administrators must maintain from \$25,000 to \$100,000, clarifies that the bond requirement also applies to deputy public administrators, and stipulates that bonds must be filed annually with the Secretary of State. Requires that all fee statements from public administrators be filed with the statement of account filed at the end of the public administrator’s tenure, and requires the Chief Justice to create a standard report template for public and deputy administrators to use when reporting annually on cases administered during the previous calendar year.

RELATED AUDIT: *Public Administrators, Performance Audit, August 2017, Judicial Branch*

▪ HOUSE BILL 18-1198—BEST PRACTICES FOR STATE BOARDS AND COMMISSIONS

Beginning January 1, 2019, state agencies that are responsible for a statutorily created board or commission must ensure that each board and commission receives an annual training on a number of topics, including understanding and operating within statutory duties, defining the board or commission’s mission or role in project oversight, identifying and managing conflicts of interest, understanding the requirements of the Colorado Open Records Act, and ensuring that members act in their role as public representatives.

RELATED AUDIT: Multiple performance audits issued over the past 5 years.

**OTHER RELATED BILLS**

In addition to those bills sponsored by the Legislative Audit Committee, eight bills were enacted during the 2018 Legislative Session related to issues raised in OSA audits and other work products or changes to the OSA’s statutory authority and responsibilities:

- SENATE BILL 18-191—LOCAL GOVERNMENT LIMITED GAMING IMPACT FUND  
 RELATED AUDIT: *Gaming Impact Grants, Performance Audit, August 2015, Department of Local Affairs & Department of Human Services*
- HOUSE BILL 18-1022—DEPARTMENT OF REVENUE ISSUE SALES TAX REQUEST FOR INFORMATION  
 RELATED AUDIT: *Local Sales Taxes, Performance Audit, November 2015, Department of Revenue*
- HOUSE BILL 18-1031—EMPLOYER ENTRY FIRE AND POLICE PENSION ASSOCIATION DEFINED BENEFIT SYSTEM  
 RELATED WORK PRODUCT: *Study of Volunteer Firefighter Pension Plans in Colorado, September 2016*
- HOUSE BILL 18-1040—INMATE TREATMENT INCENTIVE PLANS  
 RELATED AUDIT: *Behavioral Health Programs, Performance Audit, November 2016, Department of Corrections*
- HOUSE BILL 18-1057—DISCLOSURE OF INFORMATION FOR ASSET RECOVERY  
 RELATED AUDIT: *None. New audit requirement.*
- HOUSE BILL 18-1256—SUNSET CONTINUE CIVIL RIGHTS DIVISION AND COMMISSION  
 RELATED AUDIT: *None. New audit requirement.*
- HOUSE BILL 18-1291—SUNSET CONSERVATION EASEMENT OVERSIGHT COMMISSION  
 RELATED AUDIT: *Conservation Easement Tax Credit Program After Changes in 2014, Performance Audit, November 2016, Department of Regulatory Agencies*
- HOUSE BILL 18-1421—PROCUREMENT PROCESS FOR MAJOR INFORMATION TECHNOLOGY PROJECTS  
 RELATED AUDIT: *None. New audit requirement.*

# 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 certified public accountant (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, Comptrollers, 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 CPA in Colorado and Arizona.

# OSA AUDIT STAFF

Collectively, the OSA's auditors possess nearly 450 years of auditing experience. Fifty-seven percent of the OSA's auditors hold a graduate degree (e.g., Master's degree, Juris Doctorate, Ph.D), and 42 percent 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
- Colorado Bar Association (Licensed Attorney)

# 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 participates in national and regional organizations that provide opportunities to share best practices, exchange ideas, and better understand the unique and changing demands facing state audit organizations:

- NATIONAL STATE AUDITORS ASSOCIATION (NSAA) is an organization specifically dedicated to state audit organizations. Members of the OSA's senior management team and audit managers serve on several NSAA standing committees and workgroups. 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) are organizations dedicated to strengthening state legislatures and supporting legislative staff. One of the OSA's performance audit managers has served as a member of the NLPES Executive Committee since 2009 and, in 2017, was appointed to serve on the NCSL Executive Committee. In 2016, the OSA's Deputy State Auditor for Financial Audits participated on an NCSL-led management review commissioned by another state legislature.
- MOUNTAIN AND PLAINS INTERGOVERNMENTAL AUDIT FORUM (MPIAF) is one of 10 regional audit forums sponsored by the U.S. Government Accountability Office that connect and support government auditors at the federal, state, and local levels. The

OSA's Deputy State Auditor for Performance Audits has served on the MPIAF Executive Committee since 2017.

#### EXTERNAL PRESENTATIONS

The OSA's staff routinely speak to external audiences about our work and role in state government. During Fiscal Year 2018, we gave presentations at the following professional conferences, training events, and higher education classrooms:

- 22nd Biennial Forum of Government Auditors (May 2018)
- BKD Governmental Seminar (August 2017)
- Colorado Department of Human Services, County Auditor Training Seminar (October 2017)
- Colorado Fiscal Institute, Monthly Meeting (January 2018)
- Colorado Government Finance Officers Association, Training Course (July 2017)
- Colorado Government Finance Officers Association, Webinar (August 2017)
- Colorado Government Finance Officers Association, Webinar (February 2018)
- Colorado Municipal Clerk Advisor Program (July 2017)
- Colorado Society of Certified Public Accountants, Governmental Conference (October 2017)
- Metropolitan State University of Denver, Public Administration Class (June 2018)
- Mountain and Plains Intergovernmental Audit Forum, Annual Conference (August 2017)
- National Association of State Auditors, Comptrollers, and Treasurers, Training Issues Workshop (April 2018)
- National Conference of State Legislatures, Legislative Summit (August 2017)
- National Conference of State Legislatures, New Staff Visit to the Colorado General Assembly (May 2018)
- National Legislative Program Evaluation Society, Professional Development Seminar (September 2017)
- National State Auditors Association, IT Conference & Workshop (October 2017)
- State Controllers Forum, Monthly Meeting (April 2018)

- State Employees Leading Colorado, Spring Conference (May 2018)
- U.S. State Department, International Visitor Leadership Program (June 2018)
- Wyoming Legislative Service Office, Staff Visit to the Colorado Legislature (August 2017)

### PROFESSIONAL ASSOCIATIONS

The OSA’s staff are active members in the following professional associations:

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

### COMMUNITY SERVICE

In addition to leadership in the audit industry, the OSA’s staff give back to the local community. In Fiscal Year 2018, we participated in volunteer events through OSA’s Community Service Program and raised more than \$1,600 through the OSA’s Jeans-4-Charity events to benefit the following organizations:

- Adams County Foster Children
- Catholic Worker Soup Kitchen
- Colorado Coalition for the Homeless
- Congress-Bundestag Youth Exchange for Young Professionals
- Cottonwood Institute
- Denver Botanic Gardens
- Epworth Foundation
- Families First
- Heart to Heart International
- Impact Locally
- MaxFund Animal Shelter
- Sweet Dream in a Bag

- The Odyssey School of Denver
- Wild Animal Sanctuary

Additionally, we donated more than \$4,900 through the annual Colorado Combined Campaign, which is a charitable donation program coordinated across all departments of state government.

# 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, Fiscal Years Ended June 30, 2017 and 2016	Financial	1702F
Auraria Higher Education Center, Fiscal Years Ended June 30, 2017 and 2016	Financial	1707F
Colorado Community College System, Fiscal Years Ended June 30, 2017 and 2016	Financial	1711F
Colorado Mesa University, Fiscal Years Ended June 30, 2017 and 2016	Financial	1712F
Colorado School of Mines, Fiscal Years Ended June 30, 2017 and 2016	Financial	1703F
Colorado State University, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2017	Financial	1716F-C
Colorado State University–Global Campus, Fiscal Years Ended June 30, 2017 and 2016	Financial	1716F-B
Colorado State University System, Fiscal Years Ended June 30, 2017 and 2016	Financial	1716F-A
Fort Lewis College, Fiscal Years Ended June 30, 2017 and 2016	Financial	1704F
Metropolitan State University of Denver, Fiscal Years Ended June 30, 2017 and 2016	Financial	1723F
University of Colorado, Fiscal Years Ended June 30, 2017 and 2016	Financial	1705F
University of Colorado at Boulder, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2017	Financial	1705F-A
University of Northern Colorado, Fiscal Years Ended June 30, 2017 and 2016	Financial	1737F-A
University of Northern Colorado, NCAA Agreed-Upon Procedures, Fiscal Year Ended June 30, 2017	Financial	1737F-B
Western State Colorado University, Fiscal Years Ended June 30, 2017 and 2016	Financial	1738F
<b>DEPARTMENT OF AGRICULTURE</b>		
Colorado State Fair Authority, Fiscal Years Ended June 30, 2017 and 2016	Financial	1715F

<b>DEPARTMENT OF CORRECTIONS</b>		
Inmate Canteen and Banking Programs	Performance	1679P
<b>DEPARTMENT OF EDUCATION</b>		
Fiscal Health Analysis of Colorado School Districts, Fiscal Years 2014-2016	Other	1739S
School Capital Construction Memo, Fiscal Year 2017	Other	1747S
<b>DEPARTMENT OF HIGHER EDUCATION</b>		
CollegeInvest, College Savings Program Funds, Fiscal Years Ended June 30, 2017 and 2016	Financial	1709F
Colorado Student Loan Program (dba College Assist), Fiscal Years Ended June 30, 2017 and 2016	Financial	1708F
Higher Education TABOR Enterprise Status Memo, Fiscal Year 2017	Other	1746S
<b>DEPARTMENT OF HUMAN SERVICES</b>		
Colorado State Veterans Center at Homelake, Fiscal Year Ended June 30, 2017	Financial	1706F
Management of Substance Abuse Treatment Data	Performance	1751P
<b>DEPARTMENT OF LOCAL AFFAIRS</b>		
Fort Lyon Supportive Residential Community: Preliminary Report	Other	1671S
U.S. Department of Housing and Urban Development Agreed-Upon Procedures Reporting, Fiscal Year 2017	Financial	1729F-AT
<b>DEPARTMENT OF NATURAL RESOURCES</b>		
Investments in Colorado's Great Outdoors	Performance	1621P
State Land Board	Performance	1681P
<b>DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT</b>		
Audit of Three Information Technology Systems at the Colorado Department of Public Health and Environment	IT Performance	1676P
Automobile Inspection and Readjustment Program	Performance	1680P
<b>DEPARTMENT OF REVENUE</b>		
Colorado Lottery, Fiscal Years Ended June 30, 2017 and 2016	Financial	1720F
Division of Gaming, Fiscal Years Ended June 30, 2017 and 2016	Financial	1719F
Gaming Administrative Expenses	Performance	1755P
<b>DEPARTMENT OF TRANSPORTATION</b>		
Colorado Bridge Enterprise, Fiscal Years Ended June 30, 2017 and 2016	Financial	1733F
High Performance Transportation Enterprise, Fiscal Years Ended June 30, 2017 and 2016	Financial	1732F
<b>DEPARTMENT OF TREASURY</b>		
Statement of Federal Land Payments, Federal Fiscal Year Ended September 30, 2017	Financial	1701F-A

## GOVERNOR'S OFFICE

Colorado Tourism Office Agreed-Upon Procedures, Fiscal Year Ended June 30, 2017	Financial	1799F-AT
Regional Tourism Act	Performance	1683P

## JUDICIAL BRANCH

Public Administrators	Performance	1678P
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## LEGISLATIVE BRANCH

Legislative Department, Fiscal Years Ended June 30, 2017 and 2016	Financial	1735F
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## OTHER ENTITIES

Census Data Attestation for Colorado Public Employees' Retirement Association (PERA) 2017 Annual Financial Audit	Financial	1814F-AT
Colorado Educational and Cultural Facilities Authority Memo, Calendar Year 2017	Other	1872S
Colorado Health Insurance Benefits Exchange: Connect for Health Colorado	Performance	1675P
Colorado Public Employees' Retirement Association, Fiscal Year Ended December 31, 2016 <sup>1</sup>	Financial	1613F
Gaming Cities' Use of State Historical Fund Distributions	Performance	1682P
State Board of the Great Outdoors Colorado Trust Fund, Fiscal Years Ended June 30, 2017 and 2016	Financial	1722F

## STATE OF COLORADO (ALL AGENCIES)

Annual Report on the Status of Outstanding Audit Recommendations as of June 30, 2017	Other	1767S
Cash Funds Uncommitted Reserves, Fiscal Year Ended June 30, 2017	Performance	1772P
Schedule of TABOR Revenue, Fiscal Year 2017	Performance	1773P
Statewide Single Audit, Fiscal Year Ended June 30, 2017 <sup>2</sup>	Financial	1701F

### NOTES:

<sup>1</sup>The Colorado Public Employees' Retirement Association's (PERA) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2016, was prepared by PERA and audited by an independent certified public accounting 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, 2017, 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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