



OFFICE OF THE STATE AUDITOR



DIANNE E. RAY, CPA
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STATE AUDITOR

August 28, 2020

COLORADO DEPARTMENT OF THE TREASURY'S INVESTMENT MANAGEMENT PERFORMANCE AUDIT – STATUS REPORT

Members of the Legislative Audit Committee:

Attached is the status report from the Colorado Department of the Treasury (Treasury) on the implementation of recommendations contained in the Office of the State Auditor's (OSA) *Treasury's Investment Management Performance Audit*.

OSA REVIEW OF DOCUMENTATION

As part of the status report process, we requested and received supporting documentation for each recommendation that the Treasury reported as having been implemented. Specifically, we reviewed the following documentation:

- Treasury's Investment Policy Statement (IPS), updated on December 30, 2019.
- The IPS for the Colorado Public School Fund Investment Board, updated April 7, 2020.
- Updated information as reported on Treasury's website, and supporting data Treasury is maintaining in its permanent records.

Based on our review, the supporting documentation substantiates the Treasury's reported implementation status.

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STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Dave Young
State Treasurer



Eric Rothaus
Deputy Treasurer

August 27, 2020

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared the attached status report on the implementation status of audit recommendations contained in the performance audit, *Colorado Department of the Treasury's Investment Management*. The report provides a brief explanation of the actions taken by the Treasury to implement each recommendation.

If you have any questions about this status report and the Treasury's efforts to implement the audit recommendations, please contact Deputy State Treasurer Eric Rothaus at (303) 866-2441 or eric.rothaus@state.co.us.

Sincerely,

A handwritten signature in blue ink that reads "David L. Young".

David L. Young
Colorado State Treasurer

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME	<i>Colorado Department of the Treasury's Investment Management</i>
AUDIT NUMBER	1950P
AGENCY	Department of the Treasury
DATE OF STATUS REPORT	8-28-2020

SECTION I: SUMMARY

REC. NUMBER	AGENCY'S RESPONSE	ORIGINAL IMPLEMENTATION DATE	CURRENT IMPLEMENTATION STATUS	CURRENT IMPLEMENTATION DATE
1-a	Agree	December 31, 2019	Implemented	December 31, 2019
1-b	Agree	December 31, 2019	Implemented	July 2019
1-c	Agree	December 31, 2019	Implemented	December 31, 2019
2-a	Agree	December 31, 2019	Implemented	December 31, 2019
2-b	Agree	December 31, 2019	Implemented	December 30, 2019

SECTION II: NARRATIVE DETAIL

RECOMMENDATION 1-A

The Colorado Department of the Treasury (Treasury) should enhance its measurement and reporting of portfolio performance by:

a. Including in its quarterly reporting for each portfolio the total returns versus established benchmarks in addition to book yield versus benchmarks.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 31, 2019
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AGENCY UPDATE

Information regarding total return has been added to data publicly available on the Treasury website, in the Investment Reports Section, found in the State Finances section of the website. Treasury continues to review and supplement the information provided. Working with the Public School Permanent Fund (PSPF) Board, Treasury continues to add information related to its investments. Since 2016, due to the passage of SB16-035, management of investments in the PSPF is controlled by the PSPF Investment Board, not Treasury.

RECOMMENDATION 1-B			
<i>The Colorado Department of the Treasury (Treasury) should enhance its measurement and reporting of portfolio performance by:</i>			
b. Ensuring total return benchmarks are consistent with the policy constraints described in the Investment Policy Statements and management practices.			
CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	July 2019
AGENCY UPDATE			
<i>As noted in the audit report, in July 2019, after analysis that began under the previous administration and while the audit was ongoing, Treasury adopted a customized benchmark, the Bloomberg Barclays US Aggregate Total Return Index (50% weight) and the Bloomberg Barclays US Treasury Bill 1-3 Months Total Return Index (50% weight). Treasury believes this new benchmark is consistent with policy and practice. Information can be found on pages 7- 8 of Treasury's Investment Policy Statement.</i>			

RECOMMENDATION 1-C			
<i>The Colorado Department of the Treasury (Treasury) should enhance its measurement and reporting of portfolio performance by:</i>			
c. Ensuring adequate documentation is maintained by Treasury and/or its custodian for all benchmarks used to allow results to be verified and replicated.			
CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 31, 2019
AGENCY UPDATE			
<i>Treasury adopted a customized benchmark, the Bloomberg Barclays US Aggregate Total Return Index (50% weight) and the Bloomberg Barclays US Treasury Bill 1-3 Months Total Return Index (50% weight) as described in the response to 1-B above. These benchmarks and data are publicly accessible and available on Bloomberg. The benchmark will be updated quarterly on the Treasury's website. The Treasury will maintain supporting documentation in its permanent records to support and replicate all quarterly benchmarks reported.</i>			

RECOMMENDATION 2-A

The Colorado Department of the Treasury (Treasury) should enhance its controls over investment activities by:

a. Specifying in the Investment Policy Statements how compliance with key restrictions related to asset allocations, maturity, and credit quality will be measured. This should include portfolio allocations to the T-Pool, such as those from the Public School Permanent Fund and the Unclaimed Property Tourism Fund portfolios. In doing so, the Treasury should, to the extent possible, verify security characteristics with third-party data (such as its custodian’s characteristics of its asset classes, and average life or expected maturity).

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 31, 2019
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AGENCY UPDATE

Information regarding compliance with restrictions related to asset allocation, maturity, and credit quality was updated during the course of the audit, but was outside the scope of the audit’s timing. Such information can be found in the Investment Policy Statement on pages 8-11 for the T-Pool and the Tourism Fund. Information about investments in the PSPF is included in that entity’s Investment Policy Statement. Pages 8-11 of the Treasury Investment Policy Statement spell out limitations and duration as relates to security characteristics. Treasury is in the process of switching to a new custodian in the coming year.

RECOMMENDATION 2-B

The Colorado Department of the Treasury (Treasury) should enhance its controls over investment activities by:

b. Develop a formal procedure requiring investment officers to obtain the preapproval from the State Treasurer for deviations from Investment Policy Statement provisions when such deviations last, or are expected to last, more than three months, and document this review and approval process in order to memorialize the decision and rationale to deviate from the established Investment Policy Statement.

CURRENT IMPLEMENTATION STATUS	Implemented	CURRENT IMPLEMENTATION DATE	December 30, 2019
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AGENCY UPDATE

Language regarding preapproval of deviations from the Investment Policy Statement has been added to the Investment Policy Statement on page 7.