

# STATE OF COLORADO

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**COLORADO ENERGY OFFICE**

1580 Logan Street, Suite 100  
Denver, CO 80203-1625  
Phone: (303) 866-2100  
Fax: (303) 866-2930  
[www.colorado.gov/energy](http://www.colorado.gov/energy)



John Hickenlooper, Governor

Jeff Ackermann, Director

July 31, 2013

Dianne E. Ray, CPA  
State Auditor  
Colorado Office of the State Auditor  
200 East 14<sup>th</sup> Avenue, 2<sup>nd</sup> Floor  
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the Colorado Energy Office performance audit #2189. The attached report provides a brief explanation of the actions taken by the Colorado Energy Office to implement each recommendation.

If you have any questions, please do not hesitate to contact me at 303-866-2262 or by email at [denise.stepto@state.co.us](mailto:denise.stepto@state.co.us).

Sincerely,

Denise Stepto  
Communications Director

## **AUDIT RECOMMENDATION STATUS REPORT**

**AUDIT NAME:** Colorado Energy Office

**AUDIT NUMBER:** 2189

**DEPARTMENT/AGENCY/ENTITY:** Colorado Energy Office

**DATE:** July 2013

### **SUMMARY INFORMATION**

*Please complete the table below with summary information for all audit recommendations. For multi-part recommendations, list each part of the recommendation SEPARATELY. (For example, if Recommendation 1 has three parts, list each part separately in the table.)*

<b>Recommendation Number</b> <i>(e.g., 1a, 1b, 2, etc.)</i>	<b>Agency's Response</b> <i>(i.e., agree, partially agree, disagree)</i>	<b>Original Implementation Date</b> <i>(as listed in the audit report)</i>	<b>Implementation Status</b> <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i>	<b>Revised Implementation Date</b> <i>(Complete only if agency is revising the original implementation date.)</i>
1a	Agree	July 2013	Implemented	
1b	Agree	April 2013	Implemented	
1c	Agree	April 2013	Implemented and Ongoing	
2a	Agree	April 2013	Implemented and Ongoing	
2b	Agree	April 2013	Implemented	
3a	Agree	April 2013	Implemented	
3b	Agree	July 2013	Implemented and ongoing	
4a	Agree	February 2013	Implemented	
4b	Agree	July 2013	Implemented and Ongoing	
4c	Agree	July 2013	Implemented and Ongoing	
5a	Agree	July 2013	Implemented	
5b	Agree	July 2013	Implemented and Ongoing	
5c	Agree	July 2013	Implemented and Ongoing	

## **DETAIL OF IMPLEMENTATION STATUS**

### **Recommendation #: 1a**

#### **Agency Addressed: Colorado Energy Office**

#### **Recommendation Text in Audit Report:**

The Colorado Energy Office (CEO) should improve its program management processes by:

- a. Implementing an agency-wide program planning process that prioritizes statutory programs, incorporates program budget and performance data into planning decisions, and includes written office policies and procedures that program staff are required to follow. The process outlined for state agency strategic plans provided in the SMART Government Act could be used by CEO to create programs that are planned to achieve goals and link program funding to results of that funding.

#### **Agency's Response: Agree**

#### **Agency's Written Response in Audit Report:**

CEO supported participation in the SMART Government Act through House Bill 12-1315 and will use this process to develop more robust project planning. CEO has created a list of all statutory programs and is in the process of creating policies and procedures for these and all agency-wide programs. The Weatherization Assistance Program has a required state planning process which has been implemented.

Although we agree that there have been program planning challenges, we do not feel it is an accurate categorization to say that there was no proof that \$252 million was spent cost-effectively. We submit that the issue is not one of cost-effectiveness, but more a result of the lack of documented program processes and a failure to connect specific program outcomes to dollars expended.

#### **Current Implementation Status of Recommendation:**

Implemented

#### **Agency's Current Comments on Implementation Status of Recommendation:**

CEO has created a list of all statutory programs and developed a program planning process that prioritizes these programs. CEO redesigned its Chart of Accounts to allow for the upload of expenditures from Financial Data Warehouse that will be utilized for monthly budget-to-actual analysis across all programs. The redesign enabled the CEO to develop and distribute program-level budgets to its staff for FY14.

This provides the missing link that ties program outcomes and deliverables to dollars spent, thus enabling the CEO to incorporate performance data into planning decisions and to justify the value of money spent.

CEO has also completed a “Lean” process with the Governor’s Office Controller that resulted in the creation and implementation of consistent accounting practices that ensures the accuracy and effectiveness of the new Chart of Accounts.

Finally, the CEO created and documented policies and procedures for agency-wide program planning and management that is located in a central repository. Program Managers are familiar with the new policy and procedures and are aware of its location.

**Recommendation #: 1b**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its program management processes by:

- b. Establishing an organized, central repository that program managers are required to use to document planning and monitoring of the programs they manage, including documentation of the program budget, goals, and progress against goals. CEO's administrative and program policies should also be maintained within the repository for easy access and reference by all staff.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO has a centralized electronic document repository that was originally designed to manage program materials. We have begun a comprehensive review of the documents stored in this repository and intend to reorganize and standardize the information currently held there. We recognize that we need to coordinate the processes used by program managers to monitor and better document program progress to goals and budgets, and to that point we intend to create templates for collection of consistent program information and data and will develop policies and procedures by which these will be maintained.

**Current Implementation Status of Recommendation:**

Implemented

**Agency's Comments on Implementation Status of Recommendation:**

CEO has completed a comprehensive review of the central document repository (hereupon referred to as the "shared drive") and has completed a reorganization of all program files; out-dated materials have been deleted, files have been arranged by program and type, and consistent naming conventions have been created and applied to the files. CEO staff has been trained on the new file storage requirements and are aware of the fact that all program planning and monitoring documents are to be stored on the shared drive. CEO staff has also received the program policies and procedures document that outlines the file storage requirements and that document is also accessible on the shared drive.

CEO has also created an easily accessible electronic filing system for all contracts and Purchase Order documents that is stored on the shared drive. In addition, a summary spreadsheet of all CEO contracts and Purchase Orders has been created to allow for more effective

management and tracking. These files and spreadsheet will be maintained by the Contracts Manager and CEO staff is familiar with these resources and are aware of their location on the shared drive.

The program management policies and procedures used by program managers have been implemented and monitoring will be conducted by CEO's newly appointed Director of Finance and Operations. This is a continual improvement process, one that requires oversight to ensure compliance, and is therefore ongoing.

**Recommendation #: 1c**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its program management processes by:

- c. Providing training to program managers and staff on how to follow the above-referenced program management processes.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO intends to conduct training for all staff on the use of the agency's central electronic document repository and will ensure that all program managers receive training on policies and procedures pertaining to the management of programs. This training will be implemented immediately upon completion of the above-referenced strategy.

**Current Implementation Status of Recommendation:**

Implemented and ongoing

**Agency's Comments on Implementation Status of Recommendation:**

All current CEO staff members have received training on a full range of program management responsibilities, including: program planning that incorporates budgets, goals and performance into the planning process and prioritizes statutory programs; procurement and vendor selection; contract management and monitoring with a focus on the effective development of (and management to) scopes of work, performance metrics, and deliverable timelines; contract close-out; and the required program documentation on the shared drive.

A list has been created of all staff members who have completed this training that is stored on the shared drive. This training will be ongoing as new employees join the staff.

**Recommendation #: 2a**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its processes for meeting contract requirements by:

- a. Ensuring that staff are made aware of and provided training on the state requirements governing how all state agencies should manage state contracts. To ensure that the training provided to staff responsible for preparing and monitoring contracts is consistent with guidance issued by the State Controller's Office, CEO should utilize the expertise of the CEO contract specialist when developing staff training on contract requirements.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO has already recognized this need through "Lean" process improvements events conducted in the summer of 2012. We have begun standardizing our accounting processes and procedures under the guidance of the State Controller and Governor's Office. We will revise current processes and will ensure that all policies and procedures are aligned with these revisions, and that all staff receive training.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

CEO has completed the training of staff members on contracting policies and procedures that is in accordance with state requirements. CEO's contract specialist played an integral role in developing and executing the training process. This training will be ongoing as new employees join the staff.

**Recommendation #: 2b**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its processes for meeting contract requirements by:

- b. Establishing internal written policies and procedures that give CEO staff further guidance on their day-to-day responsibilities, including requirements on developing contracts with all necessary performance measures and standards and on recording required information in the State's Contract Management System.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

As stated above, CEO will revise current processes and will ensure that all policies and procedures are written and are aligned with these revisions. All appropriate CEO staff will receive training. Policies and procedures will be centrally located and available to all staff.

**Current Implementation Status of Recommendation:**

Implemented

**Agency's Comments on Implementation Status of Recommendation:**

CEO has completed an extensive review and edit of all written administrative and program policies and procedures to ensure that they are accurate, up-to-date, and that they align with the responsibilities and requirements of staff and their programs. These policies and procedures cover a multitude of responsibilities, including: developing and monitoring contracts; recording required information in the State's Contract Management System; program planning and management; and properly documenting these activities on the shared drive. CEO staff are aware of these documents and have been instructed to consult them for further guidance on their day-to-day responsibilities.

**Recommendation #: 3a**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its contract monitoring processes by:

- a. Ensuring that any established training and written guidance on contract management include specific requirements on contract monitoring responsibilities, such as how contractor progress reports should be used in conjunction with informal phone and email updates, the extent to which monitoring activities must be documented to support payment authorizations, and the completion of a final performance evaluation for contractors.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO currently maintains requirements for monthly program monitoring and progress updates. We recognize, however, that we need to formalize a standard process and develop templates to standardize the documentation of all program reports. This will include designing documentation to capture informal conversations, telephone calls, and emails with vendors. We will document and provide roles and responsibilities to program managers that will clarify the relationship expected between program managers and financial staff and clarify the approval required prior to vendor payment. CEO will also ensure that all staff has been trained on these expectations.

**Current Implementation Status of Recommendation:**

Implemented

**Agency's Comments on Implementation Status of Recommendation:**

CEO's newly revised written policies and procedures for contract management contain and emphasize contract monitors' responsibilities that are in accordance with state requirements. The policies and procedures make it clear that informal phone and email updates are to be used in conjunction with contractor progress reports as opposed to supplanting them. They outline the requirement that contractors must submit a program status report with each invoice submitted and the expectation that program managers are to review both the invoice and the report before approving any payment. Finally, the policies and procedures clearly communicate the fact that final performance evaluations for contractors are required and are vital to ensuring that the CEO, along with other state agencies, contract with vendors that are responsible stewards of taxpayer dollars.

The Contract Specialist has trained all current staff members on these newly revised policies and procedures. The Accounting staff has also received training to not accept invoices without accompanying reports. All roles and responsibilities have been explained to CEO staff.

**Recommendation #: 3b**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its contract monitoring processes by:

- b. Developing a system of supervisory review that includes a review of monitoring activities against authorized contractor payments, and annual CEO staff evaluations that specifically assess contract monitoring activities.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO agrees that our current staff evaluation processes are not thorough enough to include the evaluation of the performance of program managers as it relates to the specific details of contract management requirements. We have begun the review of our evaluation tools and will work with the Governor's Office to establish appropriate materials. CEO will create policies and procedures for supervisors that will include evaluation methods and timelines for staff review, which will be reviewed, approved, and implemented by the new CEO Director.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

Working with the Governor's Office, the CEO has adopted an employee evaluation process used in all other offices of the Governor. CEO's Leadership conducted a review of every job description before implementation, and the CEO Director provided a training session on the new evaluation process for all staff. Included in the performance evaluation, program managers were evaluated on their contract monitoring activities to ensure that contract development and monitoring policies and procedures are being followed.

CEO has also appointed a Director of Finance and Operations that will be conducting internal audits of contracts and contractor payments to ensure that contracts continue to be managed in accordance with state requirements. The findings of these monitoring activities will be used to inform staff performance evaluations on an ongoing basis.

**Recommendation #: 4a**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should strengthen its controls over expenditures by:

- a. Working with the Governor's Office to establish, implement, and document an expenditure approval process for expenses incurred by the CEO Director that includes direction on which travel and other expenditures made by the CEO Director must be authorized by someone in a superior position.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

The Governor's Office requires Cabinet-level staff to attain preapproval for expenditures only when traveling out of state. Note: This expectation applies to Cabinet members as they (alone) are required to travel throughout the state as necessary to serve the Governor. CEO will develop a travel schedule and budget for the Director that will cover all anticipated travel both in and out of state for the upcoming calendar year. This plan will be submitted with the CEO budget request to the Governor's Office for approval. Modifications to this plan will be submitted for approval on a case-by-case basis. CEO will also create policies and procedures for this process.

**Current Implementation Status of Recommendation:**

Implemented

**Agency's Comments on Implementation Status of Recommendation:**

With assistance from the Governor's Office, the CEO has established, implemented, and documented policies and procedures pertaining to the expenditure approval process for expenses incurred by the CEO Director, including travel expenses. Ultimately, the CEO decided that it was prudent and appropriate to require all expenditure requests from the CEO Director to be authorized by the Deputy Chief of Staff in the Governor's Office. Upon hire in April 2013, the new CEO Director received training on the appropriate approval processes and expense codes for all travel. The CEO Director's executive assistant has also received this instruction.

**Recommendation #: 4b**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should strengthen its controls over expenditures by:

- b. Ensuring that approval for all out-of-country travel is well documented and approved in advance by the Governor's Office in written or electronic format.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO has established and implemented policies and procedures for all travel, including out-of-state, which is located in the office's central repository. The CEO accounting department has been trained to monitor all travel requests and to adhere to the guidelines established by CEO leadership and the Governor's Office. We will ensure that the new CEO Director is provided with this documentation and that all processes are followed.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

CEO staff, including the CEO Director, has been provided the policies and procedures governing the approval process for all out-of-country travel and has received instruction on the documents. These policies and procedures reside on the CEO shared drive and clearly outline the need to have out-of-country travel documented and approved in advance by the Governor's office. CEO's accounting department, along with the Director of Finance and Operations, will continue to monitor all out-of-country travel requests to ensure that requests of this nature are documented and approved in advance by the Governor's office.

**Recommendation #: 4c**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should strengthen its controls over expenditures by:

- c. Enforcing the existing policy requiring all employees, including the Director, to provide a justification for expenditures that explicitly aligns with CEO's mission and goals and, if applicable, with the goals of the program that the expenditure benefits.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO currently has established policies and procedures requiring preapproval for all expenditures of more than \$100, and the CEO accounting department has been trained and is held accountable to monitor all requests and to adhere to the guidelines established by CEO leadership and the Governor's Office. We have conducted a "Lean" process review of some of our process forms and intend to revise some of the existing processes to create consistency and ensure the documentation of accurate alignment of expenditures with CEO's mission and goals.

CEO requires the use of three justification forms, to pre-approve non-travel expenditures, to pre-approve travel expenditures, and to justify an expense prior to the Director's signature. CEO believes that only the Director's justification form that was used for a period of months was not consistently used.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

CEO has implemented new policies and procedures for expenditure approvals that require explicit justification in the context of CEO goals, benefits to the State, and program goals when applicable. Improved cost control measures are now in place for key categories such as memberships, sponsorships, and travel. The CEO has also reduced the number of procurement cards, and has ensured proper training for those staff members who have cards. The CEO has revised and updated office forms (including out-of-state- travel authorization and travel reimbursement) and has trained staff on their use. Finally, the CEO will enforce these policies on an ongoing basis with consistent monitoring and oversight.

**Recommendation #: 5a**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its overall office management policies and practices, to ensure public services are delivered in the most cost-effective and efficient manner possible, by:

- a. Establishing an internal system of accounting that collects comprehensive financial information for each individual program, including program budget and expenditure data, and program budget-to-actual data comparisons. This accounting system should be used by CEO in conjunction with the Colorado Financial Reporting System (COFRS), the State's accounting system, to ensure CEO has the ability to and does track all expenditures by both the funding source and the program or project funded.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO is in the process of evaluating current systems in the Governor's Office and other departments as a benchmark to assist us in developing a more functional and efficient accounting system. We are reexamining our chart of accounts to better allow budget-to-actual analysis and will develop metrics for each program.

**Current Implementation Status of Recommendation:**

Implemented

**Agency's Comments on Implementation Status of Recommendation:**

CEO developed and implemented a new and simplified Chart of Accounts for FY14 that enabled the CEO to develop program budgets and to collect program expenditure data that allows for program budget-to-actual data comparisons. By providing budget-to-actual, this step ties program outcomes and deliverables to dollars spent, thus providing the documentation to justify the value of money spent. The Chart of Accounts is used in conjunction with COFRS, thus ensuring that the CEO can track all expenditures by both the funding source and the program or project funded.

**Recommendation #: 5b**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its overall office management policies and practices, to ensure public services are delivered in the most cost-effective and efficient manner possible, by:

- b. Analyzing, on a regular basis, the overall costs of each program compared to whether and to what extent the program is producing intended results, and using that analysis in conjunction with program performance information and overall office priorities to determine which programs merit continued funding.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO will need to set up a new chart of accounts in order to create discrete program-level budgets in COFRS, which cannot be implemented until the new fiscal year. Until that time, we will continue to define and report on measureable outcomes for each existing program. CEO leadership is reexamining staffing levels and skill sets to ensure that we have an appropriate number of FTE staff, and the appropriate talent for each position.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

As mentioned, CEO has created and implemented a new Chart of Accounts for FY14 that allowed it to develop program budgets and to track and analyze the overall costs of each program to those budgets. Program policies and procedures dictate that program managers are responsible for analyzing program costs and reviewing progress toward program goals in order to determine if a program is succeeding or failing. The results of that ongoing analysis will be used to determine if a program should continue or be terminated.

**Recommendation #: 5c**

**Agency Addressed: Colorado Energy Office**

**Original Recommendation in Audit Report:**

The Colorado Energy Office (CEO) should improve its overall office management policies and practices, to ensure public services are delivered in the most cost-effective and efficient manner possible, by:

- c. Working with the Governor's Office, as needed, to develop and implement the infrastructure necessary to support effective program management activities. This should include establishing criteria and a process for assessing program effectiveness and clearly defining program management roles and responsibilities among staff.

**Agency's Response: Agree**

**Agency's Written Response in Audit Report:**

CEO has undergone a tremendous shift in roles and responsibilities with the adoption of House Bill 12-1315 in May 2012. After the struggle to secure funding, CEO is working to complete the closeout procedures required by the Department of Energy for American Reinvestment and Recovery Act dollars received. The Deputy Chief of Staff has been the Interim Director of CEO since the Director left in June 2012, which has provided the opportunity to align our office policies, procedures, and processes with that of the Governor's Office. CEO will work on developing and implementing this infrastructure.

**Current Implementation Status of Recommendation:**

Implemented and Ongoing

**Agency's Comments on Implementation Status of Recommendation:**

Effective program management activities are now outlined in internal policies and procedures contained within CEO's shared drive. Further, job descriptions have been reviewed and revised to reflect the responsibilities required, and the skills needed to fulfill those responsibilities, for effective program management. CEO will continue to work with the Governor's office on an ongoing basis to ensure that the criteria and process for assessing program effectiveness is in line with the Administration's expectations.