

COLORADO OFFICE OF THE STATE AUDITOR



GREAT OUTDOORS COLORADO
COLORADO PARKS AND WILDLIFE

INVESTMENTS IN COLORADO'S GREAT OUTDOORS



JUNE 2017

PERFORMANCE AUDIT

THE MISSION OF THE OFFICE OF THE STATE AUDITOR
IS TO IMPROVE GOVERNMENT
FOR THE PEOPLE OF COLORADO

LEGISLATIVE AUDIT COMMITTEE

Representative Tracy Kraft-Tharp – Chair	Senator Tim Neville – Vice-Chair
Senator Kerry Donovan	Representative Lori Saine
Senator Cheri Jahn	Senator Jim Smallwood
Representative Dan Nordberg	Representative Faith Winter

OFFICE OF THE STATE AUDITOR

Dianne E. Ray	State Auditor
Monica Bowers	Deputy State Auditor
Trey Standley	Audit Manager
Jenny Atchley	Team Leader
Laura Bravo	Staff Auditors
Robert Regan	

AN ELECTRONIC VERSION OF THIS REPORT IS AVAILABLE AT
WWW.COLORADO.GOV/AUDITOR

A BOUND REPORT MAY BE OBTAINED BY CALLING THE
OFFICE OF THE STATE AUDITOR
303.869.2800

PLEASE REFER TO REPORT NUMBER 1621P WHEN REQUESTING THIS REPORT



OFFICE OF THE STATE AUDITOR



June 28, 2017

DIANNE E. RAY, CPA
—
STATE AUDITOR

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the State Board of the Great Outdoors Colorado (GOCO Board) and Colorado Parks and Wildlife. The audit was conducted pursuant to Article XXVII, Section 6(3) of the Colorado Constitution, which states that the GOCO Board shall be subject to annual audit by the State Auditor; Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government; and Section 2-7-204(5), C.R.S., which requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments for purposes of the SMART Government Act. The report presents our findings, conclusions, and recommendations, and the responses of the GOCO Board and Colorado Parks and Wildlife.

OFFICE OF THE STATE AUDITOR
1525 SHERMAN STREET
7TH FLOOR
DENVER, COLORADO
80203

303.869.2800



CONTENTS



Report Highlights	1
CHAPTER 1	
OVERVIEW	3
Administration of GOCO and CPW	4
GOCO Grants and Investments	5
Financial Information	7
Audit Purpose, Scope, and Methodology	10
CHAPTER 2	
GOCO SPENDING AND INVESTMENTS IN STATE PARKS	15
GOCO Grant Spending and Categorization	17
RECOMMENDATION 1	29
RECOMMENDATION 2	32
Duration of Capital Projects at State Parks	34
RECOMMENDATION 3	46
Operating Funding for Capital Projects	51
RECOMMENDATION 4	56



REPORT HIGHLIGHTS



INVESTMENTS IN COLORADO'S GREAT OUTDOORS
PERFORMANCE AUDIT, JUNE 2017

GREAT OUTDOORS COLORADO
COLORADO PARKS AND WILDLIFE

CONCERN

Overall, we found that Great Outdoors Colorado (GOCO) could enhance the public transparency of how it tracks and categorizes its spending among grant recipients. In addition, Colorado Parks and Wildlife (CPW) has opportunities to plan and finish GOCO-funded capital construction projects more quickly and to enhance its use of GOCO funding to help defray park operating costs for GOCO-funded projects.

KEY FINDINGS

- GOCO does not have adequate policies and procedures to guide its categorization of grant expenses under the four purposes, based on which entities and what types of projects receive funding. We found that GOCO's categorization of \$45 million in grant expenses to entities outside of those listed in the State Constitution was unclear. In addition, GOCO does not have policies that define what it means for grant expenditures to be "substantially equal" and what action may be needed to rebalance expenditures that are not substantially equal across the four purposes. Since its inception, GOCO's cumulative spending on outdoor recreation is about \$24.3 million less than the next lowest category (wildlife).
- For a sample of 10 GOCO-funded capital projects at state parks, it took CPW an average of 4.4 years for the entire process to plan and complete the projects and request expense reimbursement from GOCO. Since GOCO spends an average of \$433,100 per month on these projects (based on Fiscal Years 2014 through 2016 data), if CPW can shorten the overall timeframe by 12 to 18 months, we estimate that CPW could access \$5.2 million to \$7.8 million in GOCO funding sooner to improve and maintain state parks.
- We found indications that CPW has not optimized the opportunity to seek GOCO funds to help pay for operating costs associated with GOCO-funded capital projects.

BACKGROUND

- GOCO was established in July 1993 and receives a portion of lottery proceeds to support four specified purposes: wildlife, outdoor recreation (i.e., the state park system that CPW manages), local government, and open space. The Colorado Constitution requires GOCO's spending on the four purposes to be substantially equal over a period of years.
- From Fiscal Years 1994 through 2016, the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) granted \$1.1 billion to various recipients.
- CPW's mission includes providing a quality state park system and outdoor recreation opportunities. In Fiscal Year 2016, there were 13.6 million visitors to Colorado's 42 state parks.
- In Fiscal Year 2016, CPW received about \$231.7 million in revenue, 11 percent of which was GOCO funding.

KEY RECOMMENDATIONS

- The GOCO Board should promulgate policies and procedures that specify how it categorizes spending under the four purposes and determines whether expenses are substantially equal.
- CPW should take steps to streamline planning and implementation of GOCO-funded capital projects.
- CPW should strengthen controls over project contracts to improve timeliness of project completion and payment.
- CPW should accurately estimate costs to operate GOCO-funded capital projects and, as necessary, request GOCO funding for those expenses.



CHAPTER 1

OVERVIEW

The Great Outdoors Colorado (GOCO) Program was established in 1993 through passage of the voter-approved Amendment 8 “to preserve, protect, enhance and manage the state’s wildlife, park, river, trail and open space heritage” [Colorado Const., art. XXVII, sec. 1(1)]. Each year, a portion of net proceeds from state-run lottery games is allocated to the Great Outdoors Colorado

Trust Fund (GOCO Trust Fund) [Colorado Const., art. XXVII, sec. 3(1)(b)(III)]; the GOCO Board uses these funds to make grants and pay administrative costs in furtherance of its mission. In Fiscal Year 2016, GOCO received \$63.7 million in lottery proceeds.

The GOCO Board provides about half of its grant funding to Colorado Parks and Wildlife (CPW), a division of the Department of Natural Resources (Department), and also awards competitive grants to various other entities, such as local governments and non-profit land conservation organizations. CPW and other grantees use GOCO funds for a variety of activities, such as to acquire and manage open land, protect wildlife habitats, and provide outdoor recreation resources. Over its history, from Fiscal Years 1994 through 2016, GOCO has awarded \$1.1 billion to its recipients.

ADMINISTRATION OF GOCO AND CPW

Our audit focused on both GOCO and CPW, the primary recipient of GOCO funds. The administrative structures of GOCO and CPW are as follows:

- **GOCO**—The Colorado Constitution established the GOCO Board as a political subdivision of the State that is not subject to administrative direction by any state department or commission, and whose organization, powers, revenues, and expenses shall not be affected by any order or resolution of the General Assembly [Colorado Const., art. XXVII, sec. 5(2) and sec. 6(3)]. The 17-member GOCO Board is composed of two members of the public from each of the seven congressional districts, appointed by the Governor; two representatives designated by the Colorado Parks and Wildlife Commission; and the Executive Director of the Department [Colorado Const., art. XXVII, sec. 6(1)]. The GOCO Board has various powers and duties, which include administering the GOCO Trust Fund, promulgating rules and regulations, administering the distribution of grants, determining the amount of revenue to re-invest for future use, making expenditures that it considers necessary and proper, and employing staff [Colorado Const., art. XXVII, sec.

5(1)(b) and sec. 6(2)]. In Fiscal Year 2017, the GOCO Board employed 16 permanent staff to assist with administering the GOCO Program.

- **CPW**—CPW was formed in July 2011 through legislation [Senate Bill 11-208] that merged the Division of Parks and Outdoor Recreation and the Division of Wildlife. CPW’s mission is “to perpetuate the wildlife resources of the state, to provide a quality state parks system, and to provide enjoyable and sustainable outdoor recreation opportunities that educate and inspire current and future generations to serve as active stewards of Colorado’s natural resources” [Section 33-9-101(12)(b), C.R.S.]. CPW, which is headquartered in Denver, has four geographic regions in which 42 state parks and more than 300 state wildlife areas are located. In Fiscal Year 2016, there were 13.6 million visitors to state parks.

CPW and its staff are overseen by the 13-member Parks and Wildlife Commission, which is a Type 1 commission [Section 33-9-101, C.R.S.]. Administratively, CPW is split into subject-specific units, such as Financial Services, Capital Development, Parks and Outdoor Recreation, and Wildlife and Natural Resources. The regions and units work together to support CPW’s three major programs—outdoor recreation, trails, and wildlife and habitat conservation—each of which contains numerous subprograms. In Fiscal Year 2017, CPW was appropriated 886.5 full-time equivalent staff.

GOCO GRANTS AND INVESTMENTS

The GOCO Board is responsible for ensuring that its expenditures to CPW and grantees further GOCO’s constitutional purpose and mission. According to Article XXVII of the Colorado Constitution, GOCO should make expenditures from the GOCO Trust Fund for four purposes in a substantially equal manner over a period of years [Colorado Const., art. XXVII, sec. 5(1)(a)]: (1) wildlife, (2) outdoor recreation, (3) open space, and (4) local government. Each year, the GOCO Board approves a plan for the coming fiscal year that lays out projected lottery revenue and the total amount of money it intends to

award. GOCO provides funding in support of the four purposes through two primary mechanisms, as follows:

- **INVESTMENTS IN COLORADO'S WILDLIFE AND OUTDOOR RECREATION RESOURCES.** Pursuant to Section 24-33-102(7), C.R.S., GOCO and CPW work under a memorandum of agreement that lays out the roles and responsibilities of each entity related to GOCO's provision of funds to CPW. GOCO invests in specific projects that CPW proposes through its annual Investment Plan and which are approved by the GOCO Board. CPW uses GOCO funds for capital projects, such as buildings at state parks, road paving in the parks, campground development, and other infrastructure; land acquisitions to protect wildlife and develop new parks; and certain operations and maintenance costs at parks. Through its Recreation Management on State Parks Grant, GOCO funds recreational management, maintenance, and enhancement of recreational opportunities to park visitors based on the amount of GOCO's capital investment at each park. In addition, GOCO provides funding to help pay for other operational expenses at state parks, such as forest health projects to reduce the risk and impacts of wildfire, and management of invasive and noxious weeds.

- **COMPETITIVE GRANTS** to identify, acquire, and manage open space and natural areas of statewide significance ("open space" grants) and to acquire, develop, or manage open lands, parks, and environmental facilities ("local government" grants). Open space grants can be awarded to local governments, CPW, political subdivisions of the State, or non-profit land conservation organizations. Local government grants can be awarded to local governments or other entities which are eligible for distributions from the Conservation Trust Fund, such as certain special districts. GOCO signs individual grant agreements with recipients that outline the terms of each grant.

For competitive grants, GOCO offers various programs under which entities can apply for funding. In Fiscal Year 2017, GOCO offered 11 competitive grant programs, such as the Habitat Restoration Grant Program; the Local Parks & Outdoor Recreation Grant

Program; and the Inspire Initiative Grant Program, which was designed to fund projects that would address the growing disconnect between youth and the outdoors. Historically, GOCO has awarded open space and local government grants for various types of projects, such as acquiring scenic land, building new park facilities, upgrading existing park facilities, constructing and maintaining trails, and providing maintenance work on existing open lands.

FINANCIAL INFORMATION

GOCO is funded almost exclusively by net lottery proceeds, which are disbursed quarterly to GOCO [Colorado Const., art. XXVII, sec. 3(1)(b)]. GOCO receives a portion of net lottery proceeds, up to a constitutional cap, which is adjusted for inflation annually based on the Consumer Price Index. In Fiscal Year 2016, GOCO reported that it received the constitutional cap of \$63.7 million in net lottery proceeds (or 44 percent of total lottery proceeds) and about \$1 million in other miscellaneous revenue, as shown in EXHIBIT 1.1.

The vast majority of GOCO's expenditures are related to grants it has awarded (including investments in wildlife and outdoor recreation), although the GOCO Board has discretion to "direct...any portion of available revenues be reinvested in the GOCO Trust Fund and not expended in any particular year [and] to make other expenditures which it considers necessary and proper to the accomplishment of the purposes of this amendment" [Colorado Const., art. XXVII, sec. 5(1)(b)].

GOCO uses several tools to manage the GOCO Trust Fund balance, including a cash flow model that uses anticipated grant awards, expenditures, and lottery revenue to predict the GOCO Trust Fund balance in the future. Although the GOCO Trust Fund balance has increased in recent years, as of January 2017 GOCO's cash flow model projected that the fund balance will decrease to about \$31.1 million by the end of Fiscal Year 2018, with continuing decreases in the following years. The yearly change in the GOCO Trust Fund balance, shown in EXHIBIT 1.1 for Fiscal Years 2014 through 2016, is the difference between total revenues and expenditures each year.

EXHIBIT 1.1. GREAT OUTDOORS COLORADO REVENUE, EXPENDITURES, GOCO TRUST FUND BALANCE, AND OUTSTANDING GRANTS FISCAL YEARS 2014 THROUGH 2016 (IN MILLIONS)			
	2014	2015	2016
REVENUE			
Lottery Revenue	\$ 60.3	\$ 61.9	\$ 63.7
Miscellaneous Income and Investment Earnings	0.5	0.6	1.0
TOTAL REVENUE	60.8	62.5	64.7
EXPENDITURES			
Grants Expended	41.4	50.8	44.9
Personal Services and Benefits	1.2	1.2	1.3
Operating and Capital Outlay	0.6	1.1	1.0
TOTAL EXPENDITURES	43.2	53.1	47.2
TRUST FUND BALANCE			
Beginning of Fiscal Year	30.6	48.2	57.6
Yearly Change in Fund Balance ¹	17.6	9.4	17.5
End of Fiscal Year	\$ 48.2	\$ 57.6	\$ 75.1
Outstanding Grant Balance ²	\$108.6	\$109.9	\$126.6
Trust Fund Balance as a Percentage of Outstanding Grants	44.4%	52.4%	59.3%
SOURCE: Office of the State Auditor analysis of Fiscal Years 2014 through 2016 GOCO financial audit report data.			
¹ Calculated as total revenue minus total expenditures.			
² Reflects the total amount of grants that GOCO had awarded as of the end of each fiscal year but had not yet paid to recipients.			

About half of GOCO's expenditures are investments in Colorado's wildlife and outdoor recreation resources through CPW. GOCO funding accounts for about 11 percent of CPW's total revenue, with the remaining revenue coming from cash sources, including state park fees, hunting and fishing licenses, and federal grants. CPW receives less than 10 percent of its total annual revenue in general funds, as required to retain its enterprise status [Section 33-9-105, C.R.S.]. EXHIBIT 1.2 shows the breakout of CPW's Fiscal Year 2016 revenue sources.

**EXHIBIT 1.2.
COLORADO PARKS AND WILDLIFE
REVENUES BY SOURCE
FISCAL YEAR 2016
(IN MILLIONS)**

REVENUE SOURCE ¹	AMOUNT	PERCENTAGE
Hunting and Fishing Licenses	\$79.9	34.5%
Park Fees	\$31.8	13.7%
Federal Grants and Contracts	\$29.4	12.7%
GOCO Revenue	\$25.3	10.9%
Operating Transfers	\$23.8	10.3%
Lottery Direct Allocation ²	\$14.4	6.2%
Rents	\$10.6	4.6%
Other ³	\$16.5	7.1%
TOTAL	\$231.7	100.0%

SOURCE Office of the State Auditor analysis of Fiscal Year 2016 data from the Colorado Operations Resource Engine (CORE), the State's accounting system.

1 Includes revenue generated for both wildlife and outdoor recreation activities.

2 CPW receives 10 percent of annual lottery proceeds for the acquisition, development, and improvement of new and existing state parks, recreation areas, and recreational trails, pursuant to Article XXVII, Section 3(1)(b)(II) of the Colorado Constitution.

3 Other revenue sources include donations, indirect cost transfers, and miscellaneous sales.

From Fiscal Years 2014 through 2016, CPW received an average of \$224.8 million in annual revenue and spent an average of \$224 million each year. CPW manages its cash flow through several funds in the State Treasury, including the Parks and Outdoor Recreation Cash Fund [Section 33-10-111(1), C.R.S.]. All monies and interest must remain in the fund for the purposes set forth in statute, including administering, managing, and supervising the state parks and outdoor recreation system [Sections 33-10-111(1) and (6)(d), C.R.S.]. CPW's annual revenue and expenditures for those years are shown in EXHIBIT 1.3.

**EXHIBIT 1.3.
COLORADO PARKS AND WILDLIFE
REVENUE AND EXPENDITURES¹
FISCAL YEARS 2014 THROUGH 2016
(IN MILLIONS)**

FISCAL YEAR	2014	2015	2016
Revenue	\$210.6	\$232.0	\$231.7
Expenditures	\$232.7	\$217.8	\$221.6

SOURCE: State accounting systems (Colorado Financial Reporting System, or COFRS, and CORE).

¹ Includes revenue and expenditures related to both wildlife and outdoor recreation activities.

AUDIT PURPOSE, SCOPE, AND METHODOLOGY

We conducted this performance audit pursuant to the Colorado Constitution [art. XXVII, sec. 6(3)], which authorizes the State Auditor to conduct an annual audit of GOCO; Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government; and Section 2-7-204(5), C.R.S., which requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments for purposes of the SMART Government Act. Audit work was performed from January 2016 through April 2017. We appreciate the assistance provided by the GOCO Board and management and staff at GOCO, CPW, and the Department.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The key objectives of this audit were to evaluate GOCO's distribution and categorization of grants among the four purposes, GOCO's process for providing funding to CPW for parks and outdoor recreation, and

CPW's processes for planning and managing outdoor recreation projects that receive GOCO funding.

To accomplish our audit objectives, we performed the following audit work:

- Reviewed the Colorado Constitution; statutes; state fiscal rules; GOCO and CPW policies; GOCO Board resolutions and by-laws; the current and most recent prior versions of the memorandum of agreement between CPW and GOCO; and Legislative Council's *Analysis of 1992 Ballot Proposals*, which explained to voters the amendment that was enacted as Article XXVII of the Colorado Constitution.
- Reviewed GOCO annual reports, GOCO and CPW strategic plans, GOCO's spending plans and cash flow model, the 2014 Colorado Statewide Comprehensive Outdoor Recreation Plan developed by CPW in collaboration with outdoor recreation stakeholders, GOCO investment plans from Fiscal Years 2011 through 2017, CPW's Fiscal Years 2014 through 2016 capital project request documentation for GOCO-funded projects, and state park visitation data.
- Reviewed the Office of the State Auditor's June 2008 *Division of Parks and Outdoor Recreation Performance Audit*, as well as GOCO's annual financial statements and financial audit reports from Fiscal Years 1994 through 2016.
- Interviewed various CPW staff, including project managers, park managers, managers at CPW's four regional offices, budget and accounting staff, and senior management; Department management and staff; three GOCO Board members; various GOCO program management and staff; Legislative Council and Joint Budget Committee staff; and staff at the Governor's Office of State Planning and Budgeting.
- Analyzed aggregate data about CPW's capital projects from the State's accounting system and other project information provided by

CPW. In addition, we analyzed aggregate data from GOCO's grant-tracking and accounting systems for Fiscal Year 1994 through December 2016.

- Selected a non-statistical sample of 10 completed or nearly completed CPW capital projects located around the state that were approved by the GOCO Board from Fiscal Years 2012 through 2016. We evaluated CPW's procurement and vendor payment processes, whether CPW completed the projects in a timely manner, and whether CPW maximized the efficient and timely use of GOCO funds. Although we had planned to select a statistically valid sample in accordance with Section 6.64 of Government Auditing Standards, which states that "the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques," due to data limitations at CPW we could not identify a reliable population from which to select a statistically valid sample. Specifically, at the beginning of our audit CPW did not have a complete dataset with information about its capital projects. Instead, CPW maintained multiple datasets with varying project information.
- Reviewed documentation related to CPW's reimbursement requests and GOCO's reimbursement payments from Fiscal Years 2012 through 2016.
- Selected a non-statistical sample of 87 projects funded by GOCO through December 2016 to evaluate whether expenditures for each project were appropriately categorized.
- Conducted site visits to 10 state parks located in three of CPW's regions around the state, including parks in both rural and urban areas.

When samples were chosen, the results of our testing were not intended to be projected to the entire population. Rather, the samples were selected to provide sufficient coverage of those areas that were significant to the objectives of this audit.

We planned our audit work to assess the effectiveness of internal controls that were significant to our audit objectives. Our conclusions on the effectiveness of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in CHAPTER 2 of this report.

INFORMATION PROHIBITED FROM PUBLIC DISCLOSURE. GOCO provided us with documentation of legal advice from its attorney relevant to GOCO's distribution and categorization of grants among the four constitutional purposes. GOCO reported that this legal advice is subject to attorney-client privilege, and GOCO did not agree to waive this privilege. Section 7.39 of Government Auditing Standards states that "if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary." As a result, although pertinent to this audit, information contained in the correspondence from GOCO's attorney to GOCO has been omitted from this report.



CHAPTER 2

GOCO SPENDING AND INVESTMENTS IN STATE PARKS

Voter approval of the Great Outdoors Colorado (GOCO) Program during the 1992 election signaled a desire to ensure a permanent source of funding dedicated to the preservation, protection, enhancement, and management of the State's wildlife, park, river, trail, and open space heritage. At the time of its passage, proponents of Amendment 8 cited funding shortfalls within the Division of Wildlife and the Division of Parks and

Outdoor Recreation, now merged into Colorado Parks and Wildlife (CPW), and the need for a guaranteed funding source for these agencies, as key drivers for the amendment, which directs GOCO to pay about half of its grant funding to CPW.

Although the Colorado Constitution (Constitution) directs GOCO to provide funding to CPW, it also establishes GOCO's fiduciary duty to ensure that the funding aligns with its overall mission and that its funding is not used as a substitute for funds that would otherwise be appropriated to CPW [Colorado Const. art. XXVII, sec. 5 and 8]. Given these requirements, GOCO and CPW have worked closely since the passage of Amendment 8 to administer GOCO funds and ensure that funds are used in accordance with both agencies' missions and constitutional requirements.

Our audit looked at GOCO's process for planning and allocating its grant spending in accordance with constitutional requirements and CPW's process for planning, requesting, and spending GOCO funds to meet capital improvement and operational needs at state parks. Overall, we found that GOCO could enhance the public transparency of how it tracks and categorizes its spending among grant recipients. We discuss these issues in more detail in RECOMMENDATIONS 1 AND 2.

In addition, we found that it takes CPW a long time to plan and complete capital projects, which affects how quickly CPW can obtain GOCO funding for those projects. In RECOMMENDATION 3, we discuss opportunities for CPW to gain efficiencies that could help it plan and finish capital projects and access GOCO funding more quickly.

In RECOMMENDATION 4, we discuss ways that CPW can optimize its use of GOCO funding to help defray the cost of operating new GOCO-funded facilities and infrastructure at state parks after they are completed.

GOCO GRANT SPENDING AND CATEGORIZATION

To ensure that GOCO funds are available to address a variety of purposes within the state, the Constitution requires GOCO to spend its funds for the following four purposes (referred to as “the four purposes”): (1) wildlife; (2) outdoor recreation; (3) open space; and (4) local investments in open space, parks, and environmental education facilities [Colorado Const., art. XXVII, sec. 5(1)(a)]. The State Board of the Great Outdoors Colorado Trust Fund (GOCO Board or Board) is charged with awarding grants and spending funds in support of these purposes [Colorado Const., art. XXVII, sec. 6(2) and sec. 5].

The vast majority of GOCO’s expenditures are through grants to entities such as CPW, local governments (i.e., municipalities and counties), special districts that provide parks or recreation facilities and programs, and non-profit land conservation organizations. Through December 2016, GOCO had awarded funds for about 4,900 projects. GOCO reported in its Fiscal Year 2016 financial statements that it awarded grants totaling approximately \$1.1 billion, and of that, GOCO had spent \$961 million and still owed \$126.6 million in outstanding grant obligations.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We reviewed the Colorado Constitution; statutes; and GOCO rules, bylaws, resolutions, policies, and procedures. Additionally, we analyzed financial data from GOCO’s accounting system for Fiscal Year 1994 through December 23, 2016, as well as information in GOCO’s Fiscal Years 1994 through 2016 annual financial and compliance audits. We also analyzed electronic data in GOCO’s grant-tracking system related to the about 4,900 projects for which GOCO awarded funds from Fiscal Year 1994 through December 18, 2016. From those projects, we

reviewed information for a non-statistical sample of 87 projects that GOCO funded.

Additionally, we obtained a memorandum from GOCO's attorney to the GOCO Board relevant to GOCO's distribution and categorization of grants among the four constitutional purposes. However, the memorandum is subject to attorney-client privilege, and the GOCO Board did not agree to waive the privilege. Section 7.39 of Government Auditing Standards states that "if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary." As a result, although pertinent to this audit, information contained in the memorandum from GOCO's attorney to GOCO has been omitted from this report.

The purpose of our work was to evaluate GOCO's adherence to Article XXVII, Section 5(1)(a) of the Constitution, which states that it is the duty of the GOCO Board to assure that GOCO's expenditures are made for the four purposes cited earlier and that the amounts expended for each purpose be substantially equal over a period of years.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY AND HOW WERE THE RESULTS MEASURED?

Our review of grant recipient data from Fiscal Year 1994 through December 2016 and projects funded through 87 sampled grants did not find instances of inappropriate spending given GOCO's broad authority to award funding consistent with the purpose of Article XXVII [sec. 5(1)(b)]. However, we identified some problems with GOCO's basis for categorizing some grants in the context of ensuring that the four purposes receive substantially equal amounts of funding, as described below.

GOCO'S CATEGORIZATION OF GRANTS TO SOME RECIPIENTS WAS UNCLEAR. We found that GOCO categorized \$45 million in grants to the four purposes when entities other than those listed in the Constitution for each purpose received funding. EXHIBIT 2.1 provides more information about these grants.

**EXHIBIT 2.1. CATEGORIZATION OF GRANTS TO ENTITIES NOT LISTED
IN THE CONSTITUTION
FISCAL YEAR 1994 THROUGH DECEMBER 2016**

FUNDING PURPOSE	ENTITIES LISTED IN CONSTITUTION	GRANTS TO ENTITIES NOT CLEARLY LISTED	EXAMPLES
Wildlife	GOCO investments must be "through" CPW.	\$20.9 million to 29 recipients for 79 projects	<ul style="list-style-type: none"> ▪ \$877,000 to a land trust ▪ \$100,000 to a nonprofit wildlife foundation
Outdoor Recreation	GOCO investments must be "through" CPW.	\$5.5 million to 28 recipients for 48 projects	<ul style="list-style-type: none"> ▪ \$500,000 to a national nonprofit conservation organization ▪ \$250,000 to a local government
Local Government	Local governments or other entities which are eligible for distributions from the Conservation Trust Fund (i.e., local governments and certain special districts).	\$18.3 million to 43 recipients for 125 projects	<ul style="list-style-type: none"> ▪ \$1 million to a nonprofit organization. ▪ \$167,000 to the Division of Parks and Outdoor Recreation
Open Space	CPW, counties, municipalities, other political subdivisions of the State, or non-profit land conservation organizations.	\$297,000 to 5 recipients for 6 projects	<ul style="list-style-type: none"> ▪ \$120,000 to a nonprofit (which was not a land conservation organization) ▪ \$43,500 to a public university
TOTAL		\$45 million	

SOURCE: Office of the State Auditor analysis of the Colorado Constitution [art. XXVII, sec. 5(1)(a)]; Section 29-21-101(1), C.R.S.; and GOCO's grant data.

The Constitution requires that wildlife and outdoor recreation investments be "through" CPW, which suggests that GOCO cannot expend funds for those two purposes without some involvement by CPW. During the audit, GOCO management reported that before it awards wildlife or outdoor recreation grants to entities other than CPW, its practice has been to obtain some form of agreement from CPW representatives. However, due to the age of some of the grants, GOCO

management was unsure if CPW's agreement was sought for all of the grants and, if so, what process was followed to obtain and document that information. We requested evidence of CPW's agreement for a non-statistical sample of 10 projects since 2003 that GOCO categorized as wildlife or outdoor recreation even though the funding did not go to CPW. For five projects that were awarded funding from 2003 through 2009, GOCO reported that it did not have documentation, such as correspondence from CPW, indicating CPW's agreement for GOCO to grant wildlife and outdoor recreation funds to other entities. For the other five projects, GOCO provided evidence, such as letters written on Parks and Wildlife Commission letterhead, that CPW was aware that other entities would receive wildlife and outdoor recreation funds.

Because the Constitution states that local government grants should be provided "to" local governments or special districts which are eligible for distributions from the Conservation Trust Fund, we did not identify a basis in the Constitution for other entities, such as non-profit organizations, to receive those grants. Similarly, the Constitution states that open space grants should be provided "to" CPW, counties, municipalities, other political subdivisions of the State, or non-profit land conservation organizations. Therefore, we did not identify a basis in the Constitution for other entities, such as a public university, to receive those grants.

GOCO'S CATEGORIZATION OF PROJECTS WAS UNCLEAR BASED ON DESCRIPTIONS OF THE FOUR PURPOSES. Our review of a sample of 87 projects found that many grants could reasonably be categorized under multiple purposes based on the nature of the project. Examples of what we found include:

- Numerous projects related to trail planning, acquisition of land for trail construction, building of trails, and maintenance of trails were categorized under different purposes, although they all related to trails. Specifically, some of the project expenses were categorized under the local government purpose, some under open space, and some under outdoor recreation. The constitutional language of both the local government and open space purposes reference the concept

of “managing” open space, which could reasonably involve trail construction and maintenance, while the outdoor recreation purpose specifically references use of funds for trails projects.

- GOCO granted funds for an organization’s administration costs to provide information related to “the condition, location and trends of imperiled wildlife, wildlife habitat, unique open space and natural areas of statewide significance.” GOCO categorized half of these funds under the outdoor recreation purpose, with the rest split equally between the local government and open space purposes. Given that a core purpose of the funded program was related to providing support services regarding wildlife and wildlife habitats, it would be reasonable that some expenditures would still be categorized under the wildlife purpose. However, GOCO does not have a policy to guide its decision making in this type of situation. Furthermore, based on the Board resolutions that GOCO provided, the GOCO Board only approved the use of local government and open space funds for this project.

- GOCO granted funds for a project to remove invasive plant species within a park to reduce negative effects on native plants and wildlife and, thus, allow for park visitors to view those plants and wildlife. Although GOCO categorized these expenses under the open space purpose, these activities could reasonably fall under the wildlife or local government purposes as well, based on the broad constitutional language that references habitat restoration and managing parks and open space, respectively. GOCO reported that this type of habitat restoration is related to local governments’ need to manage unique open space and acknowledged that this grant could thus fit under the local government purpose, even though GOCO ultimately categorized this as an open space grant. Further, GOCO did not explain why this project was not categorized under the wildlife purpose, since the constitutional description of that purpose specifically references habitat restoration and wildlife viewing.

GOCO’S EXPENDITURES FOR OUTDOOR RECREATION LAG BEHIND EXPENDITURES FOR THE OTHER PURPOSES. We analyzed grant

expenditures using GOCO's current interpretation that "over a period of years" refers to its entire history, and found that GOCO's spending on outdoor recreation lags behind the other purposes. Our analysis excluded spending not affiliated with the four constitutional purposes (e.g., administrative expenses and other expenses the GOCO Board deemed necessary and proper). EXHIBIT 2.2 shows two calculations. The left half of the table shows the categorization of *all* grant expenditures, and the right half shows the categorization of grant expenditures after removing payments for the \$45 million in awarded grants discussed above where GOCO's basis for categorization was not clear.

EXHIBIT 2.2. PERCENTAGE OF GOCO'S GRANT EXPENDITURES BY CONSTITUTIONAL PURPOSE

	CUMULATIVE EXPENDITURES (FISCAL YEARS 1994 THROUGH 2016)			
	CATEGORIZATION OF ALL GRANT EXPENDITURES		RECALCULATION OF GRANT EXPENDITURES WITH UNCLEAR CATEGORIZATIONS REMOVED ¹	
	AMOUNT (MILLIONS)	PERCENTAGE OF TOTAL	AMOUNT (MILLIONS)	PERCENTAGE OF TOTAL
Wildlife	\$243.9	25.4%	\$223.1	24.3%
Outdoor Recreation	\$219.6	22.9%	\$214.1	23.4%
Open Space	\$247.4	25.7%	\$247.2	27.0%
Local Government	\$250.0	26.0%	\$231.6	25.3%
TOTAL	\$960.9	100.0%	\$916.0	100.0%

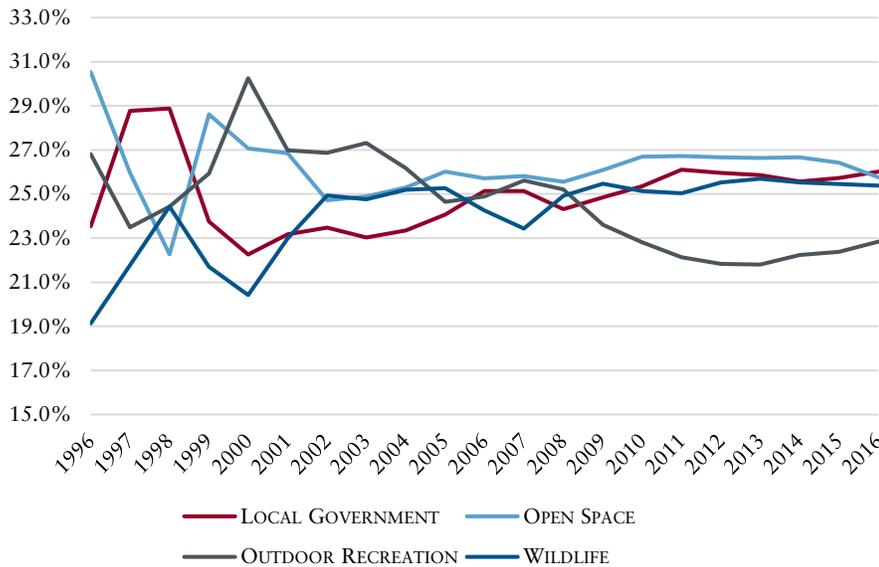
SOURCE: Office of the State Auditor analysis of expenditure data from GOCO's accounting system and grant-tracking system.

¹ This recalculation is based on removing payments GOCO made to the grantees that received \$45 million in awards where GOCO's basis for categorization was not clear. The OSA did not attempt to recategorize these expenses since it was unclear if or how they should be recategorized.

Based on the categorization of *all* grants, since Fiscal Year 1994, GOCO's cumulative spending on outdoor recreation is about \$24.3 million less than the next lowest category (wildlife).

As shown in EXHIBIT 2.3, GOCO's cumulative spending on outdoor recreation has lagged behind the other purposes since Fiscal Year 2009.

**EXHIBIT 2.3. GOCO CUMULATIVE GRANT EXPENDITURES
FISCAL YEARS 1996 THROUGH 2016**



SOURCE: Office of the State Auditor analysis of GOCO’s Fiscal Years 1996 through 2016 accounting data.

WHY DID THESE PROBLEMS OCCUR?

Article XXVII, Section 6 of the Constitution states, “The Board shall be responsible for, and have the power to...promulgate rules and regulations as are necessary or expedient...for the administration of this article, provided however, that such rules and regulations shall give the public an opportunity to comment on the general policies of the Board...” GOCO has exercised this constitutional authority through implementation of “policies and procedures.” As discussed in the following sections, we found several areas where a lack of policies and procedures contributed to the problems we identified.

GOCO LACKS POLICIES AND PROCEDURES SPECIFYING HOW IT WILL CATEGORIZE EXPENDITURES AMONG THE FOUR PURPOSES WHEN GRANT RECIPIENTS ARE NOT LISTED IN THE CONSTITUTION. For example, when GOCO awards grant funds to non-profit organizations, which are not explicitly listed in the Constitution as potential grant recipients for local government funds, GOCO does not have policies and procedures that specify when those awards should be categorized as “local government”

versus “open space,” which can be awarded to certain types of non-profits. Furthermore, GOCO has not implemented a consistent process to obtain and document agreement from CPW to award outdoor recreation or wildlife funding to recipients other than CPW. According to GOCO management, GOCO’s practices regarding how it obtains and documents such agreement have varied over time. GOCO has indicated that it would be appropriate to establish a collaborative process through which it obtains and documents CPW’s concurrence that wildlife or outdoor recreation funds can be awarded to other entities.

GOCO’S POLICIES DO NOT SPECIFY ACCEPTABLE ACTIVITIES FOR EACH FUNDING PURPOSE. The Constitution [art. XXVII, sec. 1(1)] specifies broad, overlapping concepts for eligible uses of GOCO funding, such as developing and managing open space and natural areas, that could be open to various interpretations. However, the GOCO Board has not established written policies and procedures to help ensure that staff, Board members, grant applicants, and the public understand how GOCO defines the purposes and categorizes grants. In October 2016, the GOCO Board implemented procedures that specified certain allowable and unallowable expenses for open space and local government grants. However, these new procedures do not address how GOCO interprets key phrases of the Constitution when making funding decisions. For example, the Constitution [art. XXVII, sec. 5] references “management” of open space as a potential use of both local government and open space purpose funds, but GOCO lacks any policies and procedures defining specific activities, such as trails development, that would fall under the concept of managing open space when using local government funds, as opposed to what specific activities would fall under managing open space using open space purpose funds.

Similarly, GOCO has not defined how it categorizes grant funds that are awarded through special initiatives that are not clearly aligned with the four purposes, such as the “Protect Initiative,” which funds “urgent, once-in-a-lifetime land conservation projects.” We found evidence that GOCO categorized Protect Initiative grant funds under both the open

space and local government purposes. However, GOCO has not established a clear basis for how it categorizes grant funds under each purpose or ensures that it does so consistently.

GOCO LACKS POLICIES AND PROCEDURES TO GUIDE THE CATEGORIZATION OF DISCRETIONARY GRANT EXPENDITURES. Under Article XXVII, Section 5(1)(b) of the Constitution, GOCO has broad discretion “to make other expenditures which it considers necessary and proper to the accomplishment of the purposes of” the amendment that created GOCO. However, the Constitution does not indicate whether or how spending under this provision relates to the requirement to spend substantially equal amounts across the four purposes. GOCO reported that the categorization of some of the grants that we questioned could be supported under this provision. However, the GOCO Board has not defined how this provision relates to its calculation of spending under the four purposes, and whether some activities should be categorized and tracked under this provision separately from the four purposes.

GOCO LACKS POLICIES AND PROCEDURES TO ENSURE THAT EXPENDITURES ARE “SUBSTANTIALLY EQUAL OVER A PERIOD OF YEARS.” GOCO has not defined two concepts that affect its ability to adhere to its constitutional requirement to ensure that expenditures are “substantially equal”: (1) what it means for grant expenditures to be “substantially equal” and (2) what action may be needed to rebalance expenditures. First, GOCO reported that it has not adopted a formal, written interpretation of its constitutional requirement to spend funds in a “substantially equal” manner. GOCO believes that its constitutional requirements are intentionally vague and that trying to achieve an exact 25 percent split across the four funding purposes is neither realistic nor advisable for various reasons, including the following:

- There are inherent delays between the time GOCO awards funding and when it actually spends money for a completed project. These delays mean that while GOCO could theoretically *award* funds

according to a strict 25 percent split among the purposes, *actual expenditures* at any given time may not reflect such a split.

- The GOCO Board believes its responsibility to only fund projects it concludes are legitimate uses of the funds to fulfill its overall mission trumps the substantially equal requirement.

Despite these factors, GOCO could develop parameters to support its efforts to ensure that it is expending funds in a manner that is “substantially equal.” For example, GOCO could implement written policies that (1) define ranges of dollar amounts or percentages of spending across the four funding purposes that demonstrate an acceptable level of equivalence, and (2) stipulate that spending in any category outside of the ranges will trigger analysis and potential action by the GOCO Board. One example of this could be that if any of the purpose categories falls below 24 percent or exceeds 26 percent, the Board would review recent funding requests and decisions to determine what is driving the category higher or lower than the others, determine whether the review indicates the need for action to correct the balance, and establish a plan to bring the category back into line, if needed.

An example where written policies may have helped is the lag in outdoor recreation spending, which is partly attributable to previous GOCO Board decisions that affected CPW’s outdoor recreation funding. Specifically, in 2008 GOCO withheld approximately \$8.6 million in funding from the Division of Parks and Outdoor Recreation, one of CPW’s predecessor agencies, following the OSA’s 2008 performance audit of that division, and in Fiscal Year 2015 GOCO allocated \$8 million in outdoor recreation funds for a trail project that was never completed. In the absence of policies and procedures, it is not clear what, if any, action GOCO plans to take to rebalance its outdoor recreation spending compared to wildlife, local government, and open space. GOCO could address these types of inequalities through development of its annual spending plan, a tool that GOCO uses to plan new grant awards for the coming year.

WHY DO THESE PROBLEMS MATTER?

SOME TYPES OF GOCO RECIPIENTS MAY RECEIVE MORE OR LESS FUNDING THAN INTENDED BY THE CONSTITUTION AND GOCO BOARD. Based on our analysis, since GOCO's inception grant expenditures for the outdoor recreation purpose have represented about 23 percent of GOCO's total spending for all four purposes, which amounts to \$24.3 million less than the next lowest category (wildlife). In the absence of clear policies, it is unclear whether the GOCO Board finds this within its tolerance for variation or what actions it may take to rebalance its spending and, therefore, there is a risk that the spending gap may grow.

Further, because GOCO lacks a clear and consistent method for categorizing grant spending and ensuring that its categorizations align with constitutional requirements, its tracking of grant spending may misrepresent whether GOCO is distributing money evenly across the four funding purposes, as required. Specifically, we had no reliable way to determine how the \$45 million in grants with unclear categorizations may have impacted GOCO's assessment of whether expenditures are substantially equal. However, since this amount reflects about 5 percent of GOCO's cumulative expenditures from Fiscal Years 1994 through 2016, improper or inconsistent categorization of expenses related to these grants could affect GOCO's calculations of whether expenditures are substantially equal and its decisions regarding how much funding should be made available to specific purposes and recipients. Specifically, the GOCO Board relies on reports from staff regarding its cumulative spending in each category over time to inform its spending plans and awards process. Without a consistent, documented process for categorizing spending, the Board may not be fully informed of its historic spending patterns, especially as the Board members are replaced over time, which could have an impact on its decisions.

GOCO'S PROCESS FOR CATEGORIZING AND TRACKING GRANT SPENDING LACKS PUBLIC TRANSPARENCY. According to the guiding principles outlined in GOCO's 2015 strategic plan, GOCO pledged "honesty, accountability, and an open process." Further, Article XXVII, Section 6 indicates that the GOCO Board has the responsibility to allow the

public an opportunity to comment on its policies. By not implementing policies and procedures regarding how it categorizes funding across the four purposes and ensures that spending is substantially equal, GOCO's ability to demonstrate public transparency and fulfill its guiding principles is limited. GOCO's process for deciding which entities receive funding and for what activities should be governed by transparent policies and procedures so that all potential grant recipients clearly understand who can apply for money and what types of activities GOCO will fund. Establishing more transparent processes would also help GOCO demonstrate accountability to the voters who approved the creation of GOCO, as well as lottery players who provide funding that supports GOCO's grant programs. Demonstrating accountability to these constituents is particularly important since the GOCO Board is not subject to any order or resolution of the General Assembly or administrative direction by any state agency or oversight body [Colorado Const., art. XXVII, sec. 6(3)].

RECOMMENDATION 1

The State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) should ensure that it has a clear and transparent process for categorizing grant expenditures and dividing spending across the four purposes on a substantially equal basis by promulgating policies and procedures through a public process that:

- A Specify how the GOCO Board and its staff should determine when it is appropriate to categorize funding to the four purposes when the grant recipient is not specifically listed in the Colorado Constitution under the applicable purpose.
- B Specify how the GOCO Board will obtain and document concurrence from Colorado Parks and Wildlife (CPW) to award outdoor recreation or wildlife funding to recipients other than CPW.
- C Clearly define acceptable uses of grant funds and how specific uses will be categorized under each funding purpose.
- D Establish guidelines for the categorization of its discretionary spending authorized by Article XXVII, Section 5(1)(b) of the Colorado Constitution.
- E Define what it means for grant expenditures to be “substantially equal” over the time period(s) that the GOCO Board considers to be “a period of years.”
- F Specify what actions the GOCO Board will take if expenditures for a certain funding purpose fall outside of the acceptable limits that define “substantially equal” established in PART E above.

RESPONSE

STATE BOARD OF THE GREAT OUTDOORS COLORADO TRUST FUND

A AGREE. IMPLEMENTATION DATE: JULY 2018.

Under the authority granted by Article XXVII of the Colorado Constitution, consistent with the Bylaws of the State Board of the Great Outdoors Colorado Trust Fund, and in a manner that is in keeping with GOCO's track record of open discussion with affected stakeholders and the general public, the GOCO Board will develop and adopt modifications to its policies or procedures to provide increased clarity regarding the GOCO Board's position concerning when it is appropriate to categorize funding to the four purposes when the grant recipient is not specifically listed in the Constitution under the applicable purpose.

B AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will work cooperatively with the Department of Natural Resources and CPW to develop and adopt modifications to policies or procedures that define acceptable ways for demonstrating concurrence by CPW to award outdoor recreation or wildlife funding to recipients other than CPW.

C AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will develop and adopt modifications to its policies or procedures to provide increased clarity regarding the GOCO Board's position concerning acceptable uses of grant funds and how specific uses will be categorized under each funding purpose.

D AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will develop and adopt modifications to its policies or procedures to provide increased clarity regarding the GOCO Board's position concerning categorization of its discretionary spending authorized by Article XXVII, Section 5(1)(b) of the Colorado Constitution.

E AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will develop and adopt modifications or additions to its policies or procedures to define what it means for grant expenditures to be "substantially equal" over the time period(s) that the GOCO Board considers to be "a period of years."

F AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will develop and adopt modifications or additions to existing policies or procedures that will include quantifiable metrics for "substantially equal" expenditures of grant funding across the four purposes, and that will specify what actions the GOCO Board will take should funding for any given purpose(s) falls outside of the acceptable limits that define "substantially equal" established in PART E above.

RECOMMENDATION 2

The State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) should adhere to its constitutional requirement to ensure that grant expenses are substantially equal by:

- A Reviewing the at least \$45 million in expenses identified during our audit for which the categorization was unclear and, if necessary, recategorizing them under the appropriate constitutional funding purpose based on the policies and procedures promulgated in response to RECOMMENDATION 1.
- B Based on the recategorization conducted in response to PART A (if any), analyzing whether expenses are substantially equal, based on the policies and procedures promulgated in response to RECOMMENDATION 1, PARTS E and F, over Great Outdoors Colorado's history and making adjustments to future grant awards, if necessary, to rebalance expenditures across the four funding purposes.

RESPONSE

STATE BOARD OF THE GREAT OUTDOORS COLORADO TRUST FUND

- A AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board will examine grants identified by OSA in light of new or amended policies and procedure which emerge from Recommendation 1, but may also undertake a more thorough analysis of the costs and benefits of retroactively applying new policy to the decisions of the GOCO Board up to 20 years ago in order to decide whether re-categorization of grants is warranted.

B AGREE. IMPLEMENTATION DATE: JULY 2018.

The GOCO Board has agreed to undertake RECOMMENDATIONS 1 and 2A and understands that RECOMMENDATION 2B is a plausible conclusion to all of the above. The GOCO Board affirms its responses to RECOMMENDATIONS 1 and 2A and believes that resolution of those topics will dictate necessary next steps, if any, with regards to calculating substantially equal and managing future grant awards.

DURATION OF CAPITAL PROJECTS AT STATE PARKS

One aspect of maintaining a quality parks system is large capital construction projects, which CPW defines to include new construction or improvements; refurbishment, replacement, or renovation of existing facilities; or equipment purchases whose cost exceeds \$100,000. According to CPW, it spends one-fifth of its annual budget for state parks on capital projects. GOCO provides funding to CPW for capital projects as part of its role to establish and improve state parks and recreation areas throughout the State of Colorado [Colorado Constitution, Article XXVII, Section 1(1)(b)(I)]. Under a memorandum of agreement (MOA) between CPW and GOCO, CPW is responsible for identifying potential capital projects and submitting those to GOCO in the form of an annual Investment Plan, which must be approved by the GOCO Board. Once CPW has incurred expenses on an approved project, it must then submit evidence of the costs to GOCO to receive funds on a reimbursement basis.

There are six key steps involved with planning and completing each capital project, as follows:

- 1 **IDENTIFYING THE NEED FOR CAPITAL PROJECTS.** Every year, staff at CPW's 42 state parks and four regional offices undergo a process to identify and prioritize their most pressing capital needs. This process formally starts in December each year and finishes by the end of the following March, when regional management delivers a list of proposed capital projects to CPW's senior management for review and approval.

- 2 **OBTAINING CPW MANAGEMENT APPROVAL.** In April and May, CPW's senior management reviews the list of proposed capital projects and approves a select number of projects to pursue.
- 3 **OBTAINING STATE SPENDING AUTHORITY AND GOCO FUNDING.** In June, CPW begins a process that lasts more than a year to obtain approval and spending authority for its capital projects. In the summer, CPW submits its proposed slate of capital projects for the upcoming fiscal year to the Office of State Planning and Budgeting (OSPB), as part of the Division's overall budget request for the upcoming fiscal year. OSPB then forwards CPW's capital requests to the Capital Development Committee (CDC) for review and prioritization before the Joint Budget Committee (JBC) reviews the requests. The JBC, in turn, recommends cash spending authority for the CPW capital projects that require it as part of the JBC's annual budget appropriations process. Around May of the following year, CPW requests GOCO funding for specific projects, as outlined in CPW's annual Investment Plan. If GOCO approves the requested funding, CPW considers that money available as of July 1 (i.e., the beginning of the new fiscal year). From GOCO's perspective, funding becomes available as of the date GOCO approves CPW's annual funding request, which typically occurs prior to the start of the new fiscal year.
- 4 **BEGINNING THE PROJECT.** CPW initiates the procurement process to select professional services firms and/or construction contractors that will design and/or construct the project.
- 5 **FINISHING THE PROJECT.** CPW considers a project to be "complete" as of the date published in the final Notice of Final Settlement, which establishes that construction work is complete [Section 38-26-107, C.R.S.].
- 6 **PAYING CONTRACTORS AND OBTAINING REIMBURSEMENT FROM GOCO.** After paying for project expenses, CPW requests reimbursement from GOCO. The reimbursement process can begin while projects are still underway (i.e., as soon as CPW begins

incurring expenses) and continues until after projects are completed and CPW has processed final payment to the contractor.

WHAT AUDIT WORK WAS PERFORMED, WHAT WAS THE PURPOSE, AND HOW WERE RESULTS MEASURED?

We reviewed the Colorado Constitution; statutes; rules; CPW policies; the MOA between GOCO and CPW; and strategic goals and objectives contained in CPW's 2015 strategic plan, the most recent plan available at the time of our review.

At the beginning of our audit CPW did not have a complete dataset with information about its capital projects. Instead, it maintained multiple datasets with varying project information. CPW also maintained some information, such as procurement, contract, and project management records, only in hard copy files at offices located around the state. As a result of the fragmented recordkeeping, CPW could not provide a complete list of GOCO-funded capital projects that had been completed or were in process during our audit timeframe (Fiscal Years 2012 through 2016). CPW estimated that it had about 100 capital projects with a total budget of about \$76 million completed or in process during our audit timeframe and that about 40 of them included about \$28.3 million in funding from GOCO.

The lack of comprehensive project information created three challenges for our audit work at CPW. First, to complete our work, we had to review and compile a significant amount of data on parks projects, including data compiled by CPW budget staff, information provided by CPW's Capital Program staff, and data contained in the State's accounting system. This work was necessary to identify the projects that had been completed or were in progress during our audit period, the status of the projects, total project budgets, whether the projects included GOCO funding, and whether CPW had paid vendor expenses and sought reimbursement from GOCO, and to provide some verification of CPW's estimates, noted above. Compiling this basic

information caused delays in completing the work to address our audit objectives. Second, we could not analyze aggregate data on projects, such as the percentage of all projects that were funded through GOCO or how long each project required to complete. Finally, even with our work to compile information, we could not be sure we had a complete population of projects and associated funding, so we could not select a statistically valid sample of projects for review. Therefore, we reviewed a non-statistical sample of 10 capital projects that included GOCO funding from the data we compiled. The sample of GOCO-funded projects had a total budget of \$10.7 million (which included \$6.4 million in GOCO funds), with total GOCO funding for each project ranging from \$111,000 to about \$1.2 million. Our sample included road paving, a campground refurbishment, a park entrance station, a swim beach renovation, a new water pipeline, and a nature center upgrade. At the time of our review, nine projects were complete and one project was still under construction.

In early 2017, CPW implemented a new project management database that tracks all of CPW's capital projects statewide and includes details on each project, such as design and construction information and project timeline, budget, and status, that were previously maintained in various electronic and hard copy files. We reviewed the new database and determined that if CPW staff regularly update it with current information and monitor the project information it contains, the database should help improve CPW's overall management of its capital projects.

The purpose of our audit work was to evaluate the overall efficiency of CPW's processes for identifying, initiating, and completing projects funded by GOCO. The MOA states that the interaction between CPW and GOCO "facilitate the effective and timely implementation and administration of GOCO Funds" [Section 5] and that capital projects at state parks "shall have three fiscal years for completion" [Section 12], although the MOA does not define what events signify that a project has started and ended. To assess from a broad perspective whether CPW maximizes efficient and timely use of GOCO funds, we evaluated the duration of CPW's entire capital process from the time park staff began

identifying the need for a project through GOCO’s reimbursement of all project expenses. We expected CPW to have efficient processes in place to minimize the time it takes to plan and complete projects, and use available GOCO funds.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

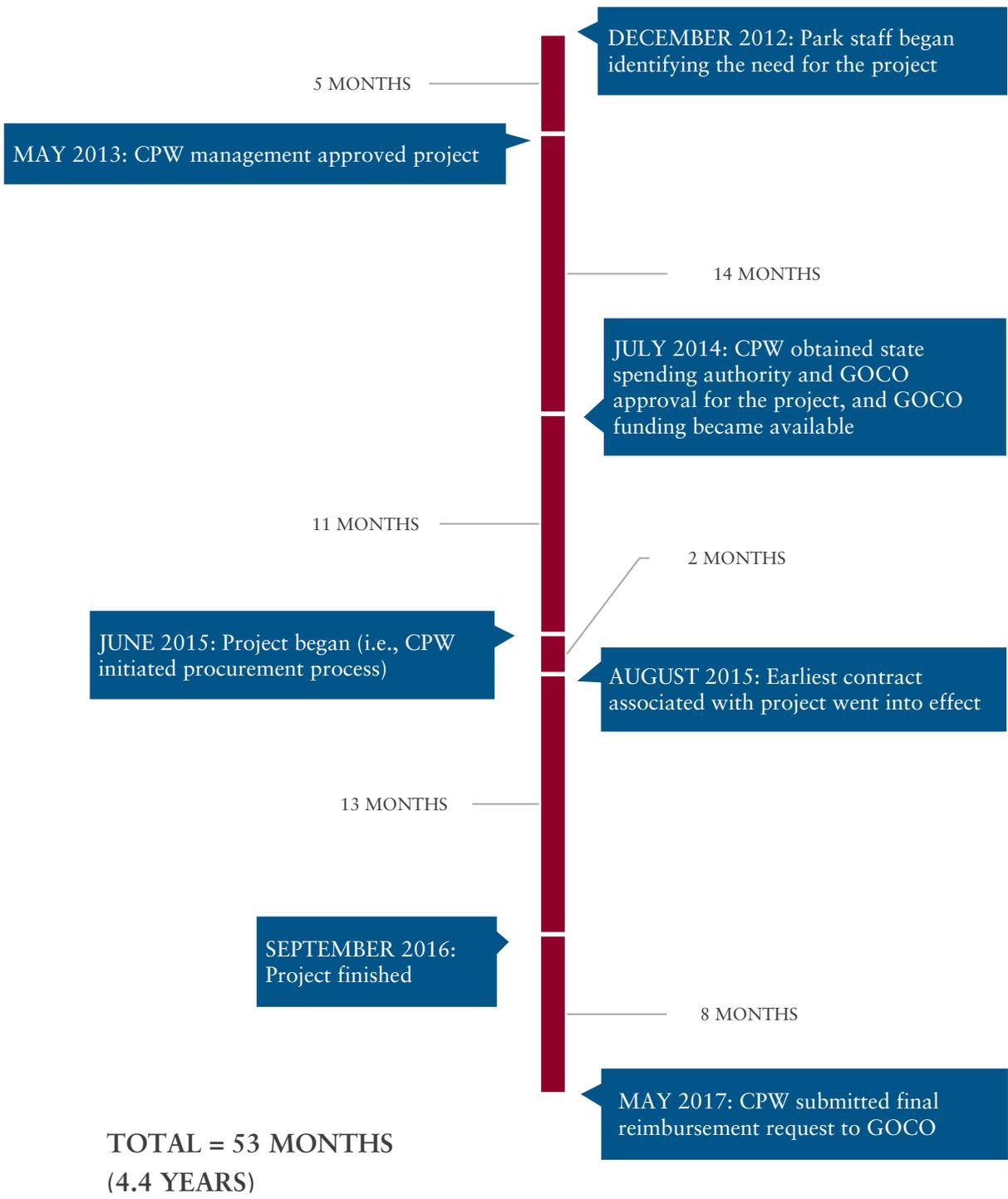
We found inefficiencies in CPW’s capital process that do not facilitate the effective and timely implementation and administration of GOCO funds. For the 10 projects in our sample, it took CPW an average of 4.4 years for the entire process, from the date park staff began identifying the need for a project to the date CPW submitted its final reimbursement request to GOCO. EXHIBIT 2.4 provides more detail about the duration of CPW’s entire capital process for the GOCO-funded projects in our sample.

EXHIBIT 2.4. DURATION OF CPW’S ENTIRE CAPITAL PROCESS ¹ SAMPLE OF 10 GOCO-FUNDED PROJECTS AT STATE PARKS			
3 TO 4 YEARS	4 TO 5 YEARS	5 TO 6 YEARS	6+ YEARS
4 projects totaling about \$3.4 million in GOCO funds	3 projects totaling about \$1.8 million in GOCO funds	2 projects totaling about \$762,000 in GOCO funds	1 project totaling about \$520,000 in GOCO funds
SOURCE: Office of the State Auditor analysis of project documentation for a sample of 10 capital projects at state parks.			
¹ This exhibit shows the total duration of CPW’s entire capital process, from the date park staff began identifying the need for the projects to the date CPW submitted its final reimbursement request to GOCO.			

WHY DID THESE PROBLEMS OCCUR?

We found delays and process inefficiencies in a number of the steps in CPW’s overall capital project process that contributed to the length of the projects we reviewed. EXHIBIT 2.5 shows the average amount of time it took CPW to complete each step for the 10 projects in our sample and where the longest delays occurred.

**EXHIBIT 2.5. TYPICAL DURATION OF CPW'S CAPITAL PROCESS
SAMPLE OF 10 GOCO-FUNDED PROJECTS AT STATE PARKS**



SOURCE: Office of the State Auditor analysis of various project information, including GOCO Board resolutions, procurement and contract documentation, expense data from the State's accounting system, and GOCO reimbursement requests and payments.

We identified aspects of several of the steps above that caused unnecessary delays in the overall process, as discussed below.

CPW INCLUDES PROJECTS FUNDED SOLELY BY GOCO IN ITS STANDARD BUDGET REQUEST PROCESS, WHICH MAY NOT BE NECESSARY. CPW's practice of submitting projects funded solely by GOCO through the State's annual budgeting process may not be required or allowable, and adds more than a year to the timeline for those projects. First, it appears that CPW may not need to have OSPB or the CDC review projects entirely funded by GOCO. According to staff at OSPB, currently it does not have to prioritize or approve capital projects funded with GOCO funds. Further, General Assembly Joint Rule 45(2) provides that the CDC has purview over only state-funded (i.e., general funded) and cash-funded capital construction projects, and Legislative Council personnel who staff the CDC agreed that it is unclear that CPW is required to submit capital projects that are funded solely by GOCO to the CDC for review. Second, seeking legislative approval for projects funded solely with GOCO funds could violate Article XXVII, Section 5(2) of the Colorado Constitution, which states that "the expenditure of those [GOCO] funds shall not be subject to legislative appropriation or restriction." CPW has not sought legal guidance to confirm whether the CDC has legal authority to approve GOCO-funded capital projects.

CPW reported that it submits its capital projects (including GOCO-funded projects) to the CDC for review in order to keep policy makers informed about its planned capital projects and because, in some cases, projects are funded through multiple sources that include GOCO monies. However, our audit work found that routing capital requests through OSPB and the CDC may not be needed for CPW's capital projects at state parks that are solely funded by GOCO. CPW expected to pay for about 85 percent of the projects approved by GOCO from Fiscal Years 2015 through 2017 using only GOCO funds.

SOME CPW ADMINISTRATIVE PROCESSES DELAY THE BEGINNING OF PROJECTS. We identified two internal processes at CPW that appear to be causing delays in getting projects started after GOCO funding is approved. First, for the projects in our sample that it took CPW longer

than 3 years to complete, it took Department of Natural Resources (Department) staff an average of 35 days, and as long as 96 days, to sign the contracts after the contractors had signed them. Having both the contractor and Department signatures is required before contractors can legally begin work. Second, staff throughout CPW, including project managers, park managers, accounting and budget staff, and management, reported that there are sometimes months-long delays by CPW and Department staff setting up coding in the State's accounting system, CORE, for new projects and that the coding must be set up before any work on the project can begin. CPW does not maintain relevant data, such as dates when project coding is requested and set up, so we could not verify how often this delay occurred or analyze how long the delays were for our sampled projects. Further, CPW could not provide us with documentation or consistent explanations of what caused the contracting or coding delays.

The delays related to seeking state approval for GOCO-funded projects and CPW's processes for signing project contracts and setting up projects in the accounting system can compound the problem of timely project completion because they can prevent CPW from targeting construction work during the most opportune times. Because GOCO funding does not become available until mid-summer, and then project managers have to wait for project coding to get set up in CORE, it could be the following calendar year before CPW can initiate the procurement process and get contracts in place while construction season is still occurring. According to CPW staff, the best time for construction work is during the spring or early fall; summer is not ideal because park visitation is at its peak, and winter is not possible for many parks at higher elevations due to adverse weather.

CPW DOES NOT ALWAYS PAY CONTRACTORS AND REQUEST REIMBURSEMENT FROM GOCO IN A TIMELY MANNER. Specifically:

- CPW did not pay \$1 million of the \$8 million in project expenses we reviewed within the 45 days required by statute and state fiscal rules [Section 24-30-202(24)(a), C.R.S., and State Fiscal Rule 2-5]. Delinquent payments ranged from 1 day to 67 days late and affected

contractors who conducted work for 8 of the 10 projects we reviewed. CPW staff reported several reasons for late vendor payments, including a lack of coordination between regional staff, who initially receive contractor invoices, and CPW's Financial Services staff in Denver, who are responsible for processing payments, as well as problems resulting from the implementation of CORE in Fiscal Year 2015. We evaluated whether the timeliness of payments improved once CORE was fully implemented and found that even in Fiscal Year 2016 CPW paid five contractors in our sample late for expenses totaling about \$137,000 (out of roughly \$842,000 in project expenses that CPW paid that year). CPW reported that it has implemented a manual process to monitor the timeliness of contractor payments after Financial Services staff receive invoices from the regions.

- CPW submitted 68 percent of its Fiscal Years 2012 through 2016 reimbursement requests late. The MOA with GOCO requires that within 60 days following the end of each month, CPW must submit a billing statement that lists project expenditures for which CPW is requesting reimbursement. We reviewed all 60 reimbursement requests that CPW submitted to GOCO for expenses incurred from Fiscal Years 2012 through 2016 and found that CPW submitted 41 requests between 10 days and 158 days (i.e., about 5 months) beyond the MOA deadline, as follows:
 - ▶ In Fiscal Year 2012, CPW submitted 2 of its 12 monthly reimbursement requests to GOCO late, ranging from 29 to 65 days after the deadline.
 - ▶ In Fiscal Year 2013, CPW submitted 9 of its 12 monthly reimbursement requests to GOCO late, ranging from 16 to 89 days after the deadline.
 - ▶ In Fiscal Year 2014, CPW submitted 6 of its 12 monthly reimbursement requests to GOCO late, ranging from 10 to 80 days after the deadline.
 - ▶ In Fiscal Year 2015, CPW submitted all 12 of its monthly reimbursement requests to GOCO late, ranging from 57 to 158 days after the deadline.

- ▶ In Fiscal Year 2016, CPW submitted all 12 of its monthly reimbursement requests to GOCO late, ranging from 26 to 122 days after the deadline.

CPW's practice has been to submit "supplemental" reimbursement requests to GOCO, separate from the monthly requests established in the MOA, when seeking reimbursement for certain types of expenses. For example, CPW withholds a percentage of a contractor's total budget (called "retainage") while a project is under construction and then pays the withheld amount after the project is complete. CPW requests reimbursement for retainage payments through "supplemental" reimbursement requests. For the projects in our sample, CPW submitted 25 project expenses through three supplemental reimbursement requests to GOCO more than 60 days after the month in which the expenses, totaling about \$220,000, were incurred. CPW requested reimbursement for these expenses an average of 6 months late, ranging from 54 days to 317 days (i.e., more than 10 months). GOCO paid all expenses for which CPW requested reimbursement.

CPW staff reported that problems with the implementation of CORE was the primary cause of the delays starting in Fiscal Year 2015. As our analysis shows, CPW did have longer delays in Fiscal Year 2015, but lags occurred both before and after CORE was implemented. CPW staff reported that the timeliness of its GOCO reimbursement requests began to improve in Fiscal Year 2017.

WHY DO THESE PROBLEMS MATTER?

The delays we identified in CPW's overall capital project process can inhibit CPW's ability to successfully fulfill its core mission to "provide a quality state parks system" for the millions of people who visit Colorado's state parks every year. According to CPW data, 13.6 million people visited Colorado's state parks in Fiscal Year 2016. Maintaining a quality parks system relies in large part on carrying out capital projects in a timely way to ensure that the condition of the parks is maintained and improved to meet visitor expectations. According to the 2014 Colorado Statewide Comprehensive Outdoor Recreation Plan, a

report that identifies outdoor recreation trends, needs, and issues, and that CPW is required to update every 5 years to receive federal funding, one of the main factors people considered when selecting an outdoor recreation area was the condition of park facilities. Completing individual projects on a timelier basis and expediting the planning and funding processes for upcoming projects is important to maximize the use of GOCO funds to support the quality of the parks system. Based on our review of GOCO expense data, we calculated that GOCO spent an average of \$433,100 per month on parks capital projects from Fiscal Years 2014 through 2016. Therefore, if CPW was able to shorten the overall timeframe for capital projects by 12 to 18 months, we estimate that CPW could have accessed \$5.2 million to \$7.8 million in GOCO funding sooner to improve and maintain state parks.

Some of the delays we identified can also create additional expenses and administrative burdens for both GOCO and CPW. First, statute and fiscal rules [Section 24-30-202(24)(a), C.R.S., and Rule 2-5] require that state agencies pay an interest rate of 1 percent per month on delinquent expenses until the account balance is paid in full. For the more than \$1 million in late payments we found, CPW could have been liable for paying about \$10,400 in interest to those contractors, and one contractor did charge CPW about \$300 in interest for a one-day delay in payment. Second, for two projects in our sample the GOCO funding awards expired because CPW did not request reimbursement for all project expenses before GOCO's 3-year time limit had elapsed. As a result, staff at both CPW and GOCO had to invest time processing extensions for those awards. Third, because CPW receives funding for GOCO-funded projects on a reimbursement basis, it takes out loans from the State Treasurer to pay upfront project costs, which requires that CPW repay the funds with interest. Thus, when CPW does not seek reimbursement in a timely manner it incurs additional interest expense. We estimate that CPW paid about \$86,000 in additional interest for the 41 reimbursement requests that CPW submitted to GOCO past the deadline from Fiscal Years 2012 through 2016.

Although the delays we identified do not, themselves, affect CPW's ability to plan and address the highest priority capital needs of its parks,

we identified two tools CPW does not have in place that could help (1) shorten the relatively lengthy and cumbersome process it uses to identify and approve projects to include in its annual Investment Plan for GOCO and (2) support a more strategic planning process. Currently, CPW does not establish master plans for each park to support its planning process. According to CPW, master plans are decision making tools that provide a “blueprint” for park development and are used to help ensure that the comprehensive vision for a park is not lost over time. Master plans provide guidance for systematically improving a park to best serve the public, and they often contain several phases of capital development, potential land acquisitions, and future operational needs. Further, CPW does not have a centralized, automated system for park staff to document, track, and update information about needed projects on an ongoing basis. In combination, these tools could help parks staff and CPW management identify and prioritize projects for the annual Investment Plan more expeditiously and transparently. They would also support CPW’s 2015 strategic plan, which identifies the implementation of parks management and maintenance plans as part of its strategic objective to manage facilities and outdoor recreation amenities to provide positive experiences for Coloradans and visitors.

RECOMMENDATION 3

Colorado Parks and Wildlife (CPW) should streamline its planning and implementation process for projects to be funded by Great Outdoors Colorado (GOCO) by:

- A Working with the Capital Development Committee (CDC), Office of State Planning and Budgeting (OSPB), GOCO, Attorney General, and other parties as needed to determine the appropriate content of CPW's legislative capital construction request and whether information submitted to the CDC aligns with constitutional restrictions on legislative oversight of GOCO funding. This process should include a review of applicable statutes, Long Appropriations Bill headnotes, House and Senate rules and joint rules, and OSPB and Office of the State Architect's budget instructions.
- B Working with the CDC and other parties, as appropriate, to determine ways to keep policy makers informed about GOCO-funded capital projects, if the results of the efforts in PART A of this recommendation eliminate CPW's submissions to the CDC.
- C Implementing written processes to set up project coding in the State's accounting system in a timely manner after projects are approved.
- D Ensuring that authorized staff sign contracts as soon as is reasonably possible after they are signed by contractors.
- E Implementing controls over contractor payments, such as written procedures, to ensure that contractors are paid within 45 days, and continuing the manual monitoring process that CPW implemented during the audit.
- F Implementing controls to ensure that it submits reimbursement requests to GOCO within the deadlines established in the memorandum of agreement between the two agencies.

RESPONSE

COLORADO PARKS AND WILDLIFE

A AGREE. IMPLEMENTATION DATE: NOVEMBER 2018.

Colorado Parks and Wildlife funds a large number of the agency's capital projects with non-appropriated funding sources, including GOCO, Lottery, and federal funds, and it is unclear exactly what projects the agency must include in its annual legislative capital construction request. CPW will undertake a thorough review of statute, rules, and budget instructions to clarify this situation. CPW will coordinate with staff from DNR, OSPB, and the CDC during the course of this review, and may make use of the agency's representatives at the Office of the Attorney General. CPW's goal with this process is not to eliminate oversight or restrict information from decision makers; rather, CPW hopes to streamline the agency's overall capital process, eliminate work that is duplicative or results in unnecessary delays, and accelerate the rate at which capital projects are undertaken. While CPW will begin work on implementing this recommendation immediately, any conclusions from this process will likely occur too late for inclusion in the Governor's FY 2018-19 request. As such, implementation is anticipated with the submittal of the FY 2019-20 request.

B AGREE. IMPLEMENTATION DATE: NOVEMBER 2018.

Colorado Parks and Wildlife will continue to keep decision makers at all levels informed about the division's capital development activities, whether this information consists of formal legislative funding requests or other reporting formats. Regardless of the outcome of RECOMMENDATION 3A, it is likely that CPW will continue to provide OSPB with a list of its planned capital development activities for each fiscal year. CPW will work with CDC staff and DNR to determine an appropriate way to communicate information about CPW's capital activities to the CDC, pending the outcome of recommendation 3a. CPW already

prepares a number of annual reports, including reports to GOCO and to the Colorado Lottery, that include information about CPW capital development and could help fulfill this recommendation. While CPW will begin work on implementing this recommendation immediately, any conclusions from this process will likely occur too late for inclusion in the Governor's FY 2018-19 request. As such, implementation is anticipated with the submittal of the FY 2019-20 request.

C AGREE. IMPLEMENTATION DATE: NOVEMBER 2017.

Since the timeframe of the audit period, CPW (in conjunction with DNR) has significantly improved its project set-up and management processes in CORE. CPW has also accelerated the agency's overall budget timeline and has put processes into place ensuring that GOCO investment plan proposals are submitted to GOCO in time for these plans to be approved in March prior to the fiscal year in which they will take effect. This timeline allows the CPW Budget and Accounting units more than two months to develop coding for the investment plan. As a result of these changes, for the fiscal year 2017-18 GOCO investment plan, CPW anticipates having coding for all operating and capital grants set up and distributed to managers well in advance of the start of the fiscal year on July 1. CPW continually works on identifying improvements to the CORE project set-up process. CPW will plan to document these procedures in the coming months.

D AGREE. IMPLEMENTATION DATE: MAY 2017.

Since the timeframe of the contracts reviewed as an audit sample, Colorado Parks and Wildlife has made significant improvements to the agency's internal contract management process. These include centralizing and standardizing contract drafting and review and eliminating unnecessary and time-consuming mailing steps. This has greatly reduced the time necessary for contracts to be signed by CPW staff. CPW also participated in a department-wide LEAN process in March and April of 2017 with the goal of improving DNR's capital (and overall) contract management process. This process resulted in

several recommendations that will make for a more efficient contracting process, including the elimination of duplicate review steps by DNR purchasing staff and the standardization and updating of forms to add clarity and ease in review. CPW will continue to work closely with DNR to implement these and other LEAN process recommendations.

E AGREE. IMPLEMENTATION DATE: NOVEMBER 2017.

Subsequent to the timeframe reviewed by the audit, beginning in approximately spring 2016, Colorado Parks and Wildlife has implemented new processes to significantly improve communication between the Capital Development and Accounting units. These include a next-day follow-up review to verify that payments have processed correctly and a warrant was mailed (or another form of payment such as an electronic transfer of funds, was completed), and a similar process for retainage payments. The Accounting unit has also dedicated resources specifically for the review of vendor payments. CPW Financial Services will continue to evaluate its contractor payments on an ongoing basis to evaluate effectiveness and opportunities for better practices. CPW will plan to document these procedures in the coming months.

F AGREE. IMPLEMENTATION DATE: MAY 2017.

During the timeframe encompassed by the audit, CPW billings did exceed the 60-day timeframe required by the CPW-GOCO MOU. However, CPW worked continuously to keep GOCO apprised of the situation and to work cooperatively to develop new timelines, as allowed for in the MOU. Since this time CPW has improved their understanding and application of the CORE system, and CPW has significantly reduced the time involved in submitting billings to GOCO. Periods 12, 1, and 2 remain challenging due to the statewide open and close processes and deadlines, but CPW will continue to seek more efficient billing processes. However, it is unlikely that those period payments will ever comply with the 60 day timeline. CPW may seek to clarify this within the MOU during the next revision.

OPERATING FUNDING FOR CAPITAL PROJECTS

For some capital projects, CPW incurs additional costs to operate and maintain the improvements associated with those projects over the long term. For example, after opening a new building, such as a visitor center, the park might have to hire additional personnel; purchase new equipment (e.g., computers, phones); or pay for the routine costs of operating a public facility, such as utilities. Funding for park operations comes from several sources, including park user fees and a direct allocation of lottery proceeds, but funding awarded by the GOCO Board is also a potential source of revenue to help CPW pay to operate capital projects that GOCO funded.

As stated in the MOA between GOCO and CPW, “The Parties agree that operating and maintenance costs...are important to most projects using GOCO Funds” [Section 5(D)]. Through its Recreation Management on State Parks Grant to CPW, GOCO provides operations and maintenance funding for certain parks that have received prior capital investments from GOCO. According to CPW’s Investment Plan, these funds support recreational management at the parks and maintenance and enhancement of recreational opportunities for park visitors. Although CPW and GOCO use the terms “operating” and “maintenance” interchangeably, for consistency’s sake we use the term “operating costs” to refer to the cost to operate or maintain capital projects.

WHAT AUDIT WORK WAS PERFORMED, WHAT WAS THE PURPOSE, AND HOW WERE RESULTS MEASURED?

We reviewed the Colorado Constitution and the MOA between GOCO and CPW. In addition, we analyzed CPW’s Fiscal Years 2011 through 2017 Investment Plans that outlined requests for GOCO funding, as

well as the original capital funding requests that state park staff submitted for each capital project that appeared in the Fiscal Years 2014 through 2016 Investment Plans. The purpose of the audit work was to evaluate whether CPW optimizes funding from GOCO to pay for park operating costs to the extent that such use of GOCO funds is consistent with GOCO's mission. We considered the following information in evaluating CPW's requests for operating funding from GOCO:

- The MOA between CPW and GOCO states, "In its discretion, on an annual basis GOCO may approve the use of GOCO Funds for Maintenance Costs on a project-by-project basis, as identified in the Annual Investment Proposal [Section 5(D)]."
- For the 4 years we reviewed (Fiscal Years 2014 through 2017), CPW requested and GOCO approved funding for operating costs in several state parks.
- The Colorado Constitution [art. XXVII, sec. 8] does not prohibit the use of GOCO funds to pay for park operations but does prohibit GOCO funds from replacing other funding sources appropriated to CPW. Specifically, the Constitution states, "The people intend that the allocation of lottery funds required by this article of the constitution be in addition to and not a substitute for funds otherwise appropriated from the General Assembly to the Colorado Department of Natural Resources and its divisions."
- Our understanding from discussions with CPW and GOCO is that GOCO is willing to provide operations funding for parks where it has funded park projects. In other words, GOCO will help cover operating cost increases that are caused by capital expansion and improvement, but not increases that are caused solely by other factors, such as inflation, which should be paid from other sources and would therefore constitute substitution.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

Overall, we found indications that CPW has not optimized the opportunity to seek GOCO funds to help operate GOCO-funded capital projects. Over its history, GOCO has invested funds for capital projects at 36 state parks, according to GOCO's grant data. However, for the past 4 years (Fiscal Years 2014 through 2017) CPW only requested GOCO funds to help defray operating costs for capital projects at 12 parks.

We also compared CPW's Fiscal Years 2011 through 2013 requests for capital project funding from GOCO to CPW's funding requests in subsequent years to see if CPW asked GOCO to help pay to operate those projects after completion. From Fiscal Years 2011 through 2013, CPW requested \$16.2 million in GOCO funds to help pay for capital projects at 14 state parks. However, from Fiscal Years 2014 through 2016, when CPW likely continued to incur costs to operate those projects, CPW asked for GOCO funds to help defray operating costs at only four of the parks.

Our interviews with park managers also suggested that parks may need additional funding to operate GOCO-funded capital projects. At all 10 state parks we visited, park managers expressed concerns about a lack of adequate funding to operate their parks. In addition, some park managers expressed concerns about their ability to pay for additional operating costs associated with new capital projects (e.g., additional utility costs associated with a new building). They reported that their parks' existing operating budgets cannot always absorb those additional costs, and their requests for more funding to operate specific projects typically are not approved.

WHY DID THIS PROBLEM OCCUR?

CPW HAS NOT ESTABLISHED PROCESSES TO ACCURATELY ESTIMATE OPERATING COSTS FOR INCLUSION IN THE ANNUAL INVESTMENT PLANS.

Park managers complete capital request forms to document the projects they want to include in each year's Investment Plan. The forms include space to document future costs for personnel, utilities, equipment, and other operating needs associated with capital projects, but the forms do not include any instructions to guide park managers in calculating and substantiating the amounts they note on the forms. Park managers identified \$1.8 million in operating costs for six capital projects included in the Fiscal Years 2014 through 2016 Investment Plans, but CPW management told us that some of the estimates were inflated and only three projects actually required funding for ongoing operations. For example, one park manager indicated a need for \$1.3 million to operate a \$3.2 million project to develop the park, but CPW management told us that \$162,000 would have been a more accurate request. According to CPW management, CPW does not have an established policy or guidelines for park managers to use to develop estimated operating costs related to capital project requests. Further, CPW does not have a process to calculate the aggregate increases in operating costs over time that are driven by capital improvements and determine what portion of those increases to include in its grant requests to GOCO.

WHY DOES THIS PROBLEM MATTER?

By not optimizing its requests for GOCO funding for operations costs, CPW may not implement capital projects that maximize the benefit the public receives from its use of GOCO funding.

CPW MAY AVOID PURSUING HIGH PRIORITY CAPITAL PROJECTS. The greatest risk associated with this problem is that CPW may choose not to make capital improvements based solely on a perceived lack of operating funds for those improvements, rather than on whether the improvement is a critical part of CPW's overall parks planning. Four of the 10 park managers we interviewed reported that the potential for a new capital project to generate revenue to help offset operating costs can affect whether it gets approved. For example, one park manager reported needing a new maintenance shop, but told us the request has been repeatedly denied because a new shop will not generate additional

revenue compared to other types of projects, such as a new campground. As a result of these challenges, the park managers we talked to said that they might not pursue capital projects they know will drive additional operating costs unless the projects are also expected to generate enough new revenue to cover those costs. CPW management echoed these concerns and said that the ability to pay for future operating costs may be *the* deciding factor in whether to approve some new capital projects.

CPW MAY NOT BE ABLE TO ACCOMMODATE PARK USER NEEDS. If CPW forgoes needed capital improvements due to a perceived lack of operating funding, the quality of park visitors' overall experience could be diminished. According to the 2014 Colorado Statewide Comprehensive Outdoor Recreation Plan, 50 percent of respondents to a survey wanted to see basic services, such as toilets, shelters, running water, and picnic areas, in outdoor recreational areas. However, the manager of a park we visited in an urban area gave us a specific example that although visitors expect flushing toilets, the park may not be able to accommodate that need because those toilets are more expensive to operate than vault toilets. Park managers also talked about challenges trying to address increasing demand for more electric power at state parks to accommodate larger and more technologically advanced recreational vehicles. Updating the electrical outlets at parks would result in higher energy costs, which could be difficult for parks to pay for without also obtaining additional operating funds.

RECOMMENDATION 4

Colorado Parks and Wildlife (CPW) should optimize the use of Great Outdoors Colorado (GOCO) funding to help defray park operating costs for GOCO-funded projects by:

- A Implementing a process to help park managers accurately estimate costs to operate individual capital projects.
- B Implementing a process to estimate aggregate operating cost increases that are due to capital improvements and determine the amount of those increases related to GOCO-funded projects to include in its requests for funding from the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board).

RESPONSE

COLORADO PARKS AND WILDLIFE

- A AGREE. IMPLEMENTATION DATE: NOVEMBER 2017.

Since the audit timeframe, CPW has implemented preliminary processes to make operating estimates (including staffing, maintenance, and utilities costs) a required component of capital requests. This requirement is in place as CPW begins the development of its FY 18-19 capital development program. CPW will continue to improve this process by developing standard guides and templates suggesting typical operation costs associated with a number of common capital improvements. CPW will also be implementing a detailed secondary review of the operating costs identified on the capital requests in order to raise the quality and confidence in those estimates. CPW will also implement a process to integrate capital-driven operating cost increases into the development of the agency's operating budget.

B AGREE. IMPLEMENTATION DATE: NOVEMBER 2017.

Colorado Parks and Wildlife will develop a process to aggregate operating increases from all capital projects, regardless of funding source. As determined appropriate, these costs will be included in the operating portion of CPW's annual budget and, where appropriate, in the annual investment proposal to GOCO. CPW will coordinate with GOCO to ensure that these new costs are transparent and understandable for all parties. For parks or other cost centers that already have GOCO grants supporting their operations, these new costs may be integrated into the existing grants. This may result in some new operating grants for parks or cost centers that are not currently supported with GOCO funding.

