Legislative Audit Committee
November 4 - 5, 2019
Minutes

Day 1 – November 4, 2019

A meeting of the Legislative Audit Committee (LAC) convened on November 4, 2019, at 10:06 a.m. in the Legislative Services Building, Audit Hearing Room A (moved due to technical issue). Senator Nancy Todd called the meeting to order. Roll was called with the following results:

Committee Members

Representative Rod Bockenfeld, Senator Rhonda Fields (arrival 10:09 a.m.), Representative Tracy Kraft-Tharp, Senator Paul Lundeen (departure 4:02 p.m.), Representative Dafna Michaelson Jenet, Senator Jim Smallwood (departure 3:12 p.m.), Representative Lori Saine (Vice Chair), Senator Nancy Todd (Chair)

The following Office of the State Auditor (OSA) staff and others attended:

OSA

Dianne E. Ray, State Auditor; Monica Bowers, Deputy State Auditor; Matt Devlin, Deputy State Auditor; Kerri Hunter, Deputy State Auditor, Jenny Page, Gina Faulkner, Bryan Brune, Michelle Colin, Derek Johnson, Dr. Christopher Harless, Stefanie Winzeler, Dana Berry
Other Attendees

Colorado Judicial Branch
Steven Vasconcellos, State Court Administrator

Colorado Lottery
Tom Seaver, Director
Jennifer Anderson, Deputy Director
Nancy Bartosz, Controller

Colorado State Fair Authority
Lois Tochtrop, Board Member
Scott Stoller, General Manager

Department of Agriculture
Kate Greenberg, Commissioner of Agriculture and Colorado State Fair Authority Board Member

Eide Bailly
Kimberly Higgins, Partner
Sara Kurtz, Partner
Paul Kane, Senior Audit Manager

Great Outdoors Colorado
Chris Castilian, Executive Director
Andrea Conrad, Controller
Charles Garcia, Board Member and Finance Committee Chair

Representative Daneya Esgar
10:06 a.m.

Representative Saine made a motion to release the Annual Report: Status of Audit Recommendations Not Fully Implemented as of June 30, 2019, Informational Report. Representative Kraft-Tharp seconded the motion and the motion passed unanimously.

Mr. Devlin introduced self and staff.
Ms. Page presented an overview of the report.

Concern was expressed as to why past audit recommendations were still outstanding. Discussion ensued on the best way to ensure that the various departments implement audit recommendations, including reaching out to the various chairs and committee members responsible for the departments with questions prior to the SMART hearings, providing specific direction as to expectations, or possibly prepare a bill to deal with the material weaknesses presented in the report. This will be discussed further at the December hearing.

11:08 a.m.
State Board of the Great Outdoors Colorado Trust Fund Financial and Compliance Audit for the Years June 30, 2019 and 2018

Representative Michaelson Jenet made a motion to approve State Board of the Great Outdoors Colorado Trust Fund Financial and Compliance Audit for the Years June 30, 2019 and 2018. Senator Smallwood seconded and motion passed unanimously.

Ms. Hunter introduced self, staff, and contractor.
Mr. Castilian (Great Outdoors Colorado) introduced self and staff.
Ms. Higgins (Eide Bailley) presented an overview of the report.

Discussion ensued as to whether GOCO had complied with Article 27 as to monies authorized and expended, and whether they had internal controls and policies in place. The report demonstrated that GOCO was in compliance and that there were no issues with internal controls. Mr. Castilian clarified that data suggested that funds are distributed 50/50 urban vs. rural areas of the state. He will provide those details to Senator Fields.
11:36 a.m.

**Colorado Lottery, Financial and Compliance Audit June 30, 2019 and 2018**

Representative Michaelson Jenet made a motion to release the *Colorado Lottery, Financial and Compliance Audit June 30, 2019 and 2018*. Representative Bockenfeld seconded the motion and the motion passed unanimously.

Ms. Hunter introduced self, staff, and contractor.
Mr. Seaver (Colorado Lottery) introduced self and staff.
Ms. Kurtz (Eide Bailly) presented an overview of the report.

Discussion ensued regarding demographics of sales, as well as the claim rate for lottery prizes.

**General Business**

**Minutes**

Representative Saine made a motion to approve the September 18 – 19, 2019 LAC hearing minutes. Representative Michaelson Jenet seconded the motion and the motion passed unanimously.

12:00 p.m.

**Status Report:**

**Colorado Lottery Performance Audit, Department of Revenue, August 2018**

Ms. Colin introduced self and staff.
Mr. Johnson presented an overview of the report.
Mr. Vasconcellos (Colorado Judicial Branch) introduced self and presented status report.
Mr. Seaver (Colorado Lottery) provided a response to the status report.

All recommendations fully implemented.

12:05 p.m.

**Recess**
1:30 p.m.

**Colorado State Fair Authority Performance Audit Department of Agriculture, October 2019**

Representative Kraft-Tharp made a motion to release the *Colorado State Fair Authority Performance Audit, Department of Agriculture, October 2019*. Representative Bockenfeld seconded the motion and the motion was passed unanimously.

Ms. Bowers introduced self and staff.
Ms. Greenberg (Department of Agriculture) introduced self, board member, and manager (Colorado State Fair Authority).
Mr. Harless presented an overview of Chapter 1, Recommendation #1, and Policy Considerations.

Chapter 1 – Overview was reviewed and discussed. It was noted that the State Fair has not qualified as an enterprise since fiscal year 2006.

Recommendation #1 – Governance was reviewed, discussed, and recommendations agreed to by the Colorado State Fair Authority. The Authority provided additional details as to Recommendation 1-E, regarding legal guidelines determining whether the Board is responsible for hiring and supervising the general manager. Discussion ensued noting that the LAC requested that some of the implementation dates be revised. Further discussion ensued as to the lack of a charter and the lack of a clear governance structure. Additionally, fair displays from a variety of industries are required by statute; however, industries outside of agriculture were underrepresented at the fair.

Policy Considerations were reviewed and discussed. Discussion ensued around other states’ fairs, continuing to reach out to other state departments to increase their participation at the fair, and changing the composition of the board to address statutorily identified industry representation.

Ms. Winzeler presented an overview of Recommendations #2 – #4.
Recommendations #2 and #3 – Strategic Planning and Management were reviewed, discussed, and recommendations agreed to by the Colorado State Fair Authority. Discussion ensued regarding the Authority’s goal to focus on the recommendations as outlined in the audit. Copies of the Authority’s proposed work plan to document the audit recommendations and path forward were distributed.

Recommendation #4 - Facilities Maintenance was reviewed, discussed, and recommendations agreed to by the Colorado State Fair Authority. Discussion ensued regarding building conditions, managing building repairs and maintenance, and related costs.
Ms. Berry presented an overview of Recommendations #5 – #6.

Recommendation #5 – Management of Non-Fair Facility Rentals was reviewed, discussed, and recommendations agreed to, with the exception of part C, by the Colorado State Fair Authority. The Authority disagreed with recommendation. Discussion ensued regarding policies and standards for discounts provided for vendors, negotiation of long-standing contracts, and blackout dates for facility rentals.

Recommendation #6 – Marketing was reviewed, discussed, and recommendations agreed to by the Colorado State Fair Authority.

It was requested that the Authority provide the annual report to the LAC, which is required by statute to be issued by October 31, that implementation dates for Recommendation 1 be revised to shorten the timeline, and to present working copies of its bylaws for Recommendation 1A and Recommendation 1D during the January 2020 LAC meeting.

4:33 p.m.

Recess
Day 2 – November 5, 2019

A meeting of the Legislative Audit Committee (LAC) convened on November 4, 2019, at 9:05 a.m. in the Legislative Services Building, Audit Hearing Room A. Senator Nancy Todd called the meeting to order. Roll was called with the following results:

Committee Members

Representative Rod Bockenfeld, Senator Rhonda Fields (arrival 9:16 a.m.), Representative Tracy Kraft-Tharp (arrival 9:06 a.m.), Senator Paul Lundeen, Representative Dafna Michaelson Jenet, Senator Jim Smallwood (departure 12:07 p.m.), Representative Lori Saine (Vice Chair), Senator Nancy Todd (Chair) (departure 12:12 p.m.)

The following Office of the State Auditor (OSA) staff and others attended:

OSA

Dianne E. Ray, State Auditor; Monica Bowers, Deputy State Auditor; Kerri Hunter, Deputy State Auditor; Matt Devlin, Deputy State Auditor; Vickie Heller, Crystal Dorsey, Scott Reid, Monica Power, Ferminia Hebert, Jenny Page, Kate Shiroff, Nina Frant

Other Attendees

Colorado Attorney General’s Office
Chris Beall, Deputy Attorney General

Department of Health Care Policy and Financing
Bonnie Silva, Office of Community Living Director
Daniel Krug, Office of Community Living, Operations & Administration Division Director

Department of Regulatory Agencies
Patty Salazar, Executive Director
Aubrey Elenis, Civil Rights Division Director

Department of Revenue
Dan Hartman, Division of Gaming, Director
Lori Dugan, Chief Financial Officer
Jean Robinson, Legislative Liaison
9:05 a.m.

**Treasury Investment Management Performance Audit Department of the Treasury, October 2019**

A motion was made to release the *Treasury Investment Management Performance Audit, Department of the Treasury, October 2019*. The motion was seconded and the motion passed unanimously.

Ms. Bowers introduced self, staff, and contractor.
Mr. Young (Department of the Treasury) introduced self and staff.
Mr. Skiles presented an overview of the report.

Chapter 1 – Overview was reviewed. There were no questions.

Recommendation #1 – Investment Performance was reviewed, discussed, and recommendations agreed to by the Department of the Treasury. Discussion ensued regarding risk and yield noting that safety is the primary responsibility of the Treasury Department, followed by liquidity, then yield.

Recommendation #2 – Compliance with Investment Policies was reviewed, discussed, and recommendations agreed to by the Department of the Treasury. Discussion ensued noting that Department of the Treasury has set an end of year timeline for implementation.
10:05 a.m.
Cash Funds Uncommitted Reserves Fiscal Year Ended June 30, 2019, Performance Audit, October 2019

Representative Michaelson Jenet made a motion to release the Cash Funds Uncommitted Reserves Fiscal Year Ended June 30, 2019, Performance Audit, October 2019. Senator Smallwood seconded the motion and the motion was passed unanimously.

Ms. Hunter introduced self and staff.
Mr. Jaros (Office of the State Controller) introduced self and staff.
Ms. Dorsey presented an overview of Chapter #1 (partial).
Mr. Reid presented an overview of Chapters #1 (partial) - #2.

Chapter #1 – Overview and Restrictions of Spending Authority and Chapter #2 – Findings and Recommendations were reviewed, discussed, and the majority of the recommendations were agreed to by most of the departments. Suggestions for reducing the cash fund ranged from reducing fees, increasing expenditures, or obtaining JBC waivers. The largest fund out of compliance was the marijuana cash fund. Discussion ensued as to the regulatory framework of the industry, why this particular cash balance remained high, and why those funds remained in the cash fund rather than being allocated toward current needs. It was recommended that this conversation be continued during the SMART Hearings.

10:39 a.m.
Schedule of TABOR Revenue Fiscal Year 2019 Performance Audit, October 2019

Senator Fields made a motion to release the Schedule of TABOR Revenue Fiscal Year 2019 Performance Audit, October 2019. Representative Michaelson Jenet seconded the motion and the motion was passed unanimously.

Ms. Hunter introduced self and staff.
Mr. Jaros (Office of the State Controller) introduced self and staff.
Ms. Power presented an overview of the Summary of Audit Results Letter, TABOR Certification Letter, and the Schedule of TABOR Revenue 2019 – Overview, Audit Scope and Methodology, and Overall Conclusion.
Ms. Hebert presented an overview of the Schedule of TABOR Revenue 2019 – Preparation of the Fiscal Year 2019 TABOR Financial Report and all remaining sections of the report.

Summary of Audit Results Letter, TABOR Certification Letter, and the Schedule of TABOR Revenue 2019 – Overview, Audit Scope and Methodology, and Overall Conclusion were presented and discussed. Questions ensued regarding computation of total state expenditures of $48.3 billion and what composed that dollar amount. The State Controller’s Office will provide the details of the total state expenditures to the LAC.

Schedule of TABOR Revenue 2019 – Preparation of the Fiscal Year 2019 TABOR Financial Report and all remaining sections of the report were presented with no additional questions.

10:57 a.m.
**Higher Education Enterprise Status Memo, Fiscal Year 2019**

Senator Lundeen made a motion to release the *Higher Education Enterprise Status Memo, Fiscal Year 2019*. Representative Michealson Jenet seconded the motion and the motion was passed unanimously.

Ms. Hunter introduced self and staff.
Ms. Dorsey presented the status memo.

The Higher Education Enterprise Status Memo, Fiscal Year 2019, was presented and discussed. Further discussion ensued noting that the College Opportunity Fund was not subject to TABOR due to an earlier Attorney General Opinion, and clarified that the funds actually go directly to students and not the university.

11:10 p.m.
**Status Reports:**

**Community-Centered Boards Performance Audit, November 2018**

Ms. Bowers introduced self and staff.
Ms. Silva (Department of Health Care Policy and Financing, HCPF) introduced self and staff.
Mr. Page presented an overview of the report.
Mr. Krug presented an overview of the HCPF portion of the status report.
The status report for the Community-Centered Boards Performance Audit, November 2018, was presented and discussed. The HCPF provided updates on Recommendations #1 and #4 noting that these recommendations were partially implemented, and that they were on track and on time for complete implementation per guidelines. Discussion ensued as to what attributed to success. Those factors included the insights provided by the audit, support from community-centered boards, and methodologies enacted.

Gaming Administrative Expenses Performance Audit, Division of Gaming, June 2018

Ms. Bowers introduced self and staff.
Ms. Frant presented an overview of the report.
Mr. Hartman (Colorado Division of Gaming) introduced self and presented an overview of the status report.

The status report for the Gaming Administrative Expenses Performance Audit, Division of Gaming, June 2018, was presented. There were no additional questions.

Management of Civil Rights Discrimination Complaints Performance Audit, August 2019

Ms. Bowers introduced self and staff.
Ms. Salazar (Department of Regulatory Agencies) introduced self, staff, and Deputy Attorney General Beall, representing the Commission, and presented an overview of the status report.

The status report for the Management of Civil Rights Discrimination Complaints Performance Audit, August 2019, was presented and discussed. Deputy Attorney General Beall presented a letter from the Commission presenting its position that it agrees with the Recommendations #2B and #2C, and that the Commission members will comply with new procedures.

HB17-1361 Evaluation Report: Evaluation of State IT Resources, November 2018

Mr. Devlin introduced self and presented an overview of the status report.
Dr. Szczurek (OIT) introduced self and staff.
Ms. Blyth introduced self and presented additional remarks in regard to implementations.
The status report for HB17-1361 Evaluation Report: Evaluation of State IT Resources, November 2018, was presented, discussed, and further detail provided as to why some of the recommendations had not yet been implemented, including budget constraints, time required to implement enterprise systems, legacy systems, and OIT personnel time constraints. Major IT systems can take up to two years to go through the funding process and then an additional two to three years to implement systems; however, OIT does take steps to ensure systems are as secure as they can make them by putting in mitigating controls. It was requested that another meeting be scheduled to deal with OIT’s lack of compliance with recommendations.

12:32 p.m.  
**Reports Released Without a Hearing**

A motion was made to release the Reports Released Without a Hearing. The motion was seconded and the motion passed unanimously.

Ms. Hunter presented an overview of the reports.

12:36 p.m.  
**General Business: Legislative Audit Committee Letter to Boards and Commissions**

A motion was made to approve the Legislative Audit Committee Letter to Boards and Commissions. The motion was seconded and the motion passed unanimously.

**Hearing adjourned at 12:47 p.m.**

Minutes submitted by:

      Jayne Watson  
      Executive Assistant, Office of the State Auditor