

**DEPARTMENT OF THE TREASURY
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA**

**Tuesday, November 18, 2014
10:30 am – 12:00 pm**

10:30-10:45 INTRODUCTIONS AND OPENING COMMENTS

10:45-11:15 QUESTIONS COMMON TO ALL DEPARTMENTS

1. SMART Government Act:

- a. Please describe how the SMART Government Act is being integrated into the department's existing processes (both in terms of service delivery and evaluating performance).
- b. How is the data that is gathered for the performance management system used?
- c. Please describe the value of the act in the department.

The Treasurer's office had many performance goals and metrics incorporated into its business practices long before the SMART Government Act was implemented. For example, investment performance is measured relative to market-based benchmarks – and has been regularly posted on the Department's website for the last decade. Instead of reinventing the wheel, the Department's Performance Plan reflects current business practices and performance measures along with new strategies for additional improvements.

With respect to the value of the SMART Act – The Treasurer's office certainly applauds any attempt at making government more efficient. However, there are many components of the SMART Act that are cumbersome – especially as a small executive office outside of the purview of the Governor's Office of State Planning and Budgeting (OSPB). HB 13-1299 was an attempt to streamline the SMART Government process, requiring OSPB to provide agencies with instructions on how to create a performance plan. It also requires OSPB to provide instructions for additional routine performance evaluations and performance reports required by HB 13-1299.

Recognizing that the Treasurer's office falls out of OSPB's purview, HB 13-1299 requires this department to make its own instructions to itself on how to make its own performance plan. This was a cumbersome and duplicative process that provided little to no value to the office.

2. Please summarize how the overall infrastructure priorities (i.e. roads, real property, information technology) align with the department's current needs. If infrastructure should be a higher priority for the department, how should the department's list of overall priorities be adjusted to account for it?

As a small office, current infrastructure currently meets the Department's basic needs.

11:15-11:40 UNCLAIMED PROPERTY PROGRAM RESEARCH SERVICE

3. Please provide additional information about concerns regarding the security if the Accurint Research Service is implemented using the existing unclaimed property software.

To be clear, there is no direct link between UPS2000 (Unclaimed Property's current software system) and Accurint. While Accurint provides many powerful tools to increase efficiency with respect to verifying Unclaimed Property Claims, it would do little to improve security issues related to the UPS2000 software. The opportunity also exists for users to use Accurint for non-state purposes, and may not be tracked – which in itself could be considered a security problem. As discussed below, a new software solution called KAPS integrates the Accurint system with its platform to limit the access of information.

Many of the security concerns related to UPS2000 will be addressed in #4 below with respect to the new KAPS software program.

4. Please provide details on the capabilities and cost of the newly discovered unclaimed property management system for state governments; and how this system will resolved the concerns mentioned above.

UPS2000 is a 20 year old software platform that provides outdated technology and insufficient security-based features. While 43 states currently use UPS2000, there is a new program called KAPS that finally provides new features to help safely protect sensitive data and provide greater efficiency to Unclaimed Property staff. Two states (Delaware and New Hampshire) are now live with KAPS, with three additional states that are in the process of acquiring the new software.

As we have learned more about the new KAPS system, we feel that not only will it meet our strategic goals to increase efficiencies related to processing claims, but it will also provide greater security as well:

- KAPS integrates the advantages of Accurint within its software platform. KAPS is linked to the LexisNexis services (such as Accurint) though secured API calls using SSL. This allows the data accessed in LexisNexis to be controlled, and there is a record of the user making the data request, the records requested, and a log of the results. KAPS integration with LexisNexis allows the KAPS system to directly analyze the data received, ensuring that the system determines if the claimant is authenticated, and if a valid relationship exists between the claimant and the claimed properties. This ensures that the claims are processed consistently, and the validation information is recorded with the claim. KAPS records the searches made via LexisNexis by user and information searched. Because the searches are generated directly from KAPS, system users can only access information that is linked to system owners and claimants.
- Data can be extracted from the UPS2000 database without any audit trail. In UPS2000, database access is available (and not tracked) via third party tools such as Microsoft Access, Microsoft Excel and other ODBC tools. KAPS fully isolates the database from

the end user. Access to data is only available through the user interface and reporting module.

- In UPS2000, Unclaimed Property files are not managed within the application, and could be viewed or copied once loaded. KAPS encrypts all data at rest. In KAPS, all database backups are encrypted, all holder reporting Unclaimed Property files are encrypted, and the preserved original files are always available.
- In UPS2000, any of the holder reported data may be changed by the user importing the report. KAPS prevents editing of holder reporting data imported into the system. Original holder files are always preserved.
- In UPS2000, tracking of data changes is done by comparison to 'before change' copies of the record, making it difficult to determine the data element changed, and the prior value. KAPS provides for a system-defined audit trail of all data changes in the system, and allows for emailed reports of changed data in the system, including the data element changed, who initiated the change, the date of the change, the original value, and the updated value. When tracking deleted data, original copies of the deleted data are retained in KAPS.
- UPS2000 allows users full access to all personally identifiable information (PII) in the system such as social security numbers. KAPS provides for in-application masking of PII data (***-**-5382 for example for SSNs). Users can be assigned roles to fully mask, partially mask or display the entire number. This allows for only authorized users to view key PII data.

The cost of the integrated package would be \$245,000 annually. The KAPS software would be \$200,000 annually compared with UPS2000 at \$41,250 annually. The cost of Accurint would be \$45,000 annually compared to the current cost of \$30,300, with the additional \$15,000 for licenses and searches.

5. Why did the Department not submit a budget request for funds for this software?

The Department did not receive sufficient details from the vendors in time for submission. This has been an evolving process. When we requested an appropriation for Accurint last year, the KAPS system was not yet fully operational. It was not until our contract discussions with Accurint this fall that we discovered that KAPS is indeed operational and live with in Delaware and New Hampshire. After evaluating its software capabilities, we have now determined that the better option for our office is to acquire KAPS software with Accurint capabilities.

11:15-12:00 INVESTMENT OF STATE OF COLORADO REVENUE

6. Please discuss the following in terms of State of Colorado revenue investments:
- a. Investment risks of existing funds/portfolios that are managed by the Department;

Investment risks of existing funds/portfolios that are managed by the Department are:

- Duration risk – The longer the duration, or average life, of the portfolio, the greater the sensitivity to interest rates.
- Credit risk – Fiscal and economic changes can bring about credit downgrades that can lower the market value (and affect the corresponding yields) on the portfolios. An example would be the 2008 market meltdown brought about by Lehman Brothers.
- Interest rate risk – When interest rates go down, portfolio securities’ prices go up and there are unrealized gains in the portfolios. This is the inverse relationship between bond price and yield. Conversely, when rates rise, prices fall and there are unrealized losses shown in the portfolio.
- Liquidity risk - Maintaining a portfolio structure that can meet unexpected cash demands on the portfolio. This poses the greatest risk to the State.

b. Comparison of the risks of these portfolios with Colorado PERA investment risk;

The risks and portfolio mixes – not to mention the underlying purpose of Treasury and PERA-managed funds – are not an apples-to-apples comparison. Treasury views itself as more of a yield manager within the realm of the State’s overall cash management process, which makes its investment horizon short term in nature. In contrast, PERA’s portfolio mix is representative of a much longer term set of investment strategies, and includes greater flexibility of investment options such as stocks, real estate, global equities and other alternative investments. Of course, these additional investment choices provide a greater risk for return compared to the Treasurer’s narrow list of fixed rate securities.

c. Problems that may be encountered with investment funds at the state level given the direction of the economy;

(See a. above)

d. How the State of Colorado investment strategies, processes, risks, and returns compare with other states.

Over the years the investment department has tried to compare our results to those of other states. Comparison is difficult because each state is structured differently and has a varied range of legal investments. Some states manage portfolio returns on a yield basis, and others on a total rate of return basis.

The Treasury’s primary objectives for managing its investment portfolios are detailed in statute and listed in order of precedence: legality, safety, liquidity, and yield. Standards have been developed for each portfolio to establish the asset allocation, the level of liquidity, the credit risk profile, the average maturity/duration and performance monitoring measures appropriate to the public purpose and goals of each fund. The Treasury will seek to enhance overall portfolio performance by means of active portfolio management.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implement or has partially implemented the legislation on this list.

N/A

2. What is the turnover rate for staff in the department? Please provide a breakdown by office and/or division, and program.

Over the last three years, the turnover rate for staff is about 10%. Turnover in FY 2013-14 comprised of two positions in the Unclaimed Property division and zero positions in the Treasurer's office.

3. Please identify the following:
 - a. The department's most effective program;
 - b. The department's least effective program (in the context of management and budget);
 - c. Please provide recommendations on what will make this program (2.b.) more effective based on the department's performance measures.

The Unclaimed Property division is the only program currently managed by the Treasurer's office. We have included discussions of making this program more effective within the Department's Performance Plan.

4. Please provide a breakdown of the use of the department's operating and capital funds during FY 2013-14.

The Department has provided their operating information under Schedule 14 within its budget request. The Department's capital funds are contained in the Long Bill under Information Technology Asset Maintenance. These funds are used to periodically replace and update computers and related office equipment.

5. Does Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office on June 30, 2014? What is the department doing to resolve the outstanding high priority recommendations? N/A
[http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/\\$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf](http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf)

**DEPARTMENT OF THE TREASURY
FY 2015-16 JOINT BUDGET COMMITTEE HEARING AGENDA**

**Tuesday, November 18, 2014
10:30 am – 12:00 pm**

10:30-10:45 INTRODUCTIONS AND OPENING COMMENTS

10:45-11:15 QUESTIONS COMMON TO ALL DEPARTMENTS

1. SMART Government Act:
 - a. Please describe how the SMART Government Act is being integrated into the department's existing processes (both in terms of service delivery and evaluating performance).
 - b. How is the data that is gathered for the performance management system used?
 - c. Please describe the value of the act in the department.

2. Please summarize how the overall infrastructure priorities (i.e. roads, real property, information technology) align with the department's current needs. If infrastructure should be a higher priority for the department, how should the department's list of overall priorities be adjusted to account for it?

11:15-11:40 UNCLAIMED PROPERTY PROGRAM RESEARCH SERVICE

3. Please provide additional information about concerns regarding the security if the Accurant Research Service is implemented using the existing unclaimed property software.

4. Please provide details on the capabilities and cost of the newly discovered unclaimed property management system for state governments; and how this system will resolved the concerns mentioned above.

5. Why did the Department not submit a budget request for funds for this software?

11:15-12:00 INVESTMENT OF STATE OF COLORADO REVENUE

6. Please discuss the following in terms of State of Colorado revenue investments:
 - a. Investment risks of existing funds/portfolios that are managed by the Department;
 - b. Comparison of the risks of these portfolios with Colorado PERA investment risk;
 - c. Problems that may be encountered with investment funds at the state level given the direction of the economy;
 - d. How the State of Colorado investment strategies, processes, risks, and returns compare with other states.

ADDENDUM: OTHER QUESTIONS FOR WHICH SOLELY WRITTEN RESPONSES ARE REQUESTED

1. Provide a list of any legislation that the Department has: (a) not implemented or (b) partially implemented. Explain why the Department has not implement or has partially implemented the legislation on this list.
2. What is the turnover rate for staff in the department? Please provide a breakdown by office and/or division, and program.
3. Please identify the following:
 - a. The department's most effective program;
 - b. The department's least effective program (in the context of management and budget);
 - c. Please provide recommendations on what will make this program (2.b.) more effective based on the department's performance measures.
4. Please provide a breakdown of the use of the department's operating and capital funds during FY 2013-14.
5. Does Department have any outstanding high priority recommendations as identified in the "Annual Report of Audit Recommendations Not Fully Implemented" that was published by the State Auditor's Office on June 30, 2014? What is the department doing to resolve the outstanding high priority recommendations?
[http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/\\$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf](http://www.leg.state.co.us/OSA/coauditor1.nsf/All/1FE335CE3162803F87257D7E00550568/$FILE/1422S%20-%20ANNUAL%20REPORT%20OF%20AUDIT%20RECOMMENDATIONS%20NOT%20FULLY%20IMPLEMENTED%20AS%20OF%20JUNE%2030,%202014.pdf)