

2014

MINUTES OF THE
LEGISLATIVE AUDIT
COMMITTEE



STEVE KING, CHAIR
Senator

LUCIA GUZMAN, VICE CHAIR
Senator

DAVID BALMER
Senator

DAN NORDBERG
Representative

State of Colorado

LEGISLATIVE AUDIT COMMITTEE
State Services Building - Seventh Floor
1525 Sherman Street
Denver, Colorado 80203

DIANNE PRIMAVERA
Representative

SU RYDEN
Representative

JERRY SONNENBERG
Representative

LOIS TOCHTROP
Senator

LEGISLATIVE AUDIT COMMITTEE

January 14, 2014
MINUTES

A meeting of the Legislative Audit Committee convened on January 14, 2014 at 7:00 a.m. in the Legislative Services Building, Audit Hearing Room. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Nordberg, Representative Primavera, Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED:

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Kerri Hunter, Matt Devlin, Deputy State Auditors; Scott Reid, Nina Frant, Greg Fugate, Michelle Colin

ALSO PRESENT: John Salazar, Jeff Stalter, Department of Agriculture; Chris Wiseman, Arthur Bosworth II, Colorado State Fair Authority; Kimberley Temple, Wall, Smith, Bateman Inc.; Ken Lund, Colorado Office of Economic Development and International Trade; Dr. Larry Wolk, Colorado Department of Public Health and Environment; Barbara Brohl, Ron Kammerzell, Department of Revenue; Kurtis T. Morrison, Colorado Department of Transportation

7:00 a.m. GENERAL BUSINESS

Election of Officers

A motion was made by Senator King and seconded by Senator Tochtrop to nominate Senator Lucia Guzman as Vice Chair of the Legislative Audit Committee for 2014. The motion passed unanimously.

7:03 a.m.

**Colorado State Fair Authority
Financial and Compliance Audit
Fiscal Years Ended June 30, 2013 and 2012**

Department of Agriculture

John Salazar, Executive Director

Jeff Stalter, Director of Budget and Business Operations

Chris Wiseman, General Manager, Colorado State Fair Authority

Arthur Bosworth II, Chairman, Colorado State Fair Board of Authority

Office of the State Auditor

Dianne E. Ray, State Auditor

Kerri Hunter, Deputy State Auditor

Scott Reid, Legislative Auditor

Wall, Smith, Bateman Inc.

Kimberley Temple, Partner

A motion was made by Senator Tochtrop and seconded by Representative Ryden to release the *Colorado State Fair Authority, Financial and Compliance Audit* (Fiscal Years Ended June 30, 2013 and 2012).

John Salazar made opening remarks about the audit and the Department of Agriculture.

In response to a question from Representative Sonnenberg, John Salazar and Chris Wiseman reviewed the new cashless card system that was implemented for the Fair in 2013.

In response to a question from Senator King, Mr. Wiseman stated that Colorado is the first state to proceed with this precise cashless card system for their state fair.

Following introductions and opening remarks, Kimberley Temple provided an overview of the audit.

In response to a question from Representative Sonnenberg, Ms. Temple reviewed the short-term liability of compensated absences.

In response to a question from Representative Primavera, Ms. Temple stated that the decrease in the amount of days from 16 to 11 that the Fair is opened happened several years prior to the audit.

Ms. Temple continued her overview of the audit.

In response to a question from Senator Balmer, Mr. Wiseman stated that the Fair is not unique amongst other states in growing operating revenue losses.

In response to a question from Senator Balmer, Mr. Wiseman and Mr. Salazar stated that county fairs are not in direct competition with the Fair and emphasized the benefits the Fair has for 4-H and Future Farmers of America (FFA) participants. Further, Mr. Wiseman stated that most county fairs are subsidized through county funds.

In response to a question from Senator Balmer, Arthur Bosworth II, stated that the Fair plans on reaching out to the oil and gas industry for sponsorships.

Recommendation No. 1 was reviewed, discussed and agreed to by staff from the Colorado State Fair Authority (the Authority).

In response to a question from Representative Sonnenberg, Ms. Temple explained the reasons for the audit timeline.

In response to a question from Representative Sonnenberg, State Auditor Dianne E. Ray stated that the audit needs to stay on the current timeline. Mr. Wiseman stated that the Authority has done everything possible to accommodate the audit process.

Mr. Stalter stated that the Authority is seeking other sources of revenue.

In response to a question from Representative Sonnenberg, Mr. Stalter stated that the Fair contributes over \$33 million to the Colorado economy. Mr. Wiseman stated that the Fair has a fiscal impact of \$1.4 million to the City of Pueblo, \$1.3 million to Colorado and \$1 million to Pueblo County.

In response to a question from Senator Guzman, Mr. Wiseman stated that the attendance at the Fair has declined for the past two years.

In response to a question from Senator Guzman, Mr. Wiseman reviewed the educational value of the Fair.

In response to a question Representative Ryden, Mr. Wiseman reviewed the educational partnerships that the Fair currently has and is pursuing.

7:50 a.m. The Committee recessed briefly.

7:51 a.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Tochtrop and seconded by Senator Guzman to approve the Minutes from December 9-10, 2013. The motion passed unanimously.

Statutory Report Required to be Submitted to the LAC

State Auditor Ray submitted the statutorily required report to the LAC in accordance with Section 39-30-103(4)(b.7), C.R.S., of the Enterprise Zone Annual Report Fiscal Year 2013.

Ken Lund, Executive Director, Colorado Office of Economic Development and International Trade, provided an overview of the Report.

Authorization to Share the Emergency Report pursuant to Section 2-3-109(2), C.R.S.

State Auditor Ray explained that during the December 10, 2013 LAC hearing, pursuant to Section 2-3-109(2), C.R.S., the Committee voted in executive session to authorize sharing the emergency report of the potential misuse of public funds, provided to the Committee on October 30, 2013, with the Governor and the district attorneys of the districts wherein such transactions are reported to have taken place. However, pursuant to Section 24-6-402(3)(a), C.R.S., statutes require this vote to be in open session.

A motion was made by Senator Balmer and seconded by Representative Ryden to share the emergency report with the Governor and the district attorneys of the districts wherein such transactions are reported to have taken place. The motion passed unanimously.

Status Report

Following introductions, Nina Frant reviewed highlights from the *Medical Marijuana Regulatory System Part I, Department of Revenue, Department of Public Health and Environment, Performance Audit* (March 2013) and *Medical Marijuana Regulatory System Part II, Department of Public Health and Environment, Department of Revenue, Performance Audit* (June 2013).

Barbara Brohl, Executive Director, Department of Revenue (DOR), provided an overview of the implementation status of Recommendations addressed to the Medical Marijuana Regulatory System and provided a verbal update on the implementation of Proposition AA.

Dr. Larry Wolk, Executive Director, Colorado Department of Public Health and Environment (CDPHE), provided an overview of the implementation status of Recommendations addressed to the Medical Marijuana Regulatory System and provided a verbal update on the implementation of Proposition AA.

2014 Legislation

Dr. Wolk reviewed CDPHE's response to *Medical Marijuana Regulatory System, Part II, Department of Public Health and Environment, Department of Revenue, Performance Audit* (June 2013) Recommendations that have potential legislation.

In response to a question from Representative Sonnenberg, Dr. Wolk stated legislative change is needed to address Recommendation No. 6a in the audit.

Ms. Brohl reviewed DOR's response to the audit's Recommendations that have potential legislation.

State Auditor Ray reviewed Recommendations Nos. 4c, 5b and 6a from the audit that have potential legislation. Further, she stated that if the Committee requests draft legislation that the Office of Legislative Legal Services could determine if all three Recommendations fit under one bill or if two bills are needed.

A motion was made by Senator Tochtrop and seconded by Representative Ryden to request draft legislation for the *Medical Marijuana Regulatory System, Part II, Department of Public Health and Environment, Department of Revenue, Performance Audit* (June 2013), Recommendation Nos. 4c, 5b and 6a. The motion passed on a vote of 6-1, as follows:

Senator Balmer:	Excused
Senator Guzman:	Aye
Representative Nordberg:	Aye
Representative Primavera:	Aye
Representative Ryden:	Aye
Representative Sonnenberg:	Aye
Senator Tochtrop:	Aye
Senator King, Chair:	No

Greg Fugate reviewed potential legislation concerning the *Conservation Easement Tax Credit, Division of Real Estate and Department of Revenue, Performance Audit* (September 2012) for Recommendation No. 10. Further, he stated that Senate Bill 13-221 did not address the concerns regarding this Recommendation.

State Auditor Ray stated that Recommendation No. 10 addresses a long-range perpetuity issue.

In response to a question from Senator King, State Auditor Ray stated that potential legislation would give the Division of Real Estate authority if there were an issue down the road. She drew comparisons to a similar provision that Great Outdoors Colorado has in their land contracts to ensure that there is always an entity that has oversight of said pieces of land.

Senator King requested OSA staff to arrange for the Division of Real Estate to appear before the Committee at the January 28, 2014 LAC hearing to review potential legislation concerning *Conservation Easement Tax Credit, Division of Real Estate and Department of Revenue, Performance Audit* (September 2012) for Recommendation No. 10.

Monica Bowers, Deputy State Auditor, reviewed Bill Draft LLS No. 14-0672.01 *Concerning the factors that are used to determine the financial capacity to provide matching moneys of a school district of board of cooperative services that has applied for financial assistance under the "Building Excellent Schools Today Act"*.

In response to a question from Representative Ryden, Ms. Bowers reviewed the bonding capacity differences between poor and rich school districts.

A motion was made by Senator Guzman and seconded by Representative Ryden to approve Bill Draft LLS NO. 14-0672.01 to be put on Bill Paper. The motion passed on a vote of 7-1, as follows:

Senator Balmer:	Aye
Senator Guzman:	Aye
Representative Nordberg:	Aye
Representative Primavera:	Aye
Representative Ryden:	Aye
Representative Sonnenberg:	No
Senator Tochtrop:	Aye
Senator King, Chair:	Aye

The Bill will start in the House.

Sponsor: Representative Ryden
Senator King

Co-sponsors, if any, will be determined at a later date.

Michelle Colin reviewed Bill Draft LLS NO. 14-0674.01 *Concerning revenue generated from the Outdoor Advertising Program administered by the Department of Transportation.*

In response to a question from Representative Primavera, Ms. Colin clarified what the Outdoor Advertising Program does and how it collects revenue.

In response to a question from Representative Sonnenberg, Ms. Colin stated legislation is needed to create a cost recovery center within the state highway fund because the Colorado Department of Transportation (CDOT) is not complying with current statute.

In response to a question from Representative Sonnenberg, Kurt T. Morrison, State and Federal Liaison, CDOT, stated that legislation is needed to create a cost recovery center within the state highway fund in order to separate two programs and to be able to account for them separately.

A motion was made by Senator Tochtrop and seconded by Senator Guzman to approve Bill Draft LLS NO. 14-0674.01 to be put on Bill Paper. The motion passed unanimously.

The Bill will start in the House.

Sponsor: Representative Ryden
Senator Tochtrop

Co-sponsors, if any, will be determined at a later date.

Ms. Colin reviewed Bill Draft LLS NO. 14-0673.01 *Concerning the reclassification of the State Lottery Division as a type 1 agency.*

In response to a question from Representative Ryden, Jason Gelender, Legislative Council, reviewed differences in oversight between Type 1 and Type 2 Agencies in regard to the Colorado State Lottery.

A motion was made by Senator King and seconded by Senator Tochtrop to approve Bill Draft LLS NO. 14-0673.01 to be put on Bill Paper. The motion passed on a vote of 6-2, as follows:

Senator Balmer:	Aye
Senator Guzman:	Aye
Representative Nordberg:	Aye
Representative Primavera:	Aye
Representative Ryden:	No
Representative Sonnenberg:	No
Senator Tochtrop:	Aye
Senator King, Chair:	Aye

The Bill will start in the Senate.

Sponsor: Senator King

Co-sponsors, if any, will be determined at a later date.

Audit Requests

State Auditor Ray presented a request submitted by Senator Lois Tochtrop for a performance audit of the Consumer Directed Assistant Support Services Program. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. A motion was made by Senator King and seconded by Representative Primavera to authorize OSA to proceed with preliminary research. The motion passed unanimously.

State Auditor Ray presented a request submitted by Representative Jared Wright for a performance audit of Colorado's health benefit exchange, Connect for Health Colorado. She stated that an audit of Connect for Health Colorado is already in progress and that she has worked with Representative Wright to incorporate his audit request in to the existing audit.

State Auditor Ray explained that the statutory authority on doing an audit of Connect for Health Colorado is very narrow. Thus, in order to perform a full performance audit she requested the Committee consider expanding the statutory authority for the OSA to perform a full performance audit of Connect for Health Colorado.

In response to a question from Representative Sonnenberg, State Auditor Ray confirmed that statutory change is needed in order to perform a full performance audit of Connect for Health Colorado.

In response to a question from Representative Primavera, State Auditor Ray explained what items Representative Wright requested be audited that can be incorporated in to the current audit.

A motion was made by Senator Tochtrop and seconded by Representative Sonnenberg to request draft legislation to expand the statutory authority for the OSA to perform a full performance audit of Colorado's health benefit exchange, Connect for Health Colorado. The motion passed on a vote of 7-1, as follows:

Senator Balmer:	Aye
Senator Guzman:	Aye
Representative Nordberg:	Aye
Representative Primavera:	Aye
Representative Ryden:	No
Representative Sonnenberg:	Aye
Senator Tochtrop:	Aye
Senator King, Chair:	Aye

Reports Released Without a Hearing

Kerri Hunter, Deputy State Auditor, reviewed the reports to be released without a hearing. A motion was made by Senator Tochtrop and seconded by Representative Ryden to release the following reports without a formal hearing:

- Adams State University, Alamosa, Colorado, Athletics Department Statement of Revenues and Expenses, Independent Accountants' Report on Applying Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Constitution 6.2.3.1.1, Year Ended June 30, 2013
- Colorado Department of Transportation's Bridge Enterprise, Financial Statements and Independent Auditors' Reports, Financial Audit, Years Ended June 30, 2013 and 2012, Compliance Audit, Year Ended June 30, 2013
- Colorado High Performance Transportation Enterprise, Financial Statements and Independent Auditors' Reports, Financial Audit, Years Ended June 30, 2013 and 2012, Compliance Audit, Year Ended June 30, 2013
- Colorado Mesa University, Report of Independent Accountant on the Application of Agreed-Upon Procedures, Fiscal Year Ended June 30, 2013
- Colorado School of Mines, Independent Accountants' Report on Application of Agreed-Upon Procedures (NCAA Procedures), Year Ended June 30, 2013
- Colorado State University – Global Campus, (A University within the Colorado State University System), Financial Statements and Independent Auditor's Reports, Financial Audit, Years Ended June 30, 2013 and 2012
- Colorado State University, Independent Accountants' Report on Application of Agreed-Upon Procedures (NCAA Procedures), Year Ended June 20, 2013
- Colorado State University – Pueblo, Independent Accountants' Report on Application of Agreed-Upon Procedures (NCAA Procedures), Year Ended June 20, 2013
- Colorado State University System, Financial Statements and Independent Auditor's Reports, Financial Audit, Years Ended June 30, 2013 and 2012, Compliance Audit, Year Ended June 30, 2013
- Fort Lewis College, Durango, Colorado, Athletics Department Statement of Revenues and Expenses, Independent Accountants' Report on Applying Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Constitution 6.2.3.1.1, Year Ended June 30, 2013
- Legislative Department, State of Colorado, Compliance and Financial Audit for the Years Ended June 30, 2013 and 2012
- Metropolitan State University of Denver, Athletics Department, Statement of Revenues and Expenses, Independent Accountants' Report on Applying Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Bylaw 6.2.3, Year Ended June 30, 2013

- Metropolitan State University of Denver, Financial and Compliance Audit, June 30, 2013 and 2012, (With Independent Auditors' Report Thereon)
- University of Colorado at Boulder, Department of Intercollegiate Athletics, Independent Accountant's Report on Applying Agreed-Upon Procedures, For the Year Ended June 30, 2013
- University of Colorado at Colorado Springs, Department of Intercollegiate Athletics, Independent Accountant's Report on Applying Agreed-Upon Procedures, For the Year Ended June 30, 2013
- University of Northern Colorado, National Collegiate Athletic Association (NCAA) Agreed-upon Procedures Report for the Year Ended June 30, 2013
- Western State Colorado University, Athletics Department, Statement of Revenues and Expenses, Independent Accountants' Report on Applying Agreed-Upon Procedures in Accordance with National Collegiate Athletic Association Bylaw 6.2.3.1.1, Year Ended June 30, 2013

The motion passed unanimously.

Other Business

State Auditor Ray presented Representative Williams with a special recognition gift for her time served as Chair of the Committee.

8:54 a.m. There being no further business to come before the Committee, the meeting adjourned. The next scheduled meeting is on January 28, 2014 at 7:00 a.m. in the Legislative Services Building, Audit Hearing Room.

Minutes submitted by:

Brittany Wirth
Executive Assistant to the State Auditor
Office of the State Auditor



State of Colorado

STEVE KING, CHAIR
Senator

LUCIA GUZMAN, VICE CHAIR
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Senator

LEGISLATIVE AUDIT COMMITTEE

February 25, 2014
MINUTES

A meeting of the Legislative Audit Committee convened on February 25, 2014, at 7:01 a.m. in the Legislative Services Building, Audit Hearing Room. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Primavera, Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED: Representative Nordberg

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Kerri Hunter, Deputy State Auditors; Marisa Neff, Ferminia Hebert, John Kormos, Crystal Dorsey, Scott Reid

ALSO PRESENT: Reggie Bicha, Clint Woodruff, Department of Human Services; Erick Scheminske, Office of State Planning and Budgeting

7:01 a.m. – 8:05 a.m. **State of Colorado**
Statewide Single Audit
Fiscal Year Ended June 30, 2013

Department of Human Services
Reggie Bicha, Executive Director
Clint Woodruff, Controller

Office of the State Auditor
Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Marisa Neff, Managing Legislative Auditor
Ferminia Hebert, Legislative Auditor
John Kormos, Legislative Auditor

Following introductions and opening remarks, Marissa Neff provided an overview of the *State of Colorado, Statewide Single Audit* (Fiscal Year Ended June 30, 2013,) as it relates to the Department of Human Services (Department). Recommendation Nos. 2013-6 and 2013-45 were reviewed, discussed, and agreed to by staff from the Department.

7:02 a.m. Representative Nordberg arrived.

In response to a question from Representative Ryden about the Supplemental Nutrition Assistance Program (SNAP), Reggie Bicha stated he would provide the Committee a breakdown by county of the SNAP/food stamps payment error rates for ineligible households.

In response to a question from Representative Ryden, Ferminia Hebert stated that the audit reported the SNAP Quality Assurance report numbers as provided by the Department. Mr. Bicha reviewed the factors that cause SNAP payment errors.

In response to a question from Senator Tochtrop, Mr. Bicha stated that over the past few years SNAP timeliness has improved but quality/accuracy has diminished. Further, he stated that the smaller rural counties are more timely and accurate than the large urban counties and the Department plans on working with the top four or five worst offenders to lift the timeliness and quality/accuracy rating for the entire state.

In response to a question from Senator Balmer, Mr. Bicha stated that the Colorado Benefits Management System (CBMS) has greatly improved over the last two years, and he reviewed the progress of the CBMS rebuild. Further, he stated that a study the Department conducted about two and a half years ago found that it was better for the State to rebuild CBMS than to implement a new system.

In response to a question from Senator Balmer, Mr. Bicha reviewed how the Federal Affordable Care Act delayed parts of the CBMS rebuild due to shifting priorities. Further, he stated that it was always part of the Department's plan to have at least two phases to the CBMS rebuild.

In response to a question from Representative Primavera, Mr. Bicha stated he did not know the rate of turnover for county caseworkers associated with SNAP.

In response to a question from Senator Tochtrop, Mr. Bicha stated that SNAP eligibility is set by a combination of federal law, state law, and administrative rule. Counties do not set their own SNAP eligibility criteria but they can set their own eligibility criteria for the Child Care Assistance Program.

Recommendation No. 2013-46 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Balmer, Ms. Hebert stated OSA would provide the Committee with a list of all allowable citizenship verification sources for the Temporary Assistance for Needy Families (TANF) program.

Recommendation No. 2013-47 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Guzman, John Kormos stated that the Recommendation is a significant deficiency.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the Department submitted a supplemental budget request to the Joint Budget Committee which included more funding for an analysis of the Child Care Automated Tracking System (CHATS), to determine if CHATS needs to be rebuilt or if a new system is needed.

In response to a question from Senator Guzman, Mr. Bicha stated that the State has good relationships with the county departments of human/social services but feels that the State has stopped short of its full obligation to provide the necessary resources, training, tools, and quality assurance needed to ensure that the counties' work is done consistently, accurately, and in a timely manner. Further, he stated that the Department is working with various county departments to help develop improvement plans at the local level.

Recommendation No. 2013-48 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Tochtrop, Mr. Bicha stated that he was not sure if Colorado identification cards are available at Department of Motor Vehicle offices; however, there are multiple options to determine lawful presence for purposes of the Low-Income Energy Assistance Program (LEAP) system eligibility.

8:05 a.m. – 8:28 a.m.

**Cash Funds Uncommitted Reserves Report,
Fiscal Year Ended June 30, 2013, Statewide Audit
Performance Audit
February 2014**

Office of State Planning & Budgeting
Erick Scheminske, Deputy Director

Office of the State Auditor

Dianne E. Ray, State Auditor

Kerri Hunter, Deputy State Auditor

Crystal Dorsey, Managing Legislative Auditor

Scott Reid, Legislative Auditor

A motion was made by Representative Ryden and seconded by Senator Tochtrop to release the *Cash Funds Uncommitted Reserves Report, Fiscal Year Ended June 30, 2013, Statewide Audit, Performance Audit* (February 2014). The motion passed unanimously.

Following introductions and opening remarks, Crystal Dorsey provided an overview of the audit.

In response to a question from Representative Sonnenberg, Ms. Dorsey stated that the State's higher education institution's cash funds are excluded from the cash reserves report.

In response to a question from Senator Guzman, Ms. Dorsey stated that there are no penalties for departments that reported balances for excess uncommitted reserves that did not agree with the balances submitted by the Office of the State Controller (OSC), as required by the Office of State Planning and Budgeting (OSPB) budget instructions.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the OSPB.

In response to a question from Senator Balmer, Ms. Dorsey stated that the definition of the Displaced Homemakers cash fund can be found in Appendix A-7.

In response to a question from Representative Primavera, Erick Scheminske explained how excess uncommitted reserves can be used.

In response to a question from Senator Guzman, Mr. Scheminske stated that excess uncommitted reserves cannot necessarily be used to offset different areas within a department.

In response to a question from Chair King, Mr. Scheminske confirmed that there is a nexus between fees and what they are used for.

In response to a question from Representative Sonnenberg, Mr. Scheminske clarified that the nine departments submitted their cash funds financial information to OSPB. However, the financial information reported by the departments did not agree with OSPB rules.

In response to a question from Representative Sonnenberg, Chair King suggested that OSA consider re-phrasing the *Compliance with OSPB Requirements* section of the audit.

In response to a question from Senator Guzman, State Auditor Dianne E. Ray reviewed the background of the audit and the addition of the new *Taxpayer's Bill of Rights (TABOR) Implications* section.

In response to a question from Chair King, State Auditor Ray stated Recommendations from the audit are included in the Annual Report of Audit Recommendations Not Fully Implemented (Annual Report). Further, she stated that OSA will consider highlighting departments that have been out of compliance with the cash funds statute, Section 24-75-402, C.R.S., for three consecutive years or more when presenting the Annual Report to the Joint Budget Committee.

Senator Guzman and Chair King expressed an interest in discussing this audit in more detail in the future.

8:28 a.m. Chair King provided an update on the status of Senate Bill 14-126.

8:29 a.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Tochtrop and seconded by Representative Ryden to approve the Minutes from February 11, 2014. The motion passed unanimously.

Audit Requests

State Auditor Ray presented a request submitted by Senator Lois Tochtrop for a performance audit of the Department of Revenue local sales tax collections. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. A motion was made by Senator Tochtrop and seconded by Senator Balmer to authorize OSA to proceed with preliminary research. The motion passed unanimously.

The Committee reviewed the evaluation of an audit request from Senator Tochtrop for a performance audit of the Department of Revenue Automobile Industry Enforcement Division (Division).

In response to a question from Senator Guzman, State Auditor Ray clarified that the Committee already approved the initial research and needed to vote on whether or not to move the audit request forward for a full performance audit.

In response to a question from Representative Primavera, Monica Bowers, Deputy State Auditor, stated that the last time the Division was audited was during the late 1990s as part of a larger audit.

In response to a question from Representative Sonnenberg, Senator Tochtrop explained why she requested the performance audit.

In response to a question from Chair King, Senator Tochtrop stated that it is the Chair's purview to layover this audit request for action until the March 11, 2014, Legislative Audit Committee hearing.

In response to a question from Senator Balmer, State Auditor Ray stated that the decision to audit licensing boards, divisions or programs depends on the risk level to the State. Further, she stated that there is no set standard for these types of audits.

A motion was made by Senator Tochtrop and seconded by Representative Primavera to approve the request for a performance audit of the Department of Revenue Automobile Industry Enforcement Division. The motion failed on a vote of 4-4, as follows:

Senator Balmer:	No
Senator Guzman:	Aye
Representative Nordberg:	No
Representative Primavera:	Aye
Representative Ryden:	Aye
Representative Sonnenberg:	No
Senator Tochtrop:	Aye
Senator King, Chair:	No

Ms. Bowers reviewed the evaluation of an audit request from Senator Tochtrop for a performance audit of the Consumer Directed Attendant Support Services Program.

A motion was made by Senator Tochtrop and seconded by Representative Ryden to approve the request for a performance audit of the Consumer Directed Attendant Support Services Program. The motion passed on a vote of 5-3, as follows:

Senator Balmer:	No
Senator Guzman:	Aye
Representative Nordberg:	No
Representative Primavera:	Aye
Representative Ryden:	Aye
Representative Sonnenberg:	No
Senator Tochtrop:	Aye
Senator King, Chair:	Aye

Statutory Report Required to be Submitted to the Office of the State Auditor

Kerri Hunter, Deputy State Auditor, reviewed the *Colorado Educational and Cultural Facilities Authority, 2013 Annual Report*. There were no questions from the Committee.

Ms. Hunter reviewed the *Office of the State Controller Loans and Advances Report, For the Fiscal Year Ended June 30, 2013*.

In response to a question from Representative Ryden, Ms. Hunter stated that the report is for informational purposes as required to by state law. Further, she stated that OSA did not identify any issues with the report.

In response to a question from Representative Primavera, Ms. Hunter explained that in several cases, the loans and advances relate to the timing of reimbursement payments.

8:47a.m. There being no further business to come before the Committee, the meeting adjourned. The next scheduled hearing is on March 11, 2014, at 7:00 a.m. in the Legislative Services Building, Audit Hearing Room.

Minutes submitted by: Brittany Wirth
Executive Assistant to the State Auditor
Office of the State Auditor



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Senator

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Senator

LEGISLATIVE AUDIT COMMITTEE

March 11, 2014
MINUTES

A meeting of the Legislative Audit Committee (LAC) convened on March 11, 2014, at 7:00 a.m. in the Legislative Services Building, Audit Hearing Room. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Guzman, Senator King, Representative Nordberg, Representative Primavera, Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED: Senator Balmer

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Kerri Hunter, Deputy State Auditor; Cindi Radke, Monika Treipl-Harnke, Cynthia Hochmiller, Scott Gorman

ALSO PRESENT: Susan Birch, Antoinette Taranto, Donna Kellow, Greg Tanner, Department of Health Care Policy and Financing; Bill Mansheim, Adams State University; Matt Klein, Colorado State University, Fort Collins; Ceal Barry, University of Colorado, Boulder; Sarah Adams, University of Northern Colorado

**7:00 a.m. – 8:01 a.m. State of Colorado
Statewide Single Audit
Fiscal Year Ended June 30, 2013**

Department of Health Care Policy and Financing

Susan E. Birch, Executive Director

Antoinette Taranto, Director, Eligibility Division, Acting
Director, Office of Client Services, Eligibility and Enrollment

Donna Kellow, Director, Audits and Compliance Division

Greg Tanner, Controller

Office of the State Auditor

Dianne E. Ray, State Auditor

Kerri Hunter, Deputy State Auditor

Cindi Radke, Managing Legislative Auditor

Monika Treipl-Harnke, Legislative Auditor

Following introductions and opening remarks, Cindi Radke provided an overview of the *State of Colorado, Statewide Single Audit* (Fiscal Year Ended June 30, 2013,) as it relates to the Department of Health Care Policy and Financing (Department). Recommendation No. 2013-21 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Cindi Radke stated that some of the case file documentation supporting eligibility determinations and redeterminations for individuals who receive public assistance benefits under the Children's Basic Health Plan (CBHP) are electronic and some are hard-copy. Susan Birch stated that the Department will have more electronic files over time. Antoinette Taranto stated that the Department is implementing a new electronic document system in the near future.

The Department provided the Committee a fact-sheet with an update on the Medicaid expansion, for the timeframe from February 1, 2014, through March 1, 2014.

In response to a question from Senator Tochtrop, Ms. Taranto stated that the Department's Medicaid and CBHP eligibility determination and redetermination process is tied in with the Colorado Benefits Management System (CBMS).

In response to a question from Senator Tochtrop, Ms. Taranto stated that the Department's Medicaid and CBHP eligibility determination and redetermination process is working. Ms. Birch reviewed the Department's Colorado Program Eligibility and Application Kit (PEAK) which provides a self-service website for the public to easily apply for public assistance.

In response to a question from Representative Primavera, Ms. Taranto stated that the majority of the Medicaid client application surge has been online. Further, she stated the Department is trying to meet the consumer needs by allowing public assistance applications to be accessed on mobile devices.

In response to a question from Senator Tochtrop, Ms. Taranto stated that the Department, with the help of a Health Resources and Services Administration (HRSA) grant, has trained library staff on the basics of the PEAK application. Further, she stated that there are a number of Social/Human Services Offices which have computers and support staff available to assist the public with the PEAK application.

Recommendation Nos. 2013-22 and 2013-23 were reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator King, Greg Tanner stated that the Department is seeking an informal opinion from the Attorney General's Office, before June 30, 2014, on the applicability of the Federal Funding Accountability and Transparency Act (Transparency Act) to Medicaid and CBHP.

In response to a question from Representative Sonnenberg, Mr. Tanner reviewed how the Transparency Act would impact the Department and stated that if the Attorney General's Office decides that the Transparency Act applies to Medicaid and CBHP, then the Department will develop and implement a process to ensure compliance.

In response to a question from Representative Nordberg, Mr. Tanner stated that the Department would provide a list of subgrantees funded with federal Medicaid funds in Fiscal Year 2013.

Recommendation No. 2013-26 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Mr. Tanner stated that the Department has worked with the federal Centers for Medicare & Medicaid services (CMS) on determining an appropriate process for reclassifying payments between CBHP and Medicaid programs. Further, he stated that part of the Recommendation has been implemented since September 2013.

Ms. Birch provided an update on the Department's implementation of the federal Affordable Care Act (ACA) and the State's Medicaid expansion.

In response to a question from Representative Sonnenberg, Ms. Taranto explained that there is a stream-lined application process for Medicaid, Child Health Plan Plus (CHP+), health insurance tax credits and cost-sharing reductions. Further, she stated that the health insurance subsidies for individuals making up to \$94,000 do not apply to the Department's programs.

In response to a question from Representative Sonnenberg, Ms. Taranto stated that the PEAK application does verify United States citizenship at an early stage. Further, she stated when an individual enters their Social Security Number (SSN) in the application, it is automatically verified with the Social Security Administration.

In response to a question from Representative Sonnenberg, Ms. Taranto explained that an SSN is not required for the PEAK application because not all legal immigrants, who qualify for public assistance programs, have an SSN.

In response to a question from Representative Primavera, Ms. Birch stated that since the start of her administration in January 2011, there has been a 9 percent increase in Medicaid provider enrollment, and since October 2013, there have been 100 new Medicaid provider applications, per week. Further, she reviewed federal efforts to increase primary care provider network adequacy in rural America. Ms. Birch also stated that unnecessary emergency room usage has decreased and reviewed the Department's plan to continue this trend.

In response to a question from Representative Ryden, Ms. Birch stated that there is a federal requirement to get a Medicaid denial before being eligible for a federal health insurance subsidy on Connect for Health Colorado.

In response to a question from Senator Tochtrop, Ms. Birch reviewed her Department's efforts to simplify the medical assistance regulations.

8:01 a.m. – 8:38 a.m.

**State of Colorado
National Collegiate Athletic Association Financial Data
Compilation Report
Fiscal Year 2013**

Adams State University

Bill Mansheim, Vice President, Office of Finance and Governmental Relations

Colorado State University, Fort Collins

Matt Klein, Assistant Athletic Director of Business Operations, Athletics Department

University of Colorado, Boulder

Ceal Barry, Senior Associate Athletic Director for Internal Operations, Senior Woman Administrator, Athletic Department

University of Northern Colorado

Sarah Adams, Associate Athletic Director, Senior Woman Administrator, Athletics Department

Office of the State Auditor

Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Cynthia Hochmiller, Managing Legislative Auditor
Scott Gorman, Legislative Auditor

A motion was made by Representative Sonnenberg and seconded by Senator King to release the *State of Colorado, National Collegiate Athletic Association Financial Data Compilation Report*, (Fiscal Year 2013). The motion passed unanimously.

Following introductions and opening remarks, Cynthia Hochmiller and Scott Gorman provided an overview of the report.

In response to a question from Representative Sonnenberg, Ms. Hochmiller stated that the \$7,929,360 deficiency for Fiscal Year 2013, for Division I institutions, as highlighted in Table 4, page 9, of the report, is made up through other operations of the institutions, except for the University of Colorado at Boulder (CU-Boulder). Ceal Barry stated that the revenue deficiency in the CU-Boulder Intercollegiate Athletics Department, is made up through internal loans that the Athletics Department must repay to CU-Boulder.

In response to a question from Representative Sonnenberg, Ms. Barry stated that the CU-Boulder Athletics Department has had internal loans from CU-Boulder in the past.

In response to a question from Representative Sonnenberg, Ms. Barry stated that there is a payment plan in place for the CU-Boulder Athletics Department to pay back the internal loans to CU-Boulder. Further, she stated that the CU-Boulder Athletics Department will pay back the internal loans through increased revenue: they will not raise student tuition or fees.

In response to a question from Representative Sonnenberg, Ms. Hochmiller stated that the other sports which had helped generate the \$61,960,003 million in revenue for Division I institutions, as highlighted in Table 6, page 13, can be found in Table 5, page 12, and also in Appendix B, page B-4, of the report.

In response to a question from Representative Primavera, Ms. Hochmiller stated that direct state or other government support for Division I Intercollegiate Athletics Departments can be found in Appendix B of the report.

In response to a question from Representative Sonnenberg, Ms. Barry explained how CU-Boulder sport programs, other than football and basketball, generate money.

In response to a question from Representative Sonnenberg, Ms. Barry explained how the Pac-12 Conference is structured.

In response to a question from Representative Ryden, Matt Klein stated that some of the total revenue for Division I institutions includes direct institutional support, as outlined in Appendix B of the report.

In response to a question from Representative Ryden, Ms. Barry explained the structure of the National Collegiate Athletic Association (NCAA) as it relates to the institution's financial statements. Further, she explained the structure of Title 9, Section 1681 of the United States Code (Title IX) as it relates to the athletic departments. Ms. Hochmiller stated that the general requirements for Division I membership can be found in Appendix B, pages B1-2, of the report.

In response to a question from Senator Tochtrop, Ms. Barry stated that because of Title IX the base salaries for coaches, for both male and female sports, are equal, but the bonuses and incentives are not.

8:38 a.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Tochtrop and seconded by Senator Guzman to approve the Minutes from February 25, 2014. The motion passed unanimously.

Audit Request

State Auditor Dianne E. Ray presented a request submitted by Representative Libby Szabo for a performance audit of the Department of Transportation Funding Advancement for Surface Transportation and Economic Recovery Program. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. A motion was made by Senator Tochtrop and seconded by Representative Nordberg to authorize OSA to proceed with preliminary research. The motion passed unanimously.

Cash Funds Report Follow-Up

As a follow-up to the February 28, 2014, Legislative Audit Committee hearing, State Auditor Ray reviewed the draft letters to the Colorado State departments that have been out of compliance with the cash funds statute, Section 24-75-402, C.R.S., for three consecutive years or more, as outlined in the *Cash Funds Uncommitted Reserves Report, Fiscal Year Ended June 30, 2013, Statewide Audit, Performance Audit* (February 2014). Further, she stated that the letters will ask each department for a response on steps that it has taken to comply with state statute by August 1, 2014.

A motion was made by Senator Tochtrop and seconded by Representative Primavera to approve sending the letters to the departments and the Joint Budget Committee. The motion passed unanimously.

Legislative Update

State Auditor Ray provided an update on Bill Draft LLS No. 14-0827.01, that it would probably not be given late bill status, and recommended the Committee review the draft bill again during the 2014 legislative interim.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that there is not an official reason as to why the draft bill was not given late bill status.

In response to a question from Senator Tochtrop, Representative Primavera stated that the draft bill started in the House.

In response to a question from Representative Ryden, State Auditor Ray reviewed the subject matter of the draft bill.

No action was taken on this item.

Proposed 2014 Interim Legislative Audit Committee Calendar

State Auditor Ray presented the proposed 2014 interim LAC calendar to the Committee. The Committee will vote to adopt the calendar at the March 25, 2014, LAC hearing.

Statutory Report Required to be Submitted to the Office of the State Auditor

State Auditor noted that the *Transportation Revenue Anticipation Notes Annual Report, January 15, 2014*, and the *Connect for Health Colorado 2013 Annual Report*, were in the LAC packets and could be read at Members' convenience. There were no questions from the Committee.

Report Released Without a Hearing

Kerri Hunter, Deputy State Auditor, reviewed the report to be released without a hearing. A motion was made by Senator Guzman and seconded by Representative Primavera to release the following report without a formal hearing:

- *State of Colorado, Department of Treasury, Statement of Federal Land Payments, For the Year Ended September 30, 2013*

The motion passed unanimously.

8:49 a.m. Representative Sonnenberg was excused for the March 25, 2014, LAC hearing.

8:49 a.m. There being no further business to come before the Committee, the meeting adjourned. The next scheduled hearing is on March 25, 2014, at 7:00 a.m. in the Legislative Services Building, Audit Hearing Room.

Minutes submitted by:

Brittany Wirth
Executive Assistant to the State Auditor
Office of the State Auditor



STEVE KING, CHAIR
Senator

LUCIA GUZMAN, VICE CHAIR
Senator

DAVID BALMER
Senator

DAN NORDBERG
Representative

State of Colorado

LEGISLATIVE AUDIT COMMITTEE
State Services Building - Seventh Floor
1525 Sherman Street
Denver, Colorado 80203

DIANNE PRIMAVERA
Representative

SU RYDEN
Representative

JERRY SONNENBERG
Representative

LOIS TOCHTROP
Senator

LEGISLATIVE AUDIT COMMITTEE

June 2-3, 2014
MINUTES

A meeting of the Legislative Audit Committee (LAC) convened on June 2, 2014, at 10:01 a.m. in the Legislative Services Building, Audit Hearing Room. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Primavera (arrived at 10:02 a.m.), Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED: Representative Nordberg

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Matt Devlin, Kerri Hunter, Deputy State Auditors; Michelle Colin, Derek Johnson, Jenny Page, Kate Shiroff, Meghan Westmoreland, Crystal Dorsey

ALSO PRESENT: Fred Brousseau, Kathryn Angotti, Harvey M. Rose Associates, LLC; Bob Randall, Dick Wolfe, Scott Cuthbertson, Bill McCormick, Department of Natural Resources; Scott McDaniel, Mat Flores, Kurtis T. Morrison, Department of Transportation; Paul Scharfenberger, Colorado Energy Office and New Energy Improvement District Board; Kellie Wasko, Lenny Merriam, Tonya Whitney, Department of Corrections; Gerald A. Marroney, Marty Galvin, Judicial Branch; Jeffrey Cummings, Pinnacol Assurance Board; Phil Kalin, Jeff Tetrick, Pinnacol Assurance; Laurel Hammer, Ashley Rogers, KPMG LLP

**10:01 a.m. – 11:45 a.m. Performance Evaluation of the Dam Safety Program
Division of Water Resources
Department of Natural Resources
February 2014**

Department of Natural Resources

Bob Randall, Deputy Director

Dick Wolfe, State Engineer, Director, Division of Water Resources

Scott Cuthbertson, Deputy State Engineer

Bill McCormick, Chief of Dam Safety

Office of the State Auditor

Dianne E. Ray, State Auditor

Monica Bowers, Deputy State Auditor

Harvey M. Rose Associates, LLC

Fred Brousseau, Principal

Kathryn Angotti, Senior Analyst

A motion was made by Representative Ryden and seconded by Senator Balmer to release the *Performance Evaluation of the Dam Safety Program, Division of Water Resources, Department of Natural Resources* (February 2014). The motion passed unanimously.

Following introductions and opening remarks, Fred Brousseau provided an overview of the audit.

In response to a question from Senator Guzman, Mr. Brousseau stated that the 27 dams, highlighted in Chapter 2 of the audit, were damaged during the September 2013 historic flood.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Division of Water Resources within the Department of Natural Resources (Division).

In response to a question from Senator King, Kathryn Angotti stated that according to statute, the State Engineer is required to set the dam inspection schedule (inspection schedule).

In response to a question from Senator King, Ms. Angotti stated that questions regarding adherence to the inspection schedule are better directed to the State Engineer.

In response to a question from Representative Sonnenberg, Dick Wolfe stated that statute specifies that the State Engineer sets the inspection schedule and that any variation in the inspection schedule is done so by professional opinion from dam safety engineers. Bill McCormick explained the dam hazard classification system and how it impacts the inspection schedule.

In response to a question from Senator Balmer, Mr. Wolfe stated that the Division takes into consideration both water maximization, and public safety. Scott Cuthbertson stated that the Division only hires licensed professional engineers to make inspection decisions. Further, he stated that the Division is in contact with private dam owners, to aide in inspection schedule decisions.

In response to a question from Representative Sonnenberg, Mr. Cuthbertson stated that the Division is not following the strict inspection schedule and that the Division needs to clarify the inspection schedule parameters. Mr. Randall stated that non-adherence to the inspection schedule is not a statutory violation.

In response to a question from Senator Guzman, Mr. Cuthbertson stated that high hazard dams have the highest inspection priority. Further, she stated that barring any special circumstances, in general, the high hazard dams are inspected every year.

In response to a question from Representative Ryden, Mr. Cuthbertson stated that the Dam Safety Program (Program) does not own any dams and thus, does not have any liability concerns. Further, he stated that there are other State agencies that own dams, and those agencies have liability concerns.

In response to a question from Representative Primavera, Ms. Angotti stated that electronic signatures are not used in regard to inspection reports.

In response to a question from Senator King, Mr. Randall stated that the value of the dam owner signature on the inspection report is to acknowledge notice of the inspection. Mr. Cuthbertson stated that there are several documentation processes used if the Division needs to take enforcement measures.

In response to a question from Senator King, Ms. Angotti stated that acquiring the dam owner signature on inspection reports is a Division policy, not statute. Mr. Cuthbertson stated there is a more robust legal process in place for enforcement measures beyond obtaining the dam owner signatures on inspection reports. Monica Bowers stated that collecting dam owner signatures on inspection reports is a Division policy, not statute. Further, she stated that the audit assumes there is a reason for the inspection report signature and thus, that is why it is included in the Recommendation.

In response to a question from Representative Primavera, Mr. Cuthbertson stated that there are a variety of different types of dam owners, both public and private.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Tochtrop, Mr. Cuthbertson stated that cost of upgrading a dam, due to new downstream development, can be the responsibility of the dam owner, the developer, or both.

In response to a question from Senator Tochtrop, Mr. Cuthbertson stated that he was uncertain of the planning laws in each area of the state, with regard to developer contributions to the cost of upgrading dams, because of new downstream development.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Ryden, Mr. Cuthbertson stated that the fluctuations in oil and gas development do not impact dams. Mr. McCormick stated that the Division has taken steps to collect and update all dam Emergency Action Plans (EAPs), and to coordinate EAPs with local communities.

In response to a question from Senator King, Mr. McCormick stated that all Division dam safety engineers are National Incident Management System (NIMS) certified. Further, he stated that the Division dam safety engineers participated in the various incident command centers during the September 2013 historic flood.

In response to a question from Representative Ryden, Mr. Cuthbertson stated that oil and gas developments are taken in to consideration in dam flood analyses.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator King, Ms. Angotti stated that the Public Utilities Commission (PUC) has the authority to directly fine utilities that they regulate, but PUC does not conduct dam inspections.

In response to a question from Senator King, Ms. Angotti stated that the audit did not look at who created the most dam safety violations. Mr. Cuthbertson stated it is the dam owner's responsibility to assess storage facility value and water height.

In response to a question from Senator Tochtrop, Mr. McCormick stated that the State does not inspect federal dams.

In response to a question from Senator Tochtrop, Mr. McCormick listed some of the federal dams.

In response to a question from Senator Guzman, Mr. Cuthbertson stated that the Division would provide the Committee with a list of all Colorado dams and who owns them.

Recommendation Nos. 5 and 6 were reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Ms. Bowers stated that the audit did not find any severe public safety concerns with the Program, but there are a variety of compliance and procedural issues.

11:46 a.m. GENERAL BUSINESS

Minutes

A motion was made by Representative Sonnenberg and seconded by Senator Guzman to approve the Minutes from March 11, 2014. The motion passed unanimously.

Status Report

Following introductions and opening remarks, Derek Johnson reviewed highlights from the *Outdoor Advertising Program, Department of Transportation, Performance Audit* (May 2013).

Scott McDaniel, Acting Chief Engineer (CDOT), and Kurtis T. Morrison, Legislative Liaison (CDOT), provided an overview of the implementation status of Recommendations addressed to the Outdoor Advertising Program.

In response to a question from Senator Tochtrop, Mr. Morrison stated that statute requires CDOT to keep roadways free of debris, including political yard signs. Further, he stated that CDOT will send a press release to all legislators regarding placement of political yard signs on roadways.

In response to a question from Representative Ryden, Mat Flores, Statewide Utilities Engineer (CDOT), stated that the current Tourist Oriented Directional Signs (TODS) and LOGO Sign Program contractor is Colorado Logos, Inc. Further, he stated that the initial 5-year contract will expire in 2014. The contract allows for two 5-year extension periods, which are automatically granted if CDOT deems that the contractor has had good performance.

Statutory Requirement to Conduct an Audit of the Colorado New Energy Improvement District

Michelle Colin, managing legislative auditor, provided an overview of the *Statutory Requirement to Conduct an Audit of the Colorado New Energy Improvement District* memo.

In response to a question from Representative Ryden, Paul Scharfenberger, Director of Finance & Operations, Colorado Energy Office, and Board Member, New Energy Improvement District (District), stated that the current intention of the District is to solely focus on the commercial property side of the improvement program.

State Auditor Dianne E. Ray requested the Committee's approval to not conduct an audit of the District for the 2014 cycle, due to a lack of information to audit, and start the 5-year performance audit cycle with the 2019 audit. A motion was made by Representative Ryden and seconded by Senator Tochtrop to not conduct an audit of the District in 2014, and start the 5-year performance audit cycle in 2019. The motion passed unanimously.

12:18 p.m. The Committee recessed for lunch.

1:45 p.m. The Committee reconvened.

1:45 p.m. – 3:04 p.m. **Victim's Restitution
The Judicial Branch
Department of Corrections
Performance Audit, April 2014**

Department of Corrections

Kellie Wasko, Deputy Executive Director

Lenny Merriam, Controller

Tonya Whitney, Supervisor, Inmate Bank

The Judicial Branch

Gerald A. Marroney, State Court Administrator

Marty Galvin, Senior Finance Manager

Office of the State Auditor

Dianne E. Ray, State Auditor
Matt Devlin, Deputy State Auditor
Jenny Page, Managing Legislative Auditor
Kate Shiroff, Legislative Auditor
Meghan Westmoreland, Legislative Auditor

A motion was made by Senator Tochtrop and seconded Representative Ryden to release the *Victim's Restitution, The Judicial Branch, Department of Corrections, Performance Audit* (April 2014). The motion passed unanimously.

Following introductions and opening remarks, Jenny Page provided an overview of the audit.

In response to a question from Senator King, Ms. Page stated that there are a number of factors that affect the crime rate. Gerald A. Marroney stated that there has been a decrease in the number of cases with restitution orders.

In response to a question from Senator King, Mr. Marroney stated that the decrease in the number of cases with restitution orders, as shown on page 11, does not represent a declining crime rate, but a declining conviction rate.

In response to a question from Representative Fields, Mr. Marroney stated that the audit looked at cases with restitution orders, not the number of people incarcerated at the Department of Corrections (Department).

In response to a question from Senator Tochtrop, Mr. Marroney stated that not all incarcerated people pay restitution. Kellie Wasko stated that the Department is currently studying inmate bank accounts (accounts) and the percentage of those accounts that owe restitution or child support payments.

In response to a question from Senator Balmer, Ms. Wasko confirmed that offenders can receive large sums of money in to their accounts. Further, she stated that the Department is currently reviewing policy and procedures as to how much money an offender is allowed to keep in their account, if they owe restitution or child support payments.

In response to a question from Senator Balmer, Ms. Wasko reviewed the different amounts of income that offenders can earn while incarcerated.

In response to a question from Senator Tochtrop, Ms. Wasko stated that statutorily the Department can only take 20 percent of an account for restitution and child support payments.

In response to a question from Senator Balmer, Mr. Marroney stated that restitution is assessed based on the value of what the victim lost; it is not modified based on the offender's ability to pay. Further, he stated that child support payment modifications are made by judges on a case by case basis at the time of conviction.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Department and the Judicial Branch.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Balmer, Ms. Page stated that the 20 percent account garnishment is in statute. Lenny Merriam stated that the amount that can be garnished from an account can vary depending upon the offender's court ordered debts, and infractions committed while incarcerated.

In response to a question from Senator King, Mr. Merriam stated that the General Assembly set the 20 percent account garnishment rate; the rate is comparable to other states. Mr. Merriam reviewed other circumstances that allow the Department to garnish more than 20 percent of the accounts.

In response to a question from Senator King, Mr. Merriam stated that health care charges and Code of Penal Conviction charges, such as damaging facility property, contribute to account deficits.

In response to a question from Representative Fields, Kate Shiroff stated that the Department and the Judicial Branch do not track all offenders who owe restitution, but are not sentenced to Department facilities. Thus, the Department and the Judicial Branch were not able to report how much restitution has not been collected from those offenders.

In response to a question from Senator Guzman, Mr. Merriam stated that the Department only garnishes 20 percent of accounts for purposes of restitution and child support payments. Further, he stated that at the time of conviction, the judge may take financial ability to pay, or indigence, into account when assessing fees and fines.

In response to a question from Senator Balmer, Mr. Merriam stated statute does not prioritize child support payments over restitution, and that the Department splits payments evenly between the two court-ordered debts. Mr. Marroney stated that child support takes prioritization over restitution, and should be paid first.

In response to a question from Senator Balmer, Ms. Wasko stated that the Department splits the 20 percent account garnishment evenly between child support payments and restitution. Further, she stated that the Department might internally evaluate if child support payments should be given a higher percentage of the 20 percent account garnishment than restitution.

In response to a question from Representative Primavera, Ms. Page stated that when there is a payment intercept for gambling winnings and tax refunds, the monies must first go to child support payments. Further, she stated that statute does not specify a priority for Department collection and distribution of restitution and child support payment monies.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Department and the Judicial Branch.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Balmer, Ms. Shiroff stated that the Department has the statutory authority to use private collection agencies to collect delinquent court ordered debt, including restitution.

Recommendation No. 5 was reviewed, discussed, and agreed to by staff from the Judicial Branch.

In response to a question from Senator Balmer, Mr. Marroney stated that the Judicial Branch has not collected interest on restitution because it has not been a priority, and there has not been a process in place to assess interest.

In response to a comment from Senator Tochtrop, Mr. Marroney stated that the Judicial Branch is working hard to implement an information system plan and computer system to automatically assess interest on restitution. Further, he stated that the Judicial Branch will implement a manual paper process to assess interest on restitution until a computer system can be implemented.

Recommendation No. 6 was reviewed, discussed, and agreed to by staff from the Department.

Recommendation No. 7 was reviewed, discussed, and agreed to by staff from the Judicial Branch.

In response to a comment from Representative Primavera, Mr. Marroney reviewed how the new computer system to automatically assess interest on restitution will operate. Further, he stated that the Judicial Branch will implement new policies and procedures for assessing interest on restitution.

In response to a comment from Representative Primavera, Mr. Marroney stated that restitution interest will be assessed on all offenders, both current and future. Further, he stated that interest will not be assessed on restitution that has previously been paid off.

3:04 p.m. The Committee recessed briefly.

3:10 p.m. – 3:47 p.m. **Pinnacol Assurance
Statutory-Basis Financial Statements and Supplemental Schedules
of Investment Information
December 31, 2013 and 2012**

Pinnacol Assurance

Jeffrey Cummings, Board Member, Pinnacol Assurance Board, and
Chair, Audit Committee

Phil Kalin, President, and Chief Executive Officer

Jeff Tetrick, Chief Financial Officer, and Vice President, Finance

Office of the State Auditor

Dianne E. Ray, State Auditor

Kerri Hunter, Deputy State Auditor

Crystal Dorsey, Managing Legislative Auditor

KPMG LLP

Laurel Hammer, Partner

Ashley Rogers, Senior Audit Manager

A motion was made by Senator Tochtrop and seconded by Representative Ryden to release the *Pinnacol Assurance, Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information, December 31, 2013 and 2012*. The motion passed unanimously.

Following introductions and opening remarks, Laurel Hammer provided an overview of the audit.

In response to a question from Senator Balmer, Ms. Hammer stated that Generally Accepted Accounting Principles (GAAP) financial statements are optional for Pinnacol Assurance (Pinnacol), but Pinnacol does adhere to the statutory financial statement requirements. Jeff Tetrick stated that Pinnacol is not required to have GAAP financial statements.

In response to a question from Senator Balmer, Ms. Hammer stated that she did not have information if other state worker compensation insurance companies produce GAAP financial statements. State Auditor Ray stated that the OSA previously required GAAP financial statements but since it is not required by statute, the requirement was dropped from the annual Pinnacol audit.

In response to a question from Representative Sonnenberg, Jeffrey Cummings and Mr. Tetrick discussed the internal structured settlement liabilities, discounted on a tabular basis, using the discount rate of 2.5 percent for 2013. Ms. Hammer stated that Pinnacol removed the discount assumption on case reserves, which is a projection of future interest rates.

In response to a question from Senator Balmer, Mr. Cummings reviewed reasons as to why policy holder premiums have increased.

In response to a question from Senator Balmer, Mr. Cummings and Phil Kalin stated that Pinnacol is sensitive to the needs of small business policy holders and policy premium increases.

In response to a question from Representative Primavera, State Auditor Ray confirmed that a previous audit recommended that Pinnacol consider hiring an in-house actuary. Mr. Tetrick stated that in the last 90 days, Pinnacol decided to hire an in-house actuary.

In response to a question from Representative Sonnenberg, Mr. Tetrick stated that Pinnacol contracts with an outside actuarial company called Milliman. Further, he stated that Pinnacol has contracted with the same company every year for the purpose of consistency.

3:47 p.m. The Committee recessed.

The meeting of the Legislative Audit Committee reconvened on June 3, 2014, at 9:00 a.m., in the Legislative Services Building, Audit Hearing Room. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Ryden, Representative Sonnenberg, Senator Tochtrop (arrived at 9:04 a.m.)

EXCUSED: Representative Nordberg

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Deputy State Auditor; Andrew Knauer, Mindy Gates, Jason LeBlanc

ALSO PRESENT: William Robinson, Board of Veterans Affairs; Michael Hunt, William Conroy, Ray Dissinger, Gregory D. Parker, Department of Military and Veterans Affairs; Lyndon Burnett, Capital Construction Assistance Board; LeAnne Emm, Scott Newell, Colorado Department of Education

**9:00 a.m. – 10:38 a.m. Veterans Trust Fund Grant Program
Department of Military and Veterans Affairs
Performance Audit, May 2014**

Department of Military and Veterans Affairs

William Robinson, Chairman, Board of Veterans Affairs

Michael Hunt, Deputy Executive Director

William Conroy, Director, Division of Veterans Affairs

Ray Dissinger, Grant Administrator, Veterans Trust Fund

Gregory D. Parker, Budget Director

Office of the State Auditor

Dianne E. Ray, State Auditor

Monica Bowers, Deputy State Auditor

Andrew Knauer, Managing Legislative Auditor

Mindy Gates, Legislative Auditor

Jason LeBlanc, Legislative Auditor

A motion was made by Senator Balmer and seconded by Representative Ryden to release the *Veterans Trust Fund Grant Program, Department of Military and Veterans Affairs, Performance Audit (May 2014)*. The motion passed unanimously.

Following introductions and opening remarks, Andrew Knauer provided an overview of the audit.

In response to a question from Senator Balmer, Mr. Knauer stated that of the \$868,000 Veterans Trust Fund Grant Program administered by the Colorado Department of Military and Veterans Affairs (Program) grant monies awarded in the Fiscal Year 2013 grant cycle, there were 40 grant contracts, including grant monies that went to nonprofits, cemeteries, and state veterans nursing homes.

In response to a question from Senator Guzman, Ray Dissinger stated that the Tobacco Master Settlement Agreement is in perpetuity. Further, he stated that as long as people smoke tobacco, there will be a funding source for the Program and other Colorado entities who receive those funds.

In response to a question from Representative Primavera, William Robinson stated that the Program was originally administered by the Department of Human Services. Further, he stated that when the Program was transferred to the Colorado Department of Military and Veterans Affairs (Department) in 2002, an audit was conducted within the first year.

In response to a question from Representative Primavera, Mr. Robinson stated that in the first year of the Program, there were no formal procedures, forms, and criteria for grant applications. Mr. Dissinger stated that many of the recommendations from the first audit were implemented prior to the audit.

In response to a question from Representative Ryden, Michael Hunt stated that the Colorado Veterans Trust Fund (VTF) receives 1 percent of the Tobacco Master Settlement Agreement funds, not to exceed \$1 million annually. Further, he stated that in the last seven years, the number of grant requests have increased. Mr. Knauer stated that VTF appropriation and expenditure sources are shown on page 10.

In response to a question from Senator King, Mr. Hunt stated that VTF does not receive more than \$1 million annually from the Master Tobacco Settlement Agreement, and in the last five years, VTF has received less than \$1 million annually.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Ryden, Mr. Knauer stated that rural and urban areas have different needs and priorities, which should be taken into consideration by the Program.

In response to a question from Senator Tochtrop, Mr. Dissinger described the informal network of veteran service organizations that reach out to, and aide, veterans. Mr. Hunt stated that an organization called "Colorado Serves" has conducted town hall meetings and veteran outreach efforts across the State. Further, he stated that the Colorado Board of Veterans Affairs within the Colorado Department of Military and Veterans Affairs (Board) decisions to award less than the requested application amounts, are based upon applicants' previous grant usage.

In response to a question from Senator Tochtrop, Mr. Dissinger stated that grant recipient organizations are required by statute to aide veterans in Colorado, regardless of whether or not they are a member of that organization. Further, he stated that grant recipients operate at the county level and are better equipped to know the needs of their county than the Department. Mr. Robinson stated that grant recipient organizations cannot require membership in order for veterans to receive grant monies. Further, he reviewed how grant recipient organizations confirm veterans' statuses and how grant monies are distributed. Ms. Bowers stated that the Program has issues with grant monitoring and controls.

In response to a question from Senator Tochtrop, Mr. Dissinger stated that the Program could do a better job of auditing nonprofit grant recipients to ensure monies are distributed appropriately. Further, he stated that the audit did not find any signs of fraud, waste, or abuse of grant monies.

In response to a question from Representative Primavera, Mr. Robinson stated that the Board is not geographically representative of Colorado. Mr. Hunt stated that the Board has not received many applications from individuals outside of the greater Denver metropolitan area.

In response to a question from Representative Primavera, Mr. Hunt stated that the intent of the Program monies should not be expended for an epidemiological study of veterans in Colorado. Further, he stated that if a study was conducted, the Department would prefer to pay for it, not the Program.

In response to a question from Representative Primavera, Mr. Hunt stated that the Board is composed of volunteers; there are no full time employees. Further, he stated that there is a .5 full-time-equivalent (FTE) staff grant administrator and that the Board meetings are supported by an administrative employee from the Division of Veterans Affairs within the Colorado Department of Military and Veterans Affairs (Division).

In response to a question from Representative Primavera, Mr. Dissinger stated that the Board receives demographic information by county from the U.S. Department of Veterans Affairs (VA).

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from the Department. Mr. Dissinger discussed and provided the Committee with a spreadsheet depicting the rolling advance and 90-day expenditure period.

In response to a question from Representative Primavera, Mr. Hunt stated that the Division expenditures for the Program go towards Board travel reimbursement, and to pay for the .5 FTE staff grant administrator.

In response to a question from Senator Guzman, Mr. Robinson stated that the Program grants go to veteran service agencies that do not offer professional physiological or mental health counseling services. Further, he stated that Veterans Assistance Grants can be given to nonprofits that offer these services. Mr. Conroy stated that the Board directs veterans to their local VA clinics for these services.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Primavera, Mr. Dissinger discussed and provided the Committee a handout describing the measurable goals based on the draft logic model for VTF.

Recommendation Nos. 4 and 5 were reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Gregory Parker stated that the administrative cost for the Program is between \$25,000 and \$30,000 annually, which represents about 3 percent of the Program expenditures.

10:39 a.m. GENERAL BUSINESS

Status Report

Following introductions and opening remarks, Ms. Gates reviewed highlights from the *Public School Capital Construction Assistance Program, Department of Education, Performance Audit* (September 2013).

Lyndon Burnett, Chair, Capital Construction Assistance Board (CDE); LeAnne Emm, Associate Commissioner, School Finance (CDE); and Scott Newell, Director, Division of Capital Construction (CDE), provided an overview of the implementation status of Recommendations addressed to the Public School Capital Construction Assistance Program.

In response to a request for feedback from CDE, Representative Ryden stated that it is her preference for CDE to revise and update the statewide financial assistance priority assessment database by adding resources within CDE.

Audit Requests

State Auditor Ray presented a request submitted by Representative Mike Foote, et al., for a performance audit of Colorado High Performance Transportation Enterprise and the US 36 Phase 2 Public-Private Partnership Agreement. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. A motion was made by Senator Balmer and seconded by Representative Primavera to authorize the OSA to proceed with preliminary research. The motion passed on a vote of 6-1, as follows:

Senator Balmer:	Aye
Senator Guzman:	Aye
Representative Primavera:	Aye
Representative Ryden:	Aye
Representative Sonnenberg:	No
Senator Tochtrop:	Aye
Senator King, Chair:	Aye

State Auditor Ray presented a request submitted by Senator Lucia Guzman for a performance audit of Colorado State University-Pueblo. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit.

In response to a question from Representative Primavera, State Auditor Ray stated that the preliminary research will determine if the request can be incorporated in to the existing Colorado State University-Pueblo financial audit.

A motion was made by Senator Guzman and seconded by Senator Tochtrop to authorize the OSA to proceed with preliminary research for a performance audit of Colorado State University-Pueblo. The motion passed unanimously.

Ms. Bowers reviewed the evaluation of a request for information related to the Department of Revenue Local Sales Tax Collections.

In response to a question from Representative Ryden, Ms. Bowers stated there was a previous audit on local sales tax issues that was not as broad as the current request. State Auditor Ray stated that in 2002, an audit was conducted of sales tax collection in the Department of Revenue (DOR). Further, she stated that as a result of the 2002 audit, a new collection system was implemented within DOR that has not yet been audited.

A motion was made by Senator Tochtrop and seconded by Senator Guzman to approve the request for an audit of the Department of Revenue Local Sales Tax Collections. The motion passed unanimously.

Ms. Bowers and State Auditor Ray reviewed the evaluation of a request for information related to the Department of Transportation Funding Advancement for Surface Transportation and Economic Recovery (FASTER) Revenue.

In response to a question from Representative Primavera, Ms. Bowers stated that the FASTER Revenue has not previously been audited. State Auditor Ray stated that FASTER is a fairly new program.

A motion was made by Senator Balmer and seconded by Senator Tochtrop to approve the request for an audit of the Department of Transportation FASTER Revenue. The motion passed unanimously.

State Auditor Ray reviewed the evaluation of a request for information related to Pipeline Safety and stated that the Office of Legislative Legal Services will respond to the request. Further, she requested that the Committee not approve the request for an audit of Pipeline Safety. There were no objections.

State Auditor Ray reviewed a request submitted by Representative Lois Landgraf for a performance audit of Department of Human Services' Request for Proposals Process for the Behavioral Health Crisis Response Team. No action was taken on this item.

2014 SMART Government Act Audit Plan

State Auditor Ray reviewed the *2014 SMART Government Act Audit Plan* (Plan). She requested the Committee adopt the Plan.

In response to a question from Representative Primavera, State Auditor Ray explained that the SMART Government Act audits have appendices at the back of the audit report that discuss SMART

Government Act issues. Further, she stated that all SMART Government Act audits are presented to the legislative Committees of Reference.

A motion was made by Senator Guzman and seconded by Senator Balmer to adopt the Plan. The motion passed unanimously.

Adoption of 2014 Legislative Audit Committee Interim Calendar

State Auditor Ray reviewed the *Adoption of 2014 Legislative Audit Committee Interim Calendar* (Calendar) memo. She requested the Committee adopt the Calendar. There were no objections.

Other Business

Representative Sonnenberg was excused for the July 14-15, 2014, LAC hearings.

State Auditor Ray announced that the LAC will meet in a different location until the end of 2014.

11:26 a.m. There being no further business to come before the Committee, the meeting adjourned. The next scheduled hearing is on July 14, 2014, at 10:00 a.m., in the Old Supreme Court Chambers, Colorado State Capitol.

Minutes submitted by:

Brittany Wirth
Executive Assistant to the State Auditor
Office of the State Auditor



State of Colorado

STEVE KING, CHAIR
Senator
LUCIA GUZMAN, VICE CHAIR
Senator
DAVID BALMER
Senator
DAN NORDBERG
Representative

LEGISLATIVE AUDIT COMMITTEE
State Services Building - Seventh Floor
1525 Sherman Street
Denver, Colorado 80203

DIANNE PRIMAVERA
Representative
SU RYDEN
Representative
JERRY SONNENBERG
Representative
LOIS TOCHTROP
Senator

LEGISLATIVE AUDIT COMMITTEE

July 14-15, 2014
MINUTES

A meeting of the Legislative Audit Committee (LAC) convened on July 14, 2014, at 10:03 a.m., in the Old Supreme Court Chambers, Colorado State Capitol. Chair King called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Nordberg, Representative Primavera, Representative Ryden, Senator Tochtrop

EXCUSED: Representative Sonnenberg

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Matt Devlin, Kerri Hunter, Deputy State Auditors; Trey Standley, James Taurman, Heidi Wagner, Andrew Knauer, Michelle Colin, Derek M. Johnson, Vickie Heller, Ann McHenry, Carleen Armstrong, Nina Frant

ALSO PRESENT: Karin McGowan, Charles Johnson, Tista Ghosh, Colorado Department of Public Health and Environment; Reggie Bicha, Nikki Hatch, Joscelyn Gay, Department of Human Services; Kim Burgess, Roberta Monaco, Department of Personnel & Administration; Dana Shea-Reid, Sally Yerger, State Personnel Board

**10:03 a.m. – 11:14 a.m. Waste Tire Processor and End User Program
Department of Public Health and Environment
Performance Audit, June 2014**

Department of Public Health & Environment

Karin McGowan, Deputy Executive Director
Charles Johnson, Manager, Solid Waste and Materials
Management Program

Office of the State Auditor

Dianne E. Ray, State Auditor
Monica Bowers, Deputy State Auditor
Trey Standley, Managing Legislative Auditor
James Taurman, Legislative Auditor
Heidi Wagner, Legislative Auditor

A motion was made by Representative Ryden and seconded by Senator Tochtrop to release the *Waste Tire Processor and End User Program, Department of Public Health and Environment, Performance Audit* (June 2014). The motion passed unanimously.

Following introductions and opening remarks, Trey Standley provided an overview of the audit.

In response to a question from Chair King, Mr. Standley stated that Colorado has decreased its amount of imported waste tires. Charles Johnson explained why Colorado imports approximately two hundred thousand waste tires annually, mostly from the border states, such as Nebraska, Wyoming, and Kansas. Further, he stated that Liberty Tire annually exports approximately 400,000 Colorado waste tires to Utah.

In response to a question from Senator Guzman, Mr. Johnson stated that there are three primary waste tire stockpiles located in Colorado cities: Julesburg, Henderson, and Midway. Further, he stated that all three facilities are not environmentally hazardous and operate in accordance to their permit controls and storm water requirements.

In response to a question from Senator Guzman, Mr. Johnson stated that the \$1.50 fee imposed on new tires is used to fund the Waste Tire Funds. Further, he stated that Senate Bill 09-289 changed the \$1.50 fee from being charged on waste tires, to being charged on new tires, as a way to prevent illegal dumping and to increase the amount of generated revenue.

In response to a question from Representative Primavera, Mr. Johnson stated that the Department of Public Health & Environment (Department) receives money collected from the Waste Tire Funds. Further, he stated that the Department of Revenue (DOR) receives 1.66 percent of the \$1.50 fee.

In response to a question from Senator Balmer, Mr. Johnson stated that Colorado will eventually eliminate its 61 million waste tire stockpile if new processor business plans come to fruition.

In response to a question from Senator Balmer, Mr. Johnson stated that the Midway processor is a wholly owned subsidiary of Grupo Cementos de Chihuahua (GCC) of America, Inc.

In response to a question from Senator Tochtrop, Karin McGowan stated that the Program was meant to be a seed program to establish a viable waste tire marketplace and will eventually be eliminated.

In response to a question from Chair King, Mr. Johnson stated that the Utah processor produces crumb rubber, a higher end product, while the Julesburg processor mostly produces alternative daily landfill cover. Further, he stated that it is a goal of the Program to diversify the waste tire market and move toward higher end products.

In response to a question from Senator Tochtrop, Mr. Johnson stated that the use of waste tire shreds as a form of alternative daily landfill cover is not a fire hazard, and that this practice is coordinated with local fire response agencies.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Chair King, Ms. McGowan stated that the Department does not have control over the purchase of waste tires. Further, she stated that the Department has control over the reimbursement program, off-setting the price of waste tires and thus making them competitive in the marketplace. Mr. Johnson stated that after January 1, 2018, monofills will no longer be able to store waste tires and will have to pass them on for recycle. Further, he stated that this will help stimulate the waste tire market and increase their value.

In response to a question from Representative Primavera, Mr. Johnson stated that the danger of ground or air pollution only occurs if waste tires are on fire; pollution does not occur when waste tires are in their inert state.

In response to a question from Representative Primavera, Ms. McGowan stated that the Department has worked with other state departments, including the Department of Transportation, and county representatives, to discuss alternative uses of waste tires. Mr. Johnson stated that the Department has brought in a national contractor to develop a waste tire market plan. Further, he stated that the Department has worked with regional partners to develop best practices.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Chair King, Ms. McGowan stated that the Department does possess national statistics about waste tire processor and end user cost and reimbursement rates.

In response to a question from Representative Ryden, Ms. McGowan stated that House Bill 14-1352 involved all stakeholders.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Primavera, Mr. Johnson stated that waste tires are used for other items such as playground surfaces, road bumpers, and safety cone ballasts. Further, he stated that a new company in Colorado has started advancing multi-rubber products.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Ryden, Ms. McGowan stated that the Department gives the benefit of the doubt to applicants in fraud cases. Further, she stated that in the fraud case highlighted on page 51, that the applicant could not substantiate the work that they had been reimbursed for. Mr. Johnson reviewed the Department's fraud identification process.

Recommendation No. 5 was reviewed, discussed, and agreed to by staff from the Department.

11:15 a.m. GENERAL BUSINESS

Minutes

In response to a question from Representative Primavera, State Auditor Dianne E. Ray stated that Representative Primavera's attendance for the June 2, 2014, LAC hearing, is noted on page 2.

In response to a question from Representative Primavera, Chair King stated that he will work with the OSA on how to modify LAC attendance recording.

A motion was made by Senator Balmer and seconded by Senator Guzman to approve the Minutes from June 2-3, 2014. The motion passed unanimously.

Status Report

Following introductions and opening remarks, Tista Ghosh, Deputy Chief Medical Officer and Director, Disease Control & Environmental Epidemiology Division (CDPHE), and Ms. McGowan, provided an overview of the implementation status of Recommendations addressed to the *Colorado HIV and AIDS Prevention Grant Program, Department of Public Health and Environment, Performance Audit* (July 2013).

Andrew Knauer reviewed highlights from the audit.

In response to a question from Representative Primavera, Melanie Mattson, Section Chief, STI/HIV Section (CDPHE), stated that the Colorado HIV and AIDS Prevention Grant Program (CHAPP) Board has rural representation as required by statute. Further, she stated that the rural representative is Kristy Watkins from Mesa County, Colorado.

11:34 a.m. The Committee recessed for lunch.

1:30 p.m. The Committee reconvened. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator King, Representative Nordberg, Representative Primavera, Representative Ryden, Senator Tochtrop

EXCUSED: Representative Sonnenberg

1:31 p.m. – 2:50 p.m. **Child Protection Ombudsman Program
Department of Human Services
Performance Audit, June 2014**

Department of Human Services
Reggie Bicha, Executive Director
Nikki Hatch, Deputy Executive Director
Joscelyn Gay, Senior Policy Advisor

Office of the State Auditor
Dianne E. Ray, State Auditor
Monica Bowers, Deputy State Auditor
Michelle Colin, Managing Legislative Auditor
Derek M. Johnson, Legislative Auditor
Vickie Heller, Legislative Auditor
Ann McHenry, Legislative Auditor

A motion was made by Representative Nordberg and seconded by Senator Guzman to release the *Child Protection Ombudsman Program, Department of Human Services, Performance Audit* (June 2014). The motion passed unanimously.

Following introductions and opening remarks, Derek Johnson provided an overview of the audit.

In response to a question from Senator Guzman, Mr. Johnson stated that the Child Protection Ombudsman Program (Program) funding increased due to the passage of the General Appropriation Act (Long Bill). Reggie Bicha stated that Governor Hickenlooper's State Budget requested a 3 percent increase for the Program in Fiscal Year 2015, to coincide with the provider rate increase. Further, he stated that the Joint Budget Committee (JBC) increased the Program funding above the Governor's State Budget request and included the new funding level as part of the Long Bill.

In response to a question from Senator Balmer, Mr. Johnson stated that there was an active policy decision to place the Program in its current structure. Further, he stated that the audit did not identify a program structure that would better suit the Program.

In response to a question from Representative Primavera, Mr. Bicha stated that the Department of Human Services (Department) does have the necessary tools to administer the Program contract.

In response to a question from Representative Primavera, Mr. Bicha stated that every state has a different approach to their child protection ombudsman program.

In response to a question from Representative Primavera, Mr. Bicha stated that the report required to be generated from the advisory work group created by Senate Bill 14-201, is due for release in December 2014.

In response to a question from Representative Primavera, Mr. Bicha stated that the Department has not yet promulgated rules for the Program due to a variety of factors. Further, he stated that the Department will not finalize Program rules until April 2015, after the Senate Bill 14-201 advisory work group has issued their report.

In response to a question from Representative Primavera, Mr. Bicha disagreed with Representative Primavera's assessment that the Program has little guidance until 2015.

In response to a question from Representative Nordberg, Mr. Johnson stated that the audit did not find that the Program's low number of investigations were due to Department influence or intimidation.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Balmer, Vickie Heller stated that the audit did not find that the Program had poor decision making processes, but rather that the Program had documentation issues and gaps in their practices and controls. Further, she stated that there is a need for an outside peer or supervisory review on Program decisions.

In response to a question from Senator Balmer, Mr. Bicha stated that it is possible that parents who are in conflict with each other could file complaints with the Program for retaliatory purposes. Further, he stated that 90 percent of Program reviews have affirmed the actions of the counties.

In response to a question from Representative Primavera, Mr. Bicha stated that the Program has developed its own policies and procedures, but that the Department has not yet developed policies and procedures for the Program as required by statute. Further, he stated that the Program vendor contract has a number of controls and deliverables that can be used to manage the Program.

In response to a question from Representative Ryden, Joscelyn Gay stated that at least 90 percent of Program reviews and investigations affirmed the actions of the county caseworkers. Further, she stated that 80 percent of contacts that the Program receives are requests for information and referral related.

In response to a question from Representative Ryden, Mr. Bicha stated that the Program has no power to overrule county, state, or court decisions. Further, he stated that the Program provides non-binding recommendations to entities.

Recommendation Nos. 2, 3, 4, and 5, were reviewed, discussed, and agreed to by staff from the Department.

In response to a comment from Senator Tochtrop, Mr. Bicha stated that the Program has up to five days to respond to complaints, and child safety concerns are elevated. Further, he reviewed the difficulties that the Program has faced and stated that he needs direction from the General Assembly on how to operate the Program.

2:47 p.m. The Committee recessed briefly.

2:50 p.m. GENERAL BUSINESS

Status Report

Following introductions and opening remarks, Ms. Gates reviewed highlights from the *Division of Human Resources and State Personnel Board, Department of Personnel & Administration, Performance Audit (May 2013)*.

Kim Burgess, Statewide Chief Human Resources Officer, Division of Human Resources (DPA), provided an overview of the implementation status of Recommendations addressed to the Division of Human Resources.

Dana Shea-Reid, Director, State Personnel Board (DPA), provided an overview of the implementation status of Recommendations addressed to the State Personnel Board.

Following introductions and opening remarks, Ms. Gates reviewed highlights from the *Evaluation of the Department of Personnel & Administration's Annual Compensation Survey for Fiscal Year 2014*.

Ms. Burgess provided an overview of the implementation status of Recommendations addressed to the Annual Compensation Survey.

Audit Requests

Matt Devlin reviewed the evaluation of a request for information related to the Colorado High Performance Transportation Enterprise (HPTE) and the US 36 Phase 2's Public-Private Partnership (P3) Agreement.

In response to a question from Senator Guzman, Mr. Devlin stated that the audit, if approved, would be staffed immediately. State Auditor Ray stated that if the audit is split into two different audits, the first part would be performed by a contractor, and released in March 2015, and the second part would be in-house, and released during the 2015 Interim.

In response to a question from Representative Ryden, Mr. Devlin stated that US 36 Phase 2's P3 agreement is the only P3 agreement that has been executed by the State. Further, he stated that the OSA would seek to provide transparency on this P3 agreement and any other potential P3 agreements.

In response to a question from Representative Ryden, Mr. Devlin stated that the primary interest for P3 agreements is to support the funding of, and acceleration of, surface transportation infrastructure projects.

A motion was made by Senator Tochtrop and seconded by Representative Primavera to approve the request for an audit of the Colorado HPTE and the US 36 Phase 2's P3 Agreement. The motion passed unanimously.

Kerri Hunter reviewed the evaluation of a request for information related to Colorado State University-Pueblo.

A motion was made by Senator Guzman and seconded by Chair King to approve the request for an audit of Colorado State University-Pueblo. The motion passed unanimously.

State Auditor Ray presented a request submitted by Senator Jeanne Nicholson, Representative Dianne Primavera, and Representative K.C. Becker, for a performance audit of the Colorado Limited Gaming Impact Fund (Fund). She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit.

In response to a question from Senator Balmer, State Auditor Ray stated that the OSA audited the Division of Gaming in 2011, but did not audit the Fund at that time. Further, she stated that the Fund was last audited in 2002.

In response to a question from Representative Ryden, State Auditor Ray stated that if the audit is approved, the audit would not have much overlap with the 2002 audit.

In response to a question from Senator Balmer, Representative Primavera reviewed why she, Senator Nicholson, and Representative KC Becker, requested the audit.

A motion was made by Representative Primavera and seconded by Representative Ryden to authorize the OSA to proceed with preliminary research on the Fund. The motion passed unanimously.

Other Business:

State Auditor Ray reviewed *Rule XIII. Special Request for Information*, in the LAC Rules.

In response to a question from Senator Guzman, State Auditor Ray stated that most special requests for information take more than eight hours.

In response to a question from Senator Tochtrop, State Auditor Ray stated that Rule XIII is in LAC Rules, not statute.

A motion was made by Senator Tochtrop to amend LAC Rules, *Rule XIII. Special Request for Information*, from “normally, not to exceed eight (8) hours” to “at the discretion of the State Auditor”.

In response to a question from Representative Ryden, State Auditor stated that the additional research time has not impacted the OSA budget. Further, she stated that she does not believe the OSA will need more than 40 hours for special requests for information.

In response to a question from Senator Balmer, State Auditor Ray stated that the OSA budget is approved by the LAC, not the JBC. Further, she reviewed how the OSA strategically uses its employee resources.

In response to a question from Senator Balmer, State Auditor Ray stated that the Fiscal Year 2015 OSA budget is the first time in at least 12 years that the OSA has requested an increase in full-time-equivalent (FTE) staff; four additional FTE staff were requested.

Senator Tochtrop withdrew her motion

A motion was made by Senator Tochtrop and seconded by Senator Guzman to amend the LAC Rules, *Rule XIII. Special Requests for Information*, from “normally, not to exceed eight (8) hours” to “normally, not to exceed forty (40) hours”. In accordance with LAC *Rule XVII. Amendment of Rules*, Rule XIII was amended by the affirmative vote of six members.

3:50 p.m. The Committee recessed.

The meeting of the Legislative Audit Committee reconvened on July 15, 2014, at 9:00 a.m., in the Old Supreme Court Chambers, Colorado State Capitol. Senator Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Representative Nordberg, Representative Primavera, Representative Ryden, Senator Tochtrop

EXCUSED: Senator King, Representative Sonnenberg

Senator King was excused; Senator Guzman assumed the Chair.

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Kerri Hunter, Deputy State Auditor; Jeffrey Kahn, Bryan Brune, Jarrett Ellis, Henry Hung, Trey Standley

ALSO PRESENT: Jim McCotter, Frank A. Kugeler, History Colorado Board of Directors; Edward C. Nichols, Joseph Bell, Michelle Zale, History Colorado; Mark Cavanaugh, Department of Higher Education; Heather Copp, John Vecchiarelli, Department of Revenue; Katie Griego, Department of Human Service; Gregg Rippy, Bill Hobbs, Statewide Internet Portal Authority

9:00 a.m. – 10:46 a.m. History Colorado
Department of Higher Education
Performance Audit, June 2014

History Colorado

Jim McCotter, Chair, History Colorado Board of Directors
Frank A. Kugeler, Treasurer, History Colorado Board of Directors; Chair, Finance Committee; and Chair, Audit Committee
Edward C. Nichols, President/CEO, and State Historic Preservation Officer
Joseph Bell, Vice President, Finance, Facilities, and Regional Museums
Michelle Zale, Controller

Department of Higher Education

Mark Cavanaugh, Chief Financial Officer

Office of the State Auditor

Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Jeffrey Kahn, Managing Legislative Auditor
Bryan Brune, Legislative Auditor
Jarrett Ellis, Legislative Auditor
Henry Hung, Legislative Auditor

A motion was made by Representative Nordberg and seconded by Chair Guzman to release the *History Colorado, Department of Higher Education, Performance Audit* (June 2014). The motion passed unanimously.

Following introductions and opening remarks, Jeffrey Kahn provided an overview of the audit.

In response to a question from Senator Tochtrop, Edward C. Nichols explained why community colleges are not shown as a Limited Gaming tax revenue receipt in the chart on page 15.

In response to a question from Senator Tochtrop, Mr. Nichols stated that the Limited Gaming Fund does fund community colleges. State Auditor Ray stated that the Division of Gaming accounts for community college funding separately, which is why it is not depicted in the graph on page 15. Further, she stated that approximately \$5-6 million from the Limited Gaming Fund goes towards community colleges.

In response to a question from Senator Tochtrop, Mr. Nichols stated that 10 percent of the Limited Gaming tax revenue is distributed to the gaming cities; History Colorado does not control the purpose of those funds. Further, he stated that the State Historical Fund (SHF) receives 28 percent of the Limited Gaming tax revenue, of which some monies are distributed to gaming cities, outside of History Colorado control, and some monies are allocated as SHF historic preservation grants to gaming cities, which are under History Colorado control.

In response to a question from Representative Ryden, Mr. Nichols stated that he did not know if SHF monies distributed to gaming cities are earmarked for specific purposes. Jarrett Ellis stated that SHF monies distributed to gaming cities are earmarked for historic preservation projects. Further, he stated that the 10 percent of the Limited Gaming tax revenue distributed to gaming cities is earmarked to support the infrastructure impact on the gaming city communities.

In response to a question from Senator Tochtrop, Mr. Nichols stated that History Colorado closely monitors SHF grants. Further, he stated that History Colorado does not have control of Limited Gaming tax revenue distributed to gaming cities outside of SHF grants, and that revenue use is dependent upon local factors.

In response to a question from Representative Ryden, Mr. Nichols stated that research is still being conducted on the impact of 2014 ballot measures concerning additional gaming outside of the Limited Gaming Act. Further, he stated that these ballot measures would negatively impact the Limited Gaming Fund.

In response to a question from Senator Balmer, Mr. Kahn and Joseph Bell reviewed how History Colorado accounts for different revenue streams in different funds.

In response to a question from Senator Balmer, Mr. Nichols stated that History Colorado plans to address perceived procurement card abuse. Further, he stated that the procurement card issues are an issue of the miscoding of monies, not necessarily the misuse of monies.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from History Colorado.

In response to a question from Representative Primavera, Mr. Nichols stated that SHF received approximately 40 grant applications and allocated approximately \$9.5 million in Fiscal Year 2014, but that he needed to verify those numbers.

In response to a question from Representative Nordberg, Mr. Nichols stated that the SHF grant application administrative cost is approximately \$1.5 million, but that he needed to verify that number.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from History Colorado.

In response to a question from Senator Balmer, Mr. Nichols stated that History Colorado has already taken action to address Recommendations concerning the issuance and use of procurement cards.

In response to a question from Representative Primavera, Mr. Nichols reviewed the use of procurement card purchases coded as official functions for counseling sessions, and actions taken to address the Recommendation.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from History Colorado.

In response to a question from Chair Guzman, Bryan Brune stated that the audit recommends that History Colorado conduct a review of existing procurement cards and revoke them as appropriate.

In response to a question from Chair Guzman, State Auditor Ray stated that the audit does not recommend a specific number of procurement cards, but that History Colorado should revisit and tighten procurement card policies, so that procurement cards are only issued as needed.

In response to a question from Senator Tochtrop, Mr. Bell reviewed the process for correcting denied procurement card expenditures.

In response to a question from Representative Nordberg, Mr. Bell stated that some procurement card purchases were approved verbally, and that History Colorado has implemented new procedures to require written encumbrance documents for all purchases over \$5,000. Mr. Nichols stated that training is already in progress to require documentation for all purchases over \$5,000.

In response to a question from Representative Primavera, Mr. Brune stated that the audit did not compare the percentage of History Colorado staff with procurement cards to other state departments. Ms. Hunter stated that as part of the annual financial audit, the OSA found that the number of History Colorado employees with procurement cards to be higher than normal.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from History Colorado.

In response to a question from Representative Ryden, Mr. Brune stated the internal financial reports to the History Colorado Board (Board) are specific to History Colorado. Further, he stated that the audit recommends that History Colorado simplify their report process, but the audit did not recommend a specific process. Mr. Nichols stated that the State's new financial reporting system, Colorado Operations Resource Engine (CORE), has already helped History Colorado to simplify their internal financial reports.

Recommendation No. 5 was reviewed, discussed, and agreed to by staff from History Colorado.

Recommendation No. 6 was reviewed, discussed, and agreed to by staff from History Colorado and the Colorado Department of Higher Education.

In response to a question from Senator Tochtrop, Mr. Nichols stated that the Board is elected by the History Colorado members (members).

In response to a question from Senator Tochtrop, Mr. Nichols stated that the Board has one State Senator and one State Representative; one Democrat and one Republican. Further, he stated that the legislators are recommended by the Board, and elected by the members; legislators are not appointed.

In response to a question from Representative Primavera, Mr. Nichols stated that the Board meets four times annually. Further, he stated that the Executive Committee of the Board meets on an interim monthly basis; at least once between Board meetings.

In response to a question from Senator Tochtrop, Mr. Bell stated that SHF is funding the restorations to the General Assembly House and Senate chambers.

In response to a question from Representative Primavera, State Auditor Ray stated that History Colorado will provide a Status Report to the LAC in March 2015.

10:46 a.m. The Committee recessed briefly.

10:49 a.m. GENERAL BUSINESS

Status Report

Following introductions and opening remarks, Mr. Standley reviewed highlights from the *Property Tax, Rent, and Heat Rebate Program, Department of Revenue, Performance Audit* (August 2013).

Heather Copp, Deputy Executive Director (DOR), and John Vecchiarelli, Senior Director, Taxation (DOR), provided an overview of the implementation status of Recommendations addressed to the Property Tax, Rent, and Heat Rebate Program (Program) within DOR.

Katie Griego, Acting Director, Division of Employment and Benefits (DHS), provided an overview of the implementation status of Recommendations addressed to the Program within DHS.

10:56 a.m. The Committee recessed briefly.

Legislation Discussion

Monica Bowers provided an overview of the status of legislative audit Recommendations.

In response to a question from Representative Primavera, State Auditor Ray stated that the original implementation date for Recommendation No. 1b from the *Vocational Rehabilitation Program, Department of Human Services, Performance Audit* (November 2013), is July 2014.

In response to a question from Representative Primavera, Ms. Bowers stated that she could not confirm if DHS has worked with the General Assembly to address Recommendation No. 1b.

In response to a question from Senator Tochtrop, Representative Primavera stated that she did not recall if the vocational rehabilitation program was addressed during the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act hearings. Further, she stated that she would be amiable to working with DHS on Recommendation No. 1b.

In response to a comment from Chair Guzman, State Auditor Ray stated that she can arrange for DHS to attend the August 25-26, 2014, LAC hearings, to discuss Recommendation No. 1b.

In response to a question from Representative Ryden, State Auditor Ray stated that House Bill 14-1396 originated outside of the LAC, and thus is not considered an LAC bill.

Bob Lackner, Office of Legislative Legal Services, reviewed the different bill submission processes for LAC bills.

In response to a question from Senator Balmer, State Auditor Ray stated that LAC bills typically originate out of audit recommendations. Further, she reviewed the process for an LAC member to bring forth their own bill idea for consideration by the LAC at large.

A motion was made by Representative Ryden and seconded by Senator Balmer to move LAC bills forward as committee bills. The motion passed unanimously.

In response to a question from Senator Balmer, State Auditor Ray stated that the OSA will work with Senator Balmer on a memo to discuss potential legislation to mandate that child support is prioritized above victim's restitution.

Statutory Report Required to be Submitted to the Legislative Audit Committee

State Auditor Ray submitted the statutorily required report to the LAC in accordance with Section 24-37.7-114(2), C.R.S., of the *Statewide Internet Portal Authority, Financial Statement, June 30, 2013 and 2012* (Financial Statement). Ms. Hunter and State Auditor Ray reviewed the Financial Statement.

Gregg Rippey, Interim Executive Director (SIPA), and Bill Hobbs, Director, Special Projects (SIPA), reviewed the Financial Statement and the implementation status of Recommendations addressed to the *Statewide Internet Portal Authority, Performance Audit* (November 2012).

In response to a question from Chair Guzman, Mr. Hobbs stated that the implementation of audit Recommendations, including a comprehensive risk management program, was contracted out to a consulting company named Two Hills. Further, he stated that the audit recommendations should be implemented in the next few months. Mr. Rippey reviewed the efforts that SIPA has already taken to implement audit recommendations.

11:32 a.m. Senator Balmer was excused.

Other Business

State Auditor Ray recognized the efforts of OSA staff who designed the new OSA report format. Chair Guzman stated that the new report format made the reports easier to read.

State Auditor Ray announced that the OSA received the 2014 National State Auditor's Association (NSAA) Excellence in Accountability Award, in the large performance audit category, and received the 2014 National Legislative Program Evaluation Society (NLPES) Impact Award; both were awarded to the OSA for the *Medical Marijuana Regulatory System, Part I, Department of Revenue, Department of Public Health and Environment, Performance Audit* (March 2013). Further, State Auditor Ray recognized the efforts of OSA staff who worked on the audit.

State Auditor Ray announced that the OSA received a \$5,000 wellness grant through DPA. State Auditor Ray recognized the efforts of OSA staff who worked on the grant application.



State of Colorado

LEGISLATIVE AUDIT COMMITTEE

State Services Building - Seventh Floor

1525 Sherman Street

Denver, Colorado 80203

LUCIA GUZMAN, CHAIR
Senator

DAVID BALMER
Senator

KEVIN GRANTHAM
Senator

DAN NORDBERG
Representative

DIANNE PRIMAVERA
Representative

SU RYDEN
Representative

JERRY SONNENBERG
Representative

LOIS TOCHTROP
Senator

LEGISLATIVE AUDIT COMMITTEE

August 25-26, 2014

MINUTES

A meeting of the Legislative Audit Committee (LAC) convened on August 25-26, 2014, at 10:00 a.m., in the Legislative Services Building, Audit Hearing Room. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Grantham, Senator Guzman, Representative Nordberg, Representative Primavera, Representative Ryden (arrived at 10:02 a.m.), Representative Sonnenberg, Senator Tochtrop

EXCUSED:

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Matt Devlin, Kerri Hunter, Deputy State Auditors; Crystal Dorsey, Gina Faulkner, Michelle Colin, Jenny Page, Vickie Heller

ALSO PRESENT: Leanne Emm, Jane Brand, Department of Education; Mike King, Department of Natural Resources; Kathy Nesbitt, Department of Personnel & Administration; Dr. Larry Wolk, Department of Public Health and Environment; Barbara Kelley, Justin Lippard, Department of Regulatory Affairs; Barbara Brohl, Ron Kammerzell, Laura Solano, Department of Revenue; Reggie Bicha, Julie Krow, Viki Manley, Department of Human Services; Dr. Brian E. Cronin, Phyllis Gervais-Voss, Dr. Myles Edwards, ICF International Inc., LLC; Sue Birch, Department of Health Care Policy and Financing; Margie Martinez Perusek, Frances A. Koncilja, Lottery Commission

**10:00 a.m. – 10:42 a.m. Fiscal Health Analysis
Colorado School Districts
Informational Report, July 2014**

Department of Education

Leanne Emm, Associate Commissioner, School Finance

Office of the State Auditor

Dianne E. Ray, State Auditor

Kerri Hunter, Deputy State Auditor

Crystal Dorsey, Managing Legislative Auditor

Gina Faulkner, Legislative Auditor

A motion was made by Senator Balmer and seconded by Representative Primavera to release the *Fiscal Health Analysis, Colorado School Districts, Informational Report (July 2014)*. The motion passed unanimously.

Following introductions and opening remarks, Crystal Dorsey and Gina Faulkner provided an overview of the report.

In response to a question from Representative Ryden, Ms. Dorsey stated that the report does not include economic indicators such as gross domestic product and property values.

In response to a question from Representative Sonnenberg, Ms. Dorsey stated that the report looks at economic trends. Leanne Emm stated that the Colorado Department of Education (Department) suggests adding more years to Appendix D, Fiscal Health Data. State Auditor Dianne E. Ray stated that the OSA has compiled this report for 6 years, and previous year's data can be viewed in past reports.

In response to a question from Chair Guzman, Ms. Emm stated that the Department ensures school district compliance through accreditation measures. Further, she stated that in smaller rural school districts, declining student populations result in less funding, and since school districts cannot further cut their fixed costs, such as building maintenance, they must instead cut their variable costs, such as teachers.

10:27 a.m. Representative Nordberg was excused.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that the school districts only conduct one annual financial audit and that audit is submitted to both the Department and the OSA. Further, she stated that there is no additional cost to the school districts to conduct and submit the annual financial audits to both the Department and OSA, except time to respond to the OSA regarding why they have financial indicators.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that the OSA compiles the report from information garnered from the individual school district financial audits.

In response to a question from Representative Primavera, Ms. Emm stated sales taxes from recreational marijuana are put in to the Building Excellent Schools Today (BEST) Program, where school districts or charter schools can apply for grants. Further, she reviewed how BEST Program grants could impact a school district's financial indicators.

In response to a question from Representative Primavera, Ms. Emm stated that the Department provides technical assistance to rural school districts to develop BEST Program grant applications.

In response to a question from Representative Ryden, Ms. Emm stated that the Department has, and will assist small school districts with their budgetary planning to help keep small school districts viable. Further, she stated that a drop in per pupil funding, combined with a declining enrollment rate, may have devastating impacts on small school districts.

10:42 a.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Tochtrop and seconded by Senator Balmer to approve the Minutes from July 14-15, 2014. The motion passed unanimously.

Cash Funds Follow-Up

Following introductions and opening remarks, Ms. Dorsey provided an overview of the Cash Funds Follow-up.

In response to a question from Representative Ryden, Ms. Dorsey stated that the 16.5 percent target reserve for cash funds was established by Senate Bill 98-194. State Auditor Ray stated that the 16.5 percent target reserve is the equivalent of two months of expenditures within the individual cash funds.

Mike King, Executive Director, Department of Natural Resources (DNR), provided an overview of the status of DNR cash funds out of compliance.

In response to a question from Chair Guzman, Mr. King stated that it is important for Oil and Gas Conservation cash fund resources to be available as abandoned wells reach the end of their productive lives. Further, he reviewed the productivity life of a well.

In response to a question from Chair Guzman, Mr. King stated that the DNR will consider lowering fees charged to oil and gas operators but is hesitant to do so, to keep funds available to address environmental needs as they occur. Further, he stated that the General Assembly recently approved raising the cash fund reserve limit from \$4 million to \$6 million.

Kathy Nesbitt, Executive Director, Department of Personnel & Administration (DPA), reviewed the status of DPA cash funds out of compliance.

Dr. Larry Wolk, Executive Director and Chief Medical Officer, Department of Public Health and Environment (CDPHE), reviewed the status of CDPHE cash funds out of compliance.

11:05 a.m. Representative Nordberg returned.

Barbara Kelley, Executive Director, Department of Regulatory Affairs (DORA), reviewed the status of DORA cash funds out of compliance.

Barbara Brohl, Executive Director, Department of Revenue (DOR), reviewed the status of DOR cash funds out of compliance.

State Auditor Ray reviewed possible alternative reserves for out-of-compliance cash funds.

In response to a question from Senator Balmer, State Auditor Ray stated that the departments have the flexibility to reduce and set their own fees. Further, she stated that fees set in statute are exempt from the cash funds limitation.

In response to a question from Senator Balmer, Ms. Dorsey stated that the departments' responses as to why they may or may not reduce fees can be found in the *Cash Funds Report*. In response to a question from Senator Balmer, State Auditor Ray reviewed ways in which to establish alternative cash funds reserves and bring the cash funds into compliance.

In response to a suggestion from Representative Ryden, State Auditor Ray stated that the OSA would be amenable to working with a subcommittee to address out-of-compliance cash funds.

In response to a question from Chair Guzman, State Auditor Ray stated that the OSA will need to work with the departments if the LAC pursues cash funds alternative reserves legislation. Further, she stated that the OSA would be amendable to working with the Joint Budget Committee (JBC) to address cash funds alternative reserves.

Chair Guzman appointed a subcommittee to address out-of-compliance cash funds, comprised of the following LAC members:

Senator Grantham
Representative Nordberg
Representative Ryden
Senator Guzman, Chair

Status Report

Following introductions and opening remarks, Ms. Emm and Jane Brand, Director, Office of School Nutrition (CDE), provided an overview of the implementation status of recommendations addressed to the *School Meal Program, Department of Education, Performance Audit* (January 2014).

12:02 p.m. The Committee recessed for lunch.

1:27 p.m. The Committee reconvened.

1:27 p.m. – 2:53 p.m. **Colorado Child Welfare County Workload Study**
Colorado Department of Human Services
August 2014

Department of Human Services

Reggie Bicha, Executive Director

Julie Krow, Director, Office of Children, Youth and Families

Office of the State Auditor

Dianne E. Ray, State Auditor

Monica Bowers, Deputy State Auditor

Michelle Colin, Managing Legislative Auditor

ICF International Inc., LLC

Dr. Brian E. Cronin, Project Manager

Phyllis Gervais-Voss, Deputy Project Manager

Dr. Myles Edwards, Workload Modeling Expert

A motion was made by Senator Tochtrop and seconded by Representative Nordberg to release the *Colorado Child Welfare County Workload Study, Colorado Department of Human Services* (August 2014). The motion passed unanimously.

Following introductions and opening remarks, Dr. Brian E. Cronin provided an overview of the study.

In response to a question from Representative Sonnenberg, Dr. Cronin stated that a variety of factors, such as county budgets and referrals, impact the number of child welfare caseworkers per 1,000 children in each county.

In response to a question from Representative Primavera, Dr. Cronin stated that there may be efficiencies to be gained from switching from a state-supervised, county-administered child welfare system, to a state-supervised, state-administered child welfare system.

In response to a question from Representative Primavera, Dr. Cronin stated that Weld County participated in the January focus group, but he did not know why Weld County did not participate in the study.

In response to a question from Representative Primavera, Julie Krow stated that counties have 30 days to complete the child welfare assessment and that they can request a 30 day extension. Further, she stated that after counties have opened a case, they have 30 days to complete a treatment plan with the family.

In response to a question from Senator Tochtrop, Dr. Cronin stated that the study focused on the amount of time it takes a caseworker to deliver individual services to clients, rather than the number of cases assigned to a caseworker. Further, he stated that he did not have comparative statistics on caseload ratios from other states. Reggie Bicha stated that the nine states that are state-supervised, county-administered, represent more than 50 percent of the entire foster care caseload in the United States of America. Further, he stated that there is not conclusive evidence that a state-administered child welfare system would be more efficient or have more cost savings than a county-administered child welfare system. Dr. Cronin stated that the study did not analyze if a state-administered or county-administered child welfare system is better.

In response to a question from Representative Sonnenberg, Dr. Cronin reviewed activities classified as non-case related, such as documenting cases, trainings, and meetings with supervisors. Further, he stated that the time spent on non-case related activities is comparable to other states where data is available.

In response to a question from Representative Sonnenberg, Dr. Cronin stated that non case-related activities include employee breaks, but not vacation time.

In response to a question from Representative Primavera, Dr. Cronin stated that the study considered the time it takes to deliver individual services, not the severity of the cases.

In response to a question from Chair Guzman, Mr. Bicha reviewed the task classification system used in the study. Further, he stated that new mobile technologies and an update to the Statewide Automated Child Welfare Information System (TRAILS), would improve efficiency.

In response to a question from Representative Primavera, Mr. Bicha stated that each county has different qualifications for hotline operators. Further, he stated that the Department of Human Services (Department) is considering implementing new minimum qualifications and training expectations for all hotline operators.

In response to a question from Senator Grantham, Dr. Cronin stated that the study classification system for rural and urban counties is the same classification system used by the Colorado Rural Health Center, and was approved for use in the study by both the OSA and the Department.

In response to a question from Representative Primavera, Ms. Krow stated that most child welfare staff are salaried and paid extra for after hour duties. Mr. Bicha stated that each county decides how and if to reimburse child welfare staff for after hour duties.

In response to a question from Representative Primavera, Dr. Myles Edwards stated that the ratio of caseworkers to supervisors is comparative to other states.

In response to a question from Representative Sonnenberg, Dr. Cronin stated that an increase of 574 full-time-equivalent (FTE) caseworkers would necessitate an increase in supervisors.

In response to a question from Representative Sonnenberg, Dr. Cronin stated an increase of 574 FTE would not necessarily result in an increase of 122 related supervisory positions, since each county might set up their caseworker-supervisor structure differently.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that he will keep LAC members' concerns in mind as the Department digests the study.

2:53 p.m. The Committee recessed briefly.

3:06 p.m. GENERAL BUSINESS

Status Reports

Following introductions and opening remarks, Jenny Page reviewed highlights from the *Regional Centers for People with Developmental Disabilities, Department of Human Services, Performance Audit* (November 2013).

Mr. Bicha provided an overview of the implementation status of recommendations addressed to the Department of Human Services (DHS) for the regional centers.

In response to a question from Representative Primavera, Viki Manley, Director, Office of Community Access and Independence (DHS), reviewed the client transition process from regional centers to the community.

In response to a question from Representative Primavera, Ms. Manley stated that if clients do not acclimate to the community after three months that they can be re-admitted to the regional centers. Further, she stated that with the new DHS policies, no clients have needed to be re-admitted to the regional centers.

In response to a question from Representative Dave Young, Ms. Manley stated that cases are assessed on an individual basis as to whether or not the client is successful in the community.

In response to a question from Representative Young, Ms. Manley stated that transition team members are uniquely chosen to serve the needs of the client. Mr. Bicha stated that DHS takes a person-centered approach to the transition team composition. Further, he stated that the transition team composition is different for each client, based on consultation with the client, the client's family, and the private provider.

In response to a question from Representative Primavera, Ms. Manley stated that the transition readiness assessment tool is a standardized tool. Further, she stated that DHS is considering outside vendors to help refine the tool and to ensure it is being used effectively.

In response to a question from Representative Young, Mr. Bicha stated that DHS has not needed to add additional staff to create the transition teams. Further, he stated that there is a declining regional center population which has led to some repurposing of staff, but no layoffs.

Sue Birch, Executive Director (HCPF), provided an overview of the implementation status of recommendations addressed to the Department of Health Care Policy and Financing for the regional centers. Further, she discussed and provided the LAC a handout regarding the annual Intermediate Care Facilities for Intellectual and Developmental Disabilities (ICF/IID) rate review.

In response to a question from Chair Guzman, Ms. Birch stated that all recommendations addressed to HCPF for the regional centers, have now been implemented.

Following introductions and opening remarks, Ms. Page reviewed highlights from the *Vocational Rehabilitation Program, Department of Human Services, Performance Audit* (November 2013).

Mr. Bicha provided an overview of the implementation status of recommendations addressed to the Department of Human Services (Department) for the Vocational Rehabilitation Program (Program).

In response to a question from Representative Primavera, Mr. Bicha stated that all recommendations targeted for completion in July 2014 have been implemented, except those relating to corporate accounts.

In response to a question from Representative Primavera, Mr. Bicha stated that he did not believe that the Department was at risk of losing federal funding. Ms. Manley stated that the Division of Vocational Rehabilitation (DVR) has been guaranteed an audit by the Rehabilitation Services Administration (RSA) for Federal Fiscal Year 2015.

In response to a question from Senator Tochtrop, Mr. Bicha reviewed the status of the three clients that misused Program funds.

In response to a question from Senator Tochtrop, Ms. Manley stated that she did not know the amount of funds recovered from the three clients that misused Program funds. Further, she stated that additional quality controls have been put in place to prevent future misuse of Program funds.

In response to a question from Senator Balmer, State Auditor Ray stated that the LAC went into executive session in 2013, and decided to send all three cases where Program funds were misused, to the Denver District Attorney's Office.

In response to a question from Representative Nordberg, Mr. Bicha stated since February 2014, more than 3,700 individuals have been released from the waitlist, and that there are currently 2,800 individuals still on the waitlist. Further, he reviewed new policies and procedures enacted to prevent future abuse of Program funds. Ms. Manley stated that DVR has reviewed all 24,000 active cases through the lens of the audit recommendations, and made changes where appropriate.

In response to a question from Senator Balmer, Mr. Bicha stated that employment plans need flexibility to account for the uniqueness of each client and employer. Further, he reviewed steps that the Department has taken to prevent future abuse of Program funds.

In response to a question from Representative Primavera, Mr. Bicha stated that that the turnover rate for Program counselors is 12 percent however, he did not have confirmation for that number. Further, he stated that even counselors that have been with DVR for many years still need training on new policies and procedures.

In response to a question from Representative Nordberg, Ms. Manley stated that there is a preference to send Program participants seeking education to Colorado educational institutions. However, there are some exceptions for participants to attend out-of-state educational institutions such as Gallaudet, the school for the deaf and hard of hearing.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that Colorado does not have a 100 percent deaf and hard of hearing university, such as Gallaudet, and thus, Gallaudet may be the best option for some Program participants.

In response to a request from State Auditor Ray, Mr. Bicha reviewed why the Department does not believe legislation is needed at this time to address Recommendation No. 1b.

Following introductions and opening remarks, Vickie Heller reviewed highlights from the *The Colorado Lottery, Department of Revenue, Performance Audit* (August 2013).

Ms. Brohl provided an overview of the implementation status of recommendations addressed to the Department of Revenue (DOR) for the Lottery.

In response to a request from Chair Guzman, Ms. Brohl stated that DOR would be amendable to providing a status report to the LAC.

Margie Martinez Perusek, Chair, Lottery Commission, and Frances A. Koncilja, Vice-Chair, Lottery Commission, provided an overview of the implementation status of recommendations addressed to the Lottery Commission for the Lottery.

In response to a question from Senator Tochtrop, Laura Solano stated that the Lottery does not know how many winners there will be per game.

In response to a question from Representative Sonnenberg, Ms. Solano stated that at the end of each game, the Lottery looks at unclaimed prizes and then sends an analysis to the Lottery Commission.

Legislation Discussion

Kerri Hunter provided an overview of the status of Recommendation No. 1b from the *Vocational Rehabilitation Program, Department of Human Services, Performance Audit* (November 2013).

In response to a question from Representative Primavera, Ms. Hunter stated that Recommendation No. 1b recommends that the Department of Human Services (Department) assess if legislation is needed, and if so, to work with the General Assembly. Further, she stated that at this time, the Department is not seeking legislation, and plans to implement the Recommendation through rule and policy changes.

Ms. Hunter reviewed proposed legislation for a statutory change to the Local Government Audit Law, Section 29-1-601, et seq., C.R.S.

In response to a question from Senator Balmer, Ms. Hunter stated that the OSA does not anticipate opposition to the proposed legislation. State Auditor Ray stated that at the request of the LAC, the OSA can reach out to stakeholders to address any concerns.

In response to a question from Representative Sonnenberg, Ms. Hunter stated that the proposed legislation would raise the threshold from \$500,000 to \$750,000 in annual expenditures or revenue for local governments, including small communities and quasi-governmental entities, to be able to apply for an audit exemption.

In response to a question from Senator Balmer, Ms. Hunter stated that currently, all local governments are required to have an annual financial audit. Further, she stated that local governments with \$500,000 or less in annual expenditures or revenue can apply for an audit exemption, while those with more than \$500,000 in annual expenditures and revenue, may not apply for an audit exemption.

In response to a question from Representative Sonnenberg, Ms. Hunter stated that local governments engage outside Certified Public Accountant (CPA) firms to perform the annual financial audits, not the OSA.

In response to a question from Senator Balmer, Representative Sonnenberg stated that increasing the audit exemption threshold would be beneficial to local governments.

A motion was made by Representative Sonnenberg and seconded by Senator Grantham to request draft legislation concerning statutory change to the Local Government Audit Law, Section 29-1-601, et seq., C.R.S. The motion passed unanimously.

In response to a question from Representative Nordberg, State Auditor Ray stated that the implementation status for Recommendation No. 1b will be tracked in future financial audits. Further, she stated that she did not know if the Department has rulemaking authority to implement the Recommendation.

A motion was made by Representative Sonnenberg and seconded by Senator Grantham to request draft legislation for the *Vocational Rehabilitation Program, Department of Human Services, Performance Audit* (November 2013), Recommendation No. 1b. The motion passed unanimously.

Audit Requests

State Auditor Ray presented a request submitted by Representatives Spencer Swalm, Jerry Sonnenberg, and Dan Nordberg, for an audit of the Colorado's Medicaid Application Process within Connect for Health Colorado, also known as PEAK. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. A motion was made by Senator Balmer and seconded by Senator Grantham to authorize the OSA to proceed with preliminary research on PEAK. The motion passed unanimously.

State Auditor Ray presented a request submitted by Representative Libby Szabo, for an audit of the Colorado Operations Resource Engine (CORE). She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit.

In response to a question from Chair Guzman, State Auditor Ray stated that the State transitioned from the Colorado Financial Reporting System (COFRS) to CORE on July 1, 2014.

In response to a statement from Chair Guzman, State Auditor Ray stated that CORE will be part of the annual *Statewide Single Audit* for Fiscal Year 2015.

A motion was made by Representative Sonnenberg and seconded by Senator Balmer to authorize the OSA to proceed with preliminary research on CORE. The motion passed on a vote of 6-2, as follows:

Senator Balmer:	Aye
Senator Grantham:	Aye
Representative Nordberg:	Aye
Representative Primavera:	Aye
Representative Ryden:	No
Representative Sonnenberg:	Aye
Senator Tochtrop:	Aye
Senator Guzman, Chair:	No

Monica Bowers reviewed the evaluation of a request for an audit related to the Colorado Limited Gaming Impact Fund.

In response to a question from Senator Tochtrop, Ms. Page stated that the counties eligible for Local Government Limited Gaming Impact Program grants are listed in statute and must demonstrate that they have been impacted by limited gaming to receive a grant.

A motion was made by Representative Primavera and seconded by Senator Balmer to approve the request for an audit of the Colorado Limited Gaming Impact Fund. The motion passed unanimously.

4:40 p.m. The Committee recessed.

The meeting of the Legislative Audit Committee reconvened on August 26, 2014, at 9:00 a.m., in the Legislative Services Building, Audit Hearing Room. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Grantham, Senator Guzman, Representative Nordberg, Representative Primavera, Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED:

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Kerri Hunter, Deputy State Auditors; Andrew Knauer, Greg Fugate

ALSO PRESENT: Reggie Bicha, Nikki Hatch, Julie Krow, Al Estrada, Department of Human Services; Donna Strugar-Fritsch, Lynn Dierker, Health Management Associates; Greg Smith, Colorado Public Employee's Retirement Association; Dave Eberly, KPMG LLP; Tom Cavanaugh, Pat Beckham, Ed Koebel, Eric Gary, Cavanaugh Macdonald Consulting, LLC

**9:00 a.m. – 10:47 a.m. Medication Management for Committed Youth at Division of Youth Correction Facilities
Department of Human Services
Performance Evaluation, August 2014**

Department of Human Services

Reggie Bicha, Executive Director

Nikki Hatch, Deputy Executive Director

Julie Krow, Director, Office of Children, Youth and Families

Al Estrada, Director, Division of Youth Corrections

Office of the State Auditor

Dianne E. Ray, State Auditor

Monica Bowers, Deputy State Auditor

Andrew Knauer, Managing Legislative Auditor

Health Management Associates

Donna Strugar-Fritsch, Managing Principal

Lynn Dierker, Principal

A motion was made by Senator Tochtrop and seconded by Representative Nordberg to release the *Medication Management for Committed Youth at Division of Youth Correction Facilities, Department of Human Services, Performance Evaluation* (August 2014). The motion passed unanimously.

Following introductions and opening remarks, Donna Strugar-Fritsch provided an overview of the evaluation.

In response to a question from Representative Primavera, Ms. Strugar-Fritsch stated that there are no overt differences between state-operated secure facilities, and contractor-operated facilities.

In response to a question from Representative Primavera, Ms. Strugar-Fritsch stated that there is a state procurement process for choosing the medical services contractor and that it is periodically reviewed. Further, she confirmed that there are competitors other than Correctional Health Partners (CHP), for the medical services contract.

In response to a question from Senator Tochtrop, Ms. Strugar-Fritsch stated that the youth correction facilities are surveyed on a routine basis.

In response to a question from Senator Tochtrop, Mr. Bicha stated that the Department of Human Services (Department) oversees the state-operated secure facilities and the licensing for contractor-operated facilities.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the Department agrees with the entire report but does not have the necessary tools and resources to fully implement all of the recommendations.

In response to a question from Representative Primavera, Mr. Bicha stated that the Department has contracted with CHP for many years. Further, he stated that the Department is working to solve the problems highlighted in the evaluation.

In response to a question from Senator Tochtrop, Ms. Strugar-Fritsch stated not all youth in youth correction facilities are on medication. Further, she stated that the evaluation only evaluated youth that receive medication.

In response to a question from Senator Tochtrop, Ms. Strugar-Fritsch stated that the two psychotropic medications given to youth are Neurontin and Topamax. Further, she stated that Neurontin and Topamax used to be used for bipolar disorder, but no longer are, and now there are no indications or rationale for the drugs' use.

In response to a question from Representative Ryden, Ms. Strugar-Fritsch stated that the youth correction physicians have operated under their scope of practice, have licenses, and have not done anything illegal. Mr. Bicha reiterated this point but stated that there should have been better recordkeeping.

In response to a question from Representative Sonnenberg, Andrew Knauer reviewed why there is confusion regarding gaining consent for all psychotropic drugs.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Primavera, Lynn Dierker reviewed why there is confusion regarding gaining consent for all psychotropic drugs, including whether blanket consent is sufficient or if specific consent is needed.

In response to a question from Representative Primavera, Mr. Bicha stated that the Department will take Representative Primavera's recommendation into consideration to ensure policies are both implemented and followed. Further, he stated that it will take time to implement new policies in all the facilities and that the Department has formed a work group to address parts of the evaluation.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Senator Tochtrop, Al Estrada stated that the youth-to-nurse ratio varies upon the size of the facility; in some facilities, there are 40 youth per one nurse, and in other facilities, there are 130 youth per four nurses.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Chair Guzman, Mr. Bicha stated that neither the Department nor the Division of Youth Corrections (DYC) has a chief Medical Officer.

In response to a question from Senator Balmer, Mr. Bicha stated that the Department needs to better organize its divisions to share medical expertise, and have similar protocols throughout the Department.

In response to a question from Representative Primavera, Mr. Bicha stated that he will take Representative Primavera's recommendation to consider the Los Angeles County Department of Mental Health's "Parameters for Use of Psychotropic Medication in Children and Adolescents" model for use in the Colorado DYC, into consideration.

Recommendation Nos. 5 and 6 were reviewed, discussed, and agreed to by staff from the Department.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the Department would be amenable to providing a status report to the LAC in three months.

In response to a question from Representative Ryden, Mr. Bicha stated the Department is currently in the budget development process and thus, it is premature to say which budget recommendations the Department will make for Fiscal Year 2016.

**10:48 a.m. – 11:59 a.m. Colorado Public Employees' Retirement Association
Financial Audit, Year Ended December 31, 2013**

**Colorado Public Employees' Retirement Association
Comprehensive Annual Financial Report
For the Year Ended December 31, 2013**

Colorado Public Employees' Retirement Association
Greg Smith, Executive Director

Office of the State Auditor
Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor

KPMG LLP
Dave Eberly, Partner

Cavanaugh Macdonald Consulting, LLC
Tom Cavanaugh, CEO
Pat Beckham, Principal and Consulting Actuary
Ed Koebel, Principal and Consulting Actuary
Eric Gary, Chief Health Actuary

A motion was made by Representative Sonnenberg and seconded by Representative Nordberg to release the *Colorado Public Employees' Retirement Association, Financial Audit, Year Ended December 31, 2013*. The motion passed unanimously.

10:49 a.m. The Committee recessed briefly.

10:49 a.m. Representatives Nordberg and Ryden were excused. Senator Tochtrop was excused.

Following introductions and opening remarks, Dave Eberly provided an overview of the *Colorado Public Employees' Retirement Association Comprehensive Annual Financial Report For the Year Ended December 31, 2013*, and the audit.

In response to a question from Senator Balmer, Greg Smith stated that there are statutory constraints to prevent too much concentration in one risk, however, the Public Employee's Retirement Association (PERA) is well within those constraints. Further, he reviewed the effects that the 2008-2009 economic down turn had on PERA investments.

11:12 a.m. Senator Grantham was excused.



OFFICE OF THE STATE AUDITOR



Legislative Audit Committee

November 12-13, 2014

Minutes

A meeting of the Legislative Audit Committee (LAC) convened on November 12, 2014, at 10:00 a.m., in the Legislative Services Building, Hearing Room A. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator Lundberg (arrived at 10:41 a.m.), Representative McCann, Representative Nordberg (arrived at 10:05 a.m.), Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED:

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Deputy State Auditor; Nina Frant, Jenny Atchley, Dana Berry, Kara Trim

ALSO PRESENT: Reggie Bicha, Nikki Hatch, Paige Rosemond, Department of Human Services

DIANNE E. RAY, CPA
STATE AUDITOR

10:00 a.m. – Child Welfare
11:57 a.m. Department of Human Services
Performance Audit, October 2014

Recess:

11:57 a.m. – Department of Human Services
1:30 p.m. Reggie Bicha, Executive Director
Nikki Hatch, Deputy Executive Director, Operations
1:30 p.m. – Julie Krow, Director, Office of Children, Youth, and Families
4:54 p.m. Paige Rosemond, Manager, Child Protection Services Unit

Office of the State Auditor
Dianne E. Ray, State Auditor
Monica Bowers, Deputy State Auditor
Nina Frant, Managing Legislative Auditor
Jenny Atchley, Legislative Auditor
Dana Berry, Legislative Auditor
Kara Trim, Legislative Auditor

A motion was made by Senator Tochtrop and seconded by Representative Sonnenberg to release the *Child Welfare, Department of Human Services, Performance Audit* (October 2014). The motion passed unanimously.

10:05 a.m. Representative Nordberg arrived.

Following introductions and opening remarks, Jenny Atchley provided an overview of the audit.

In response to a question from Representative Sonnenberg, Ms. Atchley stated that the Department of Human Services (Department) changed its response throughout the audit process on whether or not it agreed with OSA conclusions. Further, she reviewed an example of changed Department responses from May 2014 to August 2014.

In response to a question from Representative Sonnenberg, Ms. Atchley stated that the Department was not always able to provide documentation when disagreeing with OSA conclusions.

In response to a question from Senator Balmer, Ms. Atchley reviewed the requirements, as set by state rules, promulgated by the State Board of Human Services, and statutes, for screening in referrals. Further, she stated that the audit did not correlate case workload and the screening process; the audit looked at the regulatory framework.

10:41 a.m. Senator Lundberg arrived.

In response to a question from Representative Ryden, State Auditor Dianne E. Ray stated that any information that is protected under attorney-client privilege cannot be discussed in the audit unless that privilege is waived. Mr. Bicha stated that he had the privileged information with him if any of the LAC members wished to see it.

In response to a comment from Chair Guzman, Mr. Bicha stated that all the referrals reviewed in the audit were closed cases.

In response to a question from Representative Beth McCann, Mr. Bicha stated that state rule dictates that a caseworker must have an in-person visit with a child who is the subject of a referral. Further, he stated that in the 4-year-old hospitalization case on page 75, the caseworker was in violation, but new rules will allow exemptions in certain circumstances, such as this case.

In response to a question from Representative McCann, Ms. Atchley stated that throughout the audit process the County Departments of Human and Social Services and the Department were not sure if counties were required to follow Department guidance. Further, she stated that the Department did not seek clarification from the Attorney General until the end of the audit process.

Recommendation No. 1 was reviewed and discussed by staff from the Department.

11:00 a.m. Representative Sonnenberg was excused.

In response to a question from Senator Balmer, Mr. Bicha stated that Trails (automated case management system) was built in 1983, and is a complex and hard-to-navigate computer system. Further, he stated that Governor Hickenlooper has requested monies to assess upgrading Trails.

In response to a question from Representative Nordberg regarding eliminating ambiguity in statutes for the screening process, Mr. Bicha stated that the Department wants to clarify existing statutes by requesting that the General Assembly revisit and modernize Title 19, the Colorado Children's Code.

In response to a question from Senator Balmer, Mr. Bicha stated that the term “environmental neglect” refers to the condition of the living environment.

In response to a comment from Senator Lundberg, Monica Bowers stated that the goal of the audit was to identify areas for improvement given the existing standards and rules.

Recommendation No. 2 was reviewed and discussed by staff from the Department.

11:57 a.m. The Committee recessed for lunch.

1:30 p.m. The Committee reconvened.

1:30 p.m. Representative Nordberg was excused.

Recommendation No. 3 was reviewed and discussed by staff from the Department.

In response to a question from Representative Sonnenberg, Dana Berry described how small counties handle the segregation of duties requirement for requesting and providing assessment closures and extensions. Nina Frant stated that in one county, the Director of Human Services does a secondary review of high risk cases.

In response to a question from Senator Balmer, Ms. Berry stated that the audit recommends enforcing existing guidance and putting in controls where weaknesses were found, not recommending hiring additional staff.

In response to a question from Representative McCann, Ms. Berry stated that the differential response pilot program will be discussed in a later recommendation.

Recommendation No. 4 was reviewed and discussed by staff from the Department.

2:00 p.m. Representative Nordberg arrived.

In response to a question from Representative Ryden, Mr. Bicha reviewed the membership of the Child Fatality Review Team.

In response to a question from Senator Lundberg, Mr. Bicha stated that the Child Fatality Review Team includes two members of the General Assembly; Senator Jeanne Nicholson and Representative Clarice Navarro-Ratzlaff. Ms. Frant stated that one General Assembly member is appointed by the Senate President and House Speaker, each.

In response to a question from Senator Tochtrop, State Auditor Ray stated that the financial recommendation classifications are used for financial and compliance audits, which is why they are not in the audit.

Recommendation No. 5 was reviewed and discussed by staff from the Department.

In response to a question from Chair Guzman, Ms. Frant stated that state rule provides the same definition for egregious incidents as statute does.

In response to a question from Chair Guzman, Mr. Bicha stated that fatal and near-fatal incidents are required by state and federal law to be reported and reviewed. Further, he stated that Colorado exceeds federal requirements, by also requiring egregious incidents to be reported and reviewed.

Recommendation No. 6 was reviewed and discussed by staff from the Department.

In response to a question from Senator Tochtrop, Mr. Bicha stated that in many cases a follow-up phone call was made to the mandatory reporters, but may not have been accurately recorded in Trails.

2:49 p.m. Senator Balmer was excused.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the audit exclusively audited information contained in Trails, and did not contact counties for additional documentation or clarification. Ms. Frant stated that the audit looked at information in Trails, and also sent conclusions to the counties requesting further documentation or information, as outline on page 120.

In response to a question from Representative Sonnenberg, Ms. Frant stated that Exhibit 3.5 reflects if follow-up information was provided to the mandatory reporters as recorded in Trails. Further, she stated that below Exhibit 3.5, the audit notes the result of further file review, including information gathered from counties.

In response to a question from Representative Nordberg, Mr. Bicha stated that caseworkers must document everything in Trails. Further, he stated that Trails has some limitations such as scanning abilities; thus, some documents are saved elsewhere.

In response to a question from Chair Guzman, Mr. Bicha stated that there are existing updates in progress to Trails, but the entire system needs to be rebuilt; this is why some recommendation implementation dates are scheduled for completion in one to two years.

Recommendation Nos. 7 and 8 were reviewed and discussed by staff from the Department.

In response to a question from Representative Sonnenberg, Ms. Frant stated that the audit did not analyze the time it would take an employee to post Child Protection Team feedback online.

In response to a question from Representative Sonnenberg, Ms. Frant stated that the practice of posting online is considered reasonable based on comparisons to similar oversight teams, such as the Child Fatality Review Team or the Child Protection Ombudsman, that were created more recently in statutes.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that statute requires public reporting of Child Protection Team feedback. Further, she stated that the audit recommendation to post online is consistent to similar entities' reporting requirements.

Recommendation No. 9 was reviewed and discussed by staff from the Department.

In response to a question from Representative Ryden, Ms. Frant stated that the consequence of the Department not enforcing its rules at the county level is that there is an inconsistent message to counties, and that some counties may be doing more than others.

In response to a question from Representative Ryden, State Auditor Ray stated that problems identified in the audit are not out of compliance with federal regulations.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the Department believes in following state law at all times. Further, he stated that the recently adopted rule package has addressed some audit concerns.

Recommendation No. 10 was reviewed and discussed by staff from the Department.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that the rule making process must have public feedback before a decision can be reached by the State Board of Human Services. Further, he stated that other states vary on the maximum allowable days to complete an assessment.

Recommendation No. 11 was reviewed and discussed by staff from the Department.

In response to a question from Representative Sonnenberg, Ms. Frant stated that there are statutory penalties for mandatory reporters who don't report. Mr. Bicha stated that law enforcement officers are mandatory reporters. Further, he stated that requests for police assistance from caseworkers are not subject to the mandatory reporting law.

Recommendation No. 12 was reviewed and discussed by staff from the Department.

In response to a question from Representative Ryden, Kara Trim stated that there is qualitative evidence that the Collaborative Management Program (Program) has improved some functionality in social services within counties, but there is no quantitative evidence.

In response to a question from Chair Guzman, Ms. Trim affirmed that the Program is voluntary, not mandatory.

In response to a question from Representative McCann, Ms. Trim stated that the audit recommends improvements to the Program. Further, she stated that there may be further policy considerations for the Program that were not the subject of the audit as requested by the General Assembly members.

In response to a question from Chair Guzman, Mr. Bicha stated that there is great value to the Program. Further, he stated that the Program works best as a voluntary program, instead of as a mandate.

Recommendation Nos. 13, 14, and 15, were reviewed and discussed by staff from the Department.

In response to a comment from Representative Ryden, Mr. Bicha stated that the new rules package that was recently approved included items that address some audit concerns.

Recommendation No. 16 was reviewed and discussed by staff from the Department.

4:41 p.m. Representative McCann was excused.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that counties determine who participate on Red Teams. Further, he stated that the Department is interested in the methodology and approach being consistent across all 64 counties, and is less concerned about who participates on the Red Teams.

In response to a question from Representative Sonnenberg, Mr. Bicha stated that counties can utilize professionals from other counties in their Red Teams, often through teleconferencing or video conferencing. Ms. Frant stated that the Differential Response Program and Red Teams were audited at the request of the General Assembly members.

4:54 p.m. The Committee recessed.

The meeting of the LAC reconvened on November 13, 2014, at 9:03 a.m., in the Legislative Services Building, Audit Hearing Room. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Representative McCann (arrived at 9:54 a.m.), Representative Nordberg, Representative Ryden, Representative Sonnenberg, Senator Tochtrop

EXCUSED: Senator Grantham

The following staff members from the OSA and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Matt Devlin, Kerri Hunter, Deputy State Auditors; Bryan Becker, Reed Larsen, Crystal Dorsey, John Kormos, Jeffrey Kahn, Dawn Mabe, Jenny Page, Maya Rosochacova

ALSO PRESENT: Brenda Berlin, Deborah Blyth, David McCurdy, Don Wisdom, Governor's Office of Information Technology; Jim Spaanstra, Jason Brinkley, State Board of Great Outdoors Colorado Trust Fund; Lise Aangeenbrug, Julie Coutant, Great Outdoors Colorado; Karla Whittenburg, EKS&H; Michael Weatherwax, Lottery Commission; Heather Copp, Laura Solano, Jane Biglin, Department of Revenue; Kimberly K. Higgins, Eide Bailly LLP

9:03 a.m. – 10:15 a.m. **Systems Backup and Recovery
Governor's Office of Information Technology
IT Performance Audit, October 2014**

Governor's Office of Information Technology
Brenda Berlin, Deputy Chief Information Officer
& Chief Financial Officer
Deborah Blyth, Chief Information Security Officer
David McCurdy, Chief Technology Officer
Don Wisdom, Deputy Director, Infrastructure Services

Office of the State Auditor

Dianne E. Ray, State Auditor

Matt Devlin, Deputy State Auditor

Bryan Becker, Legislative Auditor

Reed Larsen, Legislative Auditor

A motion was made by Senator Tochtrop and seconded by Representative Nordberg to release the *Systems Backup and Recovery, Governor's Office of Information Technology, IT Performance Audit* (October 2014). The motion passed unanimously.

Following introductions and opening remarks, Reed Larsen provided an overview of the audit.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Governor's Office of Information Technology (OIT).

In response to a question from Senator Balmer, Mr. Larsen stated that a failure in backup and recovery for one department relating to a licensing issue, resulted in that department having to ask applicants to resubmit information. Further, he stated that the audit did not analyze if Colorado citizens' information was at risk, but the audit did not find any instances where personal information was compromised. State Auditor Ray stated that the audit did not find that citizen information was at risk, but that there is a concern regarding properly encrypting information on backup systems.

In response to a question from Representative Ryden, Mr. Larsen stated that the audit was the first stand-alone audit of the State's backup and recovery system; however, other audits have looked at various backup and recovery processes for specific systems.

In response to a question from Representative Sonnenberg, David McCurdy reviewed why OIT may potentially request additional funding and resources to complete Recommendation No. 1B.

In response to a question from Representative Ryden, Mr. McCurdy stated that there is a disaster recovery plan. Further, he stated that OIT is working on individual plans for all 1,088 IT systems.

In response to a question from Representative Nordberg, Mr. McCurdy reviewed the process for reviewing and implementing IT system plans for state entities. Further, he stated that OIT has three full-time-equivalent (FTE) staff writing plans for each of the 1,088 IT systems.

The Committee requested that OIT provide a status report in six months.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Representative Ryden, Mr. McCurdy stated that OIT has included in their budget request additional funding for backup and recovery infrastructure. Further, he stated that OIT has requested potential future funding based on the results of the Operations, Disaster Recovery, Business Continuity Assessment (Assessment). Brenda Berlin stated that based on the Assessment, OIT will determine if it needs additional funding for items such as IT equipment, and will work with the Office of State Planning and Budgeting for those potential funding requests.

In response to a question from Representative Ryden, Mr. McCurdy stated that OIT plans to deliver results of the Assessment in the fall, including any additional personnel and equipment requests. Further, he stated that OIT has brought in resources under the existing budget.

In response to a question from Representative Ryden, Mr. McCurdy stated that some improvements in the backup and recovery monitoring processes are being done on an ongoing basis.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Representative Sonnenberg, Mr. McCurdy reviewed the objectives of the off-site data backup storage study.

In response to a question from Representative Sonnenberg, Ms. Berlin stated that OIT requested an appropriation of \$300,000 during the 2014 Legislative Session to complete an off-site data backup storage study, and received \$237,000.

In response to a question from Representative Sonnenberg, Ms. Berlin stated that the December 2016 implementation date refers to additional time needed to determine an off-site data backup storage facility and if additional funding will be needed. Mr. McCurdy stated that revamping the off-site data backup storage system was estimated to cost between \$1 and \$20 million, which is why a study was requested before moving forward.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Representative Nordberg, Don Wisdom stated that System 3, as described on page 40, is encrypted. Matt Devlin stated that the primary production site is encrypted, but the backup system is not.

In response to a question from Representative Sonnenberg, Deborah Blyth stated that OIT does not have reason to be concerned about the security of System 3. Mr. McCurdy stated that all entities are targets of cyber-attacks and OIT makes sure that there are appropriate protections and layers of security for each entity.

9:54 a.m. Representative McCann arrived.

Recommendation No. 5 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Senator Tochtrop, Mr. McCurdy stated that OIT has continued to modernize the State's infrastructure at the same time as studies have been underway.

In response to a question from Senator Balmer, Mr. McCurdy stated that the Department of Revenue (DOR) has a separate data information system, and OIT has worked with DOR to modernize that system.

In response to a question from Representative Sonnenberg, Mr. McCurdy stated that DOR and the Secretary of State's Office (SOS) have separate systems and servers, with only a small amount of crossover on the network to transfer data.

Recommendation No. 6 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Senator Tochtrop, Mr. McCurdy stated that OIT sets security policies and agencies enforce them. State Auditor Ray stated that the OSA performed an IT vulnerability and penetration test in 2010, and will present another IT vulnerability assessment and penetration test in December 2014.

Recommendation No. 7 was reviewed, discussed, and agreed to by staff from OIT.

In response to a question from Representative Ryden, Ms. Blyth stated that OIT will review and update the Enterprise Cyber Security Plan (ECSP) annually. Further, she stated that OIT policies are based on the policies of the National Institute of Standards and Technology (NIST).

10:15 a.m. The Committee recessed briefly.

10:17 a.m. – **Great Outdoors Colorado**

10:47 a.m. **State Board of the Great Outdoors Colorado Trust Fund
Financial and Compliance Audit
For the Years June 30, 2014 and 2013**

State Board of Great Outdoors Colorado Trust Fund

Jim Spaanstra, Treasurer
Jason Brinkley, Member

Great Outdoors Colorado

Lise Aangeenbrug, Executive Director
Julie Coutant, Chief Financial Officer

Office of the State Auditor

Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Crystal Dorsey, Managing Legislative Auditor

EKS&H

Karla Whittenburg, Audit Partner

A motion was made by Senator Tochtrop and seconded by Senator Balmer to release the *Great Outdoors Colorado, State Board of the Great Outdoors Colorado Trust Fund, Financial and Compliance Audit, For the Years June 30, 2014 and 2013*. The motion passed unanimously.

Following introductions and opening remarks, Karla Whittenburg provided an overview of the audit.

In response to a question from Representative McCann, Ms. Whittenburg stated that on the graph in page 5, “in thousands” means that the last three numbers were removed.

Recommendation No. 1 was reviewed, discussed, and agreed to the State Board of the Great Outdoors Colorado Trust Fund.

In response to a question from Representative Ryden, Ms. Whittenburg stated that authorized grants could extend over several years, and be paid out over subsequent years.

In response to a question from Representative Ryden, Lise Aageenbrug stated that Lottery revenues are consistent and the Great Outdoors Colorado (GOCO,) is funded through the Lottery. Further, she stated that grants are awarded ahead of revenue and on projected revenues.

In response to a question from Senator Balmer, Ms. Aageenbrug stated that 50 percent of Lottery funds are distributed to GOCO, 10 percent are distributed to the Division of Parks and Wildlife, and the other 40 percent are distributed by the Department of Local Affairs through the Conservation Trust Fund to local governments on a per capita basis.

In response to a question from Senator Balmer, State Auditor Ray stated that the *Conservation Trust Fund, Department of Local Affairs, Performance Audit* (January 2004), can address concerns regarding Conservation Trust Fund monies in use by cities without parks departments.

In response to a question from Senator Tochtrop, State Auditor Ray stated that *Conservation Trust Fund, Department of Local Affairs, Performance Audit* (January 2004), found that cities had unallowable Conservation Trust Fund expenditures.

In response from a question from Senator Balmer, State Auditor Ray stated that audit requests are best when they start broad, and then focus on more specific issues.

10:47 a.m. The Committee recessed briefly.

10:49 a.m. – Colorado Lottery
11:12 a.m. Financial and Compliance Audit
June 30, 2014 and 2013

Lottery Commission
Michael Weatherwax, CPA, Commissioner

Department of Revenue
Heather Copp, Deputy Executive Director
Laura Solano, Lottery Director
Jane Biglin, Deputy Lottery Director

Office of the State Auditor
Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
John Kormos, Legislative Auditor

Eide Bailly LLP
Kimberly K. Higgins, Partner

A motion was made by Representative Ryden and seconded by Senator Tochtrop to release the *Colorado Lottery, Financial and Compliance Audit, June 30, 2014 and 2013*. The motion passed unanimously.

Following introductions and opening remarks, Kimberly Higgins provided an overview of the audit.

10:55 a.m. Representative Sonnenberg was excused.

11:13 a.m. – Schedule of TABOR Revenue
11:30 a.m. Performance Audit, September 2014

Office of the State Auditor
Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Jeffrey Kahn, Managing Legislative Auditor
Dawn Mabe, Legislative Auditor

A motion was made by Senator Tochtrop and seconded by Representative Ryden to release the *Schedule of TABOR Revenue, Performance Audit (September 2014)*. The motion passed unanimously.

Following introductions and opening remarks, Jeffrey Kahn, Dawn Mabe, and State Auditor Ray provided an overview of the audit.

11:19 a.m. Representative McCann was excused.

In response to a question from Representative Ryden, Ms. Mabe stated that the subtotal and total Taxpayer's Bills of Rights (TABOR) revenue, highlighted in the table on page 23, is "in billions".

11:30 a.m. The Committee recessed briefly.

**11:35 a.m. – Annual Report of Audit Recommendations
11:36 a.m. Not Fully Implemented as of June 30, 2014
Informational Report, October 2014**

Office of the State Auditor

Dianne E. Ray, State Auditor

Matt Devlin, Deputy State Auditor

Jenny Page, Managing Legislative Auditor

Reed Larsen, Legislative Auditor

Maya Rosochacova, Legislative Auditor

A motion was made by Representative Ryden and seconded by Senator Tochtrop to release the *Annual Report of Audit Recommendations, Not Fully Implemented as of June 30, 2014, Informational Report* (October 2014). The motion passed unanimously.

11:36 a.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Tochtrop and seconded by Representative Ryden to approve the Minutes from August 25-26, 2014. The motion passed unanimously.

Higher Education Enterprise Status

A motion was made by Representative Ryden and seconded by Representative Nordberg to release the *Higher Education Enterprise Status*. The motion passed unanimously.

Reports Released Without a Hearing

A motion was made Senator Tochtrop and seconded by Representative Ryden to release the:

- Auraria Higher Education Center, Financial and Compliance Audit, June 30, 2014 and 2013, (With Independent Auditors' Report Thereon)
- University of Colorado, Financial and Compliance Audit, June 30, 2014 and 2013
- Division of Gaming, Department of Revenue, State of Colorado, Financial Statements and Independent Auditors' Report, June 30, 2014 and 2013

The motion passed unanimously.

Other Business

The LAC discussed and requested that the OSA seek legal advice regarding the Department of Human Services waiving rules.

11:38 a.m. – 12:08 p.m. **Annual Report of Audit Recommendations Not Fully Implemented as of June 30, 2014**
Informational Report, October 2014

Office of the State Auditor
Dianne E. Ray, State Auditor
Matt Devlin, Deputy State Auditor
Jenny Page, Managing Legislative Auditor
Reed Larsen, Legislative Auditor
Maya Rosochacova, Legislative Auditor

Following introductions and opening remarks, Jenny Page, Maya Rosochacova, and Mr. Larsen provided an overview of the report.

11:40 a.m. Senator Balmer was excused.

In response to a question from Representative Ryden, Mr. Larsen stated that the OSA does not conduct follow-up audit work on outstanding performance recommendations, but is conducting a new IT risk assessment and penetration test of OIT. Further, he stated that if an agency, such as OIT, reports that recommendations have not been implemented and provides

new implementation dates, then the OSA will determine that the recommendation is still pertinent. State Auditor Ray stated that recommendations drop off after five years, thus keeping the report pertinent.

12:09 p.m. GENERAL BUSINESS

Higher Education Enterprise Status

Jeffrey Kahn reviewed the *Higher Education Enterprise Status*.

In response to a question from Representative Ryden, Mr. Kahn stated that he did not know if capital appropriations are statutorily or constitutionally required to be counted as state support for the purposes of being included as part of the 10 percent threshold. Further, he stated that any state support, whether it is used for a capital expenditure or an operating expenditure, is counted towards the 10 percent threshold.

Audit Requests

State Auditor Ray presented a request submitted by Representatives Lois Landgraf for an audit of Department of Human Services (DHS) RFP and Procurement Process. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit.

In response to a question from Representative Nordberg, State Auditor Ray stated that the lawsuit concerned a contractor that was awarded a DHS contract for the coordinated Behavioral Health Crises Response Team, which was later rescinded. Further, she stated that the result of the lawsuit required DHS to redo the RFP and procurement process for that contract.

In response to a question from Chair Guzman, State Auditor Ray stated that the audit could look at the DHS RFP and procurement processes across all contracts, but initial research would help determine the scope of the audit.

In response to a question from Representative Nordberg, State Auditor Ray stated that the initial research could help determine the scope of issues within the DHS contracting processes.

A motion was made by Representative Nordberg and seconded by Senator Tochtrop to authorize the OSA to proceed with initial research on the DHS RFP and Procurement Process. The motion passed unanimously.

A quorum was not present for the final vote on two audit requests.

Cash Funds Subcommittee Report

Representative Ryden and State Auditor Ray reviewed the *Cash Funds Subcommittee Report*. State Auditor Ray provided copies and discussed House Bill 13-1280.

In response to a question from Senator Tochtrop, State Auditor Ray stated that the OSA will research if departments are allowed to transfer cash fund monies to other departments without legislative action.

A motion was made by Representative Ryden and seconded by Senator Tochtrop to request draft legislation based on the recommendations of the Cash Funds Subcommittee. The motion passed unanimously.

Proposed 2015 Legislative Audit Committee Session Calendar

State Auditor Ray reviewed the proposed 2015 Legislative Audit Committee Session calendar.

Reports Released Without a Hearing

Kerri Hunter reviewed the reports released without a hearing.

Legislation Discussion

A quorum was not present to vote on draft legislation.

In response to a question from Representative Ryden, State Auditor Ray stated that the OSA consults with the departments and stakeholders during the bill drafting process. Senator Tochtrop stated that LAC bills are heard in their Committees of Reference, which includes public testimony.

12:35 p.m. There being no further business to come before the Committee, the meeting adjourned. The next scheduled hearing is on December 8, 2014, at 10:00 a.m., in the Legislative Services Building, Audit Hearing Room.

Minutes submitted by:

Brittany Wirth
Executive Assistant to the State Auditor
Office of the State Auditor



OFFICE OF THE STATE AUDITOR



Legislative Audit Committee

December 8-9, 2014

Minutes

A meeting of the Legislative Audit Committee (LAC) convened on December 8, 2014, at 10:03 a.m., in the Legislative Services Building, Audit Hearing Room. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer (arrived at 10:09 a.m.), Senator Guzman, Senator Jahn, Representative Nordberg, Representative Primavera, Representative Ryden, Representative Sonnenberg

EXCUSED: Senator Grantham

The following staff members from the Office of the State Auditor (OSA) and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Matt Devlin, Monica Bowers, Deputy State Auditors; Jenny Page, Carleen Armstrong, Trey Standley, Greg Fugate, Reed Larsen

ALSO PRESENT: Sharon O'Hara, Arnold Salazar, Steve ErkenBrack, Connect for Health Colorado Board of Directors; Gary Drews, Karen Phillips, Connect for Health Colorado; Suma Nallapati, Deborah Blyth, David McCurdy, Governor's Office of Information Technology; Gerald Marroney, Chad Cornelius, Deborah Johnson, Judicial Branch; Paul Ashe, Securance Consulting

DIANNE E. RAY, CPA
STATE AUDITOR

10:03 a.m. GENERAL BUSINESS

Recognition Award

A recognition award was presented to Senator Tochtrop for her 6 years of service to the LAC.

10:08 a.m. – Colorado Health Insurance Benefits Exchange:

12:14 p.m. Connect For Health Colorado
Limited Performance Audit, October 2014

Connect for Health Colorado Board of Directors

Sharon O’Hara, Chair
Arnold Salazar, Vice-Chair
Steve ErkenBrack, Member

Connect for Health Colorado

Gary Drews, Interim Executive Director
Karen Phillips, Controller

Office of the State Auditor

Dianne E. Ray, State Auditor
Matt Devlin, Deputy State Auditor
Jenny Page, Managing Legislative Auditor
Carleen Armstrong, Legislative Auditor

A motion was made by Representative Ryden and seconded by Representative Primavera to release the *Colorado Health Insurance Benefits Exchange: Connect For Health Colorado, Limited Performance Audit* (October 2014). The motion passed unanimously.

10:09 a.m. Senator Balmer arrived.

Following introductions and opening remarks, Jenny Page provided an overview of the limited audit.

In response to a question from Senator Jahn, Ms. Page stated that health care tax credits (tax credits) are based on income only, not assets. Gary Drews concurred that the tax credits are based on income.

In response to a question from Senator Jahn, Mr. Drews stated that retired individuals more than 65 years old qualify for Medicare, but not tax credits.

In response to a question from Representative Sonnenberg, Mr. Drews stated that requiring asset testing for tax credits is prohibited by federal regulation and cannot be changed by state law.

In response to a question from Representative Sonnenberg, Mr. Drews stated that Connect for Health Colorado (Connect for Health) engaged a call center in Arizona during the first open enrollment period, because of unexpected over-flow call volume.

In response to a question from Representative Sonnenberg, Mr. Drews stated that during the second open enrollment period the intent was to exclusively use the Colorado Springs call center but again there was unanticipated over-flow call volume, and the Arizona call center was utilized for a second time. Further, he stated that the call center support systems will be reviewed in 2015 as part of a complete strategic planning process to identify efficiency and effectiveness of all Connect for Health operations.

In response to a question from Representative Ryden, Mr. Drews stated that Connect for Health's goal is to employ Colorado workers. Further, he stated that there is a second in-state call center within the Connect for Health building.

In response to a question from Senator Balmer, Ms. Page stated that because of the limited statutory audit authority, the audit did not compare the Colorado Health Insurance Benefits Exchange (Exchange) staff and structure to other states. Further, she stated that Connect for Health is not a state agency.

In response to a question from Senator Balmer, Ms. Page stated that establishing the Exchange did not result in staffing changes to state agencies because state agencies enroll people in state programs, while the Exchange enrolls people in private insurance plans. Mr. Drews stated that the Exchange is a new enterprise serving a previously unserved population, and thus needs resources and staff to facilitate the new marketplace.

In response to a question from Representative Sonnenberg, Mr. Drews stated that Connect for Health is currently revising its forecast for becoming self-sustaining and could not answer if administrative fees will be adjusted in the future.

In response to a question from Representative Sonnenberg, Mr. Drews stated that fees are set by the Connect for Health Board of Directors (Board) and that the 1.4 percent administrative fee is lower than the federal 3.5 percent administrative fee on the same proportional population. Sharon O'Hara stated that there is a cap on the 1.4 percent administrative fee, but did not know what it is. Mr. Drews stated that Connect for Health charges a second \$1.25 fee assessed on insurance carriers per individual insured by a health plan in Colorado per month for the first 3 years of the Exchange; the second fee will only be collected for the second and third years of the Exchange and has a cap of \$1.80.

In response to a question from Representative Ryden, Ms. Page stated that the OSA does not have a list of all capitalized assets, but will ask Connect for Health to provide that at a later date.

In response to a question from Representative Sonnenberg, Mr. Drews stated that marketing and outreach is needed for all enterprises. Further, he reviewed the marketing and outreach efforts of Connect for Health.

In response to a question from Senator Balmer, Mr. Drews stated that in 2011, MIT Economics, led by Jonathan Gruber, was engaged as a data advisory workgroup and paid \$240,000 by a federal implementation planning grant.

In response to a question from Senator Balmer, Mr. Drews stated that Connect for Health is in the process of reviewing and deciding on the best course of action for future sustainability once federal funds cease. Further, he stated that since he has been with Connect for Health for only three months, he could not comment on past decisions.

In response to a question from Representative Nordberg, Ms. Page confirmed that the federal Affordable Care Act (ACA) prohibits retaining or hiring lobbyists to promote or oppose public policy using federal funds.

In response to a question from Representative Nordberg, Mr. Drews stated that since he has been with Connect for Health for only three months, he could not comment on whether past public funds were used to hire lobbyists to promote or oppose public policy.

In response to a question from Representative Nordberg, Ms. Page stated that full documentation was not available to determine if federal funds were used to promote or oppose public policy. Further, she stated that in review of documentation that was provided, no violations of the ACA were found related to retaining or hiring lobbyists to promote or oppose public policy using federal funds.

In response to questions from Representative Sonnenberg and Senator Balmer, Steve ErkenBrack stated that the Board decided not to take a position on House Bill 14-1257 because the Board feels it is inappropriate to decide what level of legislative oversight is needed on the Exchange.

In response to requests from Representative Nordberg and Senator Balmer, Connect for Health agreed to provide a memo detailing the number of lobbyists that Connect for Health has paid, the amount that was paid to each, and the source of funds used for these payments (i.e., 2012 through 2014), including individuals that have been engaged as legal counsel to speak on behalf of Connect for Health during legislative hearings or about legislation and/or any Connect for Health employees that conducted lobbying activities.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from Connect for Health.

In response to a question from Representative Sonnenberg, Ms. Page stated that the OSA is required to report questioned costs to federal oversight agencies and it is those agencies' duty to recover funds based on the type of violation identified in the limited audit.

In response to a question from Senator Balmer, Mr. ErkenBrack stated that Connect for Health is a public not-for-profit entity and is mindful to prudently expend public funds.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from Connect for Health.

In response to a question from Representative Primavera, Mr. Drews reviewed the new processes, staff, and tools put in place to safeguard against future abuses of contract policies and procurement.

In response to a question from Representative Nordberg, Mr. Drews stated that Connect for Health would provide information on the description of the services and the name of the vendor that was contracted to, “advise and assist [Connect for Health]...to engage voters regarding health care...development and management of the campaign’s paid canvass operation,” at a later time. Ms. Page stated that the contractor’s invoice did not describe the services provided and there was not a statement of work for the contract, thus the limited audit could not decipher if there was a federal law violation.

In response to a question from Chair Guzman, Ms. Page stated that complete documentation was not available to determine if the contract to “advise and assist...to engage voters” illegally used public funds.

In response to a question from Chair Guzman, Ms. Page stated that contract overpayments that the Board did not approve did not have sufficient documentation for additional services provided, but based on the documentation Connect for Health provided, the limited audit concluded there were no federal law violations and does not recommend recovering funds.

In response to a question from Representative Ryden, Karen Phillips stated that the contract on page 30, that was paid cost plus an additional 15 percent, was billed within the terms of the contract but because of the ACA, was illegally paid with federal funds. Further, she stated that Connect for Health has reviewed all contracts illegally paid with federal funds and has substituted other funds to cover those payments, and subsequently reduced their funding request from the federal payment service.

In response to a question from Representative Ryden, Mr. Drews stated that questioned contract payments were not overpayments; services were provided.

In response to a question from Senator-Elect Tim Neville, Mr. Drews stated that Connect for Health has hired a general counsel and is in process of hiring an internal auditor to address the limited audit concerns and review all contracts.

In response to a question from Senator-Elect Neville, Mr. Drews stated that Connect for Health will report progress to the LAC in six months when the OSA reviews implementation of the recommendations.

In response to a question from Representative Sonnenberg, Mr. Drews stated that each contract payment had its own individual circumstances behind payments above the original contract amount. Further, he stated that during the startup phase of Connect for Health, the Board gave the Chief Executive Officer (CEO) authority to negotiate with vendors and subcontractors and additional statements of work, and change requests were developed as needed.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from Connect for Health.

In response to a question from Representative Nordberg, Carleen Armstrong stated that the OSA will provide a list of the organizations that received grant funds from Connect for Health to provide consumer assistance.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from Connect for Health.

In response to a question from Senator Jahn, Ms. Armstrong stated that the remaining \$41.2 million Connect for Health is expected to receive in federal funds was originally for the grant period through December 2014, but has been extended through December 2015.

In response to a question from Representative Sonnenberg, Ms. Phillips stated that the \$6,753 paid for overtime meals on page 84 was paid by seven people and typically fed between 20 to 30 staff. Ms. Armstrong stated that the general ledger showed federal funds were used to purchase overtime meals which are questioned costs.

Connect for Health provided and discussed two handouts regarding their *Milestones, Measures, and Oversight*.

In response to a question from Representative Sonnenberg, Mr. ErkenBrack stated that he would be supportive of a bill to grant OSA additional audit authority over the Exchange and offered Board involvement to ensure a collaborative process.

In response to a question from Representative Sonnenberg, Mr. Drews stated that he would be supportive of a bill to grant OSA additional audit authority over the Exchange.

12:14 p.m. The Committee recessed for lunch.

1:44 p.m. The Committee reconvened.

1:44 p.m. – IT Vulnerability Assessment, Penetration Test, and Technical
2:20 p.m. Security Review
Governor’s Office of Information Technology
& Judicial Branch
Performance Evaluation, November 2014

Governor’s Office of Information Technology

Suma Nallapati, Secretary of Technology & State Chief
Information Officer

Deborah Blyth, Chief Information Security Officer

David McCurdy, Chief Technology Officer

Judicial Branch

Gerald Marroney, State Court Administrator

Chad Cornelius, Chief Information Officer

Deborah Johnson, Information Security Officer

Office of the State Auditor

Dianne E. Ray, State Auditor

Matt Devlin, Deputy State Auditor

Reed Larsen, Legislative Auditor

Securance Consulting

Paul Ashe, President & Senior Consultant

A motion was made by Representative Primavera and seconded by Representative Ryden to release the *IT Vulnerability Assessment, Penetration Test, and Technical Security Review, Governor’s Office of Information Technology & Judicial Branch, Performance Evaluation* (November 2014). The motion passed unanimously.

Following introductions and opening remarks, Paul Ashe provided an overview of the evaluation.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from the Governor’s Office of Information Technology (OIT).

In response to a question from Representative Sonnenberg, Deborah Blyth stated that the order of addressing recommendations will be prioritized according to risk level. Further, she stated, with one exception, that there are no recommendations that can be remediated without incurring additional costs.

In response to a question from Representative Sonnenberg, David McCurdy stated that OIT anticipates a fiscal impact to implement all the recommendations but did not know how much it will cost. Further, he reviewed current and future financial requests to address recommendations and other system improvements that cannot be accomplished through upgrades or patches.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from OIT.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from the Judicial Branch.

Recommendation No. 4 was reviewed, discussed, and agreed to by staff from OIT.

Recommendation No. 5 was reviewed, discussed, and agreed to by staff from the Judicial Branch.

In response to a question from Chair Guzman, Gerald Marroney stated that the Judicial Branch tried to anticipate the fiscal impact of implementing all of their audit recommendations in their November 1, 2014, budget request.

**2:20 p.m. – Confidential IT Vulnerability Assessment, Penetration Test,
3:55 p.m. and Technical Security Review
Governor’s Office of Information Technology
& Judicial Branch
Performance Evaluation, November 2014**

As advised by legal counsel and in accordance with Section 24-6-402(3)(a)(IV), C.R.S., a motion was made by Senator Jahn and seconded by Representative Primavera to go in to executive session to discuss the *Confidential IT Vulnerability Assessment, Penetration Test, and Technical Security Review, Governor’s Office of Information Technology & Judicial Branch, Performance Evaluation* (November 2014). The motion passed unanimously.

The LAC discussed the confidential evaluation.

3:55 p.m. GENERAL BUSINESS

Minutes

A motion was made by Senator Jahn and seconded by Representative Ryden to approve the Minutes from November 12-13, 2014. The motion passed unanimously.

Audit Requests

Monica Bowers reviewed the evaluation of a request for an audit related to the Colorado's Medicaid Application Process within Connect for Health Colorado, also known as PEAK.

In response to a request from Representative Primavera, Ms. Bowers stated that auto-generated Medicaid eligibility letters from the Department of Health Care Policy and Finance would be considered for incorporation into the audit.

A motion was made by Representative Sonnenberg and seconded by Representative Primavera to approve the request for an audit of PEAK. The motion passed unanimously.

Ms. Bowers reviewed the evaluation of a request for an audit related to the Colorado Operations Resource Engine (CORE).

In response to a question from Chair Guzman, State Auditor Dianne E. Ray requested that the LAC not move forward with the CORE audit, as it overlaps with other planned audits involving CORE.

In response to a question from Representative Sonnenberg, State Auditor Ray reviewed why the OSA does not recommend approving the CORE audit.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that the audit requestor, Representative Libby Szabo, approved the memo on the evaluation of a request for an audit.

In response to a question from Senator Jahn, State Auditor Ray stated that there will be several audits that cover CORE and all will be distributed to the LAC.

No action was taken on the CORE audit request.

4:07 p.m. The Committee recessed.

The meeting of the LAC reconvened on December 9, 2014, at 9:02 a.m., in the Legislative Services Building, Audit Hearing Room. Chair Guzman called the meeting to order. The roll was called with the following result:

PRESENT: Senator Balmer, Senator Guzman, Senator Jahn, Representative Nordberg, Representative Primavera (arrived at 9:33 a.m.), Representative Ryden, Representative Sonnenberg

EXCUSED: Senator Grantham

The following staff members from the OSA and other agencies were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Matt Devlin, Kerri Hunter, Monica Bowers, Deputy State Auditors; Greg Fugate, Cynthia Hochmiller, Michelle Colin, Jenny Page

ALSO PRESENT: Jeff Ackerman, Paul Scharfenberger, Colorado Energy Office; Brian Hill, Joanne Hill, Matt Lausten, Two Hills Accounting & Consulting, P.C.; Richard Schweigert, Colorado State University System; Dr. Anthony Frank, Colorado State University System – Fort Collins; Dr. Becky Takeda-Tinker, Derrick Dobbins, Colorado State University – Global Campus; Dr. Lesley DiMare, Karl Spiecker, Colorado State University – Pueblo; Rob MaCoy, Nikki Kubly, BKD, LLP; Kurt T. Morrison, Department of Transportation; Jennifer Corrigan, Department of Human Services

9:02 a.m. – State Energy Program
9:32 a.m. Colorado Energy Office, Office of the Governor
Performance Audit, November 2014

Colorado Energy Office
Jeff Ackerman, Director
Paul Scharfenberger, Director, Finance & Operations

Office of the State Auditor
Dianne E. Ray, State Auditor
Matt Devlin, Deputy State Auditor
Greg Fugate, Managing Legislative Auditor

Two Hills Accounting & Consulting, P.C.
Brian Hill, Partner
Joanne Hill, Partner
Matt Lausten, Senior Associate

A motion was made by Representative Ryden and seconded by Senator Jahn to release the *State Energy Program, Colorado Energy Office, Office of the Governor, Performance Audit* (November 2014). The motion passed unanimously.

Following introductions and opening remarks, Brian Hill, Joanne Hill, and Matt Lausten provided an overview of the audit. Based on the extensive test work of the audit, the auditors did not identify evidence that fraud, abuse, or waste occurred in State Energy Program expenditures and activities during State Fiscal Years 2008 through 2010.

Mr. Ackerman provided an update since the *Colorado Energy Office, Governor's Office, Performance Audit* (December 2012) and the August 2013 Status Report.

In response to a question from Representative Ryden, Jeff Ackerman stated that the difference in federal funds awarded versus funds expended is because of the large sums of money that were expended beyond the 2008-2010 audit period; it took time to expend the large influx of capital. Paul Scharfenberger stated that the majority of the federal funds were spent in Fiscal Years 2011 and 2012, after the audit period.

9:32 a.m. The Committee recessed briefly.

9:33 a.m. Representative Primavera arrived.

9:35 a.m. – Colorado State University System
10:31 a.m. Financial Statements and Independent Auditor’s Reports
Financial Audit, Years Ended June 30, 2014 and 2013
Compliance Audit, Year Ended June 30, 2014

Colorado State University System
Richard Schweigert, Chief Financial Officer

Colorado State University System – Fort Collins
Dr. Anthony Frank, President

Office of the State Auditor
Dianne E. Ray, State Auditor
Kerri Hunter, Deputy State Auditor
Cynthia Hochmiller, Managing Legislative Auditor

BKD, LLP
Rob MaCoy, Partner
Nikki Kubly, Director

A motion was made by Representative Ryden and seconded by Senator Jahn to release the *Colorado State University System, Financial Statements and Independent Auditor’s Reports, Financial Audit, Years Ended June 30, 2014 and 2013, Compliance Audit, Year Ended June 30, 2014*. The motion passed unanimously.

Following introductions and opening remarks, Rob MaCoy and Nikki Kubly provided an overview of the Colorado State University (CSU) System audit.

Recommendation No. 3 was reviewed, discussed, and agreed to by staff from CSU System.

**Colorado State University - Global Campus
(A University within the Colorado State University System)
Financial Statements and Independent Auditor’s Reports
Financial Audit, Years Ended June 30, 2014 and 2013**

**Colorado State University - Pueblo
Financial Statements and Independent Auditor's Reports
Financial Audit, Year Ended June 30, 2014
Compliance Audit, Year Ended June 30, 2014**

Colorado State University – Global Campus
Dr. Becky Takeda-Tinker, President
Derrick Dobbins, Controller

Colorado State University - Pueblo
Dr. Lesley DiMare, President
Karl Spiecker, Vice President, Finance and Administration

A motion was made by Representative Primavera and seconded by Representative Nordberg to release the *Colorado State University - Global Campus, (A University within the Colorado State University System), Financial Statements and Independent Auditor's Reports, Financial Audit, Years Ended June 30, 2014 and 2013*, and the *Colorado State University – Pueblo, Financial Statements and Independent Auditor's Reports, Financial Audit, Year Ended June 30, 2014, Compliance Audit, Year Ended June 30, 2014*. The motion passed unanimously.

Mr. MaCoy provided an overview of the CSU-Global audit.

In response to a question from Representative Ryden, Derrick Dobbins stated that useful improvements such as infrastructure and the web portal have been expensed instead of capitalized.

In response to a question from Senator Jahn, Dr. Becky Takeda-Tinker stated that the tuition and fee increase from 2013 to 2014 on page 19 is because of increased enrollment. Further, she stated that tuition for undergraduate students has not increased since 2011 and not since 2012 for graduate students.

In response to a question from Senator Jahn, Dr. Takeda-Tinker stated that CSU-Global has no student fees. Further, she stated that tuition rates are guaranteed at the same level as long as the student retains an active status.

In response to a question from Senator Balmer, Dr. Takeda-Tinker reviewed the CSU-Global multi-dimensional learning experiences and the qualifications of the faculty.

In response to a question from Senator Balmer, Dr. Takeda-Tinker stated that CSU-Global works with other CSU campuses to transfer credits, both to and from. Dr. Anthony Frank stated that all CSU employees are offered tuition discounts across all CSU campuses.

In response to a question from Senator Balmer, Dr. Takeda-Tinker stated that CSU-Global serves students in every state, all U.S. territories, and 41 countries. Further, she stated that CSU-Global is highly integrated with the military and that 16 percent of the student population is military based.

In response to a question from Representative Sonnenberg, Dr. Takeda-Tinker stated that CSU-Global serves 63 out of 64 Colorado counties; Kiowa is the missing county.

CSU-Global provided and discussed a handout regarding their *Fall 2014 Briefing Book*.

Mr. MaCoy provided an overview of the CSU-Pueblo audit.

Recommendation No. 1 was reviewed, discussed, and agreed to by staff from CSU-Pueblo.

In response to a question from Senator Balmer, Dr. Lesley DiMare stated that CSU-Pueblo hosts activities at the State Fair. Further she stated that she did not believe a significant amount of the CSU-Pueblo budget was spent on the State Fair. Karl Spiecker stated that the CSU-Pueblo budget does not subsidize the State Fair but provides in-kind contributions and incurs expenses to promote CSU-Pueblo at the State Fair.

In response to a question from Representative Sonnenberg, Dr. Frank stated that the Cooperative Extension Service oversees Colorado's 4-H programs, which has several programs that run at and through the State Fair.

Recommendation No. 2 was reviewed, discussed, and agreed to by staff from CSU-Pueblo.

Page 15 was reviewed in response to a previous LAC audit request regarding CSU-Pueblo budget cuts and the impact of the new CSU-South Denver Campus.

In response to a question from Chair Guzman, Dr. Frank stated that the CSU-South Denver Campus was established to meet demand using additional resources; it was not designed to drain existing resources from CSU-Pueblo. Further, he reviewed the process used to establish the CSU-South Denver Campus. Dr. DiMare concurred that the CSU-South Denver Campus would not drain students from CSU-Pueblo and that the CSU-South Denver Campus growth and impact to the other CSU schools is being monitored.

Dr. DiMare reviewed the long-range plans for CSU-Pueblo, including new enrollment initiatives.

10:31 a.m. The Committee recessed briefly.

10:33 a.m. GENERAL BUSINESS

Annual Executive Summary of Audits of Tobacco Settlement Programs

Ms. Bowers reviewed the Annual Executive Summary of Audits of Tobacco Settlement Programs.

Legislation Discussion

The Committee discussed and decided to proceed with the Legislation Discussion.

Ms. Bowers reviewed the status of legislation recommendations as of November 2014.

Michelle Colin and Kurtis T. Morrison, Federal and State Liaison, Colorado Department of Transportation (CDOT), reviewed CDOT's response to potential legislation concerning *Outdoor Advertising Program, Department of Transportation, Performance Audit* (May 2013), for Recommendation No. 3b. CDOT requested a 20 percent increase in Outdoor Advertising Program (Program) permit fees.

In response to a question from Chair Guzman, Mr. Morrison stated that the blue Tourist Oriented Directional Signs (TODS) and Specific Information and Business Signs (LOGO Signs) in the right-of-way that advertise food, lodging, fuel, and other information to the traveling public are administered by CDOT and are different than the outdoor advertising signs, which resemble traditional advertising billboards leased by private companies.

In response to a question from Representative Sonnenberg, Mr. Morrison stated that the Federal Highway Beautification Act (Highway Beautification Act) requires CDOT to regulate private advertising on highway, for both beauty and safety. Further, he reviewed the structure of the Program.

10:44 a.m. Senator Balmer was excused.

In response to a question from Representative Primavera, Mr. Morrison stated that CDOT did not propose more than a 20 percent permit fee increase because a 400 to 500 percent increase would be needed to completely cover Program costs, which CDOT believes would not receive industry or General Assembly support.

In response to a question from Representative Primavera, Mr. Morrison stated that the Program exists because it is required by federal law. Further, he stated that prior to the Highway Beautification Act, there were large amounts of visual pollution on highways that created traffic and safety hazards.

In response to a question from Representative Primavera, Mr. Morrison stated that the private companies provide maintenance on their own billboards and ensure that they are in compliance with state and federal law.

In response to a question from Representative Sonnenberg, Mr. Morrison stated that CDOT does not regulate on premise advertising signs unless the sign is advertising for a different business or property.

In response to a question from Representative Sonnenberg, Mr. Morrison reviewed the difficulties in regulating rural signs.

In response to a question from Chair Guzman, Mr. Morrison stated that the sale or lease of billboards is between two private parties, not CDOT. Further, he stated that the permit fee pays for the regulation of the billboards.

In response to a question from Representative Ryden, Mr. Morrison stated that the 20 percent permit fee increase was reached in agreement with the outdoor advertising industry to have a collaborative bill. Further, he stated that other similar CDOT programs are also always underfunded.

In response to a question from Representative Nordberg, Mr. Morrison stated that the Highway Beautification Act has not been revisited by Congress in several years.

In response to a question from Chair Guzman, Mr. Morrison stated that TODS are owned and administered by CDOT and that federal law prohibits private sector companies from advertising on them except for restrooms and vending machines in rest areas. Further, he reviewed how the TODS and LOGO Signs Program is administered.

In response to a question from Chair Guzman, Mr. Morrison stated that CDOT is requesting LAC assistance to sponsor a bill to increase permit fees by 20 percent.

In response to a question from Representative Primavera, Representative Sonnenberg stated that he believes the cost of the Program can be covered by existing CDOT full-time-equivalent (FTE) staff.

In response to a question from Representative Ryden, Mr. Morrison stated that the Program regulates billboards to ensure they comply with luminosity restrictions, safety regulations, and other state and federal laws.

In response to a question from Representative Ryden, Mr. Morrison stated that CDOT regulates federal highways and interstates; local governments regulate locally controlled roads.

No action was taken to sponsor CDOT legislation to increase permit fees by 20 percent.

Jennifer Corrigan, Legislative Liaison, Department of Human Services (DHS), reviewed DHS' response to potential legislation concerning the *Child Welfare, Department of Human Services, Performance Audit* (October 2014), for Recommendations Nos. 7 and 8a.

In response to a question from Representative Sonnenberg, Ms. Corrigan confirmed that DHS agrees with Recommendation No. 7 to eliminate Child Protection Teams.

In response to a question from Representative Primavera, Ms. Corrigan stated that Child Protection Teams were created in 1975, composed of community members charged with reviewing every referral. Further, she stated that other mechanisms put in place since 1975 provide referral review and oversight and thus, the Teams have outlived their purpose.

In response to a question from Representative Ryden, Ms. Corrigan stated that per Recommendation No. 7, DHS has had conversations with counties about eliminating Child Protection Teams, and has not heard significant concern about their elimination.

In response to a question from Representative Ryden, Ms. Corrigan stated that if Child Protection Teams were eliminated, she did not know if statute would prohibit counties from continuing their usage.

In response to a question from Representative Primavera, Ms. Corrigan stated that DHS would research if the continued use of Child Protection Teams would be prohibited if the statutory requirement was eliminated, and report back to the LAC in January.

In response to a request from the LAC, Ms. Corrigan agreed to provide a memo to the LAC from DHS with legislative options to address the Child Protection Teams at the January 13, 2015, LAC hearing.

In response to a question from Representative Primavera, Ms. Bowers stated that the OSA does not continue to track legislative recommendations that the departments disagree with.

Kerri Hunter reviewed Bill Draft LLS NO. 15-0097.01. A motion was made by Representative Sonnenberg and seconded by Representative Ryden to approve Bill Draft LLS NO. 15-0097.01 to be put on Bill Paper. The motion passed unanimously.

The Bill will start in the Senate.

Sponsors: Representative (i.e., Senator-Elect) Sonnenberg and Senator
Jahn
Representative Ryden

Co-Sponsors: Representatives Nordberg and Primavera
Senator Guzman

Ms. Page reviewed Bill Draft LLS NO. 15-0098.01. Representative Nordberg requested to be a prime sponsor.

In response to a question from Representative Primavera, Ms. Page stated that federal regulation allows for a Vocational Rehabilitation Program (Program) employment goal as a homemaker.

In response to a question from Representative Primavera, Ms. Page stated that the Bill Draft does not prohibit students from attending out-of-state institutions of higher education (institutions), but will only reimburse the equivalent of in-state tuition. Further, she stated that anything above the in-state tuition equivalent will be the financial responsibility of the participant.

In response to questions from Representatives Sonnenberg Nordberg, Ms. Page stated that the Bill Draft allows flexibility by not requiring in-state institutions to be utilized first, but that the Program should give preference to in-state institutions. Further, she confirmed that federal law allows for Program participants to attend institutions such as Gallaudet University.

In response to requests from Representatives Ryden and Primavera, State Auditor Ray stated that the OSA will work with the bill drafter to include a qualifier on the limitation of payments to provide case-by-case exceptions for specializations only available outside Colorado, such as Gallaudet University.

Representative Primavera requested that the Bill Draft be revised on page 5, line 20, to add in that the family or legal guardian's financial ability should be included in the Program's decision if the "person with a disability is in need of financial assistance". Representative Ryden requested input from the Cross Disability Coalition.

In response to a question from Representative Primavera, Ms. Page stated that the Program is still the "payer of last resort"; schools and other programs are required to be utilized first. Further, she stated that the audit found that the Program did not always require individuals to contribute to the cost of education if they had the financial ability to contribute.

The LAC requested that the discussed revisions be incorporated in to the Bill Draft and a revised bill draft be presented at the January 13, 2015, LAC hearing.

State Auditor Ray discussed Bill Draft LLS NO. 15-0345.01. Further, she announced that the Joint Budget Committee (JBC) is considering legislative options to address out-of-compliance cash funds and would like to work with the LAC to find common ground.

In response to a question from Representative Sonnenberg, State Auditor Ray reviewed why the JBC and LAC need to work together to address cash funds.

The LAC decided to meet with the JBC on January 8, 2015, from 2:30 p.m. to 3:30 p.m., in the JBC hearing room, located in the Legislative Services Building, third floor, to discuss cash funds.

No action was taken on Bill Draft LLS NO. 15-0345.01.

A motion was made by Representative Sonnenberg and seconded by Representative Nordberg to move Bill Draft 14-0808.01, granting OSA additional audit authority over the Exchange, to Bill Paper for 2015.

In response to a question from Representative Ryden, State Auditor Ray stated that she did not believe there was a similar bill in progress.

In response to a question from Representative Ryden, State Auditor Ray stated that the Connect for Health audit audited against written regulations and laws that are publicly available.

In response to a question from Representative Nordberg, State Auditor Ray confirmed that Bill Draft 14-0808.01 was a simple bill to expand OSA audit authority to perform a full performance audit of Connect for Health.

In response to a question from Senator Jahn, State Auditor Ray stated that LAC bills start in the chamber from whoever volunteers first to be a prime sponsor, which in this case was Representative (i.e., Senator-Elect) Sonnenberg.

The motion passed unanimously.

The bill granting OSA additional audit authority over the Exchange will start in the Senate.

Sponsors: Representative (i.e., Senator-Elect) Sonnenberg and Senator Jahn
Representative Nordberg

Co-sponsors, if any, will be determined at a later date.

LAC Rule II. Election of Officers – Duties

State Auditor Ray reviewed the LAC Rule II. Election of Officers – Duties memo.

In response to a question from Representative Sonnenberg, State Auditor Ray stated that the LAC Rules are not being changed; the memo is to inform current and new members about the Vice-Chair rotation process.

In response to a question from Representative Ryden, Chair Guzman stated that per LAC Rule II., the next Vice-Chair will be a House Republican.

Adoption of 2015 Legislative Audit Committee Session Calendar

State Auditor Ray reviewed the proposed 2105 LAC Session Calendar.

A motion was made by Senator Jahn and seconded by Representative Sonnenberg to adopt the proposed calendar. The motion passed unanimously.

Reports Released Without a Hearing

A motion was made by Representative Nordberg and seconded by Representative Ryden to release the:

- Adams State University, Financial and Compliance Audit, Fiscal Years ended June 30, 2014 and 2013
- CollegeInvest Prepaid Tuition Fund, Financial Statements and Independent Auditor's Reports, Financial Audit Years Ended June 30, 2014 and 2013, Compliance Audit Year Ended June 30, 2014
- CollegeInvest College Savings Program Funds, Financial Statements and Independent Auditor's Reports, Financial Audit Years Ended June 30, 2014 and 2013, Compliance Audit Year Ended June 30, 2014
- Colorado Community College System, Financial Statements and Compliance Audit, June 30, 2014 and 2013, (With Independent Auditors' Reports Thereon)

