

STATE OF COLORADO
DEPARTMENT OF THE TREASURY

Walker R. Stapleton
State Treasurer



Brett J. Johnson
Deputy Treasurer

January 3, 2012

Jonathan Trull
Deputy State Auditor
Colorado Office of the State Auditor
200 E. 14th Avenue, 2nd Floor
Denver, CO 80203-2211

Dear Mr. Trull:

In response to your request, we have prepared an updated status report re: the implementation of audit recommendations for the June 2011 Treasury Investment Program Performance Evaluation. The attached report provides a brief explanation of the actions taken by the Department of the Treasury to implement each recommendation.

If you have any questions, please do not hesitate to contact me at (303) 866-5826 or by email at charles.scheibe@state.co.us.

Sincerely,

A handwritten signature in black ink that reads "Charles Scheibe". The signature is written in a cursive style.

Charles Scheibe
Chief Financial Officer

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Treasury Investment Program Performance Evaluation

AUDIT NUMBER: 2146

DEPARTMENT/AGENCY/ENTITY: Department of the Treasury

DATE: June 2011

SUMMARY INFORMATION

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

Recommendation Number <i>(e.g., 1a, 1b, 2, etc.)</i>	Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i> Please refer to the attached sheet for definitions of each implementation status option.	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
1	Partially Agree	July 2011	Implemented	
2	Agree	Ongoing	Partially Implemented	
3	Agree	December 2011	Partially Implemented	January 2012
4	Agree	Ongoing	Partially Implemented	

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 1

Implementation Status: Implemented

Agency Addressed: Department of the Treasury

Recommendation Text in Audit Report:

The Department of the Treasury should obtain written pre-approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting longer than a three month period. The process of review and approval should be documented in writing and should occur prior to the occurrence of any investment activities that would result in a deviation from the Investment Policy Statement for a period greater than three months.

Agency's Response (*i.e., Agree, Partially Agree, or Disagree*): Partially Agree

Agency's Written Response in Audit Report:

The Department of the Treasury plans to obtain written approval from the State Treasurer, or in his or her absence, the Deputy State Treasurer, for deviations from the Investment Policy Statement lasting longer than a three month period. While the Treasury will strive to seek pre-approval for these deviations, there are instances where pre-approval will not be possible and in those cases, we will request that the State Treasurer or his or her designee ratify those deviations.

Agency's Current Comments on Implementation Status of Recommendation:

The Chief Investment Officer notifies the Treasurer and Deputy Treasurer via email for deviations from the Investment Policy Statement lasting longer than a three month period. She also copies the Compliance Officer (Cash Manager). An acknowledgement from the Treasurer or Deputy Treasurer is required and a copy is maintained in a folder with the Chief Investment Officer.

Recommendation #: 2

Implementation Status: Partially Implemented

Agency Addressed: Department of the Treasury

Original Recommendation in Audit Report:

The Department of the Treasury should research the benefits of eliminating statutory limitations requiring that investments be only in U.S. Securities. Should the Department find it beneficial, the Department should work with the members of the General Assembly to seek statutory change eliminating the requirement that Treasury funds be invested only in U.S. securities and instead allow investments in high-quality foreign securities denominated in U.S. dollars.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

The Department of the Treasury plans to continue to work internally to determine the extent of statutory changes necessary to address the requirement that Treasury funds be invested only in U.S. securities. After sufficient evaluation, the Treasurer's Office plans to work with the members of the General Assembly to make any statutory changes deemed necessary.

Agency's Comments on Implementation Status of Recommendation:

Discussions have continued internally between the investment officers and the Treasurer and Deputy Treasurer. The subject was also discussed at a recent meeting with the Investment Advisory Committee.

Recommendation #: 3

Implementation Status: Partially Implemented

Agency Addressed: Department of the Treasury

Original Recommendation in Audit Report:

The Department of the Treasury should revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make it clear that the Advisory Committee is not a fiduciary to the Treasury Investment Program. Additionally, the Investment Policy Statement should be revised to specify the composition and minimum meeting schedule of the Advisory Committee.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

The Department of the Treasury plans to revise the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role in the investment process and make clear that the Committee is not a fiduciary to the Treasury Investment Program. The Treasury will also consider specifying the composition and minimum meeting schedule of the Committee.

Agency's Comments on Implementation Status of Recommendation:

The Chief Investment Officer has revised the Investment Policy Statement to remove the implication that the Advisory Committee has a prominent role and to clarify that the Committee is not a fiduciary to the Treasury Investment Program. The revisions are awaiting approval of the Treasurer.

Recommendation #: 4

Implementation Status: Partially Implemented

Agency Addressed: Department of the Treasury

Original Recommendation in Audit Report:

The Department of the Treasury should continue to use internal research and seek additional sources of independent research, including purchasing subscriptions to independent credit ratings research, to determine the quality of investment securities when making investment decisions.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

The Department of the Treasury plans to continue to use internal research and seek additional sources of independent, third-party research, including purchasing subscriptions to independent credit ratings research. Purchasing subscriptions to independent research will be subject to the Department's budgetary constraints.

Agency's Comments on Implementation Status of Recommendation:

The investment officers continue to seek additional, reliable sources of independent research. Steps have included numerous conversations with fellow cash managers and investment officers in the public and private sector, including tapping the expertise of the Investment Advisory Committee.