

STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING

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July 31, 2013

John W. Hickenlooper
Governor

Henry Sobanet
Director

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
200 East 14th Avenue, 2nd Floor
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the November 2012 *Performance Evaluation of State Capital Asset Management and Lease Administration Practices*. The attached report provides a brief explanation of the actions taken by the Office of State Planning and Budgeting (OSPB) and the Office of the State Architect (OSA) to implement each recommendation. OSPB and OSA will submit one status report of the audit recommendations, as the two offices worked closely together to address them.

OSPB and OSA have implemented or partially implemented all of the audit's recommendations.

Several recommendations, however, were dependent on action from the Capital Development Committee. Although legislation was drafted to address these recommendations, the CDC ultimately determined that this legislation required additional consideration and elected further consider a bill during during interim rather than carry one in the 2013 session. OSPB will continue to work with the CDC in the interim to address these recommendations.

Also, OSPB is still considering possible solutions for the fourth recommendation, relating to funding for maintenance on State-owned buildings. It was determined that including specific instructions for the FY 2014-15 budget submission was premature given that OSA has only recently begun work on a broader Capitol Complex Master Plan. Once this Plan is completed, OSPB will have a clearer picture of the appropriate amount to charge departments for controlled maintenance, and will consider including this in the following year's budget request as a policy adjustment.

If you have any questions, please do not hesitate to contact me at 303-866-3024 or by email at Erick.Scheminske@state.co.us

Sincerely,

Erick Scheminske
Deputy Director
Office of State Planning and Budgeting

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Performance Evaluation of State Capital Asset Management and Lease Administration Practices

AUDIT NUMBER: 2175

DEPARTMENT/AGENCY/ENTITY: Office of State Planning and Budgeting and Office of the State Architect

DATE: July 19, 2013

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>	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
1a	Agree	May 2013	Implemented	
1b	Agree	May 2013	Implemented	
1c	Agree	May 2013	Implemented / Ongoing	
1d	Agree	May 2013	Implemented / Ongoing	
2a	Agree	May 2013	Implemented / Ongoing	
2b	Agree	May 2013	Partially Implemented	12/31/2013
2c	Agree	May 2013	Partially Implemented	12/13/2013
4a	Agree	May 2013	Partially Implemented	12/31/2013
4b	Agree	May 2013	Partially Implemented	12/31/2013
5a	Agree	May 2013	Implemented	
5b	Agree	May 2013	Implemented	
6a	Agree	May 2013	Implemented	
6b	Agree	May 2013	Implemented	
6c	Agree	July 2013	Implemented / Ongoing	

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>	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
6d	Agree	March 2013	Implemented	
6e	Agree	March 2013	Implemented	
7	Agree	May 2013	Implemented	
8	Agree	March 2013	Partially Implemented	8/31/2013

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 1a

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) should work with the Office of the State Architect to improve the completeness and comprehensiveness of the information used to prepare capital project justifications and support decision-making by:

- a. Revising capital budget instructions to require all project justifications to provide a complete and transparent presentation of total lifecycle costs for the projects. Total lifecycle costs include, but are not limited to, costs for controlled maintenance, capital renewal, ongoing operations, renovation, retrofit, temporary leases, and backfilling space.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that its capital construction budget instructions can be improved with the inclusion of a requirement that departments describe the total lifecycle costs of a new capital purchase. OSPB will consult with the Office of the State Architect and will include these elements in its capital construction budget instructions for the Fiscal Year 2015 budget cycle. It is anticipated that these instructions will be published in May 2013.

Office of the State Architect: The Office of the State Architect will work with OSPB to revise the capital budget instructions to require all project justifications to include total lifecycle project costs.

Current Implementation Status of Recommendation:

Implemented and Ongoing

Agencies' Current Comments on Implementation Status of Recommendation:

OSPB added a lifecycle cost analysis component to the Fiscal Year 2014-15 Capital Construction Budget Instructions in order to move towards meeting the recommendations. Total lifecycle costs as in the budget instructions measures the cost alternatives, over the economic life of a facility, including its initial cost, replacement costs, and the cost of energy, operation and maintenance, staffing, transportation, warehousing, and distribution, training, and disposition or resale. Lifecycle costing (LCC) is applicable to new building, capital renewals, and information technology projects funded through the Capital Construction Budget

Recommendation #: 1b

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Original Recommendation in Audit Report:

The Office of State Planning and Budgeting (OSPB) should work with the Office of the State Architect to improve the completeness and comprehensiveness of the information used to prepare capital project justifications and support decision-making by:

- b. Expanding requirements in the capital budget instructions to clarify that all assumptions in capital project justifications must be supported by adequate and complete supporting documentation.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that its capital construction budget instructions can be improved with the inclusion of a requirement that all assumptions must be supported by adequate documentation. It should be noted, however, that OSPB already validates the veracity of any assumptions provided by departments as part of its review process. OSPB will consult with the Office of the State Architect and will include these elements in its capital construction budget instructions for the Fiscal Year 2015 budget cycle. It is anticipated that these instructions will be published in May 2013.

Office of the State Architect: The Office of the State Architect will work with OSPB to expand the requirements in the capital budget instructions to clarify that all capital project assumptions are supported by adequate and complete supporting documentation.

Current Implementation Status of Recommendation:

Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

OSPB included the requirement that all assumptions must be justified in the lifecycle cost analysis section of the capital construction budget instructions.

Recommendation #: 1c

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Original Recommendation in Audit Report:

The Office of State Planning and Budgeting (OSPB) should work with the Office of the State Architect (OSA) to improve the completeness and comprehensiveness of the information used to prepare capital project justifications and support decision-making by:

- c. Considering development of a repository to capture major project assumptions (e.g., common area space requirements and construction/operating cost estimates) for future use by all stakeholders in preparing and evaluating capital construction requests.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that a searchable repository containing major project assumptions could prove beneficial to departments in their preparation of capital construction requests. It is possible, however, that the development and publishing of such a repository may prove prohibitively expensive within the Office's existing appropriations. OSPB will consult with the Office of the State Architect and other stakeholders to consider the development of such a repository. If existing appropriations allow, this repository will be made available as part of OSPB's next annual publication of capital construction instructions, which will likely be in May 2013.

Office of the State Architect: The Office of the State Architect will work with OSPB to consider the applicability of and the resources required to develop a repository to capture major capital project assumptions to be used by future stakeholders.

Current Implementation Status of Recommendation:

Implemented and Ongoing

Agencies' Current Comments on Implementation Status of Recommendation:

OSA has worked with state agencies and institutions of higher education to collaborate and share experiences for ongoing projects and future capital construction requests in two ways.

#1. At the annual OSA statewide meeting in May 2013 attended by OSA delegates and other state personnel involved in capital construction administration from all state agencies/institutions, OSA implemented a session on *Overall Project Administration* for various project delivery methods including design/build contracts. The session was lead by senior agency/institution staff experienced in managing capital construction. They provided their experiences and methods for managing design and construction service and project budgets. This session

will become a basic component of all future OSA annual statewide meetings with representatives from different state agencies/institutions collaborating and sharing experiences in a public forum.

#2. OSA has also added a reporting requirement in the form of *Exhibit L-2* for Project Closeout Documentation required for all Capital Construction and Controlled Maintenance projects beginning with projects funded in Fiscal Year 2013-14, which is to be reported in OSA's annual report to the OSPB and the CDC in the Project Status Reports. The reporting requires; a) A comparison of project line item budget-to-actual expenditures and a written explanation of contingency use (as per the Capital Construction Audit of 2000), b) Project Monitoring and Administration narratives and, c) Lessons Learned/Evaluations. The information compiled will be made available in the future on OSA's website in collaboration with OSPB as a repository for all agencies/institutions.

Recommendation #: 1d

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) should work with the Office of the State Architect to improve the completeness and comprehensiveness of the information used to prepare capital project justifications and support decision-making by:

- d. Evaluating the potential for identifying a pool of specialists (either existing State agency staff or third parties) which State agencies can resource when preparing their capital construction project justifications and funding requests.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that an available pool of specialists may prove helpful to departments as they develop capital construction requests. OSPB will consult with the Office of the State Architect (OSA) and other stakeholders to further evaluate the process by which these experts could be made available to State agencies. If it is determined that this would be broadly useful, the process by which these experts may be contacted will be included as part of OSPB's next annual publication of capital construction instructions, which will likely be in May 2013.

Office of the State Architect: The Office of the State Architect will work with OSPB to evaluate the potential for identifying a pool of specialists as a resource for State agencies and institutions of higher education when preparing their capital construction project assumptions.

Current Implementation Status of Recommendation:

Implemented and Ongoing

Agencies' Current Comments on Implementation Status of Recommendation:

OSPB met with the State Architect in the Spring 2013 to discuss the creation of a pool of specialists, which would be made available on the State Architect's website. It was decided at that time that it would be most cost effective to use experienced state agencies/institutions staff as the Pool of Specialists. Therefore, as part of the annual meeting session on *Overall Project Administration* described in the response to **1c** above, the state agencies/institutions were encouraged to use these meetings to form a statewide network of experienced facilities staff from other state agencies/institutions involved in capital construction in order to exchange information and collaborate on current and future projects. The contact list of all OSA partially and fully delegated agency staff has been updated and maintained on OSA's web site for reference.

Recommendation #: 2a

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should improve the tracking, monitoring, and reporting on capital construction projects for Executive Branch agencies, including institutions of higher education, by working with the Capital Development Committee to propose legislation where appropriate. Specifically, the Office of State Planning and Budgeting and the Office of the State Architect should:

- a. Establish formal policies for the construction and administration phase of capital construction projects to ensure State agencies prepare project monitoring reports and thorough project closeout evaluations, including a written assessment of lessons learned upon completion. Closeout evaluations and written assessments regarding the construction and administration phase of capital construction projects should be made available to other State agencies for review.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that thorough closeout evaluations of the construction and administration phases of any project should be completed and published for review. OSPB will support the Office of the State Architect (OSA) in ensuring that these evaluations are completed, and will assist in their publication as necessary.

Office of the State Architect: The Office of the State Architect will work with OSPB to establish formal policies for State agencies and institutions of higher education for the construction and administration phase of capital construction projects to require project monitoring and closeout reports including written assessments of lessons learned upon completion.

Current Implementation Status of Recommendation:

Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

OSA has updated, expanded, and renamed an existing policy requiring the preparation of project cost monitoring reports, project closeout evaluations, and documentation of lessons learned for all capital construction and controlled maintenance projects. The new policy is called *Project Monitoring and Cost Management Guidelines* and was initially revised in May of 2013 and finalized and placed online in July of 2013. The policy incorporates form *Exhibit L-2* as described above in the response to **1c**.

Recommendation #: 2b

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should improve the tracking, monitoring, and reporting on capital construction projects for Executive Branch agencies, including institutions of higher education, by working with the Capital Development Committee to propose legislation where appropriate. Specifically, the Office of State Planning and Budgeting and the Office of the State Architect should:

- b. Propose legislation outlining the criteria, length of reporting term, and circumstances under which departments receiving capital construction appropriations should conduct ongoing analysis and monitoring of full project lifecycle costs, project assumptions, and cost saving estimates.

Agencies' Response: Agree

Written Responses in Audit Report:

OSPB: OSPB concurs that post-construction monitoring of specific projects can help inform the best possible decisions concerning future capital construction projects. OSPB will consult with the Office of the State Architect and the Capital Development Committee (CDC) during the 2013 Legislative Session to consider when such analyses would be most appropriate to occur. However, it should be noted that departments may be unable to comply with such requirements within existing budgetary resources, and any bill proposed as part of this recommendation may require additional appropriations.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation for establishing criteria for State agencies and institutions of higher education to conduct ongoing analysis of project lifecycle costs, project assumptions, cost savings and length of reporting term. Contingent upon passage of legislation, policies would be established.

Current Implementation Status of Recommendation:

Partially Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

During the 2013 Legislative Session, OSPB and OSA worked with staff from the Capital Development Committee and the Office of Legislative Legal Services to draft a committee bill that would give the State Architect the authority to work with the CDC to broadly

establish the criteria, length of reporting term, and circumstances for the departments with capital construction appropriations. To meet the requirements of recommendation 2b, this draft legislation promulgated how the departments would conduct analysis and monitor full project lifecycle costs, project assumptions, and cost saving estimates. After comments were received from the institutions and departments, the CDC elected not to carry this bill during the 2013 session, opting instead to more thoroughly investigate the issue during the legislative interim.

Recommendation #: 2c

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should improve the tracking, monitoring, and reporting on capital construction projects for Executive Branch agencies, including institutions of higher education, by working with the Capital Development Committee to propose legislation where appropriate. Specifically, the Office of State Planning and Budgeting and the Office of the State Architect should:

- c. Propose legislation outlining the criteria and circumstances under which capital construction project funding should require engaging independent third parties to provide lifecycle cost monitoring and tracking of complex, high-cost construction projects.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that post-construction monitoring of certain large projects may best be accomplished by an independent third party. OSPB will consult with the Office of the State Architect and the Capital Development Committee during the 2013 Legislative Session to consider criteria for when capital construction appropriations should include a component for post-construction analysis by a third-party vendor. However, it should be noted that such a requirement will likely increase the total cost of construction for some future projects.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to propose legislation for capital construction project funding to include the engagement of independent third party lifecycle cost monitoring and construction cost tracking. Contingent upon passage of legislation, policies would be established.

Current Implementation Status of Recommendation:

Partially Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

With regards to recommendation 2c, the draft legislation referenced in 2b above would also have directed the State Architect and the CDC to create thresholds for which project funding should require independent third party involvement to monitor lifecycle costs and to track high-cost projects. OSPB will work with the CDC and its staff in the interim to address this recommendation.

However, in an effort to comply with this the recommendation, OSPB added a life-cycle cost analysis component to the Fiscal Year 2014-15 Capital Construction Budget Instructions.

Recommendation #: 4a

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should work with the Capital Development Committee to proactively identify potential solutions for addressing increasing controlled maintenance funding needs by considering proposing legislation to address the following options:

- a. Implementing a lease surcharge for State tenants to pay for controlled maintenance.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that the State of Colorado may benefit by the introduction of a more stable and predictable revenue stream for the controlled maintenance needs of State-owned buildings. As such, OSPB will consult with the Office of the State Architect, the Capital Development Committee, and other affected Legislative committees during the 2013 Legislative Session to consider the efficacy of a Capitol Complex lease surcharge to generate revenue for controlled maintenance on existing State-owned buildings. It should be noted, however, that such a surcharge would likely cause a need for increased appropriations in all departments' Leased Space and Capitol Complex Leased Space line items.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation to implement a lease surcharge for State tenants to pay for controlled maintenance. Contingent upon passage of legislation, policies would be established.

Current Implementation Status of Recommendation:

Partially Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

OSPB is still considering possible solutions for the fourth recommendation to implement a lease surcharge for State tenants to pay for controlled maintenance and a funding mechanism for controlled maintenance as part of the approved operating budgets. However, after consulting with the Department of Personnel and Administration, OSPB is considering a delay in the full implementation of this recommendation until after completion of the Capitol Complex Master Plan. Once this Master Plan is complete, the State will have greater

knowledge of the required controlled maintenance needs for buildings in the Capitol Complex. Once the appropriate amount to charge departments for controlled maintenance is known, it will be included in the following year's budget request as a policy adjustment.

Recommendation #: 4b

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should work with the Capital Development Committee to proactively identify potential solutions for addressing increasing controlled maintenance funding needs by considering proposing legislation to address the following options:

- b. Requiring all new capital construction projects to include a funding mechanism for controlled maintenance as part of the approved operating budgets.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation to require State agencies and institutions of higher education to include a funding mechanism for controlled maintenance in their capital construction project requests. Contingent upon passage of legislation, policies would be established.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation to require State agencies and institutions of higher education to include a funding mechanism for controlled maintenance in their capital construction project requests. Contingent upon passage of legislation, policies would be established.

Current Implementation Status of Recommendation:

Partially Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

OSPB is still considering possible solutions for the fourth recommendation to implement a lease surcharge for State tenants to pay for controlled maintenance and a funding mechanism for controlled maintenance as part of the approved operating budgets. However, after consulting with the Department of Personnel and Administration, OSPB is considering a delay in the full implementation of this recommendation until after completion of the Capitol Complex Master Plan. Once this Master Plan is complete, the State will have greater knowledge of the required controlled maintenance needs for buildings in the Capitol Complex. Once the appropriate amount to charge departments for controlled maintenance is known, it will be included in the following year's budget request as a policy adjustment.

Recommendation #: 5a

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should work with the Capital Development Committee to develop a framework for creating a long-term real estate master plan for the State by:

- a. Seeking funding to complete a master plan for the Capitol Complex inclusive of space needs and usage requirements as well as broader concepts such as land use, parking, security, grounds maintenance and use, pedestrian circulation, sustainability issues, and financing options. The master plan should also address quality standards with respect to proposed building renovations.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that the existence of a master plan for the Capitol Complex would lead to better decisions concerning the renovation and potential construction of new space for State operations. In a future budget cycle, OSPB will work with the Office of the State Architect and the Capital Development Committee to propose funding for such a master plan, contingent on available revenues for the project.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation for a master plan for the Capitol Complex. Contingent upon passage of legislation, the master planning would commence immediately.

Current Implementation Status of Recommendation:

Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

To fulfill the requirements of recommendation 5b, Senate Bill 13-263, the Development of a Capitol Complex Master Plan, requires the Department of Personnel and Administration to develop a comprehensive master plan for the Capitol Complex, with final approval from OSPB and the CDC. This bill passed and was signed by the Governor.

Recommendation #: 5b

Agencies Addressed: Office of State Planning and Budgeting and Office of the State Architect

Recommendation Text in Audit Report:

The Office of State Planning and Budgeting (OSPB) and the Office of the State Architect should work with the Capital Development Committee to develop a framework for creating a long-term real estate master plan for the State by:

- b. Considering proposing legislation requiring all real estate-related capital requests be evaluated against an approved master plan, similar to existing statutory requirements for the Colorado Commission on Higher Education and institutions of higher education.

Agencies' Response: Agree

Agencies' Written Responses in Audit Report:

OSPB: OSPB concurs that, if a master plan were funded and completed, both the Governor and the Legislature should evaluate all construction requests related to real estate against such a plan. In the event that OSPB submits a request for a Capitol Complex master plan, it will work with the Office of the State Architect and the Capital Development Committee to propose companion legislation concerning the Plan's role in the evaluation of funding for related construction projects.

Office of the State Architect: The Office of the State Architect will work with OSPB and the Capital Development Committee to evaluate possible legislation to require all real estate related capital requests be evaluated against an existing approved master plan. Contingent upon passage of legislation, policies would be established.

Current Implementation Status of Recommendation:

Implemented

Agencies' Current Comments on Implementation Status of Recommendation:

To fulfill the requirements of recommendation 5b, Senate Bill 13-263, the Development of a Capitol Complex Master Plan (CCMP), requires that all real estate-related capital requests by Executive Branch departments or the Legislative Branch for the Capitol Complex be evaluated by the OSPB and the CDC against the CCMP. Funding for the CCMP plan was received in May 2013 and OSA issued a Request for Proposals in the same month. Submittals were received in June and selection of a master plan prime consultant was completed in July. Negotiations are ongoing and the contract will be fully executed and consulting services will commence in August of 2013 with completion of the CCMP scheduled for December of 2014.

Recommendation #: 6a

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should work with State agencies to strengthen lease administration practices and reduce the risk of operating expense payment errors. Specifically, the Office of the State Architect should:

- a. Promulgate guidance to agencies outlining their responsibilities for annually reviewing their operating expense rental obligations and work with the contract broker to establish standardized procedures for agencies to follow when performing their reviews. At a minimum, the guidance should address the level of detail and support to be obtained from landlords to document the operating expense obligations and require year-to-year comparisons against the base year, annual cost line item-by-item trend analysis, confirmation of the mathematical accuracy of the landlord's billing statement, and confirmation that all expenses included conform to the lease provisions.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Office of the State Architect will establish guidelines outlining agency responsibilities to review landlord statements including operating expense reconciliations annually. Guidelines will specify needed data from landlords to enable agency personnel to make year-to-year comparisons. The Office of the State Architect will also work with the contract broker to develop standardized procedures for agencies to follow when performing the annual reconciliations.

Current Implementation Status of Recommendation:

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

The Office of the State Architect with the assistance of the contract broker contacted the founder of CyberLease a national company specializing in expense reconciliations to assist in establishing guidelines directing agencies to review landlord statements of operating expense reconciliations. The guidelines were presented in a training session for agencies presented by Real Estate Programs on April 23, 2013. This training established procedures for agencies to follow when performing annual operating expense reconciliations. A copy of CyberLease's presentation along with a Desktop Review Worksheet was made available on the Real Estate Programs website immediately following the presentation.

Recommendation #: 6b

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should work with State agencies to strengthen lease administration practices and reduce the risk of operating expense payment errors. Specifically, the Office of the State Architect should:

- b. Develop base-line trainings and training materials for lease administration, in conjunction with the contract broker, that assist agencies with reviewing their operating expenses, tracking critical dates, maintaining complete lease files, and working with landlord to resolve any issues identified. This should include developing a listserv and other centralized web-based resource to support the State's real estate community such as lease administration forms, review procedures, policies, and best practices.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Office of the State Architect will continue to offer training to lease administrators to assist agencies with the review, tracking and maintaining of complete lease files, as well as how to work with landlords to resolve issues. The Office of the State Architect will also add resources to the Office of the State Architect website specifically designed to aid in annual operating lease reconciliations.

Current Implementation Status of Recommendation:

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

Real Estate Programs (REP) conducted a training session for agencies on April 23, 2013. Included in the presenters were the contracted vendor, ProLease, and contracted broker. This training went into great detail on how to utilize the database software to maintain, track and review lease files and to create custom lease reports for the agencies. The contracted broker (JLL) has done individual training with agency personnel at their request. At the conclusion of the April 23 meeting, REP made available a Desktop Review Worksheet online at the Office of the State Architects website.

Recommendation #: 6c

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should work with State agencies to strengthen lease administration practices and reduce the risk of operating expense payment errors. Specifically, the Office of the State Architect should:

- c. Work with the contract broker and the Attorney General's Office to revise the contract service agreement and better define the responsibilities, expectations, and deliverables to be provided by the contract broker when assisting State agencies with lease administration services. This should include requiring the contract broker to perform analytics on the data maintained in the ProLease database to identify trends and potential anomalies and assist State agencies with reviewing their operating expense rental obligations, performing desktop audits when requested, and conducting or arranging for lease audits in a timely manner consistent with lease-specified lease audit windows. The Office of the State Architect should monitor the contract broker's activities to ensure the contract provisions are fulfilled.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Office of the State Architect will work to clarify contract broker responsibilities relating to lease administration services. The Office of the State Architect will seek to add language to subsequent contracts with contract brokers to better define responsibilities. The Office of the State Architect will continue to work with State agencies to monitor the contract broker and ensure that contract provisions are fulfilled.

Current Implementation Status of Recommendation:

Implemented and ongoing

Agency's Current Comments on Implementation Status of Recommendation:

Real Estate Programs (REP) meet with the contracted broker prior to the final renewal period of the vendor contract in June 2013. After a complete review of the existing contract it was determined that no specific changes were needed for the renewal period because the duties and responsibilities of the vendor as related to the audit findings could be implemented under the terms of the existing contract. REP will continue to monitor the contracted brokers' performance. REP will issue an RFP for brokerage services in early 2014 (in place July 1, 2014) which will specifically address the expected broker responsibilities relating to lease administration services.

Recommendation #: 6d

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should work with State agencies to strengthen lease administration practices and reduce the risk of operating expense payment errors. Specifically, the Office of the State Architect should:

- d. Work with State agencies and the contract broker to improve utilization of the existing functionality in the ProLease lease administration system. This should include recommending that agencies use ProLease as the repository for all lease-related documents; activating tools such as critical date tracking and notification, trending, and other analytic functions; entering and maintain key data for the State's entire lease portfolio; and testing for data reliability periodically within the database. Agencies should also be encouraged to enter and maintain data on the basic components of their lease obligations, such as base rent, operating expenses, and additional rent, by leasehold, in the ProLease database. Information should be used for analysis and reporting on the State's entire lease portfolio.

Agency's Response: Agree

Agency's Written Response in Audit Report: The Office of the State Architect will continue to recommend that all State agencies utilize ProLease as the preferred database for lease transactions.

Current Implementation Status of Recommendation:

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

Real Estate Programs (REP) conducted a training session for agencies on April 23, 2013. Included in the presenters was the contracted vendor, ProLease. In the training ProLease went into great detail on how to utilize their software such as archiving, critical date tracking, notification and maintaining complete lease data for state agencies. This training gave agencies the training to enter and maintain their own lease information in a very accessible web based program.

Recommendation #: 6e

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should work with State agencies to strengthen lease administration practices and reduce the risk of operating expense payment errors. Specifically, the Office of the State Architect should:

- e. Consider contracting with an outside vendor to perform centralized review of operating expense reconciliation statements and to conduct lease audits on the State's entire lease portfolio on a contingent fee or combination fee basis, requesting authority from the General Assembly if needed.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Office of the State Architect will explore opportunities to utilize both internal subject matter experts as well as outside vendors to assist in conducting reviews of annual operating expense reconciliation statements.

Current Implementation Status of Recommendation:

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

Real Estate Programs (REP) will advise agencies on how to proceed if questions arise with operating expense reconciliations that are outside the scope of agency personnel to answer. This will include utilizing the contracted broker, in-house expertise, and if necessary outside subject matter experts.

Recommendation #: 7

Agency Addressed: Department of Personnel & Administration

Recommendation Text in Audit Report:

The Department of Personnel & Administration and Labor and Employment should review their operating expenses from prior years and the overpayments identified in this evaluation and work with their landlord to recover all overpayments identified. The Departments should seek assistance from the contract broker in performing reviews and resolving issues with the landlord, as needed.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Department of Personnel & Administration will work with the Office of the State Architect and the contract broker, as appropriate, to review prior year operating expenses and to pursue recovery of identified overpayments.

Current Implementation Status of Recommendation:

Implemented

Agency's Current Comments on Implementation Status of Recommendation:

The Department of Personnel & Administration reviewed the operating expense statement details from the five prior fiscal years to try and identify overpayments. The current lease contract only allows the Department to contest operating expenses within 30 days of receiving the statement. Based on this contract clause, the Lessor denied the Department's request to review additional operating expense details. The Department has performed its due diligence in attempting to identify and recover overpayments resulting from inclusion of inappropriate operating expenses.

Recommendation #: 8

Agency Addressed: Office of the State Architect

Recommendation Text in Audit Report:

The Office of the State Architect should engage the advice and assistance of its contract broker and work with the Attorney General's Office to update and revise the State's Standardized Lease Agreements to better protect the State and reduce the risk of overpaying certain rental obligations. Specifically, the Office of the State Architect should, building on our comments, use the expertise of its contract broker and the comments to make improvements to address the issues identified above.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Office of the State Architect will continue its practice of updating the lease form(s) as needed to reflect changes in law or practice. The Office of the Attorney General, the Office of the State Controller, and the contracted broker will be involved in the review and approval process of the suggested contract language modifications in Recommendation No. 8.

Current Implementation Status of Recommendation:

Partially Implemented

Agency's Current Comments on Implementation Status of Recommendation:

Real Estate Programs (REP) and the contracted broker made and adopted some suggested changes and are in ongoing consultation with the State Controller's Office as to other suggested changes. REP will discuss the SCO comments internally and with the state contracted broker and complete implementation of suggested contracted changes by August 31, 2013.

Office of the State Court Administrator



August 1, 2013

Gerald A. Marroney
State Court Administrator

Carol M. Haller
*Deputy State Court Administrator
Legal Counsel*

Troy C. Singleton
Administrative Assistant

DIRECTORS

Mindy Masias
Human Resources

David Kribs, CFO
Financial Services

Chad Cornelius, CIO
*Judicial Business Integrated
With Technology Services*

Sherry Stwalley
*Planning & Analysis
Legislative Liaison*

Eric Philp
Probation Services

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
200 East 14th Avenue, 2nd Floor
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the November 2012 *Performance Evaluation of State Capital Asset Management and Lease Administration Practices*. The attached report provides a brief explanation of the actions taken by the Judicial Department to implement each recommendation.

If you have any questions, please do not hesitate to contact me at 720-625-5000 or by email at gerald.marroney@judicial.state.co.us.

Sincerely,

For

Gerald A. Marroney
State Court Administrator

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Performance Evaluation of State Capital Asset Management and Lease Administration Practices

AUDIT NUMBER: 2175

DEPARTMENT/AGENCY/ENTITY: Judicial Department

DATE: July 2013

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>	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
3a	Agree	November 2013	Partially Implemented	
3b	Agree	November 2013	Partially Implemented	
3c	Agree	November 2013	Partially Implemented	

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 3a

Agency Addressed: Judicial Department

Recommendation Text in Audit Report:

The Judicial Department should report to the Capital Development Committee and the Joint Budget Committee on its monitoring of project assumptions and lifecycle costs related to the Ralph L. Carr Judicial Center. This reporting could serve as a pilot for the procedures outlined in Recommendation No. 2. Specifically, the Judicial Department should:

- a. Beginning November 1, 2013 annually report current expected cost savings from the Judicial Center project due to the co-location of justice-related agencies and consolidation of various operational and administrative support functions. The report should include adequate supporting detail and an annual assessment of the actual cost savings achieved throughout the life of the project.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Judicial Department agrees with the items proposed in Recommendation No. 2 regarding a more comprehensive set of statewide policies for capital construction projects. We believe that the Judicial Department's experience with the project can provide valuable information to other State agencies coordinating capital construction projects in the future. The Department will continue to work with all tenants in the Ralph L. Carr Judicial Center to pursue any and all available cost savings and operational efficiencies that may be realized as a result of co-locating agencies in the building. The Department will work with the other tenants to compile and present cost savings to the Capital Development Committee and the Joint Budget Committee.

Current Implementation Status of Recommendation:

Partially Implemented

Agency's Current Comments on Implementation Status of Recommendation:

The Department is in the process of identifying and quantifying the cost savings that have resulted in locating judicial-related agencies in the Carr Judicial Center. We plan to have the report finalized and prepared in conjunction with our annual budget submission to the Capital Development Committee and Joint Budget Committee on November 1, 2013.

Recommendation #: 3b

Agency Addressed: Judicial Department

Original Recommendation in Audit Report:

The Judicial Department should report to the Capital Development Committee and the Joint Budget Committee on its monitoring of project assumptions and lifecycle costs related to the Ralph L. Carr Judicial Center. This reporting could serve as a pilot for the procedures outlined in Recommendation No. 2. Specifically, the Judicial Department should:

- b. Provide a current report by November 1, 2013 on any significant unresolved building issues, including the status of signed leases and Memoranda of Understanding with the various Judicial Center tenants.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Judicial Department agrees to compile any significant unresolved building issues and present them to the Capital Development Committee and the Joint Budget Committee.

Current Implementation Status of Recommendation:

Partially Implemented

Agency's Comments on Implementation Status of Recommendation:

The Department and Carr Judicial Center tenants have been working on finalizing the leases and Memoranda of Understanding covering the building services and operations. We intend to have all leases completed and signed by November 1, 2013 and will provide any significant unresolved building issues to the Capital Development Committee and Joint Budget Committee at that time in accordance with the recommendation.

Recommendation #: 3c

Agency Addressed: Judicial Department

Original Recommendation in Audit Report:

The Judicial Department should report to the Capital Development Committee and the Joint Budget Committee on its monitoring of project assumptions and lifecycle costs related to the Ralph L. Carr Judicial Center. This reporting could serve as a pilot for the procedures outlined in Recommendation No. 2. Specifically, the Judicial Department should:

- c. Provide a final closeout evaluation by November 1, 2013 of the project to the Office of the State Architect and the Capital Development Committee, including an assessment of lessons learned, with input from key stakeholders.

Agency's Response: Agree

Agency's Written Response in Audit Report:

The Judicial Department had planned on preparing a final closeout evaluation and review of the project shortly after the building was completed and all tenants had moved in. This process will include input from all tenants, consultants, and project managers.

Current Implementation Status of Recommendation:

Partially Implemented

Agency's Comments on Implementation Status of Recommendation:

The Department is in the process of compiling the final closeout evaluation of the Carr Judicial Center. We have been in contact with the Office of the State Architect and the Office of State Planning and Budgeting to utilize the policies developed as a result of Recommendation No. 2. We plan to solicit input from all tenants in the building, as well as finance and construction consultants, project managers, and other stakeholders involved in the project. We intend to provide the closeout evaluation to the Office of the State Architect and the Capital Development Committee by November 1, 2013.

JOHN HICKENLOOPER
Governor

ELLEN GOLOMBEK
Executive Director



DEPARTMENT OF LABOR AND EMPLOYMENT
OFFICE OF THE EXECUTIVE DIRECTOR

633 17th Street, Suite 1200
Denver, Colorado 80202-3629

July 25, 2013

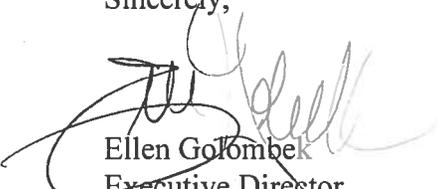
Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
200 East 14th Avenue, 2nd Floor
Denver, CO 80203

Dear Ms. Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the November 2012 *Performance Evaluation of State Capital Asset Management and Lease Administration Practices*. The attached report provides a brief explanation of the actions taken by the Department of Labor and Employment to implement each recommendation.

If you have any questions, please do not hesitate to contact Matthew Blackmon at 303-318-8006 or by email at matthew.blackmon@state.co.us.

Sincerely,



Ellen Golombek
Executive Director

AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Performance Evaluation of State Capital Asset Management and Lease Administration Practices

AUDIT NUMBER: 2175

DEPARTMENT/AGENCY/ENTITY: Department of Labor and Employment

DATE: July 25, 2013

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>
7	Agree	June 2013	Implemented	

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 7

Agency Addressed: Department of Labor and Employment

Recommendation Text in Audit Report:

The Departments of Personnel & Administration and Labor and Employment should review their operating expenses from prior years and the overpayments identified in this evaluation and work with their landlord to recover all overpayments identified. The Departments should seek assistance from the contract broker in performing reviews and resolving issues with the landlord, as needed.

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

Agency's Written Response in Audit Report:

The Colorado Department of Labor and Employment will review operating expenses billed by the landlord for years that fall within the Department's contractual rights to inspect the landlord's records. After this review, Department staff will seek assistance from the contract broker in resolving concerns with the landlord.

Current Implementation Status of Recommendation (i.e., Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable):

Implemented

Agency's Current Comments on Implementation Status of Recommendation: The department worked with its contract broker and resolved the concern with the landlord. The department's lease agreement with the landlord has been revised to reflect the changes.