



OFFICE OF THE STATE AUDITOR



Legislative Audit Committee July 27 - 28, 2020 Minutes

Day 1 - July 27, 2020

A meeting of the Legislative Audit Committee (LAC) convened on July 27, 2020, at 10:00 a.m. in the Colorado State Capitol, Old Supreme Court Chambers. Representative Lori Saine called the meeting to order. Roll was called with the following results:

Committee Members

Representative Rod Bockenfeld, Senator Rhonda Fields (arrived 10:34 a.m.), Representative Tracy Kraft-Tharp, Senator Paul Lundeen, Senator Dennis Hisey, Senator Robert Rodriguez, Representative Dafna Michaelson Jenet (Vice-Chair), Representative Lori Saine (Chair)

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

OSA

Dianne E. Ray, State Auditor; Kerri Hunter, Deputy State Auditor; Michelle Colin, Deputy State Auditor; Jenny Atchley, Marisa Edwards, Dr. Chris Harless, Ferminia Hebert, Trey Standley

Other Attendees

CliftonLarsonAllen
Thomas Rey, Partner

DIANNE E. RAY, CPA
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STATE AUDITOR

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Colorado Public Employees' Retirement Association

Ron Baker, Executive Director

Amy C. McGarrity, Chief Investment Officer

Colorado State Fair Authority

Scott Stoller, General Manager

Department of Transportation

Shoshanna Lew, Executive Director

Jeff Sudmeier, Chief Financial Officer

KPMG

Ashley Busse, Audit Partner

Office of the State Controller

Robert Jaros, Colorado State Controller

Pinnacol Assurance

Howard J. Carver, Board Chair

Kathy Kranz, Vice President and Chief Financial Officer

Segal

Brad Ramirez, FSA, MAAA, EA; Vice President and Actuary

Melissa Krumholz, FSA, MAAA; Senior Consultant and Actuary

10:00 a.m.

**State of Colorado Higher Education Institutions, Athletic Programs Financial
Compilation Informational Report, July 2020**

Representative Michaelson Jenet made a motion to release the *State of Colorado Higher Education Institutions, Athletic Programs Financial Compilation Informational Report, July 2020*. Senator Lundeen seconded the motion, and the motion passed unanimously.

Ms. Hunter introduced self and staff.

OSA staff presented an overview of the report.

Discussion ensued regarding the expenses in excess of supporting revenue illustrated in the report.

10:28 a.m.

Pinnacol Assurance, Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information, December 31, 2019 and 2018 (With Independent Auditors' Report Thereon)

Representative Michaelson Jenet made a motion to release the *Pinnacol Assurance, Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information, December 31, 2019 and 2018 (With Independent Auditors' Report Thereon)*. Senator Lundeen seconded the motion, and the motion passed unanimously.

Ms. Hunter introduced self, staff, and contractor.

Ms. Kranz (*Pinnacol Assurance*) introduced Board Chair and self.

Ms. Busse (*KPMG*) presented an overview of the report.

10:51 a.m.

General Business

Minutes

Representative Michaelson Jenet made a motion to approve the June 9, 2020, LAC hearing minutes. Senator Lundeen seconded the motion, and the motion passed unanimously.

Additional Discussion

Auditor Ray introduced Michelle Colin, the new Deputy State Auditor for the OSA.

10:52 a.m.

Audit Request

Colorado Oil and Gas Conservation Commission's Production Reporting Process and System

Ms. Colin presented an overview of the OSA research regarding the *Colorado Oil and Gas Conservation Commission's Production Reporting Process and System Audit Request*.

Discussion ensued regarding the current reporting process, and identifying the efficiencies and effectiveness of that process. Senator Lundeen made a motion to move forward with the audit request. Representative Bockenfeld seconded the motion. A roll call vote was conducted, and the motion passed unanimously.

11:00 a.m.

Legislation

Legislation Matrix

Ms. Colin presented an overview of the Legislation Matrix.

Colorado Department of Transportation Proposed Legislation Discussion

Mr. Standley presented a summary of the audit finding and recommendation related to the proposed legislation.

Ms. Lew and Mr. Sudmeier (*Department of Transportation*) presented an overview of the Department's current reporting process and the proposed legislative change. Additional discussion ensued regarding the proposed legislative change.

Mr. Jaros (*Office of the State Controller*) presented an overview of the timing and reporting of monthly and quarterly reports.

Senator Lundeen made a motion to request a bill draft to be reviewed by the LAC in September. Representative Michaelson Jenet seconded the motion. A roll call vote was conducted, and the motion passed unanimously.

State Fair Proposed Legislation Discussion

Dr. Harless presented a summary of the audit finding and recommendation related to the legislation.

Mr. Stoller presented an overview of the requested legislation.

Discussion ensued regarding proposed legislative change.

Representative Michaelson Jenet made a motion to request a bill draft. Senator Lundeen seconded the motion. A roll call vote was conducted on Representative Michaelson Jenet's motion, and the motion passed 7-1. The results were as follows:

Representative Bockenfeld – Yes

Senator Fields – No
Senator Hisey – Yes
Representative Kraft-Tharp – Yes
Senator Lundeen – Yes
Senator Rodriguez – Yes
Representative Michaelson Jenet – Yes
Representative Saine – Yes

OSA Attorney-Client Privilege Bill Draft

Auditor Ray withdrew the bill draft request.

12:15 p.m.

Recess

1:30 p.m.

Colorado Public Employees' Retirement Association (PERA) Reports:

- Colorado Public Employees' Retirement Association, Comprehensive Annual Financial Report (CAFR) Financial Audit, For the Year Ended December 31, 2019
- Colorado Public Employees' Retirement Association, Financial Audit, Year Ended December 31, 2019

Representative Michaelson Jenet made a motion to release the *Colorado Public Employees' Retirement Association, Financial Audit, Year Ended December 31, 2019*. Senator Lundeen seconded the motion, and the motion passed unanimously.

Ms. Hunter introduced self, staff, and contractor.

Mr. Baker (*Colorado Public Employees' Retirement Association*) introduced self, staff, and actuaries.

Mr. Rey (*CliftonLarsonAllen*) presented an overview of the PERA Financial Audit and the PERA CAFR.

Mr. Ramirez and Ms. Krumholz (*Segal*) presented an overview of the actuarial report on the retirement and health plans. Discussion ensued regarding “black swan” events, risk adjusted returns and discount rate, employee growth, demographics, and employee health risks and health care costs.

Mr. Baker and Ms. McGarrity (*Colorado Public Employees' Retirement Association*) presented additional information on PERA. Discussion ensued regarding the PERA board composition, investment benchmarks and returns, and discount rate.

3:14 p.m.

General Business

Reschedule September LAC Hearings

Representative Michaelson Jenet made a motion to move the September LAC hearings to September 21 and 22. Representative Bockenfeld seconded the motion, and the motion passed unanimously.

Additional Discussion

Auditor Ray stated that the Division of Regulatory Agencies provided the required information requested by the letter authorized by the LAC in June.

Auditor Ray also stated that she would not be at the hearing scheduled for July 28. Kerri Hunter would be the OSA representative on that day.

3:18 p.m.

Recess

Day 2 - July 28, 2020

A meeting of the Legislative Audit Committee (LAC) convened on July 28, 2020, at 9:00 a.m. in the Colorado State Capitol, Old Supreme Court Chambers. Representative Lori Saine called the meeting to order. Roll was called with the following results:

Committee Members

Representative Rod Bockenfeld, Senator Rhonda Fields (arrived 9:10 a.m.), Representative Tracy Kraft-Tharp, Senator Paul Lundeen, Senator Jim Smallwood (arrived 9:01 a.m.), Senator Nancy Todd, Representative Dafna Michaelson Jenet (Vice-Chair), Representative Lori Saine (Chair)

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

OSA

Kerri Hunter, Deputy State Auditor; Michelle Colin, Deputy State Auditor; Jenny Atchley, Cain Day, Greg Fugate, Vickie Heller

Other Attendees

Colorado Department of Revenue

Brendon Reese, Acting Senior Taxation Director

Jim Burack, Director, Marijuana Enforcement Division

Colorado New Energy Improvement District

Jeffrey King, Board Chair

Department of Public Safety

Stan Hilkey, Executive Director

Christopher Lobanov-Rostovsky, Program Manager, Office of Domestic Violence and Sex Offender Management

Sex Offender Management Board

John Odenheimer, Vice-Chair

9:01 a.m.

Department of Public Safety, Sex Offender Management Board Performance Audit, June 2020

Representative Michaelson Jenet made a motion to release the *Department of Public Safety, Sex Offender Management Board Performance Audit, June 2020*. Senator Lundeen seconded the motion, and the motion passed unanimously.

Ms. Colin introduced self and staff.

Mr. Hilkey (*Department of Public Safety*) introduced self, staff, and Board Vice-Chair.

Recommendation 1 was reviewed, discussed, and agreed to by the Sex Offender Management Board (Board).

Recommendation 2 was reviewed, discussed, and agreed to by the Board. Discussion ensued regarding the process for approving professional service providers, including credentialing and vetting processes.

Recommendation 3 was reviewed, discussed, and agreed to by the Board. Discussion ensued regarding how the Board investigated complaints against providers.

Recommendation 4 was reviewed, discussed, and agreed to by the Board. Discussion ensued regarding the timeline for implementing the recommendation. The Board requested clarification from the Attorney General, and will take the necessary steps to address the conflict of interest once they receive guidance. Additionally, a question was raised regarding the Board membership.

Recommendation 5 and 6 were reviewed, discussed, and agreed to by the Board.

10:54 a.m.

Status Reports

Colorado New Energy Improvement District Performance Audit, May 2019

Mr. Fugate presented an overview of the report.

Mr. King (*Colorado New Energy Improvement District*) introduced self and provided a status update of the District's recommendations, noting that Recommendations 1A, 1B, and 3 were fully implemented, while Recommendation 2 was partially implemented, with a target implementation date of December 2021.

Evaluation of the Colorado Department of Revenue's Use of Marijuana Inventory Tracking Data, August 2019

Mr. Fugate presented an overview of the report.

Mr. Burack (*Colorado Department of Revenue*) introduced self, colleague, and provided a status update, noting that the recommendations 1A and 1B were fully implemented.

Discussion ensued regarding the current contract, technology platforms, reusable tags, and performance issues of the inventory system.

Hearing adjourned at 11:23 a.m.

Minutes submitted by:

Jayne Watson

Executive Assistant, Office of the State Auditor