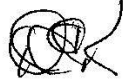




## MEMORANDUM

Date: May 21, 2012

To: Members of the Legislative Audit Committee

From: Dianne E. Ray, CPA, State Auditor 

Re: Office of the State Auditor's Validation of Realized Cost Savings Submitted by the Department of Natural Resources Under the State Employees' Ideas That Improve State Government Operations Incentive Program

## Background

House Bill 10-1264 established an employee incentive program for the purpose of encouraging “the involvement of state employees in the development of innovative ideas that will increase the productivity and service level of state government while decreasing the costs of state government.” Under statute (Section 24-50-903, et seq., C.R.S.), the Department of Personnel & Administration (DPA) was required to create and provide an application form on its website that allows employees to suggest state agency improvements that may result in cost savings at the agency where the employees work. Statute also required that DPA establish standard evaluation criteria—substantially similar to criteria used by a comparable incentive program developed by the U.S. Air Force—that executive directors, or their designees, should use to review each idea’s eligibility for the incentive program. Statute also allowed each state agency to establish additional evaluation criteria.

Under the program, employees suggesting ideas that result in realized cost savings are eligible to receive an award equal to 5 percent of the cash savings, up to \$5,000. In addition, under normal circumstances the state agency directly affected by the idea receives 25 percent of the cost savings realized, up to \$25,000, and the remainder is distributed to the State’s General Fund. In some cases, however, conflicts with this formula can arise when other statutes prescribe how an agency’s revenue must be distributed. Multiple employees can co-submit cost savings ideas, but they split the 5 percent award if the idea’s cost savings are realized and then verified by the State Auditor. Under statute, employees at DPA, the Office of the State Auditor (OSA), the Joint Budget Committee, and the Office of State Planning and Budgeting (OSPB) are not eligible for awards under this program. Statute also excludes elected officials, members of the General



We Set the Standard for Good Government

Assembly, and executive management staff (e.g., executive directors, college presidents, division directors, or deputies of such staff) from awards under this program. DPA guidance indicates that state agency staff whose primary job duties include responsibility for identifying efficiencies and cost reductions are also excluded. Finally, House Bill 11-1301 made higher education employees ineligible for this program, although it allows higher education institutions to establish their own similar incentive programs for their employees.

### **What is the role of state employees with regard to this program?**

An employee with a cost savings idea must complete the application available from DPA's website and submit the application to the Executive Director of the employee's agency. The application must describe the agency's current method of operations; the employee's proposed change in operations (i.e., the cost savings idea), including implementation date; and the expected benefits of the operational change, including an estimate of the anticipated cost savings.

### **What is the responsibility of the agency's Executive Director with regard to this program?**

Under statute [Section 24-50-903(1)(c)(III)(C), C.R.S.], the Executive Director of the agency, or his or her designee, receiving the employee's application is ultimately responsible for approving or denying the employee's idea for implementation. The Executive Director may "automatically" deny the application if the idea is duplicative of applications received in the prior 12 months or of recommendations contained in audit reports issued by the OSA or any privately contracted auditor, Joint Budget Committee staff documents, or any other published evaluation of Colorado state government. If the Executive Director denies the application, he or she must provide documentation of the application to the OSPB Director.

For ideas not automatically denied, the Executive Director must calculate the projected savings associated with the idea. If the Executive Director approves the idea, then he or she must also request any necessary legislation to implement the idea from the appropriate legislative committee of reference. Ideas not requiring legislative change must be implemented as soon as possible, but no later than July 1 of the fiscal year following approval of the employee's application. Once the agency implements the idea, the Executive Director calculates the realized savings after 12 months of full implementation and submits documentation to the State Auditor for review and verification.

### **What is the responsibility of the State Auditor with regard to this program?**

Statute [Section 24-50-903(4)(b), C.R.S.] requires the State Auditor to review and verify the cost savings realized by ideas suggested by state employees to improve state government. Once the review is complete, the State Auditor is required to submit a report with findings, recommendations, and conclusions to the Legislative Audit Committee, which shall hold a public hearing for the purposes of reviewing the report.

---

## Review and Verification of Cost Savings

<b><i>Department Impacted:</i></b>	Department of Natural Resources
<b><i>Programs Impacted:</i></b>	Colorado Parks and Wildlife; Division of Reclamation, Mining and Safety; and Colorado State Board of Land Commissioners (State Land Board)
<b><i>Realized Cost Savings Reported by Department:</i></b>	\$365.90
<b><i>Cost Savings Validated by State Auditor:</i></b>	\$201.95

### **What was the cost savings idea approved by the agency's Executive Director?**

As required by statute [Section 24-50-903(4)(b), C.R.S.], in March 2012 the Department of Natural Resources (the Department) forwarded to the OSA an idea to realize cost savings by cancelling subscriptions to hard copy publications. The staff member proposed that, when possible, employees at the Department's nine divisions access publications online for free or at a lower price than it costs for hard copy subscriptions.

### **What were the savings realized by the agency and submitted to the State Auditor for verification as a result of the employee's cost savings idea application?**

The Department reported that after March 2011, three divisions cancelled hard copy subscriptions to six publications for a total cost savings of \$365.90. The divisions included Colorado Parks and Wildlife; the Division of Reclamation, Mining and Safety; and the State Land Board.

### **Were the savings reported by the agency verified by the State Auditor?**

No, we were not able to verify the full amount of cost savings reported by the Department. We could only verify that the Department realized \$201.95 in cost savings, or \$163.95 less than the Department originally reported to us. The State Land Board was the only agency within the Department that realized the amount of the verified cost savings.

Our verification process included reviewing Department documentation related to the reported cost savings; reviewing reports generated from the Colorado Financial Reporting System (COFRS), the State's accounting system; and conducting follow-up discussions with Department staff. Based on our review, we determined that the Department only cancelled subscriptions to two hard copy newspapers, rather than the six hard copy subscriptions it had initially reported.

According to Department staff, the discrepancies we identified occurred because of staff turnover and miscommunication among budget staff regarding what data should be reported as realized savings.

## **Recommendation**

Statute (Section 24-50-903, C.R.S.) does not specify what, if any, action should be taken if the OSA cannot verify the cost savings submitted in an agency's application for state government cost savings. Our recommendation is that the Department of Natural Resources reallocate the cost savings, in accordance with statutory requirements, based on the amount verified by the OSA.

### **Department of Natural Resources Response:**

Partially agree. Implementation date: June 30, 2012.

The Department agrees that errors occurred in the divisions' reporting of actual cost savings, resulting in a verified cost saving of \$201.95, rather than \$365.95.

Given the difference between reported and verified cost savings, the following must occur to implement the OSA recommendation.

The idea originator received 5 percent of the total savings reported, in the amount of \$18.30. The OSA-verified amount of total savings would indicate the idea originator should have received \$10.10. The Department will require the idea originator to return \$8.20.

The Divisions that reported cost savings were to retain 25 percent of the total savings reported. The OSA-verified amount of total savings would indicate the one Division (State Land Board) that had a verified cost savings should have retained \$50.49.

Statute requires that the remainder of the cost savings be distributed to the General Fund. The OSA-verified amount of total savings would indicate that the General Fund should have received \$141.36. Distribution to the General Fund would cause a conflict of statute (Sections 36-1-116 and 36-1-145, C.R.S.) related to the distribution of revenue for the State Land Board. The Department recommends that the savings be retained by the State Land Board and distributed in accordance with Section 36-1-145, C.R.S.

### ***Auditor's Addendum:***

***It appears that an inherent conflict exists between the statutory cost savings allocation formula for the employee incentive program and the statutes that specify how the State Land Board's revenue must be distributed.***

---

The electronic version of this report is available on the website of the  
Office of the State Auditor  
**[www.state.co.us/auditor](http://www.state.co.us/auditor)**

A bound report may be obtained by calling the  
Office of the State Auditor  
**303.869.2800**

Please refer to the Report Control Number below when requesting this report.

**Report Control Number 2190**

**Report Control Number 2190**