



# OFFICE OF THE STATE AUDITOR



## Legislative Audit Committee

June 6-7, 2016

## Minutes

A meeting of the Legislative Audit Committee (LAC) was convened on June 6, 2016, at 10:00 a.m., in Hearing Room B (Audit Hearing Room), Legislative Services Building. Representative Su Ryden called the meeting to order. The roll was called with the following result:

**PRESENT:** Senator Carroll, Senator Holbert, Senator Jahn, Representative Kraft-Tharp, Senator Neville, Representative Primavera, Representative Saine

**EXCUSED:** Representative Nordberg

The following legislator, Office of the State Auditor (OSA) staff, and agency staff were in attendance:

**OTHER** Representative Ryden

### LEGISLATOR

#### PRESENT:

**OSA STAFF** Dianne E. Ray, State Auditor; Kerri Hunter, Matt Devlin,  
**PRESENT:** Deputy State Auditors; Crystal Dorsey, Marisa Neff, Shelli Morgan, Selome Negassa, Cindi Radke, Heather McFadden

**AGENCY** Robert Jaros, Office of the State Controller; Debbi Blyth,  
**STAFF** Governor's Office of Information Technology; Joshua  
**PRESENT:** Laipply, Maria Sobota, Department of Transportation; Chris Telli, BKD, LLP; Jeff Cummings, Pinnacol Assurance Board of Directors; Phil Kalin, Kathy Kranz, Pinnacol Assurance; Laurel Hammer, Bret Koll, KPMG LLP

DIANNE E. RAY, CPA  
STATE AUDITOR

**10:00 a.m. GENERAL BUSINESS**

**Approval of Minutes from March 8, 2016**

A motion was made by Senator Holbert and seconded by Representative Saine to approve the Minutes from March 8, 2016. The motion passed by a vote of 7-0.

**Election of Vice-Chair**

A motion was made by Representative Saine and seconded by Senator Holbert to nominate Representative Primavera as Vice-Chair of the LAC. The motion passed by a vote of 7-0.

**Recognition**

Vice-Chair Primavera recognized Representative Ryden for her service to the LAC, March 2012 to May 2016.

**10:03 a.m. – Statewide Single Audit (Statewide)**

**10:22 a.m. Fiscal Year Ended June 30, 2015**

**Financial Audit, June 2016**

Overview

A motion was made by Representative Saine and seconded by Senator Holbert to release the *Statewide Single Audit, Fiscal Year Ended June 30, 2015 (Statewide) Financial Audit (June 2016)*. The motion passed by a vote of 7-0.

Following introductions and opening remarks, Kerri Hunter and Crystal Dorsey provided an overview of the Statewide Audit.

**10:22 a.m. – State of Colorado Comprehensive Annual Financial**

**10:41 a.m. Report (CAFR)**

**For the Fiscal Year Ended June 30, 2015**

Following introductions and opening remarks, Robert Jaros provided an overview of the CAFR.

**10:41 a.m. –**      **Statewide** -- Department of Personnel & Administrations /  
**11:41 a.m.**      Office of the State Controller

Following introductions, Ms. Hunter, Marisa Neff, Shelli Morgan, Selome Negassa, Matt Devlin, Cindi Radke and Mr. Jaros provided an overview of the Department of Personnel & Administration (DPA) and the Office of the State Controller (OSC) sections of the Statewide Audit.

Recommendation 2015-0058 was reviewed, discussed, and agreed to by staff from OSC. Further discussion ensued regarding the number of material weaknesses identified in the Statewide Audit, assurances from OSC that the chart of accounts for Fiscal Year 2015 is finalized, and discussion on why the net pension liability and other adjustments required by the Governmental Accounting Standards Board's Statement No. 68 (GASB 68) were not identified in a timely manner.

OSC discussed several factors that contributed to the delay in the completion of the CAFR and associated issues with the implementation of the Colorado Operations Resource Engine (CORE), the State's accounting system, which was implemented in Fiscal Year 2015. Further discussion ensued regarding the OSC's efforts to address ongoing issues with CORE and processes to notify relevant State stakeholders of issues and delays.

Recommendation 2015-0011 was reviewed, discussed, and agreed to by staff from OSC. Further discussion ensued regarding building the labor allocation module and supplying adequate staff for the InfoAdvantage financial reporting system.

Recommendations 2015-0012 and 2015-0013 were reviewed, discussed, and agreed to by staff from OSC. Further discussion ensued regarding other processes used prior to full implementation of budgetary controls in CORE.

Recommendation 2015-0014 was reviewed, discussed, and agreed to by staff from OSC.

Recommendation 2015-0061 was reviewed, discussed, and partially agreed to by staff from OSC. Further discussion ensued regarding the disaster recovery plan.

**11:41 a.m.**    The Committee recessed for lunch.

**1:32 p.m. – Statewide – Governor’s Office of Information Technology**  
**2:08 p.m.**

Following introductions and opening remarks, Mr. Devlin, Ms. Radke, Debbi Blyth, and Mr. Jaros provided an overview of the Governor’s Office of Information Technology (OIT) section of the Statewide Audit.

Recommendation 2015-0023 was reviewed, discussed, and agreed to by staff from OIT. Further discussion ensued regarding the project management of CORE, project governance lessons to be learned and implemented for current and future State information technology projects, the use of CGI Technologies and Solutions Inc. (CGI) for the CORE modernization project, and how CGI compares to other vendors.

Recommendation 2015-0024 was reviewed, discussed, and agreed to by staff from OIT. Further discussion ensued regarding project management resources and staff at OIT, the approximately 1,200 ongoing projects OIT manages, and the need for more project management staff.

Recommendation 2015-0030 was reviewed, discussed, and agreed to by staff from OIT. Further discussion ensued regarding the need for better long term technical and financial planning for the State’s aging information technology infrastructure and the need to own the source code of information technology systems developed in conjunction with private vendors in order for the State to address future issues.

**2:08 p.m. – Statewide – Department of Transportation**  
**2:33 p.m.**

Following introductions and opening remarks, Ms. Hunter, Ms. Radke, Joshua Laipply, Maria Sobota, and Chris Telli provided an overview of the Department of Transportation (DOT) section of the Statewide Audit.

Recommendation 2015-0062 was reviewed, discussed, and agreed to by staff from DOT. Further discussion ensued regarding expanding DOT’s existing subrecipient monitoring plan based on risk assessments and the need for closer observation of sub-awards.

Recommendation 2015-0063 was reviewed, discussed, and agreed to by staff from DOT.

**2:33 p.m. – Schedule of Computations Required Under Article X,  
2:46 p.m. Section 20, of the State Constitution (TABOR)  
as of June 30, 2015  
Financial Audit, June 2016**

A motion was made by Senator Neville and seconded by Senator Carroll to release the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR) as of June 30, 2015 Financial Audit* (June 2016). The motion passed by a vote of 7-0.

Following introductions and opening remarks, Ms. Hunter, Ms. Dorsey, Heather McFadden, and Mr. Jaros provided an overview of the audit.

**2:46 p.m. – Pinnacol Assurance Statutory-Basis Financial Statements  
3:33 p.m. and Supplemental Schedules of Investment Information  
(With Independent Auditors' Report Thereon)  
December 31, 2015 and 2014**

A motion was made by Senator Jahn and seconded by Senator Carroll to release the *Pinnacol Assurance Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information (With Independent Auditors' Report Thereon), December 31, 2015 and 2014*. The motion passed by a vote of 7-0.

Following introductions and opening remarks, Ms. Hunter, Ms. Dorsey, Laurel Hammer, Bret Koll, Jeff Cummings, Phil Kalin, and Kathy Kranz provided an overview of the audit. Further discussion ensued regarding the purpose and structure of the \$935 million surplus and possible other uses of the surplus such as lowering premiums, refunds to policy holders, or improved benefits to claimants.

Pinnacol staff discussed the quickly evolving private insurance market and the possible need for statutory change to enable Pinnacol to compete in that market. Further discussion ensued regarding the benefit of Pinnacol's tax exempt status versus the liability of being the insurer-of-last-resort for high-risk entities.

**3:33 p.m.** The Committee recessed.

The LAC was reconvened on June 7, 2016, at 9:00 a.m., in Hearing Room B (Audit Hearing Room), Legislative Services Building. Chair Nordberg called the meeting to order. The roll was called with the following result:

**PRESENT:** Senator Carroll, Senator Holbert (arrived at 9:04 a.m.), Senator Jahn, Representative Kraft-Tharp, Senator Neville, Representative Nordberg, Representative Primavera, Representative Saine (arrived at 9:09 a.m.)

The following Office of the State Auditor (OSA) staff and agency staff were in attendance:

**OSA STAFF PRESENT:** Dianne E. Ray, State Auditor; Matt Devlin, Deputy State Auditor; Cindi Radke, Larry Ciacio, Derek Johnson

**AGENCY STAFF PRESENT:** Robert Jaros, Office of the State Controller; Debbi Blyth, Governor's Office of Information Technology; Ron Franke, Myers and Stauffer LC; LeeAnn Morrill, Chris Jackson, Office of the Attorney General; Bob Lackner, Office of Legislative Legal Services; Steve Bornmann, Nick Fisher, Department of Agriculture

**9:00 a.m. – 9:41 a.m.** **Audit of the Information Security of the Colorado Operations Resource Engine (CORE) System Information Technology Performance Audit Public Report, April 25, 2016**

A motion was made by Senator Jahn and seconded by Senator Neville to release the *Audit of the Information Security of the Colorado Operations Resource Engine (CORE) System Information Technology, Performance Audit Public Report, April 25, 2016*. The motion passed by a vote of 6-0.

**9:04 a.m.** Senator Holbert arrived.

**9:09 a.m.** Representative Saine arrived.

Following introductions and opening remarks, Mr. Devlin, Ms. Radke, Ron Franke, Ms. Blyth, and Mr. Jaros provided an overview of the audit. Further discussion ensued regarding the inability of the State to audit certain features of CORE that are considered CGI shared infrastructure and the need to

restructure State contracts to allow for greater transparency with private contractors. State Auditor Dianne E. Ray stated that these issues were part of why she chose to initiate this discretionary audit.

Recommendation 1 was reviewed, discussed, and agreed to by staff from OIT. Further discussion ensued regarding the original contract with CGI to implement CORE that did not include provisions that CGI maintain compliance with cyber security policies as they are updated and the need for more scrutiny of vendor compliance with security policies on an ongoing basis.

**9:41 a.m. Executive Session Pursuant to Sections 24-6-402(3)(a)(II) and (IV), C.R.S.**

A motion was made by Representative Saine and seconded by Senator Jahn to convene an Executive Session in accordance with Section 24-6-402(3)(a)(IV), C.R.S., to review the *Audit of the Information Security of the Colorado Operations Resource Engine (CORE) System, Information Technology Performance Audit, Confidential Report, April 25, 2016* and the *Statewide Single Audit, Fiscal Year Ended June 30, 2015, Confidential Report, Financial Audit* (June 2016) and in accordance with Section 24-6-402(3)(a)(II) to confer with an attorney. The motion passed by a vote of 8-0.

**12:06 p.m. GENERAL BUSINESS**

**Audit Requests**

State Auditor Ray presented a request submitted by Senator Laura Woods for an audit of Public Administrators. 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 Carroll and seconded by Representative Saine to authorize the OSA to conduct initial research on Public Administrators. The motion passed by a vote of 8-0.

State Auditor Ray presented a request submitted by the Joint Budget Committee for an audit of the Department of Revenue, Division of Limited Gaming (Division). 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 Neville and seconded by Vice-Chair Primavera to authorize the OSA to conduct initial research on the Division. The motion passed by a vote of 8-0.

State Auditor Ray presented a request submitted by Senator Larry Crowder for an audit of the State Land Board. 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 Jahn and seconded by Senator Holbert to authorize the OSA to conduct initial research on the State Land Board. The motion passed by a vote of 8-0.

State Auditor Ray presented a request submitted by Representative Jonathan Singer for an audit of the Department of Human Services, Office of Behavioral Health's Data Collection. She requested the Committee's approval to begin conducting initial research to determine the potential scope of this audit. Further discussion ensued regarding 2016 legislation which was laid over until more information could be provided by an audit. A motion was made by Senator Jahn and seconded by Vice-Chair Primavera to authorize the OSA to conduct initial research on the Office of Behavioral Health's Data Collection. The motion passed by a vote of 8-0.

#### **Status Report**

Following introductions and opening remarks, Mr. Devlin and Derek Johnson reviewed highlights from *Pet Animal Care Facilities Act Program, Department of Agriculture, Performance Audit* (June 2015).

Steve Bornmann and Nick Fisher provided an overview of the implementation status of recommendations addressed to Pet Animal Care Facilities Act Program.

**12:14 p.m.** There being no further business to come before the LAC, the meeting adjourned. The next scheduled hearings are August 22-23, 2016, at 10:00 a.m., in Hearing Room B (Audit Hearing Room), Legislative Services Building.

Minutes submitted by:

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