



OFFICE OF THE STATE AUDITOR



Legislative Audit Committee

August 22-23, 2016

Minutes

A meeting of the Legislative Audit Committee (LAC) was convened on August 22, 2016, at 9:58 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 Heath, Senator Holbert, Senator Jahn, Representative Kraft-Tharp, Senator Neville, Representative Nordberg, Representative Primavera, Representative Saine

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

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Kerri Hunter, Matt Devlin, Monica Bowers, Deputy State Auditors; Michelle Colin, Jenny Page, Derek Johnson, Sarah Grider, Crystal Dorsey, Gina Faulkner, Andrew Knauer, Greg Fugate

AGENCY STAFF PRESENT: MaryAnn Motza, Public Employees' Retirement Association (PERA) Board; Greg Smith, Jennifer Paquette, PERA; Thomas Rey, CliftonLarsonAllen LLP; Pat Beckham, Ed Koebel, Eric Gary, Cavanaugh Macdonald Consulting, LLC; Chris Underwood, Marvel Klueckman, Department of Health Care Policy and Financing; Jennifer Okes, Department of Education; Denise Pearson, Kiowa C-2 School District; Mike Warren, Hi-Plains School District R-23; Reggie Bicha, Nancy VanDeMark, Department of Human Services; Pat Coyle, JoAnn Groff, Department of Local Affairs; Tom Tobiassen, Regional Transportation District (RTD) Board of Directors; David Genova, RTD

9:58 a.m. GENERAL BUSINESS

Announcement

DIANNE E. RAY, CPA
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Chair Nordberg announced that Senator Heath replaced Senator Carroll on the LAC.

Approval of Minutes from June 6-7, 2016

A motion was made by Senator Holbert and seconded by Senator Neville to approve the Minutes from June 6-7, 2016. The motion passed by a vote of 8-0.

10:00 a.m. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA) - SECTION

**10:00 a.m. – Colorado Public Employees' Retirement Association
10:13 a.m. Comprehensive Annual Financial Report (CAFR)
For the Year Ended December 31, 2015**

Following introductions and opening remarks, Thomas Rey provided an overview of the CAFR.

**10:13 a.m. – Colorado Public Employees' Retirement Association
10:16 a.m. Financial Audit, Year Ended December 31, 2015**

A motion was made by Representative Saine and seconded by Vice-Chair Primavera to release the *Colorado Public Employees' Retirement Association, Financial Audit, Year Ended December 31, 2015*. The motion passed by a vote of 8-0.

Mr. Rey provided an overview of the audit.

**10:16 a.m. – Report on the Actuarial Valuation of the Public Employees' Retirement
10:16 a.m. Association of Colorado, Prepared as of December 31, 2015**

Pat Beckham provided an overview of the actuarial valuation. Further discussion ensued regarding the PERA Judicial Division, the assumed 7.5 percent investment rate of return, and the lower than expected salary increases.

PERA provided and reviewed a handout entitled *Colorado Legislative Audit Committee, Review of COPERA Valuation Results and Signal Light Analysis, August 22, 2016*. Further discussion ensued regarding downward trends in investment returns, concerns regarding insolvency, and the Senate Bill 10-001 directive that PERA be fully funded within 30 years.

Status Report

Following introductions and opening remarks, Kerri Hunter and Michelle Colin reviewed highlights from the *Sensitivity Analysis of Colorado Public Employees' Retirement Association, Hybrid Defined Benefit Plan, Actuarial Assumptions* (October 2015).

Greg Smith and Jennifer Paquette provided and reviewed a handout entitled *Legislative Audit Committee, Gregory Smith, Executive Director, August 22, 2016* and provided an overview of the implementation status of recommendations addressed to PERA in the sensitivity analysis.

11:40 a.m. – Colorado PERA Senate Bill 10-001 Report, December 2015
12:00 p.m.

Mr. Smith provided an overview of the report. The LAC recognized PERA's work to implement the requirements of SB10-001. Representative Kraft-Tharp requested copies of the September and November 2016 reports to the PERA Board.

12:00 p.m. The Committee recessed for lunch.

1:29 p.m. – Colorado Medicaid: The PEAK Application and Eligibility Verification
2:32 p.m. Department of Health Care Policy and Financing
Performance Audit, July 2016

A motion was made by Representative Saine and seconded by Vice-Chair Primavera to release the *Colorado Medicaid: The PEAK Application and Eligibility Verification, Department of Health Care Policy and Financing, Performance Audit* (July 2016). The motion passed by a vote of 8-0.

Following introductions and opening remarks, Matt Devlin, Jenny Page, Derek Johnson, and Sarah Grider provided an overview of the audit. Further discussion ensued regarding tax credits for citizens through Connect for Health, Medicaid income verification, Medicaid fraud and recouping costs, and inaccuracies with the vital records interface which disenrolls citizens upon death.

Recommendation 1 was reviewed, discussed, and agreed to by staff from the Department of Health Care Policy and Financing (HCPF). Further discussion ensued regarding processing Medicaid applicants within federal timeframes, HCPF's Medicaid Eligibility Quality Improvement Plan, and the need for HCPF to build a system to track more Medicaid data.

2:30 p.m. – Fiscal Health Analysis Fiscal Years 2013-2015
3:30 p.m. Colorado School Districts
Informational Report, August 2016

A motion was made by Senator Holbert and seconded by Senator Heath to release the *Fiscal Health Analysis Fiscal Years 2013-2015, Colorado School Districts, Informational Report* (August 2016). The motion passed by a vote of 8-0.

Following introductions and opening remarks, Ms. Hunter, Crystal Dorsey, and Gina Faulkner provided an overview of the report. Jennifer Okes discussed the Colorado Department of Education's (CDE) oversight of and actions taken to aide school districts with missed benchmarks.

Two school districts were invited to the LAC hearing to discuss details of the responses that they provided in Appendix B. Kiowa C-2 School District provided and reviewed a handout entitled *A Look at Kiowa C-2 Unfunded Mandates: 2014-15 One-Year Review*, and reviewed the financial status of their school district. Hi-Plains School District R-23 provided an overview of their financial status. Further discussion ensued regarding the benefits and drawbacks of moving some school districts to a 4-day week, hiring retired PERA teachers, teacher certification requirements and waiver programs, and challenges with concurrent enrollment requirements in small rural school districts.

3:24 p.m. GENERAL BUSINESS

Status Reports

Following introductions and opening remarks, Monica Bowers and Ms. Page reviewed highlights from the *Gaming Impact Grants, Department of Local Affairs & Department of Human Services, Performance Audit* (August 2015).

Reggie Bicha and Nancy VanDeMark provided an overview of the implementation status of recommendations addressed to the Department of Human Services (DHS) for gaming impact grants. Further discussion ensued regarding the use of gambling impact funds to address gambling addiction and support the Gambling Addiction Hotline.

Following introductions and opening remarks, Ms. Bowers and Andrew Knauer reviewed highlights from the *Senior and Disabled Veteran Property Tax Exemption Program, Department of Local Affairs, Performance Audit* (August 2015).

Pat Coyle and JoAnn Groff provided an overview of the implementation status of recommendations addressed to the Department of Local Affairs (DOLA) for the Program.

Following introductions and opening remarks, Ms. Bowers discussed the OSA's review of the *Bus and Light Rail Train Operator Safety, Regional Transportation District, Performance Audit* (September 2015) status report, that concluded that the Regional Transportation District's (RTD's) supporting documentation substantiates RTD's reported implementation status for each of the audit recommendations. Further, Greg Fugate reviewed highlights from the audit.

Tom Tobiassen and David Genova provided an overview of the implementation status of recommendations addressed to RTD for bus and light rail train operator safety. Further discussion ensued regarding RTD's termination policy and drug and alcohol testing.

Great Outdoors Colorado (GOCO) Lawsuits – Update

State Auditor Dianne E. Ray provided an update on the status of the GOCO lawsuits. Further discussion ensued regarding the LAC's concerns about the cost of GOCO's private legal representation by Holland & Hart LLP.

3:56 p.m. The Committee recessed.

The LAC was reconvened on August 23, 2016, at 9:01 a.m., in Hearing Room B (Audit Hearing Room), Legislative Services Building. Vice-Chair Primavera called the meeting to order. The roll was called with the following result:

PRESENT: Senator Heath, Senator Holbert (arrived at 9:16 a.m.), Senator Jahn, Representative Kraft-Tharp, Senator Neville (arrived at 9:03 a.m.), Representative Primavera, Representative Saine

EXCUSED: Representative Nordberg

The following OSA and agency staff were in attendance:

OSA STAFF PRESENT: Dianne E. Ray, State Auditor; Monica Bowers, Kerri Hunter, Deputy State Auditor; Andrew Knauer, Kate Shiroff, Meghan Westmoreland, Gina Faulkner, Michelle Colin, Nina Frant, Greg Fugate, Jenny Atchley, Trey Standley, Jenny Page

AGENCY STAFF PRESENT: Reggie Bicha, Clint Woodruff, Department of Human Services; Robert Jaros, Office of the State Controller; June Taylor, Department of Personnel & Administration; Angela Baier, College Assist; Diane Duffy, Department of Higher Education; Travis Webb, BKD, LLP

9:01 a.m. – 10:12 a.m. **Contracting for Services – Selection Process
Department of Human Services
Performance Audit, August 2016**

A motion was made by Senator Heath and seconded by Representative Kraft-Tharp to release the *Contracting for Services – Selection Process, Department of Human Services, Performance Audit* (August 2016). The motion passed by a vote of 5-0.

9:03 a.m. Senator Neville arrived.

Following introductions and opening remarks, Ms. Bowers, Mr. Knauer, Kate Shiroff, and Meghan Westmoreland provided an overview of the audit.

9:16 a.m. Senator Holbert arrived.

Recommendation 1 was reviewed, discussed, and agreed to by staff from DHS. Further discussion ensued regarding DHS' procurement processes and lessons learned that are applicable to all agencies, DHS' request for proposal (RFP) peer reviews, awarding state contracts to multiple vendors, and the Department of Personnel & Administration's (DPA's) delegation agreements with state agencies.

Recommendation 2 was reviewed, discussed, and agreed to by staff from DHS. Further discussion ensued regarding procurement training for state employees and the procurement community's response to conflict of interest issues identified in the *Immunization Program – Use of Tobacco Settlement Funds, Department of Public Health and Environment, Performance Audit* (January 2016) that are applicable to all state agencies.

Recommendation 3 was reviewed, discussed, and agreed to by staff from DPA. Further discussion ensued regarding how DHS scores RFPs and DPA's proposed legislation to modernization of the State's procurement process and procurement code.

10:12 a.m. GENERAL BUSINESS

Legislation Discussion

Following introductions and opening remarks, Ms. Hunter, Ms. Faulkner, Travis Webb, and Angela Baier provided an overview of the recommendation concerning the administration of the College Opportunity Fund in the *Colorado Student Loan Program dba College Assist, Financial and Compliance Audits Fiscal Years Ended June 30, 2015 and 2014*. The Committee previously voted to release the report without a hearing at the LAC hearing on January 12, 2016. College Assist requested draft legislation to address the recommendation.

A motion was made by Senator Holbert and seconded by Senator Jahn to request draft legislation for College Assist. The motion passed by a vote of 7-0.

Ms. Bowers reviewed the Legislation Matrix. Ms. Colin provided an overview of Recommendation 3B from the *Outdoor Advertising Program, Department of Transportation, Performance Audit* (May 2013). Further discussion ensued regarding the Program fees. The LAC requested that more information be provided at the October 3-4, 2016, LAC hearings, with input from the Department of Transportation and stakeholders.

Ms. Bowers and Nina Frant reviewed Recommendations 7 and 8A from the *Child Welfare, Department of Human Services, Performance Audit* (October 2014). The LAC requested that more information be provided at the October 3-4, 2016, LAC hearings, with input from DHS.

Ms. Bowers provided an overview of Recommendations 3A and 8B from the *Colorado Correctional Industries, Department of Corrections, Performance Audit* (January 2015); Recommendation 4 from the *Consumer-Directed Attendant Support Services, Department of Health Care Policy and Financing, Performance Audit* (May 2015); Recommendation 2 from

the *Schedule of TABOR Revenue, Performance Audit* (September 2015); and Recommendations 8A-B from the *Independent Ethics Commission, Judicial Branch, Performance Audit* (February 2016). The LAC took no action.

State Auditor Ray provided an overview of the OSA's proposal to update and clarify OSA statutes. Some changes will be included in the annual Revisor's Bill and some will be subject to review by the recreated Statutory Revision Committee.

OSA Fraud Reporting Hotline

State Auditor Ray, Jenny Atchley, and Mr. Fugate provided and reviewed a handout on the OSA Fraud Reporting Hotline (Hotline) and discussed opportunities, including the potential for statutory change, to improve the design and operation of the Hotline. Further discussion ensued regarding the process to become a certified fraud examiner and hotline statistics from other states.

A motion was made by Representative Saine and seconded by Senator Holbert to request draft legislation to improve the design and operation of the Hotline. The motion passed by a vote of 7-0.

SMART Government Act

Ms. Bowers and Trey Standley provided an overview of the memo and requested feedback from the LAC regarding improving the role of the OSA at the SMART Government Act (SMART) Committee of Reference (COR) hearings. The LAC provided suggestions such as including information about SMART in the New Member Orientation, only covering unimplemented audit recommendations at SMART hearings, and ensuring that the OSA presents its information before the corresponding departments so that COR members can ask the departments to respond to the audit.

Audit Requests

Ms. Bowers provided an overview of the evaluation for a request for an audit related to Public Administrators. A motion was made by Senator Neville and seconded by Representative Saine to approve the request for an audit of Public Administrators. The motion passed by a vote of 7-0.

Ms. Bowers and Ms. Page provided an overview of the evaluation for a request for an audit related to the Department of Revenue, Division of Limited Gaming (Division). Further discussion ensued regarding the Gaming Impact Fund and efforts to address gambling addiction. A motion was made by Senator Heath and seconded by Senator Holbert to approve the request for an audit of the Division. The motion passed by a vote of 7-0.

Ms. Bowers provided an overview of the evaluation for a request for an audit related to the Colorado State Land Board. A motion was made by Representative Saine and seconded by Representative Kraft-Tharp to approve the request for an audit of the Colorado State Land Board. The motion passed by a vote of 7-0.

Ms. Bowers provided an overview of the evaluation for a request for an audit related to DHS: Office of Behavioral Health's data collection. Further discussion ensued regarding House Bill 16-1358, related to DHS data collection that was postponed indefinitely until an audit could be conducted. A motion was made by Senator Jahn and seconded by Senator Neville to approve the request for an audit of the Office of Behavioral Health's data collection. The motion passed by a vote of 7-0.

11:47 a.m. Executive Session Pursuant to Sections 24-6-402(3)(a)(III), 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)(III), C.R.S., to review the *Required Communications with Those Charged with Governance Concerning Ongoing Audit Work Required to be Kept Confidential under Section 2-3-103(2), C.R.S.* The motion passed by a vote of 7-0.

11:55 a.m. There being no further business to come before the LAC, the meeting adjourned. The next scheduled LAC hearings are October 3-4, 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