



OFFICE OF THE STATE AUDITOR



Legislative Audit Committee

June 10-11, 2019

Minutes

Day 1 - June 10, 2019

A meeting of the Legislative Audit Committee (LAC) convened on June 10, 2019 at 10:05 a.m. in the Legislative Services Building, Audit Hearing Room B. Senator Nancy Todd called the meeting to order. Roll was called with the following result:

Committee Members

Representative Rod Bockenfeld, Senator Julie Gonzales, Representative Tracy Kraft-Tharp, Senator Paul Lundeen, Representative Dafna Michaelson Jenet, Senator Jack Tate, Representative Lori Saine (Vice Chair), Senator Nancy Todd (Chair)

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

OSA

Dianne E. Ray, State Auditor, Monica Bowers, Deputy State Auditor, Kerri Hunter, Deputy State Auditor, Jenny Atchley, Michelle Colin, Crystal Dorsey, Nina Frant, Sarah Grider, Vickie Heller, Bobby Regan, Trey Standley, James Taurman

DIANNE E. RAY, CPA
—
STATE AUDITOR

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Other Attendees

Transportation Commission

Shannon Gifford, Commission Chair

Sidny Zink, Commission Audit Committee Chair

Colorado Department of Transportation

Shoshana Lew, Executive Director

Josh Laipply, Chief Engineer

Jeff Sudmeier, Chief Financial Officer

Colorado New Energy Improvement District

Andrew Sand, Board Chair

Sjoberg Evashenk Consulting, Inc.

George Skiles, Principal

Pinnacol Assurance

Phil Kalin, President and Chief Executive Officer

Kathy Kranz, Vice President & Chief Financial Officer

Jeff Cummings, Risk & Audit Committee Chair

KPMG

Ashley Rogers, Audit Partner

Lexi Oberoi, Audit Manager

10:03 a.m.:

Operational Risk Areas Performance Audit, Department of Transportation and Transportation Commission, May 2019

Rep. Saine made a motion to release the *Operational Risk Areas Performance Audit, May 2019*.

Rep. Michaelson Jenet seconded the motion and the motion passed unanimously.

Ms. Bowers introduced self and audit staff.

Ms. Lew introduced self, Commissioners and staff.

Mr. Standley provided an overview of the report.

Recommendation #1 was reviewed, discussed, and agreed to by the Colorado Department of Transportation (CDOT). Discussion ensued regarding carry forwards from previous years and expenditures, commitment of federal dollars process, allocations from previous years, budget pools, SAP software, construction management and spending, simplification of categories in budget plan for next year and short term versus long term implementation of changes.

Recommendations #2 and #3 were reviewed, discussed, and agreed to by the Colorado Department of Transportation (CDOT). Discussion ensued regarding the differentiation between a budget and a revenue allocation plan, carry forward, long bill, statutes used in the audit process, risk assessment tools and statute training.

Recommendations #4 and #5 were reviewed, discussed, and agreed to by the Colorado Department of Transportation (CDOT).

Recommendation #6 was reviewed, discussed, and agreed to by the Colorado Department of Transportation (CDOT). Discussion ensued regarding the department's signature approval process.

General Business

Minutes

Rep. Michaelson Jenet made a motion to approve the March 19, 2019, LAC hearing minutes and Sen. Tate seconded the motion. The motion passed unanimously.

12:10 p.m.: **Recess**

1:30 p.m.

Colorado New Energy Improvement District Performance Audit, May 2019

Rep. Kraft-Tharp made a motion to release the *Colorado New Energy Improvement District Performance Audit, May 2019*. Rep. Bockenfeld seconded the motion and the motion passed unanimously.

Ms. Bowers introduced self, staff and contractor.

Mr. Sand introduced self and Mr. Skiles gave an overview of the report. Discussion ensued regarding the use of grants and conflict of interest.

Recommendation #1 was reviewed, discussed, and agreed to by the Colorado New Energy Improvement District. Discussion ensued regarding the new project revenue fee model compared to using grants and the short and long term financial sustainability of the program.

Recommendations #2 and #3 were reviewed, discussed, and agreed to by the Colorado New Energy Improvement District. Discussion ensued regarding the source of revenue for the grants received, evaluation of existing assessments, using grants compared to raising fees, program administrator and the lifetime cost savings.

2:15 p.m.:

Pinnacol Assurance Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information, December 31, 2018 and 2017

Rep. Saine made a motion to release the *Pinnacol Assurance Statutory-Basis Financial Statements and Supplemental Schedules of Investment Information, December 31, 2018 and 2017*. Rep. Michaelson Jenet seconded the motion and the motion passed unanimously.

Ms. Rogers provided an overview of the report and discussion ensued regarding the type of accounting used and the insurer of the last resort.

Cake Update

Mr. Kalin provided an update on Cake and discussion ensued regarding possible conflict of interest between Cake and Pinnacol, fees charged to Cake by Pinnacol, founder's shares and Cake staffing.

3:00 p.m.:

General Business

Report Released Without a Hearing

Rep. Saine made a motion to release the *Department of Local Affairs Fiscal Year 2018 Agreed-Upon Procedures Report* and Rep. Kraft-Tharp seconded the motion. The motion passed unanimously.

Ms. Hunter discussed the report.

3:05 p.m.: **Recess**

Tuesday, June 11, 2019

The LAC reconvened at 9:00 a.m. in Hearing Room B of the Legislative Services Building. Sen. Todd called the meeting to order and roll was taken with the following result:

Committee Members

Representative Rod Bockenfeld (arrived 9:03 a.m.), Senator Julie Gonzales, Representative Tracy Kraft-Tharp, Senator Paul Lundeen, Representative Dafna Michaelson Jenet, Senator Jack Tate (arrived 9:17 a.m.), Representative Lori Saine (Vice Chair) (arrived 9:03 a.m.), Senator Nancy Todd (Chair)

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

OSA

Dianne E. Ray, State Auditor, Monica Bowers, Deputy State Auditor, Michelle Colin, Crystal Dorsey, Nina Frant, Sarah Grider, Vickie Heller, James Taurman

Other Attendees

Department of Natural Resources

Dan Gibbs, Executive Director, Department of Natural Resources

Kevin Rein, State Engineer, Director, Division of Water Resources

Department of Corrections

Deb Goheen, Director of Finance and Administration

David Lindsay, Colorado Correctional Industries Director

Kristina Ireland, Colorado Correctional Industries Canteen Services Manager

Brad Duca, Controller

9:00 a.m.

Water Well Inspection Program Performance Audit, May 2019

Rep. Kraft-Tharp made a motion to release the *Water Well Inspection Program Performance Audit, May 2019*. Rep. Michaelson Jenet seconded the motion and the motion passed unanimously.

Following opening remarks and introductions, Ms. Grider provided an overview of the report.

Recommendation #1 was reviewed, discussed, and agreed to by the Department of Natural Resources. Discussion ensued regarding follow-through on violations, high risk wells, efficiency of program and its funding, policy implementation, monitoring high risk wells and drillers with the department's current resources, value of the program, decrease of inspectors and hiring of inspectors, cost of well drilling and the life of the wells, contamination issues, percentage of the wells inspected and funding issues.

Recommendation #2 was reviewed, discussed, and agreed to by the Department of Natural Resources.

Recommendation #3 was reviewed, discussed, and agreed to by the Department of Natural Resources. Discussion ensued regarding the implementation of the recommendations with current resources.

Recommendation #4 was reviewed, discussed, and agreed to by the Department of Natural Resources. Discussion ensued regarding the use and transfer of general funds.

10:30 a.m.

General Business

2019 Interim Calendar Update

Auditor Ray presented committee with the changes to the September 2019 LAC Hearing dates. Rep. Saine made a motion to approve the update. Rep. Kraft-Tharp seconded the motion and the motion passed unanimously.

Status Report:

Department of Corrections Performance Audit of the Inmate Canteen and Banking Programs, April 29, 2019

Following opening remarks and introductions Ms. Goheen provided the department's status and discussion ensued regarding the mark-up process and price agreement, security issues regarding canteen change and the delay of the bid process.

11:35 a.m.

Audit Requests

Auditor Ray requested preliminary research time on the two audit requests:

1. County Child Welfare Expenditures

Rep. Michaelson Jenet made a motion to move forward with the requested preliminary research time and Sen. Lundeen seconded the motion and the motion passed unanimously.

2. Higher Education Use of State Dollars

Senator Lundeen made a motion to move forward with the requested preliminary research time and Rep. Saine seconded the motion and the motion passed unanimously.

Tax Expenditure Interim Committee

Ms. Colin provided an update to the committee.

Legislative Update

Ms. Bowers provided the following update on legislation carried by the Audit Committee or related to audits:

- HB1136 passed
- HB1128 passed
- HB1282 passed
- SB251 passed

Hearing adjourned at 11:00 a.m.

Minutes submitted by: Santiago Vidaurri
Executive Assistant
Office of the State Auditor