

Colorado Office of the State Auditor

ANNUAL REPORT Fiscal Year 2010



Sally Symanski, CPA State Auditor

Inside:

A Message from the State Auditor	2
OSA Mission	3
Role of the OSA	3
OSA Staff	4
OSA Organization	5
Legislative Audit Committee	6
Allocation of Resources	7
Categories of Audit Recommendations	8
OSA Audits—Saving Taxpayers Money	10
Agency Acceptance of Recommendations	11
Statutory Change	12
2010 Performance, IT, and Financial Audits	14



Message from the State Auditor

I am pleased to present the Colorado Office of the State Auditor's (OSA) annual report for Fiscal Year 2010. Our State continued to face challenges this year as lawmakers worked to address significant budget shortfalls while maintaining important government services. The federal American Recovery and Reinvestment Act of 2009 (Recovery Act) provided additional resources to help states address the nationwide budget crisis. The OSA is uniquely positioned to provide feedback about our State's use of Recovery Act funds. During Fiscal Year 2010, the OSA conducted several financial and performance audits focusing on state agencies' use of Recovery Act funds; these audits provided valuable information to Colorado taxpayers, legislators, and state departments.

This year, the OSA also released other reports covering topics that were meaningful to the public and members of the General Assembly. For instance, our performance audit of the Low-Income Telephone Assistance Program raised important concerns about the effectiveness of a subsidy that provides telephone service to low-income people. Other performance audits explored various subjects such as including state mental health services, executive compensation practices, Medicaid-funded durable medical equipment, land acquisition and management, and problem drivers and traffic fatalities.

In addition to conducting the annual Statewide Single Audit, the OSA conducts a variety of standalone financial audits including CollegeInvest's student loan program funds, the Public Employees' Retirement Association, and revenue collected under the Taxpayer's Bill of Rights. Our Local Government Division conducted an analysis of Colorado school districts' fiscal health, which provided useful information that helped the Department of Education monitor districts' financial performance. The OSA also completed several IT audits, including a review of the first phase of the Department of Revenue's upgrade to its primary revenue and tax information systems.

The OSA's efforts were recognized by the National Legislative Program Evaluation Society, which awarded the OSA the 2010 Impact Award for our Colorado Child Care Assistance Program performance audit. That report, released in December 2008, raised important issues about the Program's eligibility determinations, expenditures, and overall performance. In addition, the OSA's August 2009 Fiscal Health Analysis of Colorado School Districts received an Excellence in Accountability Award from the National Association of State Auditors, Comptrollers and Treasurers.

I invite you to read more about our Fiscal Year 2010 audits and the performance measures we use to demonstrate the difference we make for the people of Colorado.



Sally Symanski, CPA
State Auditor



Office of the State Auditor Mission

The OSA's mission is to improve the efficiency, effectiveness, and transparency of government for the people of Colorado by providing objective information, quality services, and solution-based recommendations.

Role of the Colorado Office of the State Auditor

The Colorado Office of the State Auditor (OSA) serves the people of Colorado by addressing relevant public issues through high-quality, objective audits and reviews. Established in the State Constitution, the OSA is a non-partisan agency that makes a difference by providing the General Assembly with the information needed to hold government agencies accountable for the use of public resources and promoting positive change in government. Audits focus on reducing costs, increasing efficiency, improving the quality of services, and ensuring the accuracy and integrity of financial and other information used by decision makers.

It shall be the duty of the State Auditor to conduct post audits of all financial transactions and accounts kept by or for all departments, offices, agencies, and institutions of the state government . . . and to perform similar or related duties with respect to such political subdivisions of the state as shall from time to time be required . . . by law.

Colorado Constitution

In Fiscal Year 2010 the OSA issued 52 financial, performance, and IT audits and other reports of state agencies and institutions of higher education. In addition, the OSA reviewed financial reports submitted by Colorado's 4,000 local governments.

The Statewide Financial and Compliance Audit covered nearly \$21.7 billion in state expenditures, while the Colorado Public Employees' Retirement Association financial audit covered more than \$30.8 billion in retirement funds. The performance audit of Pinnacle Assurance assessed rate-setting for workers' compensation policies that impact 55,000 Colorado businesses.

A complete listing of the reports released in Fiscal Year 2010 is located on pages 14 through 20 of this report.



Office of the State Auditor Staff



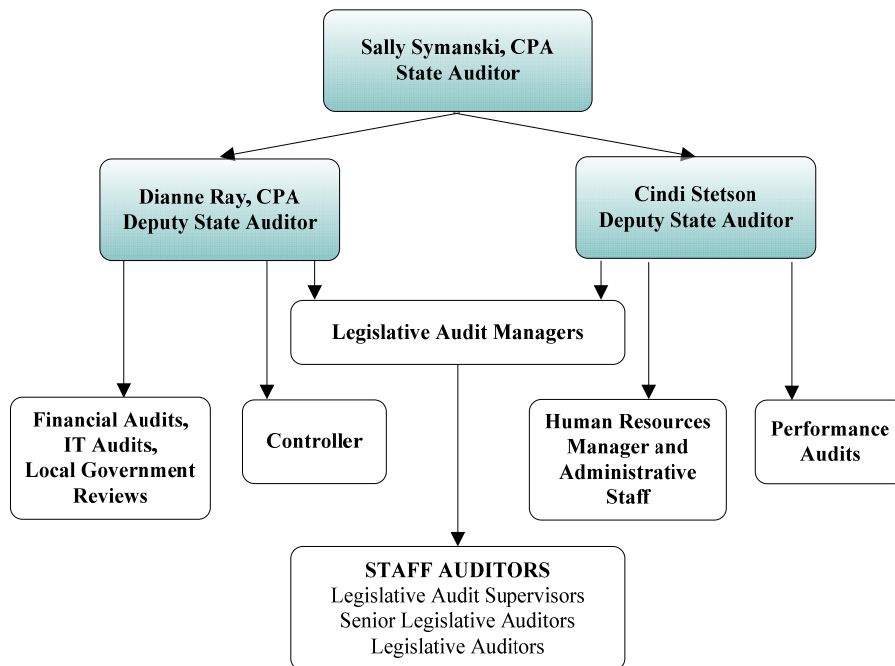
The State Auditor is a constitutionally established position with broad authority to audit state agencies, departments, institutions of higher education, and the Legislative and Judicial Branches. The General Assembly appoints the State Auditor without regard to political affiliation. The State Auditor serves a five-year term and must be a Certified Public Accountant licensed to practice in Colorado.

The current State Auditor, Sally Symanski, is a Certified Public Accountant who holds a master's degree in accounting. She has more than 19 years of financial and performance audit experience and served as Deputy State Auditor prior to her appointment to State Auditor. She is a member of the Colorado Society of CPAs, the American Institute of CPAs, and the Association of Government Accountants and serves as a member of the Board of the Colorado Housing and Finance Authority.

The OSA employs about 60 experienced professionals with diverse educational backgrounds and work experience. Many of our auditors have advanced degrees and professional certifications in the auditing and accounting fields. When necessary, the OSA hires expert consultants to conduct specialized reviews in highly technical areas of state government.



OSA Organization



2010 Legislative Audit Committee

The Legislative Audit Committee holds public hearings to review and release audit reports prepared by the State Auditor, proposes special audits, sponsors legislation recommended in audit reports, and holds state agencies accountable for addressing issues raised in audit reports. In addition, every five years the Committee recommends a candidate to the General Assembly for appointment as State Auditor.

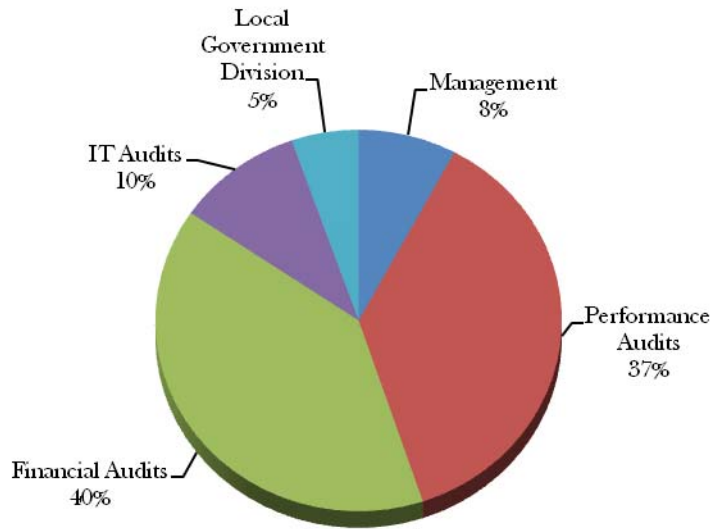
Senator David Schultheis, Chair
Senator Lois Tochtrop, Vice Chair
Senator Morgan Carroll
Representative James Kerr
Representative Frank McNulty
Representative Joe Miklosi
Senator Shawn Mitchell
Representative Dianne Primavera

The Legislative Audit Committee includes four senators and four representatives with equal representation from the two major political parties.



Allocation of OSA Resources

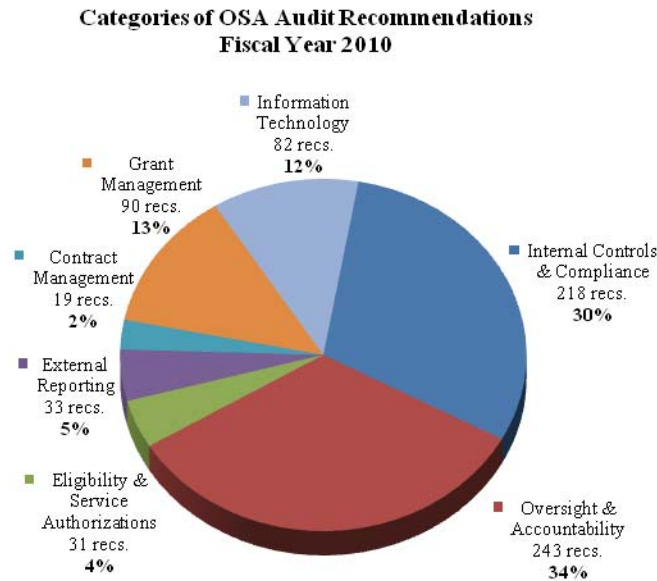
The OSA strives to maximize the value its audits and reviews provide to the people of Colorado. The following chart shows how the OSA allocates its resources to fulfill its statutory responsibilities and organizational mission to improve the efficiency, effectiveness, and transparency of government.



Categories of Audit Recommendations

The OSA collaborates with state agencies and higher education institutions to identify solutions to concerns noted in our financial, performance, and IT audit reports. Our recommendations hold agencies and institutions accountable while promoting positive change in government.

During Fiscal Year 2010, the OSA issued more than 700 recommendations to state agencies and higher education institutions. Recommendations fell within the following seven broad categories. These categories are described on the following pages.





Internal Controls and Compliance - Recommendations addressing how an agency's policies, procedures, and processes enable the agency to meet program objectives while promoting cost-effectiveness and efficiency. An agency's compliance with laws, regulations, contracts, and other requirements is also included in this category.

Oversight and Accountability - Recommendations addressing an agency's oversight and administration of programs and services.

Grant Management - Recommendations addressing an agency's management of state and federal grants.

External Reporting - Recommendations addressing an agency's compliance with reporting requirements under generally accepted accounting principles and the federal Single Audit Act of 1984, as amended.

Contract Management - Recommendations addressing an agency's contract management practices.

Eligibility and Service Authorizations - Recommendations addressing an agency's practices related to determining eligibility and authorizing services under public programs.

Information Technology - Recommendations addressing an agency's management of its information systems.

OSA Audits

OSA audits reflect topics that matter to the public and members of the General Assembly. During Fiscal Year 2010, 38 audits (73 percent) were conducted in response to statutory or other legal requirements. Three of the 52 audits (6 percent) the OSA conducted were in response to audit requests from state legislators. In addition, the Statewide Single Audit for Fiscal Year Ended June 30, 2009, was conducted to comply with requirements of the federal Single Audit Act of 1984. (The calculation for statutorily required

audits does not include the Statewide Single Audit.)

The State Auditor's discretion to select audit topics further ensures that audits make a meaningful difference for the State. During Fiscal Year 2010, 10 audits (19 percent) were conducted at the State Auditor's discretion. For example, our performance audit of Land Acquisition and Management practices at the Division of Wildlife resulted in 32 recommendations and identified \$29.4 million in potential financial benefits for the State.

Saving Taxpayers Money: Financial Benefits Identified in OSA Audits

The OSA is dedicated to making a difference for the people of Colorado through high-quality, objective audits and reviews. Our audits often identify potential financial benefits to the State and opportunities to help ensure responsible stewardship of taxpayer money. Financial benefits may include potential cost savings, collection of fees or debts owed, general fund cost recoveries, or increases in the value of assets in the State's accounting system.

Our Fiscal Year 2010 audits identified a total of \$47.1 million in potential financial benefits to the State. Below is a five-year average of the financial benefits identified in OSA audits.

Five-Year Average—(Fiscal Years 2006-2010)

Savings Identified in Reports (in millions)	\$15.4
Net OSA Operating Costs (in millions)*	\$6.0
Ratio of Savings to Costs	3:1

*Net operating costs calculated from general fund appropriations less general fund reversions.



Agency Acceptance of Audit Recommendations

The OSA strives to hold state agencies accountable while collaborating with them to identify solutions that promote positive change in government. We aim to develop recommendations that will address the problems we identify and that agencies can realistically implement. To that end, our goal is that agencies will agree or partially agree to implement our recommendations at least 90 percent of the time.

In Fiscal Year 2010, audited agencies agreed with 90 percent of the OSA’s recommendations. Below is a history of agencies’ agreement with audit recommendations.

Recommendations Accepted by Audited Agencies:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
GOAL	90%	90%	90%	90%	90%
ACTUAL	91%	90%	87%	89%	90%

The OSA conducts annual formal follow up on recommendations made in financial audits to evaluate the implementation status of recommendations. Audited agencies provide updates to the LAC on the implementation status of OSA performance and IT audits. Follow up conducted during Fiscal Year 2010 suggests that 53 percent of the outstanding audit recommendations reviewed had been fully implemented, and 21 percent had been at least partially implemented.

Statutory Change

The OSA serves the people of Colorado by issuing high-quality, objective audits that address relevant public issues and promote accountability in government. In some cases, lawmakers who read our audits may seek statutory change to address the concerns and recommendations discussed in our reports.

Senate Bill 10-087 **Secretary of State Authority to Regulate Lobbyists**

Changes lobbyist registration cycle, extends lobbyist disclosure requirements to include volunteer lobbyists, increases penalties related to deadlines for lobbyists to file disclosure statements, and changes the Secretary of State's requirements when handling cases of lobbyist misconduct.

Senate Bill 10-118 **Child Care Assistance Program Fingerprint-Based Criminal History Checks**

Grants the Department of Human Services authority to obtain a fingerprint-based criminal history check on family child care home providers who care for child relatives and receive funding for that care from the Colorado Child Care Assistance Program.





Senate Bill 10-186
State Warrants for Tax Refunds

Expands the statute addressing unclaimed property to include state warrants for all tax refunds, including business tax refunds, issued by the Department of Revenue. Requires that state warrants for tax refunds that are not cashed within 6 months of the date of issuance be considered abandoned and void and therefore unclaimed property.

House Bill 10-1003
State Personnel Board Appeal Deadline

Extends the deadline from 90 days to 120 days for the State Personnel Board to review grievance petitions.

House Bill 10-1011
Department of Revenue Fingerprint-Based Criminal History Checks

Authorizes the Department of Revenue to conduct fingerprint-based criminal history record checks on current and prospective employees with access to driver's licenses and state identification cards or personal identifying information.

House Bill 10-1060
Penalty for Failing to Withhold Severance Tax

Subjects relevant parties to fines for failing to withhold income and make severance tax payments or failing to file a related annual report to the Department of Revenue.

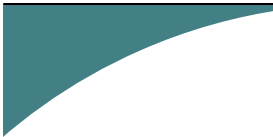
Reports Released in Fiscal Year 2010

Reports can be requested by phone at 303.869.2800
or viewed on the Internet at www.state.co.us/auditor.

<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/ Performance/IT</u>
2011	CollegeInvest Scholarship and Loan Forgiveness Programs, August 2009	Performance
1900	Department of Health Care Policy and Financing, Controls Over Medicaid Claims for Durable Medical Equipment and Supplies, Laboratory, and Radiology Services, October 2009	Performance
1832	Department of Health Care Policy and Financing and Department of Human Services, Controls Over Payments, Medicaid Community-Based Services for People with Developmental Disabilities, June 2009	Performance
1986	Department of Human Services, Colorado Mental Health Institute at Pueblo, November 2009	Performance
2052	Department of Labor and Employment, American Recovery and Reinvestment Act of 2009, Workforce Investment Act, November 2009	Performance
1990	Department of Natural Resources, Division of Wildlife, Land Acquisition and Management, July 2009	Performance



<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/Performance/IT</u>
1983	Department of Personnel & Administration and the State Personnel Board, May 2009	Performance
1989	Department of Public Health and Environment, Colorado Automobile Inspection and Readjustment (AIR) Program, September 2009	Performance
1992	Departments of Public Safety, Revenue, and Transportation and Judicial Branch, Problem Drivers and Traffic Fatalities, October 2009	Performance
2053	Governor's Office, American Recovery and Reinvestment Act of 2009 Section 1512 Reporting, March 2010	Performance
2042	Pinnacol Assurance, May 2010	Performance
2055	Public Utilities Commission and Department of Human Services, Colorado Low-Income Telephone Assistance Program, May 2010	Performance
2048	Regional Transportation District, Executive Compensation Practices, March 2010	Performance
2044	Department of Revenue, Colorado Integrated Tax Architecture Project - Phase 1 Implementation, September 2009	IT
2007	Governor's Office of Information Technology, Report on Controls Placed in Operation and Tests of Operating Effectiveness, July 1, 2008—June 30, 2009	IT



<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/ Performance/IT</u>
2000	Adams State College, Fiscal Years Ended June 30, 2009 and 2008	Financial
2003	Auraria Higher Education Center, Fiscal Years Ended June 30, 2009 and 2008	Financial
2050	Cash Funds Uncommitted Reserves Report, Fiscal Year Ended June 30, 2009	Financial
2031A	CollegeInvest, Prepaid Tuition Fund, Fiscal Years Ended June 30, 2009 and 2008	Financial
2031B	CollegeInvest, Student Loan Program Funds, Fiscal Years Ended June 30, 2009 and 2008	Financial
2031C	CollegeInvest, College Savings Program Funds, Fiscal Years Ended June 30, 2009 and 2008	Financial
2031D	CollegeInvest, Student Loan Program Funds, Reports on Compliance and Internal Control Over Compliance with Requirements for Loans Billed for Special Allowance Payments at the 9.5% Minimum Return Rate, For the Year Ended June 30, 2009	Financial



<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/Performance/IT</u>
2045	CollegeInvest, Student Loan Program Funds, Reports on Compliance and Internal Control Over Compliance with Requirements for Loans Billed for Special Allowance Payments at the 9.5% Minimum Return Rate, For the Period Beginning January 1, 2007, and Ending June 30, 2008	Financial
2004	Colorado Community College System, Fiscal Years Ended June 30, 2009 and 2008	Financial
2039	Colorado Public Employees' Retirement Association, Year Ended December 31, 2008 ¹	Financial
2005	Colorado School of Mines, Years Ended June 30, 2009 and 2008	Financial
2021	Colorado State Fair Authority, Fiscal Years Ended June 30, 2009 and 2008	Financial
1998	Colorado State University System, Fiscal Year Ended June 30, 2009	Financial
2024	Department of Higher Education, Colorado Student Loan Program dba College Assist, Fiscal Years Ended June 30, 2009 and 2008	Financial



<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/Performance/IT</u>
2047	Department of Human Services, American Recovery and Reinvestment Act of 2009, Internal Control Pilot Project, Fiscal Year Ended June 30, 2009	Financial
2030	Department of Human Services, Colorado State Veterans Nursing Home at Homelake, Fiscal Year Ended June 30, 2009	Financial
2036	Department of Personnel & Administration, Deferred Compensation Plan, Fiscal Years Ended June 30, 2009 and 2008	Financial
2037	Department of Personnel & Administration, Public Officials and Employees, Defined Contribution Retirement Plan, Fiscal Years Ended June 30, 2009 and 2008	Financial
2018	Department of Revenue, Colorado Lottery, Fiscal Years Ended June 30, 2009 and 2008	Financial
2029	Department of Revenue, Division of Gaming, Fiscal Years Ended June 30, 2009 and 2008	Financial
2096	Department of Treasury, Statement of Federal Land Payments, Fiscal Year Ended September 30, 2009	Financial
2040	Fiscal Health Analysis of Colorado School Districts, August 2009	Financial



<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/Performance/IT</u>
2001	Fort Lewis College, Fiscal Years Ended June 30, 2009 and 2008	Financial
2059	Higher Education TABOR Enterprise Status, Fiscal Year Ended June 30, 2009	Financial
2022	Judicial Department, Office of the Child's Representative, Fiscal Year Ended June 30, 2009	Financial
1936	Legislative Department, Fiscal Years Ended June 30, 2009 and 2008	Financial
1996	Mesa State College, Fiscal Years Ended June 30, 2009 and 2008	Financial
1997	Metropolitan State College of Denver, Fiscal Years Ended June 30, 2009 and 2008	Financial
2049	Pinnacle Assurance, Statutory Financial Statements, December 31, 2009 and 2008	Financial
2076	Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR), March 2010	Financial
2054	Schedule of TABOR Revenue, Fiscal Year 2009	Financial

<u>Report No.</u>	<u>Name of Report</u>	<u>Type of Report Financial/Performance/IT</u>
2032	State Board of the Great Outdoors Colorado Trust Fund, Fiscal Years Ended June 30, 2009 and 2008	Financial
1994	State of Colorado, Statewide Single Audit, Fiscal Year Ended June 30, 2009 ²	Financial
2006	University of Colorado, Fiscal Year Ended June 30, 2009	Financial
1999	University of Northern Colorado, Fiscal Years Ended June 30, 2009 and 2008	Financial
1999B	University of Northern Colorado, Application of Agreed-Upon Procedures to the Athletics Department, Fiscal Year Ended June 30, 2009	Financial
2002	Western State College, Fiscal Years Ended June 30, 2009 and 2008	Financial

Notes:

¹The Colorado Public Employees' Retirement Association's (PERA's) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2008, was prepared by PERA and audited by the OSA. PERA's CAFR is available on the OSA's website.

²The State's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2009, was prepared by the Office of the State Controller and audited by the OSA as part of its Statewide Audit. The State's CAFR is available on the OSA's website.

NOTES



Office of the State Auditor

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

Phone: 303.869.2800
Fax: 303.869.3060
E-mail: osa.ga@state.co.us
Website: www.state.co.us/auditor

