

# Colorado Office of the State Auditor

## ANNUAL REPORT Fiscal Year 2011



**Dianne E. Ray, CPA**  
**State Auditor**

**Inside:**

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
2011 Performance, IT, and Financial Audits	14





## Message from the State Auditor

The Colorado Office of the State Auditor (OSA) is pleased to present its Fiscal Year 2011 annual report. The OSA serves the people of Colorado by holding state agencies accountable through objective, independent audits. In times of ongoing economic challenge, our role as the State's external auditor becomes increasingly important to help ensure that state government demonstrates responsible stewardship of taxpayer dollars.

During Fiscal Year 2011, the OSA issued 49 audits and other reports that identified areas of concern and recommended solutions to promote positive change in government. Our *Office of Cyber Security, Governor's Office of Information Technology Performance Audit* (November 2010) employed innovative auditing techniques to determine that the State is at high risk of a system compromise and/or data breach by malicious individuals, including individuals both internal and external to the State. By performing a covert penetration test—a simulation of real attacks from malicious sources—of state networks and information systems, the audit team identified a significant number of serious vulnerabilities in the State's networks and applications. These vulnerabilities would likely provide malicious attackers with unauthorized access to the public's data or with the ability to directly target Colorado's citizens. The audit won two national awards from the National State Auditors Association and the National Legislative Program Evaluation Society.

Other OSA performance audits addressed issues that are meaningful to the public and members of the General Assembly. The *Concealed Handgun Permit Database, Colorado Bureau of Investigation, Department of Public Safety Performance Audit* (November 2010) found that a state database was not reliable for law enforcement to verify the validity of concealed handgun permits. The *Implementation of the Medicaid Pediatric Hospice Waiver Program, Department of Health Care Policy and Financing Performance Audit* (May 2011) found that more than one-quarter of children with life-limiting conditions who were enrolled in the State's Medicaid Pediatric Hospice Waiver Program had not received any waiver services.

The OSA also issued its annual Statewide Single Audit and conducted or contracted with public accounting firms to conduct other standalone financial audits, including audits of the Colorado Public Employees' Retirement Association and revenue collected under the Taxpayer's Bill of Rights. Our Local Government Audit Division issued its second annual *Fiscal Health Analysis of Colorado School Districts* (September 2010), a report that provided financial indicators warning of potential financial stress in the districts. The OSA also completed an information technology audit of the Department of Transportation's SAP information system.

We hope you enjoy reading more about the OSA's important contributions to the State of Colorado.

Dianne E. Ray, 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 Office of the State Auditor

The 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 nonpartisan agency that provides the General Assembly information needed to hold government agencies accountable for the use of public resources. 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 2011, the OSA issued 49 financial, performance, and IT audits and other reviews 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 Single Audit covered nearly \$24.7 billion in state expenditures, while the Colorado Public Employees' Retirement Association financial audit covered about \$35 billion in retirement funds.

A complete listing of the reports released in Fiscal Year 2011 is located on pages 14 through 19 of this report.

## Office of the State Auditor Staff

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.

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 5-year term and must be a certified public accountant licensed to practice in Colorado.

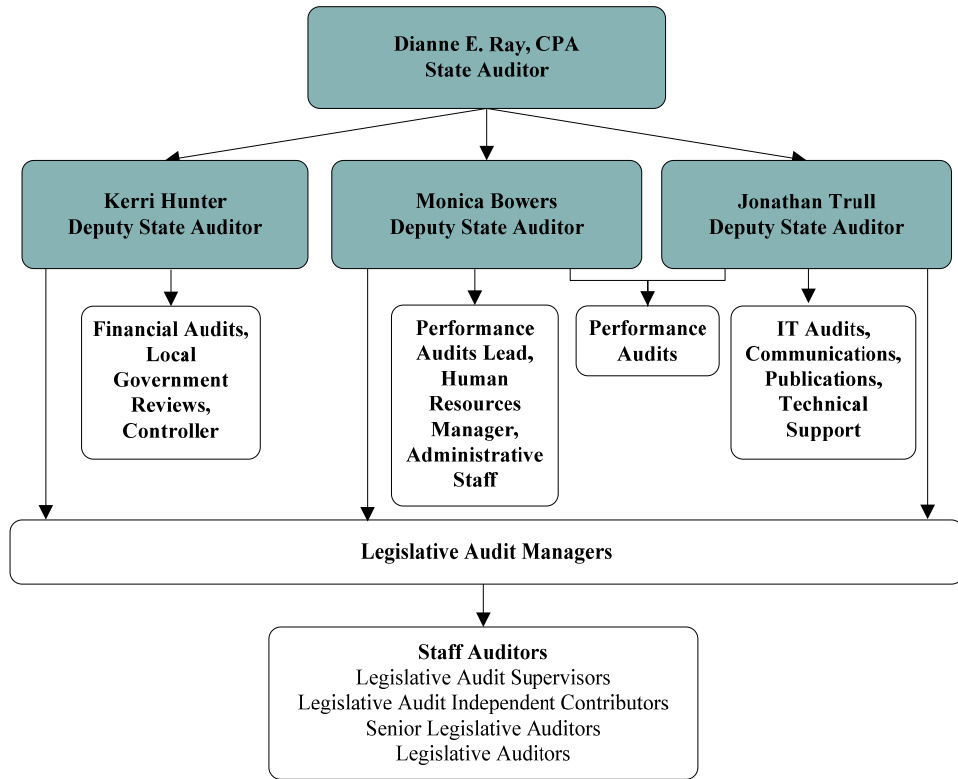
The current State Auditor, Dianne E. Ray, has specialized in governmental/nonprofit accounting and auditing for more than 23 years. Dianne possesses in-depth knowledge of Colorado's state and local governments and has established effective relationships with elected officials, executive directors, and business and community leaders.

Prior to her appointment as State Auditor, Dianne served as the OSA's Deputy State Auditor primarily responsible for the annual financial audit and Single Audit of the State of Colorado. Dianne began her career at the OSA in 2002 as Director of the Local Government Audit Division. Prior to joining the OSA, Dianne worked in local governments for 15 years, most recently as Director of Finance and Administration for the City of Louisville, Colorado. She has extensive experience in senior-level management positions and has been recognized for her innovative leadership style.

Dianne participates in various professional organizations, including the American Institute of Certified Public Accountants, the Colorado Society of Certified Public Accountants, the Government Finance Officers Association, and the National State Auditors Association. In addition, she is a member of the Board of the Colorado Housing and Finance Authority. Dianne holds a Bachelor of Science degree in accounting from Arizona State University and a Master of Public Administration degree from the University of Colorado. She is a licensed certified public accountant in Colorado and Arizona.



### OSA Organization



## 2011 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 5 years the Legislative Audit Committee recommends a candidate to the General Assembly for appointment as State Auditor.

**Senator Lois Tochtrop, Chair**  
**Representative Cindy Acree, Vice-Chair**  
**Senator Morgan Carroll**  
**Representative Deb Gardner**  
**Representative Jim Kerr**  
**Senator Steve King**  
**Representative Joe Miklosi**  
**Senator Scott Renfroe**

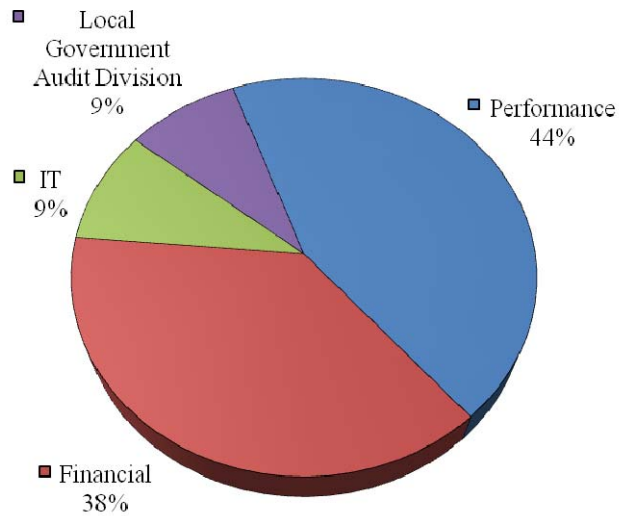
*The Legislative  
Audit Committee  
includes  
four senators  
and  
four representatives  
with equal  
representation from  
the two major  
political parties.*



### 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 allocated audit staff in Fiscal Year 2011 to conduct performance, financial, and IT audits and local government reviews. The chart does not reflect time spent on management and other operational duties.

**Fiscal Year 2011**

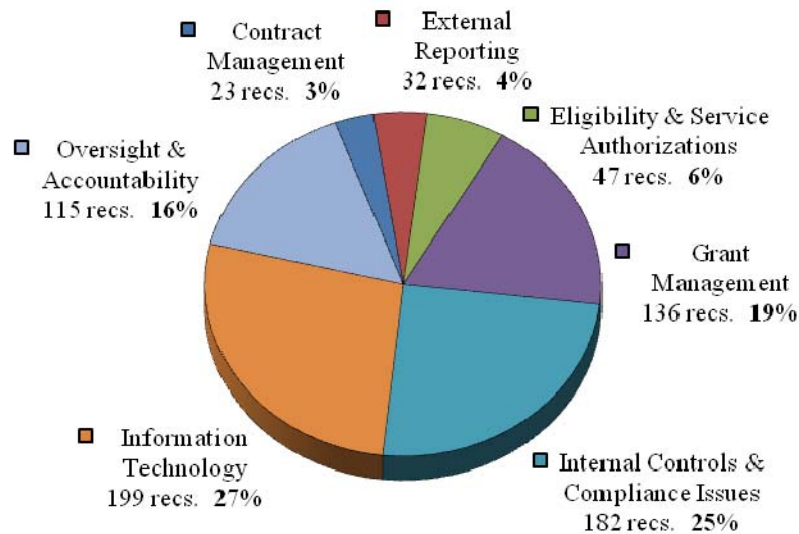


## Categories of Audit Recommendations

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 2011, the OSA issued 734 recommendations to state agencies and higher education institutions. Recommendations fell within the following seven broad categories. These categories are described on the following pages.

### Fiscal Year 2011







**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.

**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.

**Grant Management** – Recommendations addressing an agency’s management of state and federal grants.

**Information Technology** – Recommendations addressing an agency’s management of its information systems.

**Internal Controls and Compliance Issues** – 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.

## OSA Audits

OSA audits reflect topics that matter to the public and members of the General Assembly. During Fiscal Year 2011, 39 (80 percent) audits were conducted in response to statutory or other legal requirements. Two (4 percent) audits were in response to audit requests from state legislators. In addition, the Statewide Single Audit for Fiscal Year Ended June 30, 2010, 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 2011, the OSA conducted 8 (16 percent) audits at the State Auditor's discretion. For example, our *Anhydrous Ammonia Program, Inspection and Consumer Services Division, Department of Agriculture Performance Audit* (July 2010) found that the Department of Agriculture lacked policies, procedures, and systems to ensure a complete and accurate inventory of all anhydrous ammonia tanks in the state, thereby limiting the Department's ability to regulate the use of this hazardous material.

### 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 2011 audits identified a total of \$16.9 million in potential financial benefits to the State. Below is a 5-year average of the financial benefits identified in OSA audits.

#### 5-Year Average—(Fiscal Years 2007-2011)

Savings Identified in Reports (in millions)	\$18.8
Net OSA Operating Costs (in millions)*	\$6.1
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 2011, audited agencies agreed with 94 percent of the OSA's recommendations. Below is a history of agencies' agreement with audit recommendations.

### Recommendations Accepted by Audited Agencies

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
GOAL	90%	90%	90%	90%	90%
ACTUAL	90%	87%	89%	90%	94%

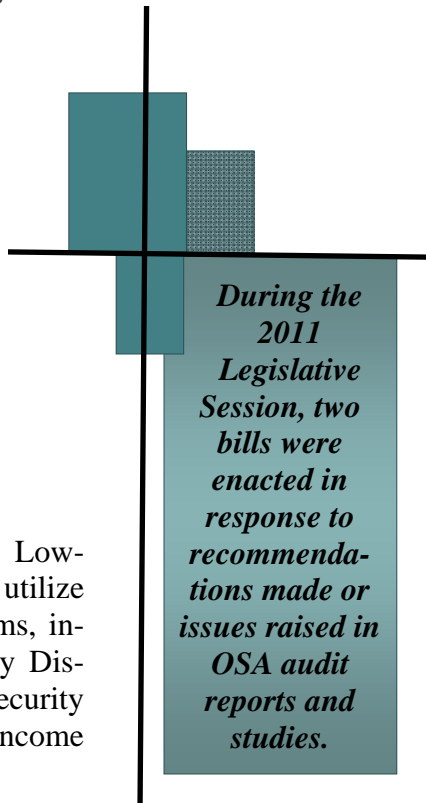
The OSA conducts annual formal follow up on recommendations made in financial audits to evaluate the implementation status of recommendations. Audited agencies provide updates to the Legislative Audit Committee on the implementation status of OSA performance and IT audits. Follow up on recommendations made during Fiscal Year 2011 suggests that 66 percent of the recommendations had been fully implemented, and 20 percent had been at least partially implemented.

## Statutory Change

The OSA serves the people of Colorado by issuing high-quality, objective audits and reviews 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 11-002 Low-Income Telephone Assistance Program**

- Streamlines eligibility requirements for the Low-Income Telephone Assistance Program to utilize existing eligibility systems for other programs, including Old Age Pension, Aid to the Needy Disabled, Aid to the Blind, Supplemental Security Income, Colorado Works, and the Low-Income Energy Assistance Program.
- Clarifies that a Low-Income Telephone Assistance Program recipient must be a subscriber to telephone services.



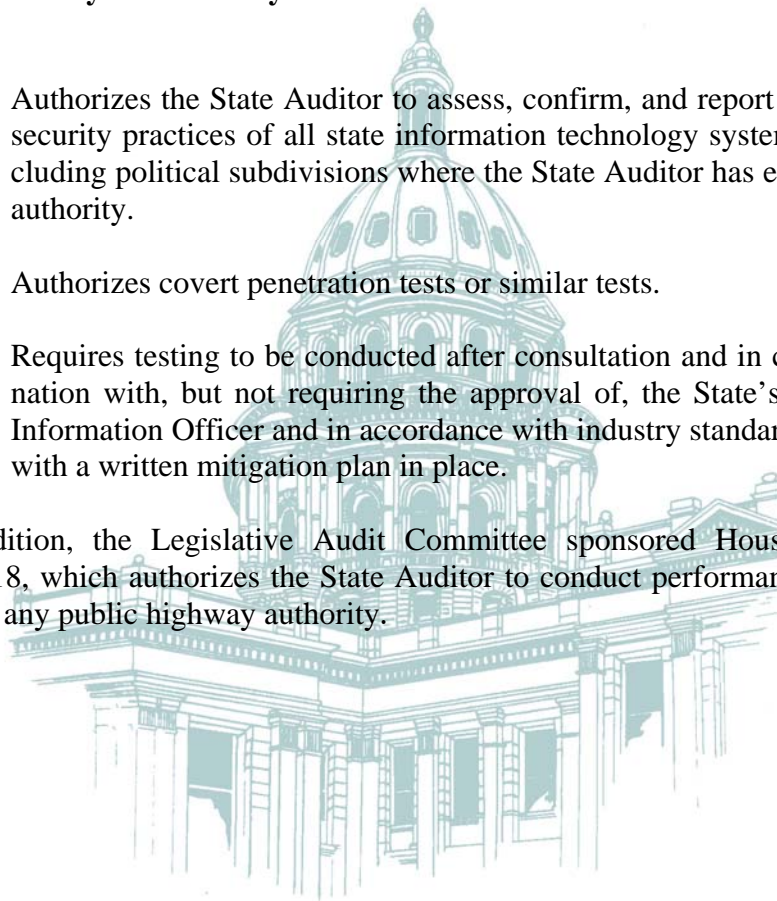
*During the 2011 Legislative Session, two bills were enacted in response to recommendations made or issues raised in OSA audit reports and studies.*



## **Senate Bill 11-082 OSA Security Audits IT Systems**

- Authorizes the State Auditor to assess, confirm, and report on the security practices of all state information technology systems, including political subdivisions where the State Auditor has existing authority.
- Authorizes covert penetration tests or similar tests.
- Requires testing to be conducted after consultation and in coordination with, but not requiring the approval of, the State's Chief Information Officer and in accordance with industry standards and with a written mitigation plan in place.

In addition, the Legislative Audit Committee sponsored House Bill 11-1118, which authorizes the State Auditor to conduct performance audits of any public highway authority.



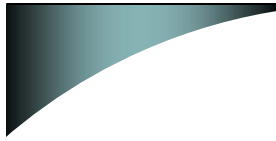
## Reports Released in Fiscal Year 2011

Reports can be requested by phone at 303.869.2800  
or viewed on the Internet at [www.state.co.us/auditor](http://www.state.co.us/auditor).

<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/IT/Financial</u></b>
2056	CollegeInvest, College Savings Plans, October 2010	Performance
2058	Department of Agriculture, Inspection and Consumer Services Division, Anhydrous Ammonia Program, July 2010	Performance
2134	Department of Health Care Policy and Financing, Implementation of the Medicaid Pediatric Hospice Waiver Program, May 2011	Performance
2079	Department of Health Care Policy and Financing, Medicaid Outpatient Substance Abuse Treatment Benefit, November 2010	Performance
2046	Department of Higher Education, Higher Education Student Fees, July 2010	Performance
2131A	Department of Human Services, Colorado Mental Health Institutes, Psychiatric Medication Practices for Adult Civil Patients, May 2011	Performance
1993	Department of Labor and Employment, Evaluation of the Unemployment Insurance Trust Fund, June 2010	Performance



<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/IT/Financial</u></b>
2123	Department of Personnel & Administration, Administrative Leave Use in the State Personnel System, January 2011	Performance
2073	Department of Personnel & Administration, Employee Benefits Program, October 2010	Performance
2061	Department of Personnel & Administration, Office of Risk Management, September 2010	Performance
2077	Department of Public Health and Environment, Dental Loan Repayment Program, June 2010	Performance
2104	Department of Public Safety, Colorado Bureau of Investigation, Concealed Handgun Permit Database, November 2010	Performance
2062	Department of Revenue, Department of Public Health and Environment, Vehicle Emissions Program, September 2010	Performance
2070	Governor's Energy Office, Weatherization Assistance Program, October 2010	Performance
2068A	Governor's Office of Information Technology, Office of Cyber Security, November 2010	Performance
2057	Regional Transportation District, Bus Cost Allocation Model, January 2011	Performance

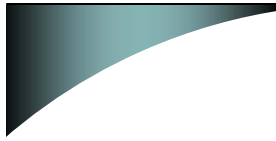


<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/IT/Financial</u></b>
2012	Department of Transportation, SAP Information System, June 2010	IT
2105	Governor's Office of Information Technology, Report on Controls Placed in Operation and Tests of Operating Effectiveness, July 1, 2009–June 30, 2010	IT
2116-10	Adams State College, Fiscal Years Ended June 30, 2010 and 2009	Financial
2109-10	Auraria Higher Education Center, Fiscal Years Ended June 30, 2010 and 2009	Financial
2050-10	Cash Funds Uncommitted Reserves Report, Fiscal Year Ended June 30, 2010	Financial
2113A-10	CollegeInvest, Prepaid Tuition Fund, Fiscal Years Ended June 30, 2010 and 2009	Financial
2113B-10	CollegeInvest, Student Loan Program Funds, Fiscal Years Ended June 30, 2010 and 2009	Financial
2113C-10	CollegeInvest, College Savings Program Funds, Fiscal Years Ended June 30, 2010 and 2009	Financial
2113-10	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, 2010	Financial





<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/IT/Financial</u></b>
2085-10	Colorado Community College System, Fiscal Years Ended June 30, 2010 and 2009	Financial
2067	Colorado Public Employees' Retirement Association, Year Ended December 31, 2009 <sup>1</sup>	Financial
2090-10	Colorado School of Mines, Years Ended June 30, 2010 and 2009	Financial
2087-10	Colorado State Fair Authority, Fiscal Years Ended June 30, 2010 and 2009	Financial
2084-10	Colorado State University System, Fiscal Year Ended June 30, 2010	Financial
2128	Colorado Tourism Office, Agreed Upon Procedures Report, Fiscal Years Ended June 30, 2010 and 2009	Financial
2091-10	Department of Higher Education, Colorado Student Loan Program dba College Assist, Fiscal Years Ended June 30, 2010 and 2009	Financial
2138	Department of Human Services, American Recovery and Reinvestment Act of 2009, Internal Control Pilot Project, Phase 2, Fiscal Year Ended June 30, 2010	Financial



<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/ IT/Financial</u></b>
2097-10	Department of Human Services, Colorado State Veterans Nursing Home at Rifle, Fiscal Year Ended June 30, 2010	Financial
2018-10	Department of Revenue, Colorado Lottery, Fiscal Years Ended June 30, 2010 and 2009	Financial
2106-10	Department of Revenue, Division of Gaming, Fiscal Years Ended June 30, 2010 and 2009	Financial
2147	Department of Treasury, Statement of Federal Land Payments, Fiscal Year Ended September 30, 2010	Financial
2126	Fiscal Health Analysis of Colorado School Districts, September 2010	Financial
2094-10	Fort Lewis College, Fiscal Years Ended June 30, 2010 and 2009	Financial
1827-10	Higher Education TABOR Enterprise Status, Fiscal Year Ended June 30, 2010	Financial
2092-10	Mesa State College, Fiscal Years Ended June 30, 2010 and 2009	Financial
2086-10	Metropolitan State College of Denver, Fiscal Years Ended June 30, 2010 and 2009	Financial



<b><u>Report No.</u></b>	<b><u>Name of Report</u></b>	<b><u>Type of Report Performance/IT/Financial</u></b>
2076-10	Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR), February 2011	Financial
2054-10	Schedule of TABOR Revenue, Fiscal Year 2010	Financial
2112	State Board of the Great Outdoors Colorado Trust Fund, Fiscal Years Ended June 30, 2010 and 2009	Financial
2071	State of Colorado, Statewide Single Audit, Fiscal Year Ended June 30, 2010 <sup>2</sup>	Financial
2083-10	University of Colorado, Fiscal Year Ended June 30, 2010	Financial
2108-10	University of Northern Colorado, Fiscal Years Ended June 30, 2010 and 2009	Financial
2110-10	Western State College, Fiscal Years Ended June 30, 2010 and 2009	Financial

## Notes:

<sup>1</sup>The Colorado Public Employees' Retirement Association's (PERA) Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended December 31, 2009, was prepared by PERA and audited by the OSA. PERA's CAFR is available on the OSA's website.

<sup>2</sup>The State's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2010, 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.



**SA**

We Set the Standard for Good Government



**Office of the State Auditor**

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