

Colorado Office of the State Auditor
Excellence in Evaluation Award Summary Narrative
Calendar Years 2014-2017

The Office of the State Auditor (OSA) is the government accountability arm of the Colorado General Assembly. Our mission is to improve government for the people of Colorado by providing objective information, quality services, and solution-based recommendations. Every day, our staff and the work they do reflect the OSA's tagline: "We set the standard for good government."

Body of Work

The OSA has produced a substantial body of work. Between January 2014 and December 2017, the OSA released 61 performance audits, evaluations, or studies—about 15 reports per year on average. These performance audits, evaluations, and studies have covered divisions, programs, and operations in 15 of Colorado's 19 principal executive branch departments, as well as 11 other government entities: the Governor's Office, the Judicial Branch, the Independent Ethics Commission, the Regional Transportation District, the Public Employees' Retirement Association, the Colorado Health Exchange, Adams State University, Western State Colorado University, and the municipalities of Central City, Cripple Creek, and Black Hawk. Please see ATTACHMENT B for a complete list of the OSA's performance audits, evaluations, and studies for each year.

Our performance audits, evaluations, and studies (collectively referred to as performance audits) have ranged from complex, multi-agency audits to single programs. Our performance audits have highlighted the importance of governance and accountability; helped to protect the public, including vulnerable populations; ensured the delivery of quality services; and identified ways to improve the effectiveness and efficiency of state government operations. Some performance audits involved the use of contractors due to the specialized expertise required to perform the audit work. These audits allowed us to examine technically complex programs that are important for the State, its employees, and its citizens. Even when contractors are involved, the OSA's audit managers and audit supervisors hold significant responsibility for planning the audit work, developing audit findings and recommendations, and writing the audit reports.

The OSA continues to benefit from experience and tenure of our performance audit staff, who collectively possess more than 250 years of performance auditing experience. The OSA's performance auditors are highly educated, with 74 percent holding advanced degrees and 32 percent holding professional licenses and certifications, such as Certified Government Auditing Professional, Certified Internal Auditor, Certified Government Financial Manager, and Certified Fraud Examiner. The OSA has an average of 33 professional staff assigned to conduct performance audits. See ATTACHMENT A for information about the OSA's organizational structure, expenditures, and performance auditor positions.

Our performance audits originate from several different sources. Of the 61 performance audits we issued over the last 4 years, 23 were statutorily required, 20 were conducted in

response to a legislative request, and the remaining 18 were discretionary. The fact that 71 percent of the OSA's performance audits were driven by legislative interests (i.e., statutorily required or legislative requests) demonstrates that the General Assembly relies heavily on the OSA's audits to provide information and assessments of government operations and has confidence in the value of our work. During the 2014 through 2017 Legislative Sessions, the General Assembly passed 15 bills related to the OSA's audit authority and statutory responsibilities, including expanded authority to audit Colorado's health insurance exchange and new authority to evaluate the State's tax expenditures and to operate a statewide fraud reporting hotline. See ATTACHMENT D for a list of enacted bills.

Overall, the OSA's body of work consistently provides thorough, credible, and impartial assessments of the operation of state programs for legislators, agencies, and the public. As part of this application, we have included three performance audits completed during the 4-year period that represent the variety of performance audits we conduct, the quality of our audit work, and the scope of impact our audits have on government operations. All three of the highlighted audits resulted in changes to the programs' enabling statutes. Please see ATTACHMENT C for a copy of each selected performance audit report.

- SENIOR AND DISABLED VETERAN PROPERTY TAX EXEMPTION PROGRAM (AUGUST 2015). This award-winning performance audit is an example of an evaluation of the effectiveness of programs meant to serve vulnerable populations. In 2000 and 2006, voters approved amendments to the Colorado Constitution establishing property tax exemptions for qualifying senior citizens and disabled veterans. Under the Program, the State reimburses counties for property tax revenue lost because of the exemptions. The OSA's performance audit matched data from state tax and death records for full- and part-time residents to examine the entire population of more than 200,000 exemptions that were initially approved by county assessors' offices for Tax Year 2013. Through this data matching, we were able to demonstrate that, of the \$103 million in exemptions, about \$25.3 million for 54,000 exemptions may not have met the eligibility requirements. This performance audit highlighted that the fundamental design of the Program did not protect the State from reimbursing counties for non-qualifying exemptions, and that the state Department of Local Affairs (Department) lacked the authority and processes to ensure that only qualifying applicants were approved. The audit further raised concerns that the State was unable to recover funds paid to counties for non-qualifying exemptions. In response to the audit, the General Assembly passed House Bill 16-1175, which expanded the scope of the Department's review of applications for the exemption and authorized actions to prevent or recoup reimbursement for non-qualifying exemptions.
- COMMUTING USE OF STATE-OWNED VEHICLES (DECEMBER 2016). This performance audit is an example of an in-depth review of a common use of State resources. At the time of our audit, state employees could use assigned state-owned vehicles for commuting between home and work when approved by their agency's executive director. This is generally considered a taxable fringe benefit that the State must report as part of the employees' income to the Internal Revenue Service (IRS). In Calendar Year 2015, eight state agencies authorized 782 employees to commute.

The audit found: (1) only one of the sample of 30 commuters met all the statutory criteria for use of a state-owned vehicle for commuting because the statutory criteria were vague and did not clearly align with the State's business needs, (2) the Department of Personnel & Administration (Department) may have been significantly underreporting vehicle fringe benefits because its policies and rules did not align with IRS regulations, and (3) the Department was not overseeing the use of state-owned vehicles across state government. Because we selected a statistically valid sample to review the commuter population, we were able to estimate that the State spent \$1.38 million on commuting arrangements in Calendar Year 2015 that did not meet statutory requirements. In response to the audit, the General Assembly passed House Bill 17-1296, which clarified the criteria for the use of state-owned vehicles, strengthened the Department's role in overseeing commuting arrangements, and aligned state law with IRS fringe benefit reporting requirements.

- OFFICE OF FILM, TELEVISION, AND MEDIA (JUNE 2017). This performance audit is an example of how the OSA's audits examine the benefits of tax incentive programs, which are becoming increasingly popular, albeit controversial, tools to drive economic development and job growth. The Office of Film, Television, and Media (Film Office) was created in 2012 to expand and revitalize the Colorado film industry through a program that pays companies a financial incentive for films, commercials, television shows, and video games produced in the State. In Fiscal Years 2013 through 2016, the Film Office paid \$10.6 million in incentives for 31 productions. The audit found widespread problems with the Film Office's administration of the program, including that it: (1) paid incentives totaling \$1.9 million for all nine of the sampled projects although none met all the requirements to receive an incentive; (2) routinely paid incentives without having contracts, which are required by State Fiscal Rules; and (3) did not have complete and accurate information to assess and report on the effectiveness of the incentive program. In response to the audit, the General Assembly passed Senate Bill 18-103, which strengthened requirements to earn a production incentive. Separate from the legislative discussions about Senate Bill 18-103, the General Assembly significantly reduced General Fund support for the Film Office from an average of nearly \$3 million annually prior to Fiscal Year 2017 to \$750,000 annually in Fiscal Years 2018 and 2019. Discussions among the Joint Budget Committee about whether to continue funding for the film incentive program, and at what level, are reflected in the related media article in ATTACHMENT C.

Making An Impact

The OSA's performance audits benefit all Coloradans by promoting transparency and accountability in state government; improving the efficiency, effectiveness, and quality of operations and service delivery; identifying cost savings and other financial benefits; and producing legislative change.

The impact of each individual performance audit is unique. Some audits receive substantial media attention and public focus that precipitates quick and often sweeping legislative changes. Other audits receive less public attention, yet the audited agency takes the audit

seriously and works diligently to implement the recommendations and improve operations. Overall, the OSA focuses on three key strategies to ensure that our performance audits have an impact:

- **IDENTIFY FINANCIAL BENEFITS FOR THE STATE.** The financial benefits we identify represent the dollar value the OSA provides to the people of Colorado by ensuring the responsible stewardship of public funds. During Fiscal Years 2014 through 2017, our performance audits identified financial benefits totaling \$152.8 million, or an average of about \$38.2 million per year. These benefits exceed the OSA's total net operating costs over the same time period by a ratio of 5 to 1. Financial benefits include the identification of potential cost savings, questionable payments, funds that could be more effectively managed, policies that could be changed to increase revenue, opportunities to leverage State resources with matching funds, improved collection of fees or debts owed, or increases in the value of State assets.
- **IDENTIFY THE NEED FOR STATUTORY CHANGE.** As a legislative agency, it is important that our audits provide quality information to the General Assembly about available policy options to improve program effectiveness or efficiency. During the 2014 through 2017 Legislative Sessions, 33 separate bills were enacted into law that related to issues raised in the OSA's audits and other work products. See ATTACHMENT D for a list of enacted bills.
- **IDENTIFY VALUE-ADDED, ACTIONABLE RECOMMENDATIONS AND HOLD AGENCIES ACCOUNTABLE FOR IMPLEMENTATION.** We strive to promote positive change in government by developing recommendations and solutions that address the problems we identify and that agencies will implement. The OSA requests agencies to report to the Legislative Audit Committee on the status of the implementation of recommendations from performance audits. These status reports are an important mechanism for holding agencies accountable for addressing performance audit recommendations. In 2016, we strengthened our status reporting process by including a review of the agency's documentation to verify the reported implementation status of the recommendations. This verification work has allowed the OSA to provide greater assurance to the Legislative Audit Committee and the public about the improvements agencies are making in response to audit recommendations.

In addition, the General Assembly required reporting on the implementation status of audit recommendations during the annual budget cycle as part of the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act, which was enacted in 2013. To fulfill this requirement, we produce an annual report on the status of all unimplemented audit recommendations to the Legislative Audit Committee, the Joint Budget Committee, and each department's committee of reference. Over time, the data in these reports have shown a decrease in the number of unimplemented performance and IT audit recommendations from 67 recommendations as of June 30, 2014, to 48 recommendations as of June 30, 2017. These reports have been an important point of discussion between legislators and

agencies and, ultimately, holding agencies accountable for their use of public resources.

Furthering the Field of Legislative Evaluation

One of the ways the OSA and its performance auditors advance the field of legislative program evaluation and performance auditing is through active involvement in the accountability community, including the National Legislative Program Evaluation Society (NLPES), the National State Auditors Association, the Mountain and Plains Intergovernmental Audit Forum, the Association of Government Auditors, the Institute of Internal Auditors, and the Association of Certified Fraud Examiners.

Our State Auditor served as President of the National State Auditors Association for the 2015-2016 term, and our Deputy State Auditor currently serves on the Executive Committee of the Mountain and Plains Intergovernmental Audit Forum. With respect to the National Conference of State Legislatures (NCSL) and NLPES, the OSA has a long-standing involvement with both organizations. In 2017, one of our performance audit managers was appointed to serve on the NCSL Executive Committee, and since 2009, he has served on the NLPES Executive Committee. In 2016, he was elected as NLPES Chair after having previously served as Vice Chair and Secretary. One notable effort he undertook as Chair was to facilitate a comprehensive review and update of the NLPES bylaws to ensure they reflect current practice and provide a solid foundation for NLPES in the future. His ongoing participation and leadership in NCSL and NLPES ensures that the OSA stays connected to our peer organizations and works to address the collective demands and issues we face as legislative audit and evaluation organizations.

We routinely present information about our performance audits, as well as the importance of the audit function itself, to state and local government officials, members of audit industry organizations, and students attending Colorado's higher education institutions. See ATTACHMENT E for a list of the OSA's external speaking activities. Specifically, the OSA's involvement in NLPES and NCSL conferences provides important opportunities for exchanging ideas and developing skills. In October 2015, the OSA planned and hosted the NLPES 2015 Fall Professional Development Seminar (PDS). At the time, attendance for the 3-day PDS was the highest since 2006, with more than 140 participants representing 30 different states. The PDS was a great success and offered three plenary sessions in addition to concurrent sessions covering a wide range of topics. The Poster Session, which was reimaged and reintroduced at the Denver PDS, was an instant crowd favorite and has become a central part of planning content for subsequent seminars (See ATTACHMENT F for the conference program). OSA staff made presentations and moderated sessions at the 2014, 2015, 2016, and 2017 NLPES Professional Development Seminars; offered a May 2017 NLPES webinar; and made presentations at the 2014 and 2017 NCSL Legislative Summits. OSA staff also contribute articles to the NLPES Newsletter and respond to inquiries posted on the NLPES email list.