

Colorado Office of the State Auditor
Excellence in Evaluation Award Summary Narrative
Calendar Years 2009-2012

The Office of the State Auditor (OSA) is the accountability arm of the Colorado General Assembly. Our mission is simple—Improve government for the people of Colorado. To ensure that we accomplish our mission, our performance audits identify efficiencies and cost-savings and improve effectiveness and transparency in government. Our performance audits also provide objective information, quality services, and solution-based recommendations.

Every day, our performance audit staff and the work they perform reflect the OSA’s tagline: “We set the standard for good government.”

Body of Work

Overall, the OSA’s body of work consistently demonstrates the value of a thorough, credible, and impartial assessment of the operation of state programs for legislators, agencies, and the public. A recent editorial by *The Denver Post Editorial Board* (see Attachment D) stated:

“The Office of the State Auditor is not always appreciated as the bulwark to good government that it clearly is. Yet its performance audits routinely uncover questionable practices that might otherwise have gone on for years.”

Our group of performance auditors collectively has produced a substantial body of work. Between January 2009 and December 2012, the OSA released a total of 59 performance audits, or an average of approximately 15 audits per year. These performance audits have covered divisions, programs, and operations in all 19 of Colorado’s principal executive branch departments, as well as the Governor’s Office, the Judicial Branch, and certain political subdivisions and other entities as provided for by law. See Attachment B for a listing of audits broken down by year and by topic.

Our performance audits have ranged from complex, multi-agency audits to audits of single programs. Our performance audits have highlighted the importance of governance and accountability, helped to protect the public, ensured the delivery of quality services, and covered matters of importance to state government administration. 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 report.

One notable change in the OSA’s staffing over the last 4 years is the growth in experience and tenure of our performance audit staff. We have reaped the benefits as our performance audit staff have moved away from entry-level auditors toward highly functioning senior auditors and audit supervisors. Not including senior management positions, the OSA has maintained an average of about 25 professional staff assigned to conduct performance audits (see Attachment A).

Our performance audits originate from a number of different sources. Of the 59 performance audits released during Calendar Years 2009 through 2012, 28 audits (47 percent) were discretionary, 19 audits (32 percent) were conducted in response to a legislative request for audit, and the remaining 12 audits (20 percent) were statutorily required. The fact that over half of the OSA’s audits were driven by legislative mandates or by legislative requests demonstrates the value legislative members place on our work as well as our commitment to remaining responsive to the needs of the General Assembly. Moreover, the General Assembly has passed bills that expand our

audit responsibilities. For example, during the 2011 Legislative Session, the General Assembly expanded the State Auditor's authority to conduct information security audits as well as performance audits of public highway authorities and special purpose authorities. The General Assembly also turned to our office to provide audit coverage and ensure agency implementation of the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act, which established a performance-based budgeting system for all of Colorado's 19 principal executive branch departments, the Judicial Department, and four independent offices.

As part of this application, we have included three performance audits completed during the 4-year period under review that demonstrate the variety of performance audits we conduct, the quality of our audit work, and the scope of impact our audits have on government operations. Please see Attachment C for a copy of each selected audit report.

- *Conservation Easement Tax Credit Performance Audit* (September 2012). This performance audit is an example of how our work can be a catalyst that brings together various state agencies and stakeholders to bring about significant positive change for the effective and efficient administration of government programs. A key message we emphasized throughout the audit report is that having strong processes for administering the tax credit is important for accomplishing land conservation goals while ensuring that the State is not foregoing more revenue than it should. As of 2009, nearly \$640 million in tax credits had been claimed by Colorado taxpayers. Our audit recommendations provided the state agencies responsible for administering the tax credit program with a detailed roadmap for how to strengthen their processes and ensure that tax credits being claimed and used by taxpayers are valid.

Additionally, in December 2012, shortly after the initial audit hearing, the Legislative Audit Committee requested that draft legislation be prepared to address a key finding in the audit report: The State should fundamentally shift the manner in which the conservation easement tax credit is administered by requiring that certain aspects of a conservation easement donation be reviewed and approved *before* a tax credit claim can be filed. The OSA convened a working group representing state agencies responsible for administering the tax credit and stakeholders. As a result of the working group's efforts, the Legislative Audit Committee voted unanimously to sponsor legislation. Senate Bill 13-221 was introduced on March 15, 2013, and, at the time of this application, had passed both the House and Senate and was awaiting the Governor's signature. Through this collaborative effort, the state agencies and stakeholders were able to accomplish the goals as outlined in the OSA's performance audit and, therefore, successfully balance land preservation and conservation goals and landowner interests while protecting the broader interests of Colorado taxpayers.

- *Unemployment Insurance Program Performance Audit* (October 2011). This performance audit is an example of how we used LEAN principles to augment the comprehensiveness and thoroughness of our work auditing core government programs. First developed in the private sector and now being adapted to the public sphere, LEAN principles promote continuous and rapid operational improvement by eliminating non-value-added processes and ensuring that value-added processes occur in the right sequence without creating bottlenecks. An overarching theme of this audit was that an efficient and effective UI Program is critical for providing much-needed benefits to qualified recipients in a timely manner while minimizing the financial burden on those businesses whose premiums fund

the UI Program. We successfully used LEAN principles and methodologies to demonstrate that the UI Program had missed significant opportunities to improve the efficiency and effectiveness of its operations. Since 2006, the UI Program's workload had almost tripled without a corresponding increase in staff. As a result, claimants often waited more than an hour, if not longer, when they contacted the UI Program's call center. By mapping each step in the unemployment insurance claims process, we identified non-value-added processes and forms that the UI Program could eliminate, as well as computer enhancements it could implement, to collect claims information more cost-effectively and serve claimants more efficiently. We estimated that 16 percent of the UI Program's non-management staff could be reallocated to more cost-effective functions if the UI Program reduced the use of paper forms, required most claimants to apply online, further automated claims processing, and pursued statutory changes to simplify eligibility determination.

In addition to focusing on increased efficiencies, we were also concerned with significant overpayments of UI benefits in Calendar Year 2010. We used a statistically valid sample to estimate that the UI Program paid \$60 million in benefits to claimants who did not prove they were legally present in the United States, a requirement in state law. By strengthening a couple of key steps in the eligibility determination process, we concluded that the State could avoid making such improper payments in the future and, therefore, save costs to the Unemployment Insurance Trust Fund.

- *Office of Cyber Security Performance Audit* (November 2010). This award-winning performance audit is an example of the OSA's successful efforts over the past several years to build in-house expertise for conducting performance audits of electronic information systems and related critical infrastructure. This audit attempted to answer one basic overarching question: Are citizen data maintained by the State secure? To answer this question, we reviewed the Office of Cyber Security's progress in fulfilling the statutory requirements of the Colorado Cyber Security Program, which applies to every state department, division, office, commission, bureau, board, and institution in the Executive, Judicial, and Legislative Branches.

In addition to assessing cyber security plans and response protocols, we tested physical security of key state buildings and conducted covert penetration tests of state networks, applications, and information systems. By simulating real cyber attacks against state networks and information systems, the audit team identified a significant number of serious vulnerabilities in the State's IT networks and applications and gained unauthorized access to thousands of individuals' records, including state employees' records, containing confidential data. The public audit report is included with this application; however, the OSA also issued a confidential report to the Office of Cyber Security and the agencies whose systems had been breached so they could immediately begin remediating the vulnerabilities identified during the audit. Since the audit's public release in December 2010, we have received a number of requests from local, state, and national organizations to discuss the audit and train other audit organizations on the methodologies used to execute the penetration test.

Making An Impact

The OSA's performance audits have a significant impact and benefit for 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 several key strategies to ensure that our performance audits have an impact:

- **Identify Financial Benefits for the State.** We recognize that legislators and taxpayers look to the OSA to identify cost savings and other financial benefits in state programs and operations, especially during times of ongoing economic challenges. It is also symbolically important for us that these financial benefits exceed the OSA's net operating costs. During Fiscal Years 2009 through 2012, our performance audits identified financial benefits (e.g., cost savings, improved collection of fees or debts owed, general fund cost recoveries, or increases in the value of assets in the State's accounting system) totaling \$140.2 million. This represents about a 5:1 ratio when compared with the OSA's total net operating costs over the same 4-year period.
- **Identify the Need for Statutory Change.** As a legislative agency, it is important that our audits identify when statutory change is necessary to improve program effectiveness and efficiency and provide quality information to the General Assembly about available policy options. During the 2009 through 2012 Legislative Sessions, a total of 22 separate bills were enacted that related to audit recommendations made by the OSA. See Attachment E for a complete listing of audit-related legislation.
- **Identify Value-Added, Actionable Recommendations.** We strive to promote positive change in government by developing recommendations and solutions that will address the problems we identify and that agencies can realistically implement. Agency agreement with our audit recommendations is the necessary first step toward achieving meaningful change. The OSA made a total of 1,031 performance audit recommendations during Calendar Years 2009 through 2012, and agencies agreed or partially agreed with 99 percent of these recommendations. See Attachment F for a count of responses by agency.
- **Hold Agencies Accountable for Implementation.** We strive to promote positive change in government by holding agencies accountable for implementing the recommendations they agree to implement. In early 2010, we determined that one approach to achieving this goal was to provide more information to legislators and the general public via a centralized tracking and reporting effort. We now annually report to the Legislative Audit Committee, the Joint Budget Committee, and all 13 committees of reference that provide oversight of state agencies on the implementation status of all performance audit recommendations—providing specific focus on those recommendations that are not yet fully implemented.

As shown by the table in Attachment F, of the 1,031 performance audit recommendations the OSA made during Calendar Years 2009 through 2012, a total of 900 recommendations (78 percent) were reported to have been fully or partially implemented as of June 30, 2012. Moreover, we note that only 24 of the 197 (12 percent) audit recommendations reported as not implemented were from audits prior to 2012. The majority of unimplemented

recommendations were from recent audits released in Calendar Year 2012, and reflect recommendations that we would not expect to be fully implemented at this time.

The increased visibility created by the OSA's new reporting effort has provided a strong motivation for state agencies to implement their recommendations and thus improve Colorado state government. For example, the Joint Budget Committee required that all state agencies respond during their Fiscal Year 2014 budget briefings as to why they had not implemented some of the older performance audit recommendations and provide a schedule for when the recommendations would be implemented. The legislative committees of reference also questioned agencies asking for explanation about the outstanding audit recommendations. We believe that the positive response and action taken by legislative committees demonstrates the success of this ongoing project. We have also seen the positive impact that it has had on state agencies' efforts to better track and manage the implementation process.

Furthering the Profession

The OSA and its staff advance the profession of legislative program evaluation and performance auditing through active involvement and leadership in professional associations and the broader accountability community, including the National Legislative Program Evaluation Society (NLPES), National Conference of State Legislatures (NCSL), Institute of Internal Auditors, Mountain & Plains Intergovernmental Audit Forum, National State Auditors Association, Information Systems Audit and Control Association, and Association of Government Accountants.

In particular, the OSA demonstrates a clear commitment to NLPES and its mission. We are pleased to have had a performance audit manager serving on the NLPES Executive Committee since 2009. His ongoing participation and leadership on the Executive Committee helps keep the OSA connected to our peer organizations and working to address the collective demands and issues we face as legislative audit and evaluation organizations.

The OSA's involvement in NLPES, NCSL, and other audit-related conferences provides important opportunities for exchanging ideas and developing skills. See Attachment G for a listing of the various external presentations provided by OSA staff. In September 2011, the OSA was pleased to host and help organize the NLPES 2011 Fall Professional Development Seminar in Denver. The seminar was well attended—drawing participation from about 100 performance auditors and program evaluators from 24 different states—and covered a wide range of topics. We were privileged to have our Communication Analyst provide a plenary session to all seminar participants on using messaging techniques to write more effective audit reports. The plenary session received high scores on participant evaluations.

In addition to conference participation, our staff have contributed articles to the NLPES Newsletter and routinely responded to inquiries posted on the NLPES email list and the Question of the Month forum. Finally, the OSA provided meeting space and support for the NLPES Executive Committee's meetings in September 2009, May 2010, and May 2011. This allowed NLPES to avoid the cost of meeting space and, because the meetings were in Denver, travel costs for the NLPES Staff Liaison. Keeping administrative costs low is important for ensuring that NLPES can allocate more of its financial resources for training and professional development activities for the membership.