

# Opportunities in an Evolving Audit Environment

Dianne Ray, CPA, MPA  
Colorado State Auditor

22<sup>nd</sup> Biennial Forum of Government Auditors  
May 10, 2018



SA

We Set the Standard for Good Government



# Opportunities Within Existing Resources

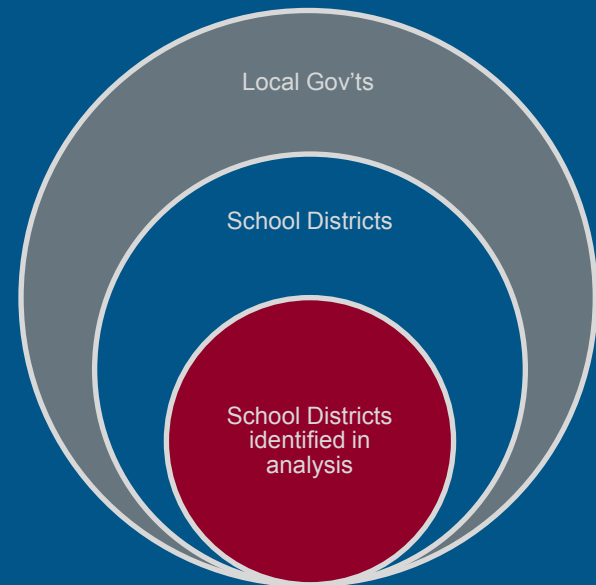
## School Districts' Fiscal Health

# Colorado Local Government Audit Law

- All Local Governments submit audits
  - Include School Districts
- Exemption Applications for Small Governments

# All this data

- What can we do to be proactive with all this data?
- Fiscal Health Analysis
  - Start with School Districts
    - Only 178 Districts



# Fiscal Health Analysis of School Districts

- Examines current rolling 3-year period of audited financial statements
  - All School Districts are required to have audits
- Uses a set of ratios and related benchmarks to evaluate financial indicators



# Fiscal Health Analysis of School Districts

- Financial Indicators to assess financial health:
  - The adequacy to meet obligations over the 3-year period
  - Revenue coverage of debt service payments
  - Reserves available to cover future expenses
  - Amount added to the reserves for every \$1 in revenue
  - Increase or decrease to the reserves in the general fund

# Fiscal Health Analysis of School Districts

## EXHIBIT 2.1. FISCAL HEALTH ANALYSIS NUMBER OF SCHOOL DISTRICTS MISSING FINANCIAL BENCHMARKS<sup>1</sup> FOR THE 3-YEAR PERIOD ENDING JUNE 30

FISCAL HEALTH RATIO	2014	2015	2016
Ratio 1: Asset Sufficiency Ratio	1	0	0
Ratio 2: Debt Burden Ratio	14	5	8
Ratio 3: Operating Reserve Ratio	1	0	0
Ratio 4: Operating Margin Ratio	57	34	22
Ratio 5: Change in Fund Balance Ratio	31	10	11
<b>TOTAL INDICATORS</b>	<b>104</b>	<b>49</b>	<b>41</b>
<b>TOTAL DISTRICTS WITH ONE OR MORE MISSED BENCHMARKS</b>	<b>70</b>	<b>36</b>	<b>34</b>

SOURCE: Analysis performed by the Colorado Office of the State Auditor, Local Government Division, using data from audited financial statements submitted by school districts.

<sup>1</sup> Some districts had indicators in more than one category.

# Fiscal Health Analysis of School Districts

- Final Report includes
  - List of Districts missing two or more financial benchmarks for past 3 years
  - Analysis of each District missing two or more financial benchmarks for current cycle, including
    - Explanation from District
    - Graphs of financial benchmarks
    - Map of State and location of district
    - Demographics of District



# Fiscal Health Analysis of School Districts

- Benefits
  - Noted by Districts
    - Starts the conversation
    - Access to Legislative Audit Committee (8 Legislators)
    - Promotes proactive analysis of data
      - Some Districts include information in their audit reports

# Fiscal Health Analysis of School Districts

- How to create a Fiscal Health Analysis
  - Create a database
    - Capture three years of data to begin
  - Staff enter data as they review audits
    - Takes about 15 minutes/audit
  - Annually run data to determine those districts that have missed financial benchmarks
  - 450-500 staff hours to compile report

# Opportunities Within Existing Resources

Annual Report: Status of Outstanding  
Audit Recommendations

# Annual Report: Status of Outstanding Audit Recommendations

- Purpose of report
  - Track the implementation status of all recommendations
  - Identifies “high priority” outstanding recommendations
  - Provides Legislators information to hold auditees accountable to implement recommendations agreed to

# Annual Report: Status of Outstanding Audit Recommendations

- How implementation is determined
  - If the recommendation originated from the annual financial audit
    - Next annual audit determines implementation
  - If the recommendation originated from a performance or IT audit
    - Annual status request sent to each department/agency
    - Some desk reviews to confirm implementation

# Annual Report: Status of Outstanding Audit Recommendations

TOTAL NUMBER OF OUTSTANDING AUDIT RECOMMENDATIONS THAT AGENCIES/DEPARTMENTS/ORGANIZATIONS AGREED TO IMPLEMENT AS OF JUNE 30, 2016, AND JUNE 30, 2017

	2016			2017		
	FINANCIAL RECS	PERFORMANCE/IT RECS	TOTAL	FINANCIAL RECS	PERFORMANCE/IT RECS	TOTAL
<b>AGRICULTURE</b>	5	3	8	1	1	2
Colorado State Fair Authority	2		2	1		1
All Other Department of Agriculture	3	3	6	0	1	1
<b>CORRECTIONS</b>		13	13		0	0
<b>EDUCATION</b>			0			0
<b>GOVERNOR'S OFFICE</b>	17	11	28	16	12	28
Governor's Office of Information Technology	11	11	22	15	12	27 ▲
All Other Governor's Office	6		6	1		1
<b>TOTAL</b>	<b>64</b>	<b>52</b>	<b>116</b>	<b>49</b>	<b>48</b>	<b>97</b>

SOURCE: Office of the State Auditor's audit recommendation database.

NOTE: ▲ indicates that the number of outstanding audit recommendations increased in 2017 compared to 2016.

# Annual Report: Status of Outstanding Audit Recommendations

## Financial Audits

COMPARISON OF SEVERITY LEVELS OF  
OUTSTANDING FINANCIAL AUDIT RECOMMENDATIONS  
AS OF JUNE 30, 2016, AND JUNE 30, 2017

	MATERIAL WEAKNESS		SIGNIFICANT DEFICIENCY		DEFICIENCY IN INTERNAL CONTROL		NOT CLASSIFIED		TOTAL	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>AGRICULTURE</b>	4	0					1	1	5	1
Colorado State Fair Authority	1	0					1	1	2	1
All Other Department of Agriculture	3	0							3	0
<b>GOVERNOR'S OFFICE</b>	3	3	9	11	5	2			17	16
Governor's Office of Information Technology	0	3	6	11	5	1			11	15 ▲
All Other Governor's Office	3	0	3	0	0	1			6	1
<b>TOTAL</b>	17	12	35	27	9	8	3	2	64	49

SOURCE: Office of the State Auditor's audit recommendation database.

NOTE: ▲ indicates that the number of outstanding audit recommendations increased in 2017 compared to 2016.

# Annual Report: Status of Outstanding Audit Recommendations

- High Priority outstanding financial recommendations
  - Past its original implementation date and
    - A “material weakness” or
    - A “significant deficiency” recommendation outstanding for 3 years or more or
    - A “not classified” (not an internal control deficiency) recommendation that has been outstanding for 5 years or more





# Annual Report: Status of Outstanding Audit Recommendations

## COMPARISON OF OUTSTANDING HIGH PRIORITY FINANCIAL AUDIT RECOMMENDATIONS AS OF JUNE 30, 2016, AND JUNE 30, 2017

AGENCY/DEPARTMENT	TOTAL RECS JULY 2011 THROUGH JUNE 2016	OUTSTANDING HIGH PRIORITY RECS AS OF JUNE 30, 2016	OUTSTANDING HIGH PRIORITY RECS AS OF JUNE 30, 2017
AGRICULTURE	19	5	1
GOVERNOR'S OFFICE	209	6	9 ▲
HEALTH CARE POLICY AND FINANCING	99	8	5
HIGHER EDUCATION	144	2	2
HUMAN SERVICES	207	8	1
LABOR AND EMPLOYMENT	22	0	2 ▲
PERSONNEL & ADMINISTRATION	93	10	6
PUBLIC SAFETY	13	0	2 ▲
<b>TOTAL</b>	<b>806</b>	<b>39</b>	<b>28</b>

SOURCE: Office of the State Auditor's audit recommendation database.

NOTE: ▲ indicates that the number of outstanding high priority audit recommendations increased in 2017 compared to 2016.

# Annual Report: Status of Outstanding Audit Recommendations

- High priority outstanding performance and IT recommendations
  - From a report that was released 3 years ago or more



# Annual Report: Status of Outstanding Audit Recommendations

## COMPARISON OF OUTSTANDING HIGH PRIORITY PERFORMANCE AND IT AUDIT RECOMMENDATIONS AS OF JUNE 30, 2016, AND JUNE 30, 2017

AGENCY/DEPARTMENT	TOTAL RECS JULY 2011 THROUGH JUNE 2016	OUTSTANDING HIGH PRIORITY RECS AS OF JUNE 30, 2016	OUTSTANDING HIGH PRIORITY RECS AS OF JUNE 30, 2017
AGRICULTURE	20	2	0
GOVERNOR'S OFFICE	116	1	0
JUDICIAL BRANCH	74	0	2 ▲
LABOR AND EMPLOYMENT	53	2	2
NATURAL RESOURCES	35	0	3 ▲
PERSONNEL & ADMINISTRATION	91	4	2
PUBLIC HEALTH AND ENVIRONMENT	112	1	0
REVENUE	142	1	1
<b>TOTAL</b>	<b>643</b>	<b>11</b>	<b>10</b>

SOURCE: Office of the State Auditor's audit recommendation database.

NOTE: ▲ indicates that the number of outstanding high priority audit recommendations increased in 2017 compared to 2016.

# Annual Report: Status of Outstanding Audit Recommendations

## GOVERNOR'S OFFICE



- Section for each department/agency includes
  - Graph of recommendations
  - Information on financial and performance recommendations

- Includes tables for outstanding financial recommendations and performance/IT recommendations
  - Highlights each “high priority” recommendation

# Annual Report: Status of Outstanding Audit Recommendations

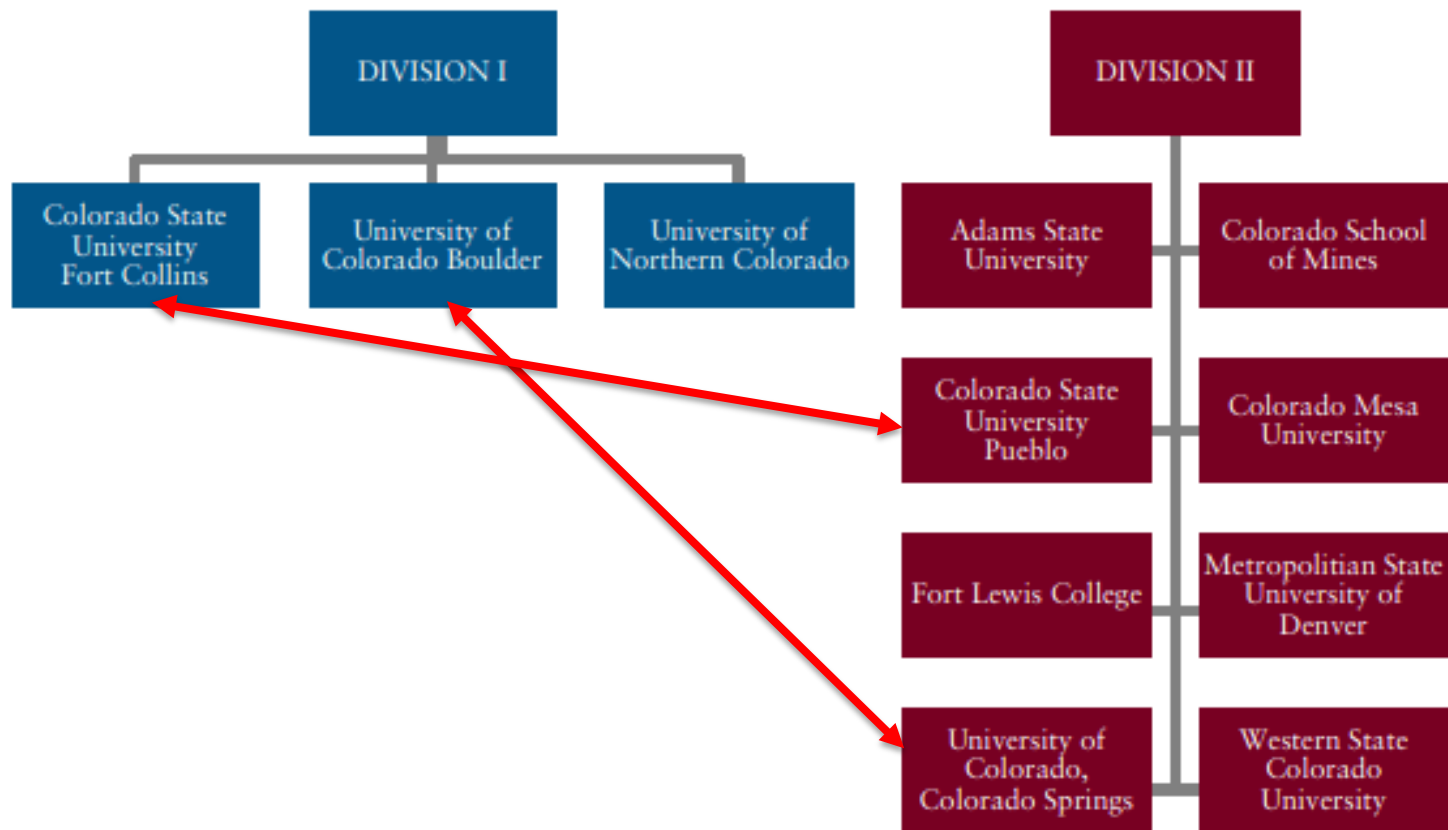
- How to create and utilize a report on outstanding audit recommendations
  - Create a database
  - We use administrative staff to enter recommendations and status reports
  - Find someone who does an amazing job with tables and graphs
  - Present information to audit committees and those charged with governance

# Opportunities Within Existing Resources

## NCAA Financial Data Compilation

# NCAA Financial Data Compilation

## EXHIBIT 1.1. STATE OF COLORADO HIGHER EDUCATION INSTITUTION DIVISION LEVELS



SOURCE: NCAA members by Division from NCAA.org as of March 2017.

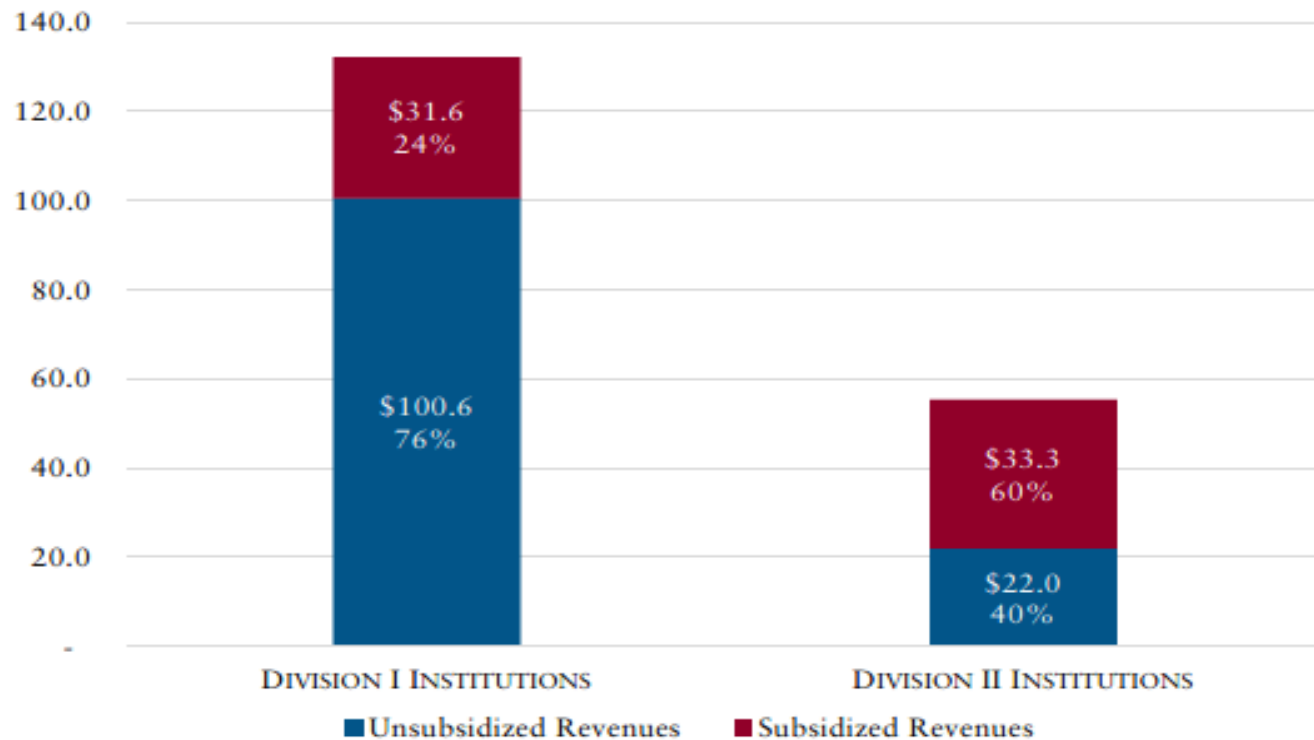
# NCAA Financial Data Compilation

- The OSA contracts for the NCAA agreed upon procedures along with the financial audits of the higher education institutions
  - Division I schools every year
  - Division II schools every third year
- Data available for compilation every three years



# NCAA Financial Data Compilation

EXHIBIT 1.3  
STATE OF COLORADO  
NCAA PUBLIC HIGHER EDUCATION INSTITUTIONS  
SUBSIDIZED AND UNSUBSIDIZED REVENUE (IN MILLIONS)  
FISCAL YEAR 2016



SOURCE: Office of the State Auditor analysis of and each of the State's public higher education institutions NCAA (unaudited) Statement of Revenues and Expenses for the Fiscal Year Ended June 30, 2016.

# NCAA Financial Data Compilation

- Analysis of athletic programs
  - By division
  - Coverage of expenses
    - Unsubsidized revenue/subsidized
- Financial Aid by Sport
  - Unaudited information from each university/college

# NCAA Financial Data Compilation

EXHIBIT 1.8.  
 STATE OF COLORADO  
 NCAA PUBLIC HIGHER EDUCATION INSTITUTIONS – DIVISION I  
 INSTITUTIONAL SUPPORT ALLOCATED TO MAJOR SPORT BY INSTITUTION  
 (IN THOUSANDS)  
 FISCAL YEAR 2016

	UNSUBSIDIZED REVENUE	TOTAL EXPENSES	UNSUBSIDIZED REVENUE – TOTAL EXPENSES <sup>1</sup>	SUBSIDIZED REVENUE (INSTITUTIONAL SUPPORT)
FOOTBALL				
Colorado State University, Fort Collins	\$ 5,894.0	\$ 14,171.0	\$ (8,277.0)	\$ -
University of Colorado, Boulder	37,297.3	18,372.3	18,925.1	247.4
University of Northern Colorado	1,017.0	3,457.6	(2,440.6)	2,440.6
<b>TOTAL</b>	<b>44,208.3</b>	<b>36,000.9</b>	<b>8,207.4</b>	<b>2,688.0</b>

# NCAA Financial Data Compilation

EXHIBIT 1.14.  
 STATE OF COLORADO  
 NCAA PUBLIC HIGHER EDUCATION INSTITUTIONS – DIVISION II  
 INSTITUTIONAL SUPPORT ALLOCATED TO MAJOR SPORT BY INSTITUTION  
 (IN THOUSANDS)  
 FISCAL YEAR 2016

	UNSUBSIDIZED REVENUE	TOTAL EXPENSES	UNSUBSIDIZED REVENUE – TOTAL EXPENSES <sup>1</sup>	SUBSIDIZED REVENUE (INSTITUTIONAL SUPPORT)
FOOTBALL Adams State University	\$ 30.8	\$ 915.9	\$ (885.1)	\$ -
Colorado School of Mines	251.8	1,751.9	(1,500.1)	1,267.4
Colorado State University, Pueblo	1,416.6	1,473.8	(57.1)	770.0
Colorado Mesa University	164.9	1,172.2	(1,007.3)	987.2
Fort Lewis College	331.0	1,403.5	(1,072.5)	1,067.8
Metropolitan State University of Denver	-	-	-	-
University of Colorado, Colorado Springs	-	-	-	-
Western State Colorado University	523.7	1,317.5	(793.8)	820.1
<b>TOTAL</b>	<b>\$ 2,718.8</b>	<b>\$ 8,034.7</b>	<b>\$ (5,315.9)</b>	<b>\$ 4,912.5</b>

# NCAA Financial Data Compilation

EXHIBIT 1.9.  
STATE OF COLORADO  
NCAA PUBLIC HIGHER EDUCATION INSTITUTIONS – DIVISION I  
FINANCIAL AID BY MAJOR PROGRAM AND ALL OTHER SPORTS  
(DOLLARS IN THOUSANDS)

	HIGHER EDUCATION INSTITUTION	STUDENTS PARTICIPATING <sup>1,3</sup>	STUDENTS RECEIVING AID <sup>1,2</sup>	PERCENT AIDED <sup>4</sup>	TOTAL FINANCIAL AID <sup>5</sup>	AVERAGE AID PER STUDENT <sup>4</sup>
FOOTBALL	Colorado State University, Fort Collins	120	88	73.3%	\$ 3,657.8	\$ 41.6
	University of Colorado, Boulder	111	87	78.4%	4,467.9	51.4
	University of Northern Colorado	102	88	86.3%	1,734.4	19.7

# NCAA Financial Data Compilation

## EXHIBIT 1.15

### STATE OF COLORADO

#### NCAA PUBLIC HIGHER EDUCATION INSTITUTIONS – DIVISION II FINANCIAL AID BY MAJOR PROGRAM AND ALL OTHER SPORTS (DOLLARS IN THOUSANDS)

	HIGHER EDUCATION INSTITUTION	STUDENTS PARTICIPATING <sup>1,3</sup>	STUDENTS RECEIVING AID <sup>1,2</sup>	PERCENT AIDED <sup>4</sup>	TOTAL FINANCIAL AID <sup>5</sup>	AVERAGE AID PER STUDENT <sup>4</sup>
Football	Adams State University	111	67	60.4%	\$ 399.3	\$ 6.0
	Colorado School of Mines	153	121	79.1%	803.2	6.6
	Colorado State University, Pueblo	175	105	60.0%	625.7	6.0
	Colorado Mesa University	120	85	70.8%	407.7	4.8
	Fort Lewis College	118	84	71.2%	789.0	9.4
	Metropolitan State University of Denver	-	-	-	-	-
	University of Colorado, Colorado Springs	-	-	-	-	-
	Western State Colorado University	118	103	87.3%	599.9	5.8

# NCAA Financial Data Compilation

- Creating NCAA compilation report
  - Collect NCAA agreed upon procedures reports
  - Other data to add to the reporting
    - e.g. students receiving financial aid
  - Aggregate data
  - Create related charts and tables
  - Took about 400 staff hours to complete report

# Other Work Products

## Tax Expenditure Reports



# Tax Expenditure Reports

- What is a Tax Expenditure?
  - Statutory definition (Section 39-21-302, C.R.S)
    - A tax provision that provides a gross or taxable income definition, deduction, exemption, credit or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue
  - Must meet all three elements

# Tax Expenditure Reports

- Legislature passed SB16-203 requiring the OSA to
  - Evaluate each of Colorado's tax expenditures at least once every 5 years
  - Publish a multi-year tax expenditures evaluation schedule by September 15, 2017
  - Publish the first annual evaluation report by September 14, 2018
  - Publish subsequent annual evaluation reports by September 15 each following year

# Tax Expenditure Reports

- Evaluation must include for each expenditure
  - Summary (purpose, intent, or goal and intended beneficiaries)
  - Comparison to similar expenditures in other states
  - Determination if it is accomplishing its purpose; others with similar purpose

# Tax Expenditure Reports

- Evaluation must include for each expenditure
  - Intended economic costs and benefits
  - Other programs that have the same purpose (state, federal, other); coordination improved
  - Data constraints
  - Performance measures

# Tax Expenditure Reports

- Include, if possible
  - Cost-effectiveness
  - Impact to competition; addresses stakeholder needs
  - Effect on local taxing jurisdictions

# Tax Expenditure Reports

- Creating a comprehensive list
  - Considerations
    - State's taxpayers use Federal Taxable Income v. Federal Adjusted Gross Income
    - Little or no actual revenue impact (not claimed by any taxpayers)
    - Items that reduce fees
      - Reduced fee for certain military license plates
- Identified approximately 275 potential tax expenditures

# Tax Expenditure Reports

- Narrowing the list
- Questions to consider
  - Is it a state provision?
    - SB16-203 requires evaluation of the “state’s tax expenditures”
  - Does it have a tax impact?
    - TABOR: Tax v. Fee
  - Does it apply only to a subset?
    - Federal Taxable Income v. Federal Adjusted Gross

# Tax Expenditure Reports

- Questions to Consider
  - Does/could it reduce state revenue?
    - Actual v. Potential reduction of revenue
  - Can the state legally collect the taxes?
    - Colorado's Tribal Income Tax Exemption
  - Is it outside of the State's annual budget/appropriation process?
    - Senior & Disabled Veteran Property Tax Exemption



# Tax Expenditure Reports

- Narrowing the list
- After analysis
  - 208 tax expenditures



# Tax Expenditure Reports

- SB16-203 Requirements for Schedule
  - Endeavor to schedule
    - Oldest tax expenditures first
    - Tax expenditure with a statutory repeal date
      - Included on report the year prior to repeal

# Tax Expenditure Reports

- Challenges
  - Some expenditures are very old
    - 1913 is the oldest on the list
  - Expenditures might be repealed/re-enacted multiple times
  - Expenditures might be moved in statute or changes significantly

# Tax Expenditures Reports Information on Schedule



5-YEAR TAX EXPENDITURE EVALUATION SCHEDULE  
SEPTEMBER 15, 2017

EXPENDITURE	STATUTORY REFERENCE (C.R.S.)	YEAR ENACTED	REPEAL/ EXPIRATION DATE	REVIEW YEAR
<b>2018 TAX EXPENDITURES</b>				
Insurance premiums collected exemptions	10-3-209	1913		2018
Fuel delivery two percent deduction	39-27-102(1)(b)(I)	1929		2018

## 2018 TAX EXPENDITURES WITH REPEAL OR EXPIRATION DATES

Historic property preservation tax credit	39-22-514	1990	January 1, 2020	2018
Child care contribution tax credit	39-22-121	1998	January 1, 2020	2018

- First Report to be made public September 14, 2018



# Tax Expenditure Reports

- About 27 other states conduct some type of tax expenditure evaluations
  - Sample number of expenditures evaluated
    - Washington 627
    - Oregon 367
    - Minnesota 311
    - Connecticut 150 (only \$100k+ expenditures)
    - California 76 (only Corporate and Individual taxes)





We Set the Standard for Good Government

1525 Sherman Street, 7<sup>th</sup> Floor, Denver, Colorado 80203

303.869.2800

<http://www.colorado.gov/auditor/>



@COStateAuditor